MINE TAXATION

Studies and reports issued by the Arizona Department of Mineral Resources have shown how Arizona mines have been paying much higher taxes than other western mining states, in proportion to the value of their products. The chief reason for this has been the higher valuations assessed against the Arizona mines.

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 that has the responsibility of assessing producing mining enterprises. The Commission certifies the valuations to the county assessors.

The mine plant and reduction works (if any) are appraised by the county assessors; 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 assessmentratios 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 mining states of Montana, Nevada and New Mexico base their mine valuations on one hundred percent of the net proceeds, and Utah on twice the net proceeds. The virtue of this net proceeds method is the assurance of equitable treatment of the different mining properties. With so many uncertain factors used in the "Hoskold" method, there is no such assurance of equity. Honest engineers may easily differ in their estimates of developed ore, future grade, and future metallurgy, together with a completely uncertain guess as to future metal prices.

The Griffenhagen report to the Special Legislative Committee on Taxation recommends that ore deposits as such be exempted from taxation, and that a new method of valuing mines be developed, in consultation with the mining companies, basing the taxable value on a five-year average of a net proceeds base. It recommends that a "net proceeds" assessment of mine property be authorized by legislation and made effective at the same time other property is reassessed. In the preparation of legislation, the mines should be consulted as to the details of the calculations of "net proceeds". The Utah rule of two times net proceeds might be adopted.

In view of the fact that the State Tax Commission is no longer using the "Hoskold" method, but is using what may be called, for want of a better term, a "negotiated" method, perhaps the actual use of the Utah method by the Commission, without legislative enactment, could fall into the catagory of "negotiation".

To give the Commission an idea of what the results would have been if the Utah method had been used in the 1952 valuations, a table has been worked up by this department comparing the actual valuations assessed against the seven large mining properties with hypothetical valuations arrived at by using the Utah method.

The net result of the Utah method of evaluation reduced the total valuation 11.38%, from $180,838,819, to $160,266,497. Individually, the largest reduction was for Kennecott with 57.33%, and in one case, Morenci, there was a slight increase of 1.99%. Miami's valuation was reduced 53.07%; Castle Dome 37.70%; New Cornelia, 11.41%; Inspiration 7.70%; and Magma 4.07%. These wide variations indicate the inequity of the present valuation method.

Although the 11.38% reduction in valuation would be accomplished by the use of the Utah method, the full effect of this would not be enjoyed by the Mining Companies, because naturally a higher tax rate would result. However, there would be a fairer relation between the taxation of mining property and that of other kinds of property in the State. And, as stated before, there would be a more equitable distribution of the tax burden between the mining companies themselves.

The net income from the producing mines is the gross income from the sale of metals, less all expenditures, but before federal income taxes, depreciation and depletion.

Arizona Department of Mineral Resources

October, 1952

TABLE SHOWING VALUATIONS OF SEVEN LARGE ARIZONA MINING PROPERTIES

USING UTAH NET PROCEEDS METHOD BASED ON TWICE THE AVERAGE NET

PROCEEDS FOR THE PRECEDING FIVE YEARS (1947-1951)

	Morenci	New Cornelia	Inspiration	Kennecott	Miami	Castle Dome	Magma Copper Co.	Total 7 Plants
Gross Income from Metals (Five-year Average)	$ 64,039,247	$ 28,408,249	$ 16,249,084	$ 12,313,525	$ 11,412,252	$ 10,623,790	$ 9,550,159	$ 152,596,306
Less Expenditures (Incl.Fed.Income Taxes)	37,222,745	17,564,586	11,767,670	10,316,324	10,361,791	9,612,305	7,880,197	104,725,618
Net Income from Producing Mines(5 Yr.Avg)	$ 26,816,502	$ 10,843,663	$ 4,481,414	$ 1,997,201	$ 1,050,461	$ 1,011,485	$ 1,669,962	$ 47,870,688
Plus Federal Income Taxes (5 Yr.Avg)	8,503,746	3,039,873	Est. 1,666,440	677,963	374,800	427,989	252,340	14,943,151
Net Income before Fed.Taxes, Deprec. & Depletion (5 Yr.Avg)	$ 35,320,248	$ 13,883,536	$ 6,147,854	$ 2,675,164	$ 1,425,261	$ 1,439,474	$ 1,922,302	$ 62,813,839
	x 2	x 2	x 2	x 2	x 2	x 2	x 2	x 2
Mine Valuation using Utah Method	$ 70,640,496	$ 27,767,072	$ 12,295,708	$ 5,350,328	$ 2,850,522	$ 2,878,948	$ 3,844,604	$ 125,627,678
Arizona's 1952 Valuation	$ 69,000,000	$ 33,000,000	$ 13,600,000	$ 14,000,000	$ 7,500,000	$ 5,000,000	$ 4,100,000	$ 146,200,000
1952 Plant Valuation *	$ 13,295,665	$ 12,854,705	$ 3,331,571	$ 1,087,505	$ 1,261,362	$ 626,344	$ 2,181,667	$ 34,638,819
Total Valuation using Utah Method **	$ 83,936,161	$ 40,621,777	$ 15,627,279	$ 6,437,833	$ 4,111,884	$ 3,505,292	$ 6,026,271	$ 160,266,497
Total Valuation Arizona's Actual Valuation	$ 82,295,665	$ 45,854,705	$ 16,931,571	$ 15,087,505	$ 8,761,362	$ 5,626,344	$ 6,281,667	$ 180,838,819
% Increase or decrease in Valuation by Utah Method	plus 1.99%	- 11.41%	- 7.70%	- 57.33%	- 53.07%	- 37.70%	- 4.07%	- 11.38%

* This is the County Assessors 1952 valuation of the Plants. Utah uses 40% of the fair valuation of the Plant

** This includes 100%, and not 40%, of the Assessors' Valuation of Plants.

Arizona Department of Mineral Resources
October, 1952