



# NEVADA'S NET PROCEEDS OF MINERALS TAX

The Nevada net proceeds of minerals tax is assessed on individual mine operations.

## **The total rate: 2 – 5% of net proceeds**

“The tax rate applied to the net proceeds is based on a sliding scale between 2% and 5%, depending on the ratio of net proceeds to gross proceeds.”<sup>1</sup>

## **The total rate: divided between state and local government**

“Of the total tax rate, the local portion of the overall tax liability is based on the local rate where the mine is located, and the balance up to the constitutional limit of five percent, is the state portion of the tax.”<sup>2</sup>

## **Example**

“If a company generates \$1,000,000 in net proceeds, out of a total of \$2,000,000 gross yield, then, according to the statutes, the ratio of net proceeds to gross proceeds is 50%, and the rate of tax would be 5%.

If the local tax rate where the mine is located is .0364, then the balance after subtraction from 5% would be the state portion of the tax, or .0136.”<sup>3</sup>

## **What the tax actually returns: the equivalent of a 1% gross royalty**

In practice, the average rate for all operations is usually very close to the maximum – 5% of net proceeds. Although this might sound impressive, it is the equivalent of a 1% gross royalty.<sup>4</sup>

## **Mines are completely exempt almost half the time**

From 1999 through 2006, as a group, mine operations were potentially subject to the tax 199 times. 96 times potentially subject mines claimed no net proceeds, and therefore an exemption from the tax – 48% of the time.<sup>5</sup>

## **Net proceeds defined: what is deductible from gross yield**

- Extraction costs
- Transportation costs
- Reduction, refining and selling costs
- Marketing costs
- Maintenance costs for the operation
- Fire, industrial, and health insurance



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- Unemployment and social security
- Capital depreciation
- Developmental work in or about the mine or group of mines
- Other royalties paid<sup>6</sup>

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<sup>1</sup> NRS 362.140; <http://www.leg.state.nv.us/nrs/NRS-362.html>

1. Except as otherwise provided in this section, the rate of tax upon the net proceeds of each geographically separate extractive operation depends upon the ratio of the net proceeds to the gross proceeds of that operation as a whole, according to the following table:

Net Proceeds as Percentage of Gross Proceeds	Rate of Tax as Percentage of Net Proceeds
Less than 10	..... 2.00
10 or more but less than 18.....	2.50
18 or more but less than 26.....	3.00
26 or more but less than 34.....	3.50
34 or more but less than 42.....	4.00
42 or more but less than 50.....	4.50
50 or more.....	5.00

2. If the combined rate of tax ad valorem which would be assessed but for the provisions of Section 5 of Article 10 of the Constitution of this state, including any rate levied by the State of Nevada, upon property at the situs of the operation is more than 2 percent, the minimum rate of tax under this section equals that rate of tax ad valorem.

3. The rate of tax upon royalties is 5 percent.

4. The rate of tax upon the net proceeds of a geothermal operation taxable pursuant to NRS 362.100 is the combined rate of tax ad valorem applicable to the property at the situs of the operation.

5. The rate of tax upon an operation for which the net proceeds in a calendar year exceed \$4,000,000 is 5 percent.



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<sup>2</sup> *2006-07 Net Proceeds of Minerals*, State of Nevada, Department of Taxation, April 20, 2007, p.1

<sup>3</sup> *Ibid.*

<sup>4</sup> EARTHWORKS original research compiling *Net Proceeds of Minerals* data from 1999 through 2006 for gold operations in Nevada.

<sup>5</sup> *Ibid*

<sup>6</sup> NRS 362.120 Computation of gross yield and net proceeds.

3. The net proceeds are ascertained and determined by subtracting from the gross yield the following deductions for costs incurred during that period, and none other:

- (a) The actual cost of extracting the mineral.
- (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 marketing and delivering the mineral and the conversion of the mineral into money.
- (e) The actual cost of maintenance and repairs of:
  - (1) All machinery, equipment, apparatus and facilities used in the mine.
  - (2) All milling, refining, smelting and reduction works, plants and facilities.
  - (3) 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) The actual cost of fire insurance on the machinery, equipment, apparatus, works, plants and facilities mentioned in paragraph (e).
- (g) 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 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.
- (h) All money expended for premiums for industrial insurance, and the actual cost of hospital and medical attention and accident benefits and group insurance for all employees.
- (i) All money paid as contributions or payments under the unemployment compensation law of the State of Nevada, as contained in chapter 612 of NRS, all money paid as contributions under the



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Social Security Act of the Federal Government, and all money paid to either the State of Nevada or the Federal Government under any amendment to either or both of the statutes mentioned in this paragraph.

(j) The actual cost of developmental work in or about the mine or upon a group of mines when operated as a unit.

(k) All money paid as royalties by a lessee or sublessee of a mine or well, or by both, in determining the net proceeds of the lessee or sublessee, or both.