ARIZONA MINE TAX LAWS - PAST AND PRESENT

Source: D. C. O'Neil's "Forty Years of Mine Taxation"
A. B. Parsons "Taxation of Mining Enterprises"

AD VALOREM TAXES ON MINES

The ad valorem rate of tax on mines is the same as applies to all other property and includes the combined rate of state, county, district or other local tax where mine is located.

All non-producing patented claims are assessed by local assessors at a minimum of $10.00 per acre.

The State law provides that the State Tax Commission assess for ad valorem tax purposes all producing mines, while operating plants, machinery, etc. are assessed by local assessors.

There is some controversy as to what constitutes a producing mine, one contention being that it should be considered as one that produces at a profit, but the Tax Commission has considered, and so assesses, as producers all mines that produce $50,000 or more annually, whether at a profit or a loss.

Theoretically the assessed valuation of an Arizona mining property is determined by computing the present worth of the expected annual profits over the estimated life of the property, by the so-called "Hoskold" method; and this method has been approved by the courts. In recent years, however, the method actually in use has been "negotiation" between the taxpayer and the State Tax Commission which has the responsibility of assessing producing mining enterprises. The Commission certifies the valuations to the county assessors.

Arizona law calls for assessment at "full and true" value; but the assessment ratios in different localities and for different classes of property range from 15 to 60 percent. With respect to mining property, the final assessed valuation, in the opinion of the Commission, is probably something less than 50 percent of the value that would be determined by applying the "Hoskold" method to estimated future profits.

The weakness of the "Hoskold" method is that honest engineers may easily differ in their estimates of developed ore, future grade, future metallurgy, and future metal prices.

The weakness of the "Negotiation" method is the placing of undue responsibility upon the Commission.

EARLY HISTORY OF AD VALOREM TAXES

1907 - 1912

In the year 1907 the Territorial Legislature enacted what was known as the Bullion Tax Law. This law provided for the valuation of a producing mine for taxation purposes at an amount equal to 25% of its gross annual output, and remained in effect until 1912 when it was repealed by the Legislature that year.

1913 - 1914

In the year 1913 the State Legislature enacted a special mine tax law providing for the valuation of a mine for ad valorem tax purposes at an amount equal to four times the net, plus 1/8 of the gross of previous year's output; all machinery; smelters, improvements, etc. being assessed in addition to such valuation. This law was self-repealing as of June 30, 1915.

1915 - 1930

The Legislature, in 1915 adjourned without re-enacting this law, or enacting any other law providing for the taxation of mines. The State Tax Commission at that time adopted another method based on the net income averaged over a period, of years. As some of the mines had been in operation for only a short period, the average for a 3-year period only was used for the 1915 assessment, the net earnings on all copper mines being capitalized on a basis of 15%, and on gold and silver mines a basis of 20%; earnings being calculated with no deduction for depletion, interest on bonds, etc., and such valuations so arrived at were considered as the value of the entire property, including the mine itself, machinery, improvements, etc. This method of valuation with slight changes in the percentages used was in operation for many years, although the number of years considered for arriving at average earnings was gradually increased from the 3-year period until in 1922 the Commission adopted a full 10-year period. Because of litigation attacking this method of valuations, the Commission in June of 1925 abandoned the method to some extent, but still considered the net earnings as the main factor in arriving at valuations until the year 1930.

1931

With the advent of the depression in 1931 and a long shut-down period for the mines, the method of basing assessments entirely on earnings was abandoned.

In a state like Arizona, where the mining industry pays such a large percentage of the ad valorem tax, it is important that valuations from year to year be more or less uniform.

Under the Capitalization of Earnings method it became apparent that after long periods of inactivity the valuations would be nil, passing the burden on to other property when it was least able to bear it, and resulting in lower taxes for other industries in prosperous times and higher taxes during depression. The same criticism applies to any and all of the previous methods of mine taxation in the state, as no one of these methods produced uniformity in assessments.

The "Hoskold" method of valuation was approved by the Arizona Supreme Court in 1931 (UVX vs. Tax Commission); again in 1932 (Magma vs. Tax Commission); and again in 1945 (Phelps Dodge Corp. vs. Tax Commission).

Since 1931 and until recent years the "Hoskold" method has been followed by the State Commission in fixing values. In recent years "Negotiation" has been used, though the Tax Commission probably bases its valuations on earlier "Hoskold" determinations, but places major consideration on earnings.

S A L E S   T A X E S

Under the so-called "Privilege Sales Tax Act of 1933" metal mining and smelting was assessed for the privilege of mining at a rate of 1/2 of 1% of gross proceeds.

The "Excise Revenue Act of 1935" amended the 1933 Act, and raised the rate to 1% of gross proceeds with certain deductions for freight, refining, etc., allowed. The deduction allowances in effect fixed the taxable figure at the value of the ore or metal at time of leaving the state. Although termed a "sales tax," this tax is in reality a production tax, but certainly not a consumption tax.

I N C O M E   T A X E S

The net earnings of mining operations are taxed the same as those of other corporations, viz:

On the first	$1,000	1%
" " second	1,000	2%
" " third	1,000	2½%
" " fourth	1,000	3%
" " fifth	1,000	3½%
" " sixth	1,000	4½%
" " seventh 1,000 and on all taxable income in excess of	7,000	5%

As most large operations net far in excess of $7,000, the 5% rate applies to practically all of the net revenue.

If a deduction is claimed on account of Depletion, a copy is to be submitted of the schedule filed with federal income tax return for minerals, coal, miscellaneous and non-metals, oil and gas, or timbers. Also to be submitted is a schedule showing the basis for the deduction for depletion taken on the return as based on fair market values on Jan. 1, 1930. In other words, depletion deductions are similar to the federal income tax measure.

SOCIAL SECURITY TAXES
FEDERAL INSURANCE CONTRIBUTIONS

Employer paid 1% of payroll 1937 to Jan. 1, 1951
Employer " 1½% of payroll 1951 to Jan. 1, 1954
Employer pays 2% of payroll - Jan. 1, 1954 to Jan 1, 1957
Employer " 2½% of payroll - Jan. 1, 1957 to Jan. 1, 1959 60
" " 3% " " Jan-1-1960 to ______

UNEMPLOYMENT INSURANCE

Employer pays 3% of payroll

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