



# Understanding Nevada’s Fiscal System: Taxes on Patented Mines and Proceeds of Minerals

Frederick Steinmann, Extension Educator/Assistant Professor

This fact sheet is part of an ongoing series of fact sheets produced by University of Nevada Cooperative Extension that explores different aspects of the State of Nevada’s current fiscal system. This fact sheet explores the Taxes on Patented Mines and Proceeds of Minerals (Net Proceeds Tax) as defined in Nevada Revised Statutes (NRS) 362 “Taxes on Patented Mines and Proceeds of Minerals.”

Mining remains an important part of Nevada’s economy. Statewide, mining is a

major employment industry for many of Nevada’s counties and is heavily relied upon to generate large amounts of tax revenues collected by the state and by many individual counties.

### Current Use

Table 1 presents the actual net proceeds of minerals for each county in the State of Nevada for FY 2011 and FY 2012.

Table 1 Actual Net Proceeds of Minerals by County FY 2011 and FY 2012				
County	Actual Net Proceeds of Minerals FY 2011	Actual Net Proceeds of Minerals FY 2012	Actual Change FY 2011 to FY 2012	Percent Change FY 2011 to FY 2012
Carson City	\$0	\$0	\$0	-
Churchill County	\$22,652,197	\$23,721,111	\$1,068,914	4.7%
Clark County	\$1,234,968	\$3,326,066	\$2,091,098	169.3%
Douglas County	\$14,674	\$5,110	-\$9,564	-65.2%
Elko County	\$272,099,007	\$337,727,259	\$65,628,252	24.1%
Esmeralda County	\$7,015,362	\$1,653,297	-\$5,362,065	-76.4%
Eureka County	\$966,181,387	\$1,289,232,577	\$323,051,190	33.4%
Humboldt County	\$303,504,868	\$488,653,902	\$185,149,034	61.0%
Lander County	\$1,023,033,616	\$1,845,828,887	\$822,795,271	80.4%
Lincoln County	\$63,914	\$161,250	\$97,336	152.9%
Lyon County	\$503,721	\$1,058,629	\$554,908	110.2%
Mineral County	\$19,025,195	\$24,521,690	\$5,496,495	28.9%
Nye County	\$176,531,168	\$247,760,232	\$71,229,064	40.4%
Pershing County	\$59,145,409	\$26,666,491	-\$32,478,918	-54.9%
Storey County	\$354,160	\$629,423	\$275,263	77.7%
Washoe County	\$991,867	\$10,098,522	\$9,106,655	918.1%
White Pine County	\$185,181,241	\$57,861,533	-\$127,319,708	-68.8%
<b>TOTAL</b>	<b>\$3,037,532,754</b>	<b>\$4,358,905,979</b>	<b>\$1,321,373,225</b>	<b>43.5%</b>

Source: Nevada Department of Taxation, Division of Local Government Services, “2010-2011 Net Proceeds of Minerals Bulletin” & “2011-2012 Net Proceeds of Minerals Bulletin”

Between FY 2011 and FY 2011, the total actual net proceeds of minerals statewide increased from an estimated \$3.04 billion in FY 2011 to an estimated \$4.36 billion in FY 2012, a net increase of approximately \$1.32 billion or 43.5 percent. In FY 2012, Lander County (\$1.85 billion), Eureka County (\$1.29 billion) and Humboldt County

(\$488.7 million) had the largest amounts of actual net proceeds of minerals.

Table 2 presents the estimated total amount of net proceeds tax revenue collected by each county in the State of Nevada for FY 2011 and FY 2012.

Table 2 Total Amount of Net Proceeds Tax Revenue by County FY 2011 and FY 2011				
County	Actual County Tax Revenue FY 2011	Actual County Tax Revenue FY 2012	Actual Change FY 2011 to FY 2012	Percent Change FY 2011 to FY 2012
Carson City	\$0	\$0	\$0	-
Churchill County	\$639,327	\$671,886	\$32,559	5.2%
Clark County	\$31,534	\$81,665	\$50,131	159.0%
Douglas County	\$380	\$135	-\$245	-64.6%
Elko County	\$6,680,054	\$8,386,198	\$1,706,144	25.5%
Esmeralda County	\$199,903	\$47,111	-\$152,792	-76.4%
Eureka County	\$17,226,344	\$22,895,815	\$5,669,471	32.9%
Humboldt County	\$6,435,254	\$10,275,400	\$3,840,146	59.7%
Lander County	\$34,358,862	\$60,850,465	\$26,491,604	77.1%
Lincoln County	\$2,280	\$4,609	\$2,329	102.2%
Lyon County	\$14,429	\$28,829	\$14,399	99.8%
Mineral County	\$669,107	\$860,382	\$191,276	28.6%
Nye County	\$6,744,234	\$9,102,833	\$2,358,599	35.0%
Pershing County	\$1,830,572	\$879,313	-\$951,258	-52.0%
Storey County	\$11,654	\$20,712	\$9,058	77.7%
Washoe County	\$69,219	\$391,458	\$322,239	465.5%
White Pine County	\$7,050,791	\$2,683,231	-\$4,367,560	-61.9%
<b>TOTAL</b>	<b>\$81,963,944</b>	<b>\$117,180,043</b>	<b>\$35,216,098</b>	<b>43.0%</b>

Source: Nevada Department of Taxation, Division of Local Government Services, "2010-2011 Net Proceeds of Minerals Bulletin" & "2011-2012 Net Proceeds of Minerals Bulletin"

Between FY 2011 and FY 2012, the total amount of net proceeds tax revenue collected by all counties located throughout the State of Nevada increased from an estimated \$82.0 million in FY 2011 to an estimated \$117.2 million in FY 2012, a net increase of approximately \$35.2 million or 43.0 percent. In FY 2012, Lander County (\$60.9 million), Eureka County (\$22.9 million) and Humboldt County (\$10.3 million) collected the most net proceeds tax revenue out of all 17 counties in Nevada.

## Background

The tax on patented mines and proceeds of minerals is typically considered an ad

valorem property tax assessed on minerals mined, extracted or produced in Nevada when they are sold and/or removed from the state. The assessed value used to estimate the tax on patented mines and proceeds and the rate applied is determined, applied and collected at the county level and is **in addition to** other ad valorem property taxes paid for land, personal property, equipment and other property assets.

The tax on patented mines and proceeds applies to all mines, minerals, and patented mines or mining claims, as defined in NRS 362.010, including oil, gas and other hydrocarbons but *does not* include sand,

gravel or water except hot water or steam in an operation extracting geothermal resources for profit.

According to NRS 362.100 Subsection 2, the “net proceeds of all minerals extracted” includes the proceeds of all operating mines; operating oil and gas wells; operating extracting geothermal resources for profit, except an operation that uses natural hot water to enhance the growth of animal or plant life; and operating extracting minerals from natural solutions.

### **Computation of Gross Yield and Net Proceeds for Jan. 1, 2012 Through Dec. 31, 2013**

NRS 362.120 outlines how the gross yield and net proceeds are to be estimated for the period between Jan. 1, 2012 and Dec. 31, 2013.

- The Nevada Department of Taxation shall, from the statement filed pursuant to NRS 362.110 and from all obtainable data, evidence and reports, compute in dollars and cents the gross yield and net proceeds of the calendar year immediately preceding the year in which the statement is filed.
- The **gross yield** must include the value of any mineral extracted that was (a) sold, (b) exchanged for any thing or service, (c) removed from the state in a form ready for use or sale, and (d) used in a manufacturing process or in providing a service.

NRS 362.120, in Subsection 3, contains a list of deductions that are subtracted from the gross yield in order to estimate the net proceeds. The **net proceeds** are ascertained and determined by subtracting from the gross yield the following deductions for costs incurred during that period:

- (a) The actual cost of extracting the mineral, which is limited to direct costs for activities performed in the State of Nevada.
- (b) The actual cost of transporting the mineral to the place or places of reduction, refining, and sale.
- (c) The actual cost of reduction, refining, and sale.
- (d) The actual cost of delivering the mineral.
- (e) The actual cost of maintenance and repairs of all machinery, equipment, apparatus and facilities used in the mine; all milling, refining, smelting and reduction works, plants and facilities, and all facilities and equipment for transportation except those that are under the jurisdiction of the Public Utilities Commission of Nevada or the Nevada Transportation Authority.
- (f) Depreciation of the original capitalized cost of the machinery, equipment, apparatus, works, plants and facilities mentioned in paragraph (e). The annual depreciation charge consists of the amortization of the original cost in a manner prescribed by regulation of the Nevada Tax Commission. The probable life of the property represented by the original cost must be considered in computing the depreciation charge.
- (g) All money paid as contributions or payments under the unemployment compensation law of the State of Nevada (NRS 612), all money paid as contributions under the Social Security Act of the federal government, and all money paid to the State of Nevada or the federal government under any amendment to either or both of the statutes mentioned in this paragraph.

- (h) The costs of employee travel that occurs within the State of Nevada and is directly related to mining operations within the State of Nevada.
- (i) The costs of Nevada-based corporate services relating to paragraphs (e) to (h), inclusive.
- (j) The actual cost of development work in or about the mine or upon a group of mines when operated as a unit that is limited to work that is necessary to the operation of the mine or group of mines.
- (k) The costs of reclamation work in the years the reclamation work occurred, including, without limitation, costs associated with the remediation of a site.
- (l) All money paid as royalties by a lessee or sublessee of a mine or well, or both, in determining the net proceeds of the lessee or sublessee, or both.

NRS 362.120 subsection 6 states that the several deductions made in Subsection 3 and listed above ((a) through (l)) do not include any expenditures for salaries, or any portion of salaries of any person not actually engaged in (a) the working of the mine, (b) the operating of the mill, smelter or reduction works, (c) the operating of the facilities or equipment for transportation, (d) superintending the management of any of those operations, (e) the State of Nevada, in office, clerical or engineering work necessary or proper in connection with any of those operations, or (f) Nevada-based corporate services.

According to NRS 362.120 subsection 7, these expenses are specifically **excluded** from any deductions from the gross yield: (a) the costs of employee housing, (b) the costs of employee travel except as otherwise provided in paragraph (h) of Subsection 3, (c) the costs of severing the employment of any employees, (d) any

dues paid to a third-party organization or trade associate to promote or advertise a product, (e) expenses relating to governmental relations or to compensate a natural person or entity to influence legislative decisions, (f) the costs of mineral exploration, and (g) any federal, state or local taxes.

In addition to these estimates and deductions, NRS 362.120 Subsection 4 states that all royalties deducted by a lessee or sublessee constitute part of the net proceeds of the minerals extracted, upon which a tax must be levied against the person to whom the royalty has been paid. According to NRS 362.120 Subsection 5, every person acquiring property in the State of Nevada to engage in the extraction of minerals and who incurs any of the expenses mentioned in Subsection 3 of NRS 362.120 shall report those expenses and the recipient of any royalty to the Department of Taxation on forms provided by the department. The department shall report annually to the Mining Oversight and Accountability Commission the expenses and deductions of each mining operation in the State of Nevada.

### **Rate of Tax and Appropriations to Counties and its Application**

NRS 362.140 outlines the rate of tax that is applied. For **royalties**, all royalties, according to NRS 362.140 Subsection 3, with no exceptions or deductions, are taxed at a rate of 5.0 percent. For a **geothermal operation**, the rate of tax upon the net proceeds of a geothermal operation taxable pursuant to NRS 362.100, according to NRS 362.140 Subsection 4, is the combined ad valorem tax rate applicable to the property at the situs of the operation.

For all other net proceeds taxed under NRS 362, the rate of tax upon an operation for which the net proceeds in a calendar year exceeds \$4.0 million is 5.0 percent of which a portion is appropriated to the county in

which the net proceeds ad valorem revenues were generated and the remainder is apportioned to the State. The amount apportioned to the county is estimated using the county's applicable ad valorem tax rate. The amount apportioned to the state is estimated by subtracting the rate of 5.0 percent by the county's ad valorem tax rate. For example:

- For FY 2012, the actual amount of net proceeds revenue collected by Churchill County was \$671,886 (Table 2) based on an actual net proceeds of minerals value of \$23.7 million (Table 1) and using an ad valorem tax rate of 2.8029 percent.
- Subtracting 5.0 percent by the county rate of 2.8029 percent (which equals 2.1971 percent), provides the rate at which the State's portion of net proceeds revenues generated in Churchill County is estimated.

- For FY 2012, the actual amount of net proceeds revenue collected by the State from net proceeds generated in Churchill County was \$142,855 based on actual net proceeds of minerals value of \$23.7 million (Table 1) and a rate of 2.1971 percent.

If the net proceeds total of the mine in the taxable year is less than \$4 million, the following table, Table 3, from NRS 362.140 Subsection 1, is used to estimate the rate of tax upon the net proceeds of each geographically separate extractive operation within the county. However, according to NRS 362.140, if the ad valorem property tax rate of the county in which the mine is located is greater than 2.0 percent, the county's prevailing ad valorem tax rate is the minimum applicable rate. For FY 2011 and FY 2012, only Eureka County, with an ad valorem tax rate of 1.7743 percent in both FY 2011 and FY 2012, had an ad valorem tax rate less than 2.0 percent.

<b>Table 3</b> <b>Net Proceeds Rate of Tax Percentage – For Net Proceeds Less Than \$4 Million Per Year</b> <b>NRS 362.140</b>	
<b>Net Proceeds as a Percentage of Gross Proceeds</b>	<b>Rate of Tax as a Percentage of Net Proceeds</b>
Less than 10.0%	2.00%
10.0% or more but less than 18.0%	2.50%
18.0% or more but less than 26.0%	3.00%
26.0% or more but less than 34.0%	3.50%
34.0% or more but less than 42.0%	4.00%
42.0% or more but less than 50.0%	4.50%
50.0% or more	5.00%

Source: State of Nevada. 2012. *Nevada Revised Statutes Chapter 262 – Taxes on Patented Mines and Proceeds of Minerals*. <http://www.leg.state.nv.us/NRS/NRS-362.html>

## Conclusion

Mining and mineral extraction is a primary industry in Nevada and remains a primary source of public revenues for the State government and many of Nevada's counties. The Tax on Patented Mines and Proceeds of Minerals (commonly known as the Net Proceeds Tax), is an important component of the State's overall fiscal

system and will likely remain an important feature for the foreseeable future.

## References

State of Nevada. 2012. *Nevada Revised Statutes Chapter 262 – Taxes on Patented Mines and Proceeds of Minerals*. <http://www.leg.state.nv.us/NRS/NRS-362.html>.