

# Legislative Fiscal Division

## Revenue Estimate Profile

### Metalliferous Mines Tax

**Revenue Description:** The metalliferous mines license tax is imposed on the production of metals, gems or stones in the state. The tax rate is applied to the gross value of the product, which is defined as the market value of the commodity multiplied by the quantity produced. Senate Bill 30, enacted in the August 2002 special legislative session, revised the payment of taxes from once to twice a year. The first \$250,000 of value is exempt from taxation. A company taxed at both rates can claim both exemptions.

**Statutory Reference:**

Tax Rate (MCA) – 15-37-103

Tax Distribution (MCA) –15-37-117, 17-2-124(2)

Date Due – August 15<sup>th</sup> for period January through June, March 31<sup>st</sup> for period July through December (15-37-105)

**Applicable Tax Rate(s):** The tax rate for a 6-month period is as follows:

Gross value is defined as monetary amounts or refined metal received for the products less:

1. Basic treatment and refinery charges
2. Transportation costs from the mine to a mill or other processor
3. Quantity and price deductions
4. Interest
5. Penalty metal, impurity and moisture deductions

Metalliferous Mines Tax Rates		
	Gross Value	Tax Rate
For concentrates shipped to a smelter, mill or reduction work:	\$0-\$250,000	Exempt
	\$250,000+	1.81%
For gold, silver, or any platinum group metal that is dore*, bullion, or matte* and that is shipped to a refinery:	\$0-\$250,000	Exempt
	\$250,000+	1.6%

**Distribution:** The distribution of the metal mines tax has been altered several times since the 1990s. Prior to the 2005 Legislature, the most recent change had been enacted by the 2001 Legislature in Senate Bill 484 (effective July 1, 2002) that created a hard-rock mining reclamation debt service fund to pay debt service on the \$8.0 million of bonds authorized for state costs related to hard-rock mining reclamation, operation, and maintenance. The 8.5% allocation of metalliferous mines tax revenue previously allocated to the orphan share account was allocated to the hard-rock mining reclamation debt service fund. The 2005 Legislature increased the allocation to counties from 24% to 25% and decreased the general fund allocation from 58% to 57%. The table below shows recent historical distributions of the tax revenue.

Metalliferous Mines Tax Distribution						
Account Name	FY 1998-1999	FY 2000-2002	FY 2003	FY 2004-2005	FY 2006-2007	FY 2008 & Beyond
General Fund	58.0%	58.0%	58.0%	65.0%	58.0%	57.0%
Counties *	25.0%	25.0%	24.0%	24.0%	24.0%	25.0%
Hard Rock Reclamation Debt Service	0.0%	0.0%	0.0%	8.5%	8.5%	8.5%
Natural Resources Operations**	0.0%	4.8%	7.0%	0.0%	7.0%	7.0%
Hard Rock Mining	1.5%	1.5%	2.5%	2.5%	2.5%	2.5%
RIT Trust	15.5%	0.0%	0.0%	0.0%	0.0%	0.0%
Groundwater Assessment	0.0%	2.2%	0.0%	0.0%	0.0%	0.0%
Abandoned Mines	0.0%	8.5%	0.0%	0.0%	0.0%	0.0%
Orphan Share	0.0%	0.0%	8.5%	0.0%	0.0%	0.0%
	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>
* Statutorily appropriated						
**Name changed by HB 116 in the 2007 session						

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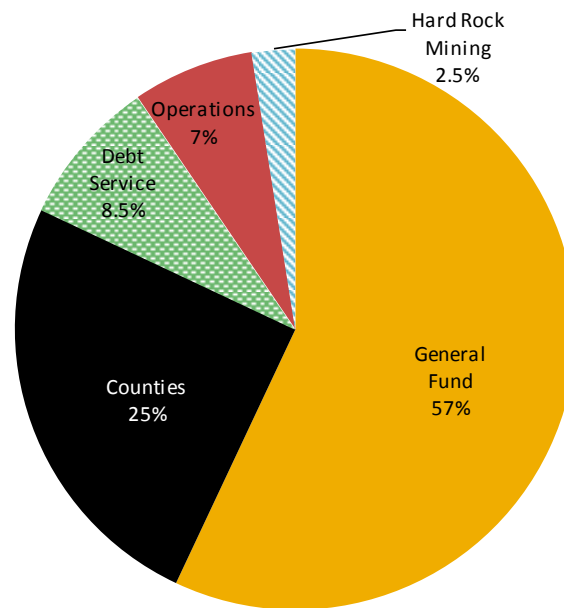
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#### Distribution Chart:



**Collection Frequency:** Biannually

#### **% of Total General Fund Revenue:**

FY 2004 – 0.23%	FY 2007 – 0.49%	FY 2010 – 0.40%
FY 2005 – 0.34%	FY 2008 – 0.55%	FY 2011 – 0.45%
FY 2006 – 0.41%	FY 2009 – 0.33%	FY 2012 – 0.54%

#### **Revenue Estimate Methodology:**

The metalliferous mines tax is applied to the taxable gross value of production. The metalliferous mines tax estimate is developed by estimating the annual sales price for each type of metal produced and the anticipated production quantity of each metal by company. From these estimates, taxable gross value can be determined to which an effective tax rate is applied. Since all production and price information is reported on a calendar year basis, the resulting calendar year estimates are converted into fiscal year estimates.

#### Data

Mining companies are surveyed for anticipated production levels. Historical and future prices are obtained from various sources, including COMEX, NYMEX, and KITCO, depending on the metal. In addition, a review is performed of historical trends, current literature on metals and metal prices, and companies' 10-Q reports. Data from biannual reports produced by DOR provide a history of production and prices by commodity and taxable gross value for each mining company.

#### Analysis

The taxable value of metals is determined in a four-step process:

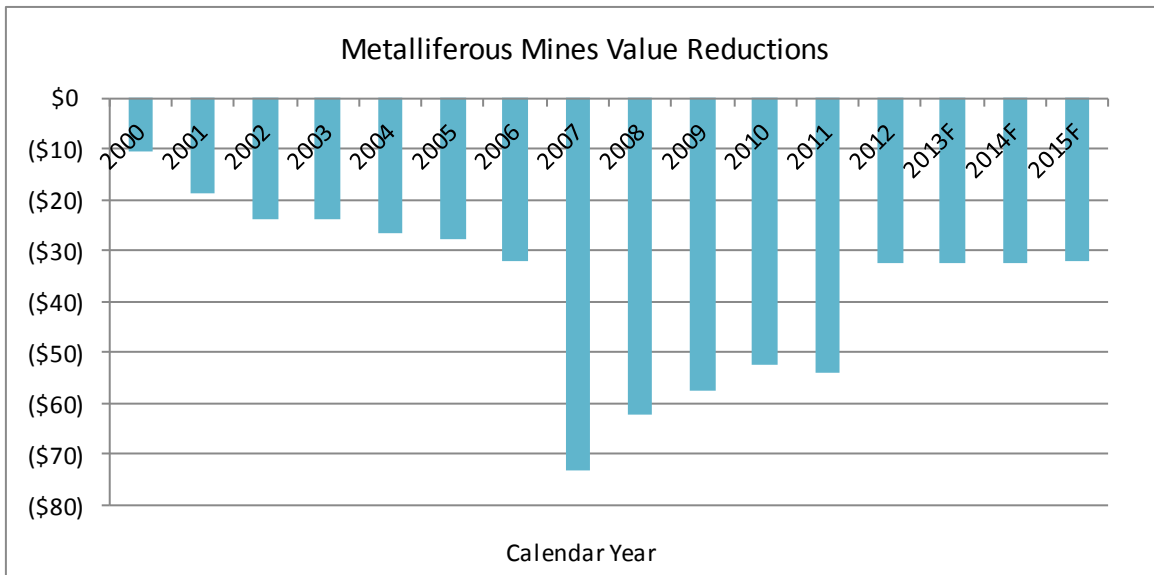
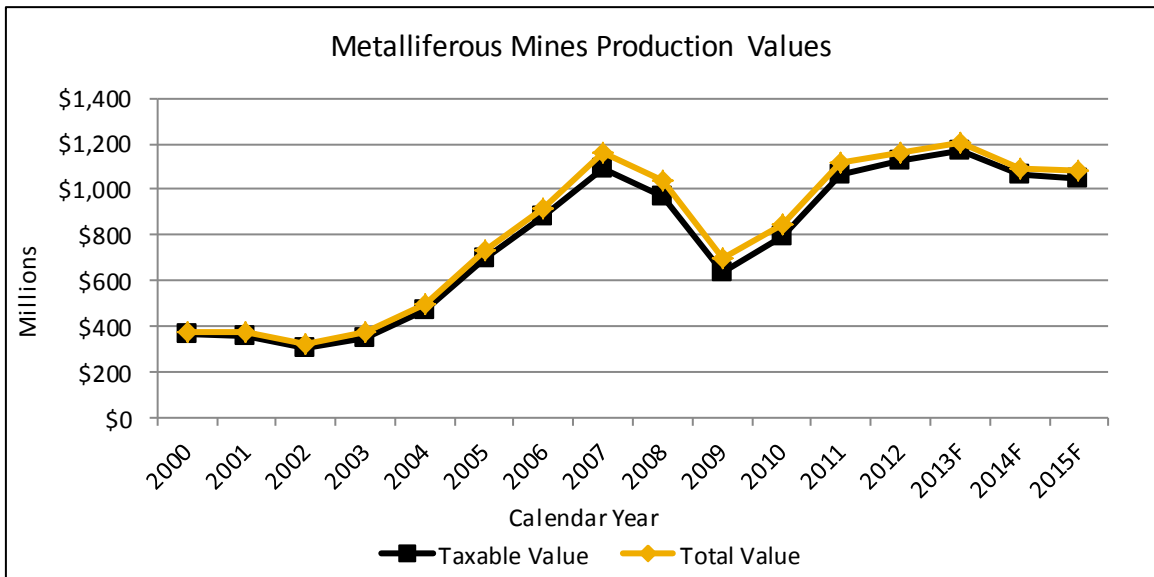
- As reported on the survey, future metals production for each company is summed by commodity. Amounts may be adjusted to fit with historical trends or if major changes are expected from historical production.
- To determine the future price for each metal, different techniques are used depending on the commodity and the reasonableness of future prices based on research of the literature and directions of future markets.
  - Gold – the future prices are used for all the forecast years
  - Copper, silver – the most current futures price is multiplied by the ratio of Montana's price for the last known or forecast year to the most current futures price
  - Molybdenum – the current market price is carried forward for all forecast years
  - Lead, Zinc – the price from 2008 is carried forward for all forecast years

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- Palladium, platinum, rhodium, nickel – the price for the last known calendar year is used for all future years.
- The estimated production amount for each metal for all companies is summed and multiplied by the estimated price for that metal. This is done for each metal and the products summed to yield a total gross value.
- Total taxable value is obtained by reducing the total gross value by: a) the tax exempt amount of \$250,000/year for each company; and b) allowable treatment, refinery, transportation, and other costs.



Taxable value is multiplied by an effective tax rate. Since a company's taxable value could be subject to two tax rates - 1.81% for concentrates shipped to a smelter, mill or reduction work and 1.6% for dore, bullion, or matte that is shipped to a refinery - an effective tax rate is used to capture both these rates. The effective tax rate for FY 2010 was rounded and used for the estimate.

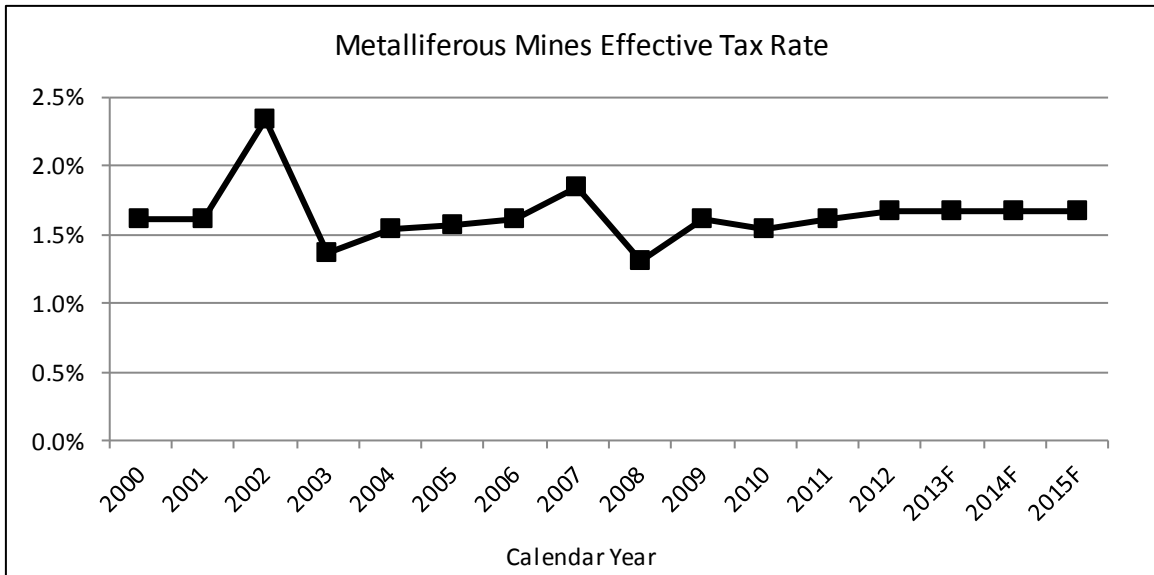
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The calendar year estimate is obtained by multiplying the total taxable value by the effective tax rate. To convert the estimates to a fiscal year basis, half the previous calendar year's estimate is added to the half of the current calendar year's estimate.

#### Adjustments and Distribution

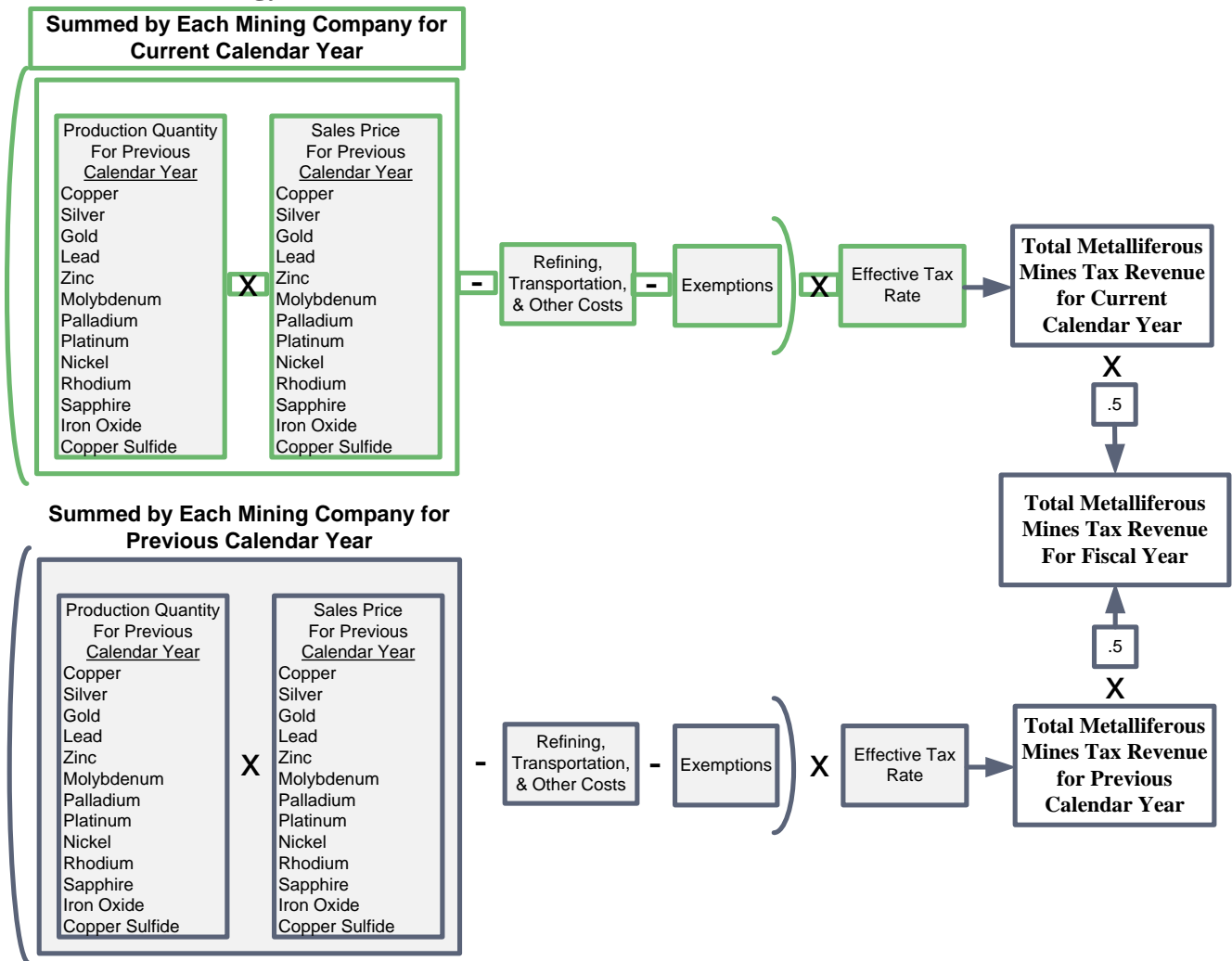
Once total tax revenue for each fiscal year is determined, the distribution percentages are applied.

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#### Forecast Methodology:



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#### Revenue Estimate Assumptions:

	t	Total Tax	GF Tax	Tax Value CY	Effective CY	GF Allocation
	<u>Fiscal</u>	<u>Millions</u>	<u>Millions</u>	<u>Millions</u>	<u>Rate</u>	<u>Percent</u>
Actual	2002	5.740	3.329	303.045		58.0%
Actual	2003	7.056	4.586	347.630		65.0%
Actual	2004	5.572	3.232	472.985	1.7%	58.0%
Actual	2005	9.076	5.264	702.353	1.7%	58.0%
Actual	2006	12.435	7.028	880.571	1.7%	56.5%
Actual	2007	15.774	8.991	1087.728	1.7%	57.0%
Actual	2008	18.902	10.774	970.936	1.7%	57.0%
Actual	2009	10.514	5.993	638.071	1.7%	57.0%
Actual	2010	11.476	6.541	791.496	1.7%	57.0%
Actual	2011	14.204	8.097	1061.164	1.7%	57.0%
Actual	2012	17.562	10.010	1127.344	1.7%	57.0%
Forecast	2013	19.129	10.904	1168.536	1.7%	57.0%
Forecast	2014	18.588	10.595	1062.376	1.7%	57.0%
Forecast	2015	17.613	10.039	1051.499	1.7%	57.0%

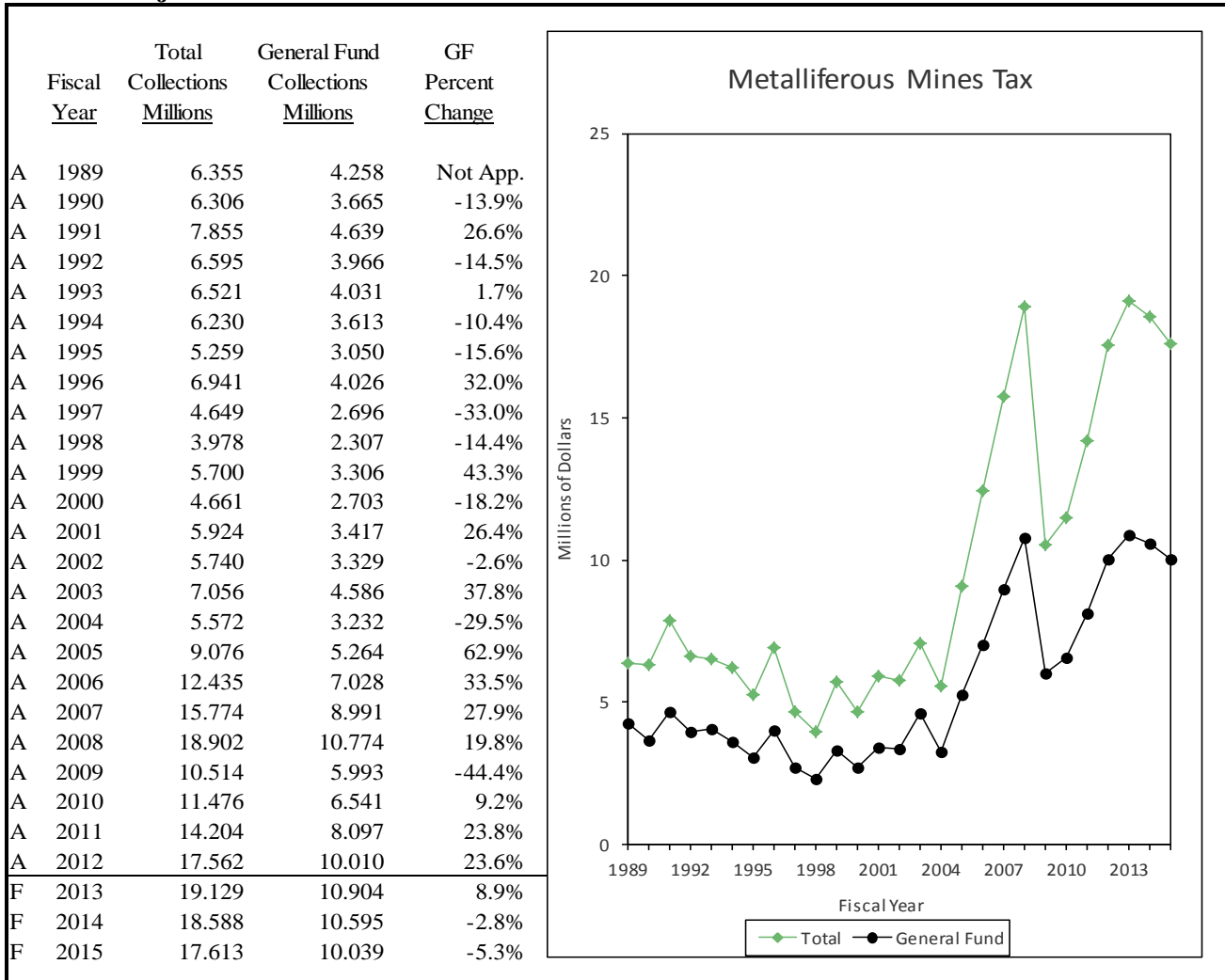
Total Tax = (Copper Prod. × Copper Price + Silver Prod. × Silver Price + Gold Prod. × Gold Price +	
Lead Prod. × Lead Price + Zinc Prod. × Zinc Price + Moly Prod. × Moly Price +	
Palladium Prod. × Palladium Price + Platinum Prod. × Platinum Price + Nickel Prod. × Nickel Price +	
Rodium Prod. × Rodium Price + Deduction + Refining) × Effective CY Rate	
GF Tax = (Previous Cal. Total Tax + Current Cal. Total Tax) × .5 × GF Allocation	

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#### Revenue Projection:



**Data Source(s):** SABHRS, Department of Revenue, *Wall Street Journal*, KITCO, COMEX, NYMEX, company 10K and 10Q reports

**Contacts:** Major Producers