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BY THE U.S. GENERAL ACCOUNTING OFFICE

Report To The Secretary Of The Interior

Interior Should Help States Assess Mineral Tax Programs

Given the critical interaction of Federal mineral policy, State tax policy, and the profitability of domestic mining, GAO believes that a formal institutional focus is needed to help ensure that tax policies are compatible with national mineral productions objectives without obstructing the rights of various governmental levels to levy and collect taxes.

Presently, Interior's Bureau of Mines, on an informal basis, is helping States assess their mineral tax programs. GAO recommends that the Department formally assume this responsibility.

UNITED STATES GENERAL ACCOUNTING OFFICE

GAO/EMD-82-48

JUNE 16, 1982

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UNITED STATES GENERAL ACCOUNTING OFFICE
WASHINGTON, D.C. 20548

ENERGY AND MINERALS DIVISION

B-202270

The Honorable James G. Watt
The Secretary of the Interior

Dear Mr. Secretary:

Mineral industry experts and many others in and out of Government believe that the present poor financial condition of U.S. minerals producers could eventually have serious implications for domestic minerals supply, which in turn, could effect the Nation's security and economic well-being. Existing tax measures are one important factor affecting the economic viability of any domestic mineral operation. Our June 8, 1981, report "Assessing the Impact of Federal and State Taxes on the Domestic Minerals Industry" (EMD-81-13) explored one quantitative method for assessing the effects of taxation measures on domestic mineral operations. The report concluded, in part, that State as well as Federal tax actions can have a significant effect on the production as well as the profitability of the domestic minerals industry.

In response to this finding, we concluded, in part, that institutional means be considered for better harmonizing Federal and State tax policy with national mineral production objectives. This report conveys the States' responses to various institutional options suggested in our report, and it contains our final recommendation on the need and appropriate location of such an institutional capability.

BACKGROUND

Our June 1981 report found that sufficient analysis has not been undertaken to determine the effect that various Federal and State tax provisions, even those specific to the mineral industry, might have on domestic mineral supply. Our analysis of four mineral commodities--copper, lead, zinc, and molybdenum--involving 80 mining properties in nine States, represented an initial effort to develop a quantitative method to assess the effects that Federal and State taxes might have on the profitability of domestic mines, and their influence on domestic mineral production, investment, and exploration.

Our report was predicted on a modified Bureau of Mines model for financially evaluating mineral deposits. It provides an overview of the magnitude of State taxes on the minerals industries and examines the effect of different types of State taxes on the feasibility of mineral development and production.

Our analysis determined that the State tax burden is a substantial portion--40 percent--of the total taxes paid by all mines in our study. We also found that some States are unaware of Federal mineral policy objectives and, in order to obtain stable revenue streams or for other purposes, sometimes enact taxes that may discourage efficient mineral production.

In addition, we found that changes in the bases, rates, and timing of State taxes can significantly affect the present value of producing and the potential of non-producing deposits.

We concluded that the Federal Government could assist the States in their formulation of appropriately sensitive mineral tax policy by providing information to them on Federal mineral policies, and providing analytical capabilities to the States for their use in assessing the effect that proposed tax changes would have on mineral production, development, and exploration. We suggested several possibilities as to who might take the lead in this regard, including:

--The Department of the Interior with assistance from the Treasury Department.

--The Advisory Commission on Intergovernmental Relations.

--A new, appropriately designed institutional mechanism.

Our report did not assess these institutional alternatives. Rather, we thought that the States should first have an opportunity to review the content of our report and express themselves regarding the suggested continuing liaison function. Therefore, we invited each State, through its Governor, to comment on the final report.

OBJECTIVES, SCOPE AND METHODOLOGY

The objective of this letter report is to: (1) relay comments received in response to our June 1981 report, (2) update the reader on the tax analysis capabilities of the Department of the Interior, and (3) make our final recommendation about the location of an institutional tax service capability for the States.

In addition to letters from 19 States, we also received the Department of the Interior's response to our initial recommendations, and the comments of the Advisory Commission on Intergovernmental Relations (ACIR). (See apps. I and II). We also talked to Department of the Interior officials about the feasibility of formally assuming institutional responsibility for providing analytical assistance to States considering minerals tax programs.

This review was performed in accordance with GAO's current "Standards for Audit of Governmental Organizations, Programs, Activities, and Functions."

STATES SEE NEED FOR TAX SERVICE CAPABILITY

Nineteen State governments responded to our request for comments on the need for an institutionalized tax service capability. (See apps. III to XXI for copies of the States' responses.) While the response was limited, none of the responding States disputed the need for such capability, and several stated or implied that there should be a Federal national minerals policy that should include tax objectives. Several said they would welcome the opportunity to take advantage of any such related analytical capability.

None of the responding States, other than Nevada, suggested that a new organization be established to provide this expertise. The Governor of Nevada, however, suggested that the question of both Federal and State taxation be addressed by a new "Council on Minerals and Materials" of the type that would have been established by H.R. 3364 introduced last session by Representative Santini of Nevada.

Four of the States cited past or ongoing analytical mineral tax assistance provided by the Department of the Interior and stated that it should be the logical organization to provide assistance. One other State (Maine) recently solicited analytical assistance from the Bureau of Mines. Three others cited past assistance of a similar nature provided by the Advisory Commission of Intergovernmental Relations (ACIR), and suggested that it might be the appropriate organization. One State cited that ACIR had the advantage because it represented all levels of government, not just Federal.

The following table lists the States responding to our report and shows their preference for location of an institutional minerals tax service. Note that among the States choosing not to comment on our report are six important western mining States--Alaska, California, Oregon, Wyoming, Idaho, and Utah.

Several of the State responses contained some cautionary language about the possibility of such institutional assistance impinging on the sovereignity of the State to impose taxes. For example, New Mexico pointed out that State and local governments impose taxes only as a necessary means of financing public services. In some States, such as New Mexico, where there is a limited industrial base to draw on, mining activities must be relied upon to bear a substantial portion of the costs of

State Preference for Mineral Tax Capability

Enclosure	State responding	Favored ACIR	Favored DOI	No preference between ACIR and DOI or no opinion
III	Arizona		*	
IV	Connecticut			*
V	Florida			*
VI	Georgia	*		
VII	Hawaii			*
VIII	Maine			*
IX	Maryland			*
X	Michigan		*	
XI	Montana	*		
XII	Nevada			
XIII	New Hampshire			*
XIV	New Mexico			*
XV	North Carolina			*
XVI	Oklahoma		*	
XVII	Tennessee			*
XVIII	Texas			*
XIX	Virginia		*	
XX	Washington	*		
XXI	West Virginia			*

Government. Naturally, according to New Mexico, States should be willing to consider taxing mineral properties in the least detrimental way possible, but the need to levy such taxes from the viewpoint of fiscal necessity cannot be questioned.

In addition, Arizona cautioned that significant data requirements must be met before realistic analysis can begin. This analysis would have to distinguish between "normal" tax regimes applicable to mineral producers and any departures from the "normal," i.e., incentives or disincentives to mineral production.

WHERE SHOULD MINERAL TAX SERVICE CAPABILITY RESIDE?

While the report was very limited, those States that did comment on our report are in agreement on the desirability of an institutional mineral tax service capability to assist them in identifying and evaluating alternative tax programs. The two candidates considered were the ACIR and the Department of the Interior.

The ACIR responded to our proposal by saying that it was not the appropriate agency to interpret and disseminate aspects of a Federal minerals policy. (See appendix II.) It also states that it lacks the technical expertise to tackle complex tax problems. The Commission reasons that the existing expertise exists in Interior; therefore, the institutional responsibility should be formally assumed by the Department of the Interior.

The ACIR also cautioned that the case has not been made that it would be appropriate to subordinate State taxing authority to Federal policy objectives. This, of course, was not the intent of our report. Rather, we sought to show that different types of State tax programs can significantly affect the financial viability of domestic mineral concerns and the analytical capability to assess these impacts and to evaluate different types of tax programs should be made available to individual States.

The Department of the Interior responded to our June 1981 report by saying that:

> "The Bureau of Mines MAS [Minerals Availability System] technology is being developed into an analytical framework that can be used to study the linkage between taxes and mineral policy. We believe that the MAS is a unique capability and that it demonstrates the Department's leadership in developing a quantitative framework for minerals analysis. The GAO report places special emphasis on the need for tax analysis methodology. The Bureau of Mines has already modified the MAS model to make it more sensitive to taxation questions. Similar improvements will continue as needs justify."

The Department of the Interior's Bureau of Mines has the greatest specific experience in the mineral tax area. For example, MAS data and a related program are currently being used for a study of the percentage depletion allowance tax. Perhaps more importantly the small group of experts within the Bureau's Division of Minerals Availability has already provided on a few occasions analytical assistance to requesting State Governments considering various alternative minerals tax programs. Presently, the Division is directly assisting the State government of Maine, where recently discovered deposits of copper and zinc mean that it may soon become a major metals producer State.

In light of the Department's growing experience in the area and its on-board analytical model, it appears most appropriate that the Department of the Interior formally assume the mineral tax service responsibility.

In this regard, we were told by an official of the Bureau that the maintenance of a continuous service capability would not disrupt the Minerals Availability Division's functions, if the level of requested assistance did not exceed a rate of approximately two or three State requests a year.

We also note that maintenance of this service capability certainly falls within the basic legislative charter of the Department. The Bureau of Mines Organic Act, as amended, (P.L. 62-386) authorizes it to collect and analyze minerals data with a view toward improving mineral economic development. As we have said above, State tax policy can profoundly effect the economic viability of individual mineral enterprises. Thus, the use of the Bureau's MAS system to aid in the development of sound State mineral tax policy appears to be directly within its existing responsibility.

CONCLUSION

Given the critical interaction of Federal mineral policy, State tax policy, and the profitability of domestic mining, we believe that a formal institutional focus is needed to help try to assure that tax policies are compatible with national mineral production objectives without obstructing the rights of various governmental levels to levy and collect taxes.

The Department of the Interior's Bureau of Mines is informally assisting States to assess mineral tax programs, and it appears to be the logical choice to formally assume this responsibility. A formal announcement of the assumption of this responsibility would help to ensure that this expertise continues to be developed. In addition, more States would become aware of the Bureau's capabilities and existing expertise.

RECOMMENDATION TO THE SECRETARY OF THE INTERIOR

The Secretary of the Interior should announce formally, both through the Federal Register and other media, his Department's assumption of the responsibility for providing analytical assistance to individual States considering mineral tax alternatives.

AGENCY COMMENTS

The Bureau of Mines and Department of the Interior officials we talked to agreed with the direction of our report, but expressed some reservations about the need for a formal announcement of a minerals tax service capability for the States. They believe that such an announcement could possibly result in more work than the Bureau can responsively handle at present funding and staffing levels, or lead to a number of "trivial" State requests. We continue to believe that the reasons leading to our recommendation merit a formal announcement. We would advise, however, that future State requests for minerals tax assistance be accepted with the proviso that the Bureau's response will be based on the priority of the request and the availability of resources.

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A summary of this letter report is being sent to the Chairmen of the Senate Committee on Finance, the House Committee on Ways and Means, the House and Senate Government Operations Committees, the House and Senate Appropriations Committees, the Senate Energy and Natural Resources Committee, and the House Committee on Interior and Insular Affairs and its Subcommittee on Mines and Mining.

Copies of this report will be sent to the Department of the Treasury and other interested parties. Copies of the report are also available to others upon request.

As you know, section 236 of the Legislative Reorganization Act of 1970 requires the head of the Federal agency to submit a written statement on actions taken on our recommendations to the Senate Committee on Governmental Affairs and the House Committee on Government Operations not later than 60 days after the date of the report and to the House and Senate Committees on Appropriations with the agency's first request for appropriations made more than 60 days after the date of the report.

We appreciate the courtesy and cooperation extended to our staff during the review and would appreciate being informed of any actions taken as a result of our observations and suggestions.

Sincerely yours,

J. Dexter Peach
Director

United States Department of the Interior

OFFICE OF THE SECRETARY
WASHINGTON, D.C. 20240

AUG 3 1 1981

Mr. Milton J. Socolar
Acting Comptroller General of
the United States
General Accounting Office
Washington, D.C. 20548

Dear Mr. Socolar:

This is our response, as required under Section 236 of the Legislative Reorganization Act of 1970, to recommendations of the General Accounting Office (GAO) to the Secretary of the Interior contained in the report "Assessing the Impact of Federal and State Taxes on the Domestic Minerals Industry" (EMD-81-13).

Comments we made previously on the draft report appear on pages 118-120. As a result of these comments, the GAO modified its recommendations as described on page 87.

The GAO acknowledges the significant contribution made by the Bureau of Mines in supporting this study and in providing data and analytical tools from its Minerals Availability System (MAS). Still under development, this system is a major Department program to provide new data and tools for substantive analysis of minerals problems and issues. This GAO report is based on MAS information and analysis technology and in our view is evidence of its emerging capability.

The GAO recommendation is essentially that the Secretary of the Interior should take the lead in developing and refining this framework to analyze quantitatively the link between taxes and mineral policy. Further, this framework should be used to study aspects of percentage depletion allowance, of investment tax credit, and of expensing exploration and development costs. Consultation with the Secretary of the Treasury's Office of Tax Analysis was recommended for contribution of knowledge on the tax code and of expertise in tax analysis. Finally, examination of alternative tax policy approaches was indicated.

The Bureau of Mines MAS technology is being developed into an analytical framework that can be used to study the linkage between taxes and mineral policy. We believe that the MAS is a unique capability and that it demonstrates the Department's leadership in developing a quantitative framework for minerals analysis. The GAO report places special emphasis on the need for tax analysis methodology. The Bureau of Mines has already modified the MAS model to make it more sensitive to taxation questions. Similar improvements will continue as needs justify.

We share GAO's interest in pursuit of the recommended studies. The MAS is being used currently for a study of the depletion allowance, and it was applied recently to an assessment of investment tax credit impact on domestic cobalt production. A MAS study is planned for FY 82 on the subject of cost expensing. These initial efforts will be expanded as personnel can be shifted from system development to system applications. One of the benefits of an automated framework is that it will provide a dynamic ability to yield immediate analyses on an ad hoc basis, as opposed to scheduling studies in advance to be carried out over a lengthy period of time as required by previous methodology.

The Department of the Interior is committed to the development of a national nonfuels mineral policy. If during the development of that policy a linkage is demonstrated between the policy and taxes, we will have the MAS available for analysis of tax problems and issues.

Finally, in compliance with provisions of the National Materials and Minerals Policy, Research and Development Act of 1980, the Department has taken action to increase significantly the Bureau's foreign and domestic data acquisition and analysis capabilities over the next two years, and to direct a much greater portion of the Bureau of Mines' research effort to the recovery and substitution of critical and strategic materials.

In addition to the Department's effort to comply with the tasks mandated by the 1980 Act, the President has assigned responsibility to the Cabinet Council of Natural Resources and the Environment for formulating a National Materials Policy. This Council has subsequently established a Strategic Minerals Policy Working Group comprised of participants from eighteen agencies and organizations whose sole function is to deal with eight separate issue areas addressed in the 1980 Act. As provisions under this Act are implemented, the Department will continue to furnish information and analysis to any designated organization with responsibility for implementing the 1980 Act.

Sincerely,

Donald Paul Hodel

UNDER SECRETARY

ADVISORY
COMMISSION ON INTERGOVERNMENTAL RELATIONS
WASHINGTON, D C 20575

October 22, 1981

Mr. J. Dexter Peach
Director
Energy and Minerals Division
U.S. General Accounting Office
441 G Street, N.W.
Washington, D.C. 20548

Dear Mr. Peach:

Thank you for sending us a copy of Assessing the Impact of Federal and State Taxes on the Domestic Minerals Industry. The report included a recommendation that new institutional means be devised "to assure that tax policies are compatible with national mineral production objectives without obstructing the rights of various governmental levels to levy and collect taxes." GAO suggests there is a need for an agency to disseminate information on federal mineral policies and to provide technical assistance to states so they can better assess the effect that their taxing decisions might have on the mineral industry. The ACIR is listed as a candidate for assuming this role.

The Commission itself has not considered the GAO recommendation. The staffs' reaction, however, is that the ACIR is not the appropriate agency to play the recommended role. First, as an independent agency it would be wrong for the ACIR to be the interpreter and disseminator of federal policy on minerals. These policies are best interpreted by those with the legal responsibility for policy development and implementation. Second, the ACIR lacks the capability to provide technical assistance of the type proposed. To assess the impact of specific tax law changes on production, development and exploration requires indepth knowledge of the factors influencing the supply and demand for each type of mineral. Such expertise belongs in the Department of Interior, not in a small agency such as ACIR with a mission, inherently generalist in nature, to observe and recommend changes that would improve the functioning of the federal system.

Our lack of capacity to assume the suggested "line" function does not mean that the ACIR should never become involved. Should a major conflict develop among states, or between them and the federal government, the Commission might request a study of the issue area and recommend specific changes in federal or state policy, including possibly the establishment of institutional mechanisms for conflict resolution. The Commission, for example, has recently authorized a study of state energy taxes and royalties, which will address many of the same issues posed in the GAO mineral industry study. As part of this study we will collect much information on state energy tax and royalties practices, estimate current and future revenue flows and assess the likelihood of major fiscal disparities or other serious problems resulting. This information, along with any Commission recommendations, would probably be published and made available to a wide audience.

While it seems clear to us that ACIR is not the appropriate agency to perform the function suggested by GAO, the question remains whether the function should be performed at all. The information provided in the GAO report does not allow drawing conclusions on relative costs and benefits. Certainly it is often, but not always, desirable to increase the exchange of information and to acquaint federal policymakers with states' practices and vice versa. And states should certainly take account of the broader consequences of their actions when devising tax policy or any other policy. It may be more efficient for the federal government to develop the models necessary for such analysis rather than having each state develop the capability individually.

On the other hand, when the purpose of the information exchange or modeling effort is to insure "compatibility" or "harmonization" between state tax laws and federal policy objectives, there is reason for pause. The taxing power is an essential element of state sovereignty. Only in very special instances would it be appropriate to subordinate state taxing authority to federal policy objectives. The case has not yet been made that such federal action can be justified in connection with mineral production.

We appreciate having the opportunity to comment on your report.

Yours truly,

Wayne F. Anderson
Executive Director

Arizona Department of Revenue

CAPITOL BUILDING
1700 W. WASHINGTON
PHOENIX, ARIZONA 85007

July 16, 1981

Mr. J. Dexter Peach, Director
Energy and Minerals Division
Office of the Comptroller General
of the United States
Washington, D.C. 20548

Dear Mr. Peach:

RE: Interaction of Federal Mineral Policy and State Tax Policy

We have studied with interest the Comptroller General's Report to Congress, Assessing the Impact of Federal and State Taxes on the Domestic Minerals Industry.

It is very likely that State taxation of minerals does not always harmonize its tax policy with national mineral production objectives. In this regard, the Government could provide information to States on Federal mineral policies and provide analytical capabilities to States for use in assessing the effects that proposed tax changes would have on mineral production, development and exploration.

We can accept in principle the GAO effort to highlight the impact of taxes (State and Federal) upon the mineral industry. We must, however, join the Department of the Interior in its concern that "...a critical mass of data must exist before there can be any realistic quantitative analysis of the link between taxes and mineral policy...."

The Department of Treasury has, we believe, pinpointed what is needed in terms of analytical analysis at the Federal level in order to provide meaningful information to the States. This is analysis which would systematically distinguish the "normal" tax regimes at State and Federal levels applicable to mineral producers, departure from which constitute either incentives or disincentives to mineral production.

It is our opinion that a new institutional mechanism is not needed to assure that Federal and State taxation are consistent with our national mineral policies. Rather, the Department of Interior, with assistance from the Treasury Department in close coordination with State input, would be the most effective mechanism.

In closing, may I again state our concurrence that there is a need to conduct studies to assess the impact of Federal and State taxation on resource development. We would not, however, recommend the 1981 date if it is to be met at the expense of adequate data and inadequate analytic tools.

Sincerely,

J E Hibbs

J. Elliott Hibbs
Director

STATE OF CONNECTICUT
EXECUTIVE CHAMBERS
HARTFORD

WILLIAM A. O'NEILL
GOVERNOR

August 7, 1981

Mr. J. Dexter Peach
Acting Comptroller General
of the United States
Washington, D.C. 20548

Dear Mr. Peach:

I am writing with regard to the coordination of state and federal tax policies affecting the minerals industry. Connecticut does not have any specific taxes on the mining industry. In fact, very little mining activity outside of sand and gravel operations occurred in our state. It is therefore difficult to provide our views on what institutional mechanisms might be put in place. I do, though, commend your interest in the effort to harmonize state and federal policies.

Sincerely,

B. O'N.

WILLIAM A. O'NEILL
Governor

Office of the Governor

THE CAPITOL

TALLAHASSEE 32301

BOB GRAHAM
GOVERNOR

August 4, 1981

Mr. J. Dexter Peach, Director
Energy and Minerals Division
U. S. General Accounting Office
Washington, D. C. 20548

Dear Mr. Peach:

Thank you for your letter of June 7. We appreciate the opportunity to comment on the recommendations in your report entitled "Assessing the Impact of Federal and State Taxes on the Domestic Minerals Industry".

Florida has significant interest in this area because of mineral-mining activity here. Our State and local revenue needs, the impact of mining on the environment, and other government and social aspects of mining activity make it important for there to be a channel of open communication between Federal and State policy-makers in taxation matters.

While we have no specific recommendations on how such a mechanism might be instituted, we want to confirm our interest in participating in such a program. Florida has received excellent cooperation from the Department of the Interior, Bureau of Mines, when our Department of Revenue sought information or advice on phosphate mining. During our recent legislative session, we also obtained timely and important assistance from the Department of Labor, Bureau of Vital Statistics. However, it has been our experience that the lack of information or awareness of policies has made it much more difficult for our State to deal with the complex issues of mineral availability, tax policy, and environmental concerns.

For these reasons, Florida has a strong interest in the establishment of a communication channel which would provide us with definitive information on Federal policy and the impact of state and local tax policy on mineral availability. We believe mineral-producing states have unique concerns in attempts to harmonize state tax policy with national mineral policy objectives precisely because of the potential impact on the rights of state and local governments to levy and collect taxes to meet the demands placed on these governments to provide services to our citizens. For example, Florida has been following the litigation surrounding Montana's levy on coal and the related congressional actions with concern. The potential impact to our State of any precedent set on this issue could be substantially harmful, if the rights of states to control and tax mining activity are limited by national policy objectives.

Florida's unique status in the production of phosphate rock and our interest in preserving the environmental quality of our lands and waters, while promoting the economic recovery of our mineral resources, make it very important for national and state policies to be developed coordinated, and freely exchanged between appropriate policy-makers.

We trust your report will provide an impetus in this direction.

With kind regards,

Sincerely,

Bob Graham
Governor

BG/rdd

 APPENDIX VI

Department of Revenue

State of Georgia

Atlanta 30334

W. E. Strickland

Commissioner

June 25, 1981

Mr. J. Dexter Peach, Director
Energy and Minerals Division
Comptroller General of the U. S.
Washington, D. C. 20548

Dear Mr. Peach:

I am replying to your letter of June 8 to Georgia Governor George Busbee concerning the taxation of domestic minerals production.

Mineral production in Georgia presently is only significant in the strip mining of kaolin. Georgia does not levy severance taxes on these mine operators but does require them to enviromentally reclaim the mined property. Corporation income taxes are 6% of net income and closely follow the federal income tax laws. Property taxes will average about one-half percent of the fair market value of the property.

Georgia tax legislation is initiated in the Ways and Means Committee of the House of Representatives. This Committee gathers information within Georgia from the Department of Revenue, Department of Natural Resources, and local government organizations.

In Georgia, we have found the A.C.I.R. to be very helpful in harmonizing the Georgia tax structure with other state and local systems. While your study also involves the national security of domestic minerals production, I think the A.C.I.R. staff is capable of providing the tax policy guidance needed in this area.

Sincerely,

Paul Mangold

Paul Mangold
Revenue Research

PM:ow

CC: Governor George Busbee
Commissioner W. E. Strickland

APPENDIX VII

EXECUTIVE CHAMBERS

HONOLULU

GEORGE R. ARIYOSHI
GOVERNOR

June 29, 1981

Mr. J. Dexter Peach
Director
Energy and Minerals Division
Comptroller General of the
United States
Washington, D. C. 20548

Dear Mr. Peach:

Thank you for your letter regarding the effects of federal and state taxes on the profitability of domestic mines and deposits.

Although Hawaii has no minerals, mining activities, or tax laws relating to these activities, we found the information in your letter very interesting.

I commend you and your staff for this study on the effects of taxation on domestic mineral production, investment, and exploration. I feel that your goal to harmonize state tax policies with national policy objectives, without obstructing the rights of the various state and local governments to levy and collect taxes, is praiseworthy.

We do not have any suggestions on this topic; however, we appreciate the opportunity to review this vital issue.

With warm personal regards, I remain,

Yours very truly,

George R. Ariyoshi

APPENDIX VIII

STATE OF MAINE
OFFICE OF THE GOVERNOR
AUGUSTA, MAINE
04333

JOSEPH E. BRENNAN
GOVERNOR

August 3, 1981

J. Dexter Peach
Director
Energy and Minerals Division
Comptroller General of the United States
Washington, D. C. 20548

Dear Mr. Peach:

I am especially pleased to receive your letter of June 8 and the copy enclosed of your Office's recent assessment of the impacts of Federal and State taxes on the domestic minerals industry.

Your report is most timely. Newly-discovered deposits of copper and zinc in northern Maine mean that ours may soon become a major metals producting State. Accordingly, this Administration has been engaged in a similar analysis of yours of the minerals industry and the effects of State taxes on the development of the industry in this State.

We agree that the interaction of State and Federal taxes and the overall tax burden on the mining companies are significant elements in State and national minerals policies. In developing the tax proposal we have submitted to the Maine Legislature (a copy of which is enclosed), we constructed a computer model allowing us to determine the effects of various tax policies on potential metal mining operations in Maine. The model is basically similar to the one used in your study, though we do not have access to a large data base on the mining industry and so had to work from a single hypothetical mine as our data base. We believe that our analysis takes full account of the significant risks involved in metal mining investments, both for the industry and for the State; and that the tax system we propose will provide adequate incentives to invest in and to continue mineral production throughout the useful life of an ore deposit in Maine.

Our examination of minerals tax policy is continuing, since the Maine Legislature elected to delay consideration of this issue until its next session beginning in January, 1982. We shall refine our analsis over the next few months. For this reason, I am particularly interested in your suggestion that the Federal government undertake to assist states in addressing mineral tax policy questions.

At this point, I am not prepared to recommend the precise institutional mechanism which would be most appropriate for such assistance; but since we are currently engaged in the kind of exercise that you envision for the Federal government, we should be most interested in working with your office or with the Departments of Interior and Treasury to further federal-state cooperation in this area.

It may be possible to use the additional analysis of minerals taxation which we will be undertaking over the next few months as a test case for federal-state cooperation in this area. If such an effort would be of interest to you, I request you contact Richard Barringer, Director of the State Planning Office (State House Ation #38, Augusta, Maine 04333, Tel.: 207-289-3261) and make suitable arrangements for our early collaboration.

Once again, thank you for the information from your office, and I look forward to working with the Federal government in furthering State and national mineral policy goals.

Sincerely,

Joseph E. Brennan

JOSEPH E. BRENNAN
Governor

JEB/gwd

cc: Maine Congressional Delegation
Richard Barringer, Director, SPO
Richard Anderson, Commissioner, DOC
Don Larrabee, Maine Washington Office

APPENDIX IX

STATE OF MARYLAND
EXECUTIVE DEPARTMENT
ANNAPOLIS MARYLAND 21404

HARRY HUGHES
GOVERNOR

July 22, 1981

Mr. J. Dale Peach
Acting Comptroller General
of the United States
Washington, D.C. 20548

Dear Mr. Peach:

Thank you very much for your recent letter describing the study of the U.S. General Accounting Office on the effects of Federal and State taxes on domestic mines and deposits.

At present, Maryland is not involved because your report addresses minerals that Maryland does not mine. There is, however, a large segment of industry in the Baltimore Harbor area which is dependent upon these strategic materials. For that reason, I believe the State would be most interested in any Congressional action which might have deleterious effects on the State tax structure.

I appreciate very much your keeping me informed on these matters.

Sincerely,

Governor

APPENDIX X

STATE OF MICHIGAN

OFFICE OF THE GOVERNOR

LANSING

WILLIAM G MILLIKEN
GOVERNOR

September 28, 1981

Mr. J. Dexter Peach
Acting Comptroller General
of the United States
General Accounting Office
Washington, D.C. 20548

Dear Mr. Peach:

Thank you for your preliminary report on mineral taxation. This is an issue of considerable importance to both the United States and the State of Michigan. Michigan is both a large consumer state and a producer of some of these minerals.

The report does provide a framework for analysis of mineral taxation and should be extended. The Department of Interior probably is best equipped with data on location, production, etc. for developing the technical basis for the study. The U.S. Department of Treasury should also assist with its knowledge of federal tax policy. Any analysis of state taxation must consider two important issues: 1) Are the critical mineral industries taxed differently from other industries in the state? and 2) are the mineral industries taxed differently in a given state than the average of all producing states? These comparisons are necessary, as is data on taxes as a percentage of cost of production. Given this data base, such policy questions as the following can be analyzed and answered: 1) Are further tax expenditures needed to encourage mineral production? and 2) are severance taxes hindering production in some states? To help provide information on the Michigan tax structure, I would be glad to offer the services of the Office of Revenue and Tax Analysis in the Department of Management and Budget (phone 517/373-2697). I believe most other governors would offer similar assistance if requested. I also believe that other studies already commissioned by the Interior Department could provide useful data.

The Department of Interior should consider an advisory council of federal and state mining and tax officials to review the data and offer policy recommendations. Such a council could be expanded to include industrial and public members where confidential tax data was not involved.

Thank you, again, for your report and I look forward to further activity in this area.

Kind personal regards.

Sincerely,

William G. Milliken

Governor

State of Montana
Office of the Governor
Helena 59620

TED SCHWINDEN
GOVERNOR

July 27, 1981

Mr. J. Dexter Peach, Director
Energy and Minerals Division
General Accounting Office
Washington, D.C. 20548

Dear Mr. Peach:

Thank you for the opportunity to review the study "Assessing the Impact of Federal and State Taxes on the Domestic Mineral Industry". The study addresses an area that is of critical importance and which has not received the attention it deserves. Nevertheless, continued research is necessary and should greatly expand one's understanding of the effects of taxation policy on the mining industry.

In regard to the institutional mechanism for the coordination of federal and state taxation policies, I would suggest use of the Advisory Commission on Intergovernmental Relations (Commission). The advantages of the Commission are numerous.

First, the Commission has the experience and expertise to fulfill the prescribed functions outlined in the report. The Commission has dealt extensively with taxation policy issues and has sought to coordinate federal, state, and local taxation practices. A broad spectrum of taxation policy issues have already been addressed by the Commission, including issues pertaining to natural resource taxation.

Second, the Commission is composed of representatives from the public and all levels of government. The ability to objectively address arguments on both sides of the issue, and the wide range of interests represented on the Commission should result in an appreciation of the problems faced by state and local governments affected by large-scale mining operations.

Third, the Commission makes findings and recommendations on taxation issues studied. These findings and recommendations are reviewed by interested parties and later published. Model legislation is developed by the Commission which can be proposed for the implementation of its recommendations. The Commission's findings and recommendations are useful since the published results illustrate the trade-offs between various taxation policies and mineral production, and the model legislation clearly defines necessary modifications in existing tax policies.

Finally, all of these advantages are available at the least cost since the use of the Commission avoids the creation of a new division within a Federal agency or increasing the staff of an existing agency.

Thank you again for the opportunity to review the study and to comment on the appropriate institutional mechanism.

Sincerely,

TED SCHWINDEN
Governor

The State of Nevada
Executive Chamber

Robert List
Governor

Capitol Complex
Carson City, Nevada 89710

July 20, 1981

Mr. J. Dexter Peach
Director
Energy and Minerals Division
Comptroller General of the
United States
Washington, D. C. 20548

Dear Mr. Peach:

Thank you for your recent letter and the enclosed "Report to the Congress - Assessing the Impact of Federal and State Taxes on the Domestic Minerals Industry."

I am not in agreement with the analysis of state mine taxation which included Nevada with eight other states in the production of four minerals - copper, lead, zinc and molybdenum. Nevada production of lead and zinc is negligible, molybdenum is a by-product and copper production has decreased significantly in recent years.

The Constitution of the State of Nevada is specific in the method of taxation for mining. The framers of the 1864 Constitution intended that the net proceeds tax be the only form of taxation of mines.

It is my opinion that the net proceeds of mines taxation as adopted by Nevada is a most fair and equitable method of taxation of mining. No taxes are paid until the mine is in production and the product sold. The net proceeds of mines tax provides a measure of return of venture capital by not taxing until the mine is in production and the amount of tax is dependent on the value of the product in the economic market place. This provision is designed to encourage prospecting and mine development in Nevada.

It is suggested that the question of both federal and state mine taxation be addressed by the Council on Minerals and Materials established upon passage of H.R. 3364, 97th Congress, 1st Session, titled the "National Minerals Security Act of 1981."

A proposed constitutional amendment was passed by the 1981 Session of the Nevada Legislature that would isolate the net proceeds of mines tax from the general property tax. This would permit the taxation of the net proceeds at a rate of not to exceed $5.00 per $100.00 of certified net value. To become operative, this amendment must be again passed by the 1983 session of the Legislature and then be approved by the electorate. Even with this change, the Nevada state tax on the mining industry would still be among the lowest of any state in the Union.

Thank you again for keeping us informed of your activities in this matter.

Sincerely,

ROBERT LIST
Governor

 APPENDIX XIII

STATE OF NEW HAMPSHIRE
OFFICE OF THE GOVERNOR
STATE HOUSE · CONCORD, NEW HAMPSHIRE 03301

HUGH J. GALLEN
GOVERNOR

July 8, 1981

Acting Comptroller General
of the United States
Washington, D.C. 20548

Dear Comptroller General:

Thank you for furnishing me with a copy of the report to Congress, "Assessing The Impact Of Federal And State Taxes On the Domestic Minerals Industry."

New Hampshire lacks a mining industry as such, and therefore, at this time, is not involved with taxaton policies that might relate to mineral availability. However, the State does offer some geological potential for the discovery of important mineral deposits.

We are not unaware of the fact that mineral taxation at the State level could have some impact on development of mineral deposits. Consequently, we would welcome an effort on the part of the Federal government which would assist us in analyzing the relationship of tax policies to future mineral availability.

At this time, we are unable to offer specific suggestions in this area or to comment about the best mechanism for carrying out liaison functions. We do, however, have fine working relationships with the U.S. Geological Survey and the U.S. Bureau of Mines. We observe that the mechanism for liaison may already be in place with these agencies and with the Department of the Interior with which many of our State Departments work, particularly the Department of Resources and Economic Development.

Sincerely,

Hugh J. Gallen

HJG:ds

STATE OF NEW MEXICO
OFFICE OF THE GOVERNOR
SANTA FE
87503

BRUCE KING
GOVERNOR

June 29, 1981

J. Dexter Peach
Acting Comptroller General
of the United States
Washington, D.C. 20548

Dear Mr. Peach:

Thank you for the opportunity to review the report to the Congress entitled Assessing the Impact of Federal and State Taxes on the Domestic Minerals Industry. Obviously, when considering state mineral taxes, state policy-makers should be aware of federal mineral policy and of the interaction between state and federal tax laws. However, the report did not elucidate the objectives of federal mineral policy but simply pointed out that varying tax policies can have an impact on the profitability of exploiting mineral reserves.

The report indicates a concern for making state officials aware of the impact of state taxes on mineral production levels and on the rate of investment in mining properties. Let me assure you that state officials are deeply aware of these impacts, and they are always debated when tax changes are proposed. In my experience, there is often a good deal of disagreement on the effect of any particular tax change. Additional information which a federal agency or federal-state liaison group (proposed in the report) might wish to provide would be useful to state policy-makers. However, it is unrealistic to suppose that state officials would rely solely on any single such source of information. Without further definition of the role of the liaison group proposed in the report, it is impossible to offer further comments. You may wish to explore the concept through the Western Governors Policy Office and other similar regional organizations.

Finally, I would like to make the perhaps obvious observation that state and local governments impose taxes only as a necessary means of financing public services. These governments do not use taxes to redistribute income *to any notable extent and lack the fiscal resources to use tax policy for promoting certain activities at the expense of others. Instead, tax policy is based upon a balancing of ability-to-pay with fee-for-service considerations, depending on the nature of services provided. In states such as ours where there is a limited industrial base to draw upon, mining activities must be relied upon to bear a substantial portion of the costs of government. Naturally, states should be willing to consider taxing mineral properties in the least detrimental way possible, but the need to levy such taxes from the viewpoint of both fiscal necessity and economic efficiency, cannot be brought into question.*

Sincerely,

Bruce King

BRUCE KING
Governor

APPENDIX XV

STATE OF NORTH CAROLINA
OFFICE OF THE GOVERNOR
RALEIGH 27611

JAMES B. HUNT, JR.
GOVERNOR

June 22, 1981

Dear Mr. Peach:

Thank you for your letter of June 8 and the copy of your report to Congress "Assessing The Impact Of Federal And State Taxes On The Domestic Minerals Industry."

I appreciate your taking the time to send this to me and your request for comments, and am bringing it to the attention of members of my staff for their information and use.

My warmest personal regards.

Sincerely,

Mr. J. Dexter Peach, Director
Energy and Minerals Division
Office of the Comptroller General
Washington, D. C. 20548

APPENDIX XVI

STATE OF OKLAHOMA
OFFICE OF THE GOVERNOR
OKLAHOMA CITY

August 18, 1981

Comptroller General
of the United States
Washington, D.C. 20548

Dear Comptroller General:

Thank you for the opportunity to comment on your report to the Congress, "Assessing the Impact of Federal and State Taxes on the Domestic Minerals Industry."

I would like to point out from the start that whatever comments I offer are concerning a minerals industry which has long been inactive in Oklahoma. Local production of lead/zinc ores and copper ceased in the early 1970's, largely due to the tremendous drop in world prices for such minerals. The remaining minerals industry in Oklahoma is one for construction materials such as sand and gravel, limestone, and granite.

While the report attempts to accurately portray the federal and state tax burdens that the minerals industry bears across the United States and its effect on production, it seems that the report places an unfair share of the responsibility of the burden on state and local governments. The report states that approximately 60% of the taxes paid by minerals industry is to the Federal government, yet the assertions of "significant effect on national mineral policy goals," and "changes in ... tax laws have a significant impact on the profitability of mining ventures and the mining industry's ability to expand or contract production" all appear in the discussion on state taxes.

In order to clarify the role that state taxation plays with regard to the nation's mineral industry, an effort should be made by the General Accounting Office to determine the particular uses of the state taxes imposed. For example, in Oklahoma, the severence tax on coal is utilized in the funding of the state agency responsible for the administration of the surface mining law. In Montana, the severence tax is earmarked for a trust fund deal with the future impacts of mining when the coal resource is depleted, as well as present needs such as schools, roads, etc. It is quite possible that the states specified in the report have similar procedures for the disposition of state tax monies collected from non-fuel minerals industries.

 APPENDIX XVI

I would fully agree that effort should be made by the Federal government to inform the states concerning federal tax policies regarding the minerals industry. The lead for such an effort should obviously fall to the Department of the Interior, in particular the Bureau of Mines, noting that agency's long-standing experience and expertise in the mineral resource field. Throughout any further review by the Federal government, the primary focus should be placed upon state and local government's particular needs and expenditures of tax monies, recognizing the inherent right of those governmental entities to tax within their own borders.

Sincerely,

George Nigh

George Nigh

GN:ep

APPENDIX XVII

State of Tennessee

LAMAR ALEXANDER GOVERNOR

June 22, 1981

Mr. J. Dexter Peach, Director
Energy and Mineral Division
U. S. General Accounting Office
441 G Street NW
Room 4915
Washington, DC 20548

Dear Mr. Peach,

Thank you for your letter and for providing me with a copy of the report on your recent study of the effects of various federal and state taxes on mining operations.

This is a subject of increasing significance, and I appreciate having the benefit of this research and analysis by the General Accounting Office. I am sharing this material with Commissioner Charles Howell of our Tennessee Department of Conservation for his review. We will be happy to forward to you any additional comment we may have as our own work in this policy area goes forward.

Thank you again for this information. It was good to hear from you.

Sincerely,

Lamar Alexander

Lamar Alexander

LA/khs

cc: Commissioner Charles Howell

APPENDIX XVIII

OFFICE OF THE GOVERNOR
STATE CAPITOL
AUSTIN, TEXAS 78711

WILLIAM P. CLEMENTS, JR.
GOVERNOR

July 9, 1981

Mr. J. Dexter Peach
Director, Energy and Minerals Division
Comptroller General of the United States
Washington, D. C. 20548

Dear Mr. Peach:

My office is in receipt of your letter dated June 8, 1981 containing a report entitled "Assessing the Impact of Federal and State Taxes on the Domestic Minerals Industry."

I am forwarding this material to the Texas Energy and Natural Resources Advisory Council which I co-chair with Lt. Governor Hobby for their review and comment. Please contact Dr. Milton Holloway, Executive Director, at (512) 475-0414 if you require specific input from Texas. I have asked them to comment as they feel necessary.

Sincerely,

Bill Clements

William P. Clements, Jr.
Governor of Texas

WPCJr:vb

APPENDIX XIX

COMMONWEALTH of VIRGINIA

Office of the Governor

Richmond 23219

John N. Dalton
Governor

August 5, 1981

The Honorable J. Dexter Peach
Acting Comptroller General of
the United States
Washington, D. C. 20548

Re: B-202270

Dear Mr. Comptroller General:

Thank you for your letter of June 8th and the copy of the Report of the Congress, "Assessing the Impact of Federal and State Taxes on the Domestic Minerals Industry." In this letter you asked me to give my views on the desirability of a new institutional mechanism to better harmonize state tax policy with national mineral policy objectives, without obstructing the rights of various state and local governments to levy and collect taxes.

In the report that accompanied your letter, three possible institutional mechanisms are suggested to better coordinate federal and state mineral policy:

1. The Department of Interior (Bureau of Mines) with assistance from the Treasury Department;

2. the Advisory Commission on Intergovernmental Relations; and,

3. a new, appropriately designed institutional mechanism.

Due to its expertise and present and planned future capabilities, it seems to me that the most plausible mechanism for harmonizing state tax policy with national mineral policy objectives is the Department of Interior (Bureau of Mines). I suggest that appropriate agencies (such as state tax and revenue estimating agencies, tax writing committees of state legislatures, and state mining and mineral agencies) should be informed by the Bureau of Mines of national mineral policy objectives and their present and future capabilities is assisting the states in assessing the impact of tax changes on the mineral industries. The Bureau could also conduct regional information sessions, as well as provide a list of people in their organization with whom these agencies could communicate for various problems or questions.

I hope that these suggestions will be useful to you.

With all good wishes, I am

Very truly yours,

John N. Dalton

JND/cm

APPENDIX XX

State of Washington

OFFICE OF THE GOVERNOR

July 13, 1981

Mr. J. Dexter Peach, Director
Energy and Minerals Division
Office of Comptroller General
of the United States
Washington, D.C. 20348

Dear Mr. Peach:

We have reviewed the June 1981 Report to the Congress, "Assessing the Impact of Federal and State Taxes on the Domestic Minerals Industry," with great interest.

There is certainly a great need for assessing the impact of taxes on economic growth and resource development. Although we do have some concerns about the Federal government's involvement in state and local tax matters because of past efforts in Congress to limit and restrict state taxation, we also have an interest in assuring the optimum development of the nation's natural resources.

Providing states with greater analytical abilities in assessing alternative tax strategies is a worthwhile goal. The Advisory Commission on Intergovernmental Relations has done considerable work regarding the impact of state and local taxes on economic growth, and this information has been useful to state governments.

It is my recommendation that the ACIR would be the appropriate agency to take the lead in further developing information on the potential effect of tax change on minerals development and in working with both the states and Federal government on this matter. The ACIR is a logical choice because it has broad representation from all levels of government and has already established expertise in this area.

Sincerely,

John Spellman
Governor

APPENDIX XXI

STATE OF WEST VIRGINIA
OFFICE OF THE GOVERNOR
CHARLESTON 25305

JOHN D. ROCKEFELLER IV
GOVERNOR

October 5, 1981

Dear Mr. Peach,

Thank you for your letter concerning the desirability of the creation of a new institutional mechanism which would better harmonize state tax policy with national mineral policy objectives without obstructing the rights of various state and local governments to levy and collect taxes.

The State of West Virginia certainly recognizes the value of harmonizing important state and national policies relating to the improvement of the productivity and profitability of our national mineral industry, which, of course, includes tax policy. Although the minerals included in your study are not mined within West Virginia, significant quantities of various other minerals which include oil, gas, sandstone, limestone and, most importantly, coal, are produced in West Virginia. Regarding the production of natural resources as an important segment of our economic base, the State of West Virginia would be receptive to the idea of harmonizing state tax policies with national mineral policy objectives within the bounds of neither obstructing the rights of various states to otherwise promote its fair share of revenue nor the depletion of its natural resources.

We also recognize that any such interaction between state and federal governments must form its foundation upon a free and direct line of two-way communication in order to be mutually beneficial.

As evidenced in your study, the various states mining minerals are confronted with numerous taxing schemes and consequences. With this in mind, it would appear that to be administratively feasible any institutional mechanism promoting the stated objective must be structured upon a background of general information which catagorizes and collates the different minerals and taxing schemes of the various states. With such a background, open lines of communication could be established between responsible personnel with better assurance that any exchanged information and discourse would be pertinent and useful.

The liaison network that your office has proposed concerning the impact of state taxes upon the mineral industry warrants approval. Our State would be happy to assist you in any way that we can to establish the liaison communication network.

If there are any further questions about our view of the proposed liaison between the state and federal government, please let me know.

Sincerely,

Jay Rockefeller

John D. Rockefeller IV

Mr. J. Dexter Peach
Director
Energy and Minerals Division
U.S. General Accounting Office
Washington, D. C. 20548

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