SIX YEARS

of

MINE PROPERTY TAXATION IN ARIZONA

1945 - 1950

Following is a comparison of valuations of the larger mines of Arizona for the past six years (1945-1950), applying the methods used in Arizona, Montana, Nevada, New Mexico and Utah. A digest of the property tax method used in each state accompanies this comparison.

It will be noted that the average actual valuation used in Arizona for the seven large mines was $147,007,827, compared to an average of $71,018,482 for the other four states. In other words, the Arizona method resulted in more than twice the valuation obtainable by the other states' methods. This compares with a similar result reported by Mr. D. C. O'Neil for the sixteen years, 1931-1946, when his average valuation for eight large mines was $108,748,009, by the Arizona method, as compared with $42,796,842 by the other states' methods. In percentages, the six year average for the four other states was 48.3% of the valuation by the Arizona method, as compared with 39.4% for the sixteen year average.

DIGEST OF ARIZONA MINING PROPERTY TAXES

Theoretically, the assessed valuation of a 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 that has the responsibility of assessing producing mining enterprises. The Commission certifies the valuation to the County Assessors.

The mine plant and reduction works (if any) are appraised by the County Assessor; but in practice the overall valuation made by the State Commission is reduced by the amount of the valuation put upon the plant; so that the actual assessed valuation of the enterprise is in reality determined by the Commission.

By "common consent" (rather than by law) a property that produces in any year a gross metal value of less than $50,000 is exempt from a property tax except for its plant and a nominal tax on the surface.

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 valuation that would be determined by applying the "Hoskold" method to estimated future profits.

DIGEST OF UTAH MINING PROPERTY TAXES

The assessed valuation of a mining property has two elements as follows: A. For the ore deposit the valuation is twice the average annual net proceeds realized during the three years immediately preceding the year of tax. In determining net proceeds the direct cost of production is deducted from the gross proceeds. Depreciation, depletion, and Federal Taxes are not deductible; but taxes paid in Utah and the cost of new machinery and improvements may be deducted. The taxpayer makes a detailed return to the State Tax Commission; and the Commission computes and certifies the assessment to the County Treasurer for collection. B. The County Assessor appraises the plant and improvements at their fair cash value, and the land at $5.00 per acre. He then applies an assessment ratio of 40%, a ratio established by law in 1946 to apply to all real and tangible personal property. The statute reads 40% of its "reasonable fair cash value". In practice the State Tax Commission has given major assistance to the Assessors in the difficult task of appraising plant and works. The final assessed value is the sum of twice the net proceeds, plus 40% of the "fair" value of the land and plant.

Note: Formerly the measure of the property tax was three times net proceeds instead of twice. Changed when Occupation (severance) tax was adopted.

DIGEST OF MONTANA MINING PROPERTY TAXES

The assessed valuation consists of two elements as follows:

A. In lieu of an appraised valuation of the ore in the ground the statutory "net proceeds" from operations during the preceding year are used. The "net" is determined by making prescribed deductions from the gross proceeds of the sale of metal or mineral produced. Deductions include

(1) the direct cost of mining, development, reduction and marketing;
(2) cost of repairs and replacements
(3) depreciation, at 6% of the assessed value of mining and reduction plant;
(4) that part of general expense directly connected with production; and
(5) "social security" levies.

Depletion and taxes are not deductible. A detailed return is made by the taxpayer to the State Board of Equalization, and the Board computes and certifies the assessment to the County Assessor.

B. 30% of the reasonable depreciated value of plant and works, including machinery. Montana is one of the few states that by statute classify property for tax purposes, and fix corresponding assessment rates of "full and true" values. For example, net proceeds of mines, 100%; livestock, 33-1/3%; rural and urban real estate and manufacturing and mining machinery, 30%; and household goods and agricultural tools and equipment 20%.

The assessed valuation for a mining property would be the sum of full "net proceeds" and 30% of the estimated value of plant and improvements.

DIGEST OF NEW MEXICO MINING PROPERTY TAXES

Alternative methods are provided for the appraisal of a "Productive" mine. In past years a computation of the present worth of estimated future profits over the life of the property by the so-called "Hoskold" method was in vogue, at least nominally. However, the actual procedure at the present time is to use the statutory net proceeds from the operation, averaged over the preceding five years, to represent the value of the ore deposit. The taxpayer may, however, elect to use the proceeds for the single year immediately preceding, instead of the five-year average. Net proceeds are computed by deducting from the market value of the products the following: Cost of mining, milling, treating, transporting, and selling. When ores or concentrates are shipped to a custom smelter, the "net smelter return" can be used with appropriate deductions for the actual cost of mining and milling. Overhead expenses, other than those directly connected with production, cannot be deducted, nor can the cost of new plant, equipment and machinery. The assessed value to be put on the roll as representing the ore deposit is 100 percent of the net proceeds thus determined. The assessment is made by the State Tax Commission and is certified by it to the local assessors.

When the net proceeds method is used for the ore deposit, mine-plant and reduction works are appraised separately at approximately the depreciated book value as shown on the balance sheet.

New Mexico law provides for assessment at "actual market value"; but in practice, ratios ranging as low as 20 percent are used to determine the final assessed valuation of property in general. For mine plant and improvements, a factor of 50 percent would be typical; and the amount would be added to the 100 percent of net proceeds to obtain the total assessment for the property.

To the foregoing assessment, the mill-rate applicable to the locality where the property is situated would be applied. These rates vary; but a typical rate for Grant County (outside municipalities) would be 20 mills. The major portion of the proceeds go to the county and school districts although a small levy for State purposes is also included.

DIGEST OF NEVADA MINING PROPERTY TAXES

The statutory "net proceeds" is used as that part of the measure represented by the ore deposit itself. The following deductions from the gross proceeds from the operation are allowed to compute the net:

a. The direct cost of mining and milling.
b. The cost of smelting, shipping, refining and marketing.
c. Depreciation - not to exceed 10 percent of the assessed value of mine-plant and reduction works.
d. Maintenance and repairs; but not new plant construction
e. That portion of administrative and overhead expense incurred in Nevada.
f. Cost of mine development.

g. Royalties (if any); and Social Security assessments.

No allowance is permitted for depletion nor for Federal income taxes.

Taxation of Mining Enterprise

The use of net proceeds as a measure for the property tax is provided in the State constitution. The taxpayer makes a return to the Nevada State Tax Commission setting forth details of operations; and the commission determines the valuation and certifies it to the assessor in the county in which the property is located, on the basis of 100 percent of net proceeds. Where shipment is made to a custom smelter the "net smelter return" might be used as the basis for the calculation; but in that event the deductions listed under 1-b would be made by the smelting company in its settlement sheet.

Mine and plant reduction works (if any) are appraised by the County Assessor. The Nevada State law provides valuation of real and tangible personal property at "full cash value". However, in practice, ratios ranging from 15 to 40 percent are used for property in all classes, including mine plant. A typical assessment for a producing mine would be 20 percent of the depreciated book-value of plant and works.

The mill rate for the locality in which the property is situated is applied to the sum of the full net proceeds and the "adjusted" valuation of the plant. The range of rates in mining areas is from 25 to 40 mills depending on the needs of the community and the valuation of the assessable property, including mines. A typical rate would be 27 mills.

The property tax partakes of the nature of an income tax by virtue of the fact that, with respect to the ore deposit, the net proceeds are used as the measure of assessment.

ARIZONA'S MINES ACTUAL VALUATIONS COMPARED WITH VALUATIONS BASED ON EVALUATION METHODS OF OTHER STATES

YEARLY AVERAGES - SIX YEARS (1945-1950) OF MINES LISTED

Mine and Company	Arizona Method Actual Valuation	Montana Method 100% Net Plus 30% Operating Plant Value	% of Arizona's Actual Valuation	Nevada Method 100% net Plus 20% Operating Plant Value	% of Arizona's Actual Valuation	New Mexico Method 100% Net Plus 50% Operating Plant Value	% of Arizona's Actual Valuation	Utah Method Twice Net Plus 40% Plant Value	% of Ariz. Actual Valuation
Phelps Dodge Co.: Morenci Branch	$ 64,007,928	$ 31,278,134	48.9%	$ 27,865,682	43.5%	$ 34,378,524	53.7%	$ 57,883,592	90.4%
New Cornelia Branch	36,719,425	12,785,377	34.8%	12,143,374	35.8%	14,336,697	39.0%	24,553,864	66.9%
Magma Copper Co.	5,876,773	2,223,947	37.8%	2,095,341	35.7%	2,800,696	47.7%	3,778,027	64.1%
Inspiration Cons. Copper Co.	16,625,228	6,178,408	37.2%	5,994,995	36.1%	6,604,373	39.7%	11,124,100	66.9%
Castle Dome Mining Co.	3,649,000	1,244,129	34.1%	1,205,289	33.0%	1,334,989	36.6%	2,140,144	58.6%
Miami Copper Co.	7,605,364	2,088,760	27.5%	2,016,337	26.5%	2,257,410	29.7%	3,717,268	48.9%
Kennecott's Ray Mines	12,524,109	2,169,198	17.3%	2,223,644	17.9%	2,355,133	18.8%	4,296,493	34.3%
Totals & Averages	$ 147,007,827	57,967,953	39.4%	$ 54,544,662	37.1%	$ 64,067,822	43.6%	$107,493,489	73.1%
Average all states except Arizona	$ 71,018,482								

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