NMA
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National Mining Association
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Tax Policies Should Keep U.S. Mining Globally Competitive

U.S. mineral and coal producers play an integral role in fostering continued American economic prosperity by meeting, through domestic production, much of the nation's growing energy needs and by producing strategic minerals for commercial use as cost-effective inputs for farms, factories and other job creators. Mined products are used in every part of the economy.

Mining producers are integral to continued economic prosperity by providing 42% of the nation's electricity through affordable coal power and another 19% through uranium powered nuclear plants – totaling 61% of our nation's electricity supply. While coal-based electricity has increased by more than 170 percent over the past 30 years, emissions have decreased by 90 percent. New high-efficiency coal plants can further reduce emissions by more than 30 percent.

Hardrock mining provides essential minerals for commercial use as cost-effective inputs for farms, national defense systems, and high technology such as cell phones, hybrid cars and minerals for the manufacturing base. Domestic mining products are used in virtually every part of the economy. Ores and metals are used in the production of capital goods for manufacturing and construction. Essential electronic, telecommunications and medical processes depend on metals. Non-metallic minerals are used in agriculture as fertilizers, in medicine as pharmaceuticals and in construction and other industrial processes.

The mining industry, comprised of both coal and hardrock minerals producers, has a combined direct and indirect employment of almost 2 million jobs in all 50 states -- with one of the highest paying private sector average wages at: $71,000 per year.

U.S. mining's total direct and indirect economic contribution to GDP was over $225 billion in 2010 -- generating over $50 billion in tax payments to federal, state and local governments. The value added to GDP by major industries that consume processed mineral materials was $2.4 trillion in 2012. Mining exports added $24 billion in positive contributions to America's balance of trade.

The United States needs the public policies that unlock, and do not hamper, the full potential of our immense mineral endowment in a highly competitive world economy in which the demand for minerals continues to grow.

Capital Costs:

It is important to recognize the unique nature of mining investments. Mining requires significant financial commitments to long-term projects to deliver a competitive product at a low margin. Enormous amounts of capital must be expended at the front end of mining projects to realize future returns. For example, a number of mines in the Western states have capital costs around $500 million or more, and it is not unusual for a world-class mining project today to require $1 billion in engineering, development, construction and other costs to commence and sustain the enterprise.

Additionally, current laws result in a process that takes five to ten years to navigate, putting the U.S. dead last among top mining countries when ranked on permitting delays.

Competiveness:

Under the current tax structure, the U.S. tax burden on mining puts domestic mining at a significant competitive disadvantage. Additionally, compared to other U.S. industries, companies in the mining industry pay among the highest effective tax rates. A study by New York University's Stern School of Business listed the "effective tax rates" of 100 different U.S. industry sectors. According to that study, the weighted average effective tax rate across money-making firms in the metals and mining industry is 40.58%.

Many American mines have large reserves, but often of lower ore grades than other mines around the world. Many U.S. mines simply cannot bear large tax increases and still remain globally competitive. Other U.S. mines would have their productive lives significantly shortened by major tax increases. As the U.S. economy is recovering from the recession, the mining industry is hiring and is poised to expand production and increase hiring. The industry is a major job creator, but tax increases would jeopardize that hiring.

Tax Reform:

It has been suggested that tax reform could involve the elimination of various so-called "tax expenditures." The Joint Committee on Taxation has identified tax expenditures specifically related to mining. These provisions are not "loopholes" but are instead essential components of domestic mineral and coal mining operations. The key tax provisions affecting mining include percentage depletion and the ability to expense mining exploration costs. These provisions are discussed in further detail below. It should be noted that percentage depletion is applied to all extractive industries, including many independent oil and gas producers.

Increased taxes on the mining industry through elimination of longstanding tax rules such as percentage depletion, would likely result in increased electricity prices and higher prices for consumers, sending crippling effects throughout the U.S. economy and across all domestic industries.

Summary:

Tax increases would jeopardize hiring in the mining industry and put the jobs, salaries and benefits of hundreds of thousands of workers at risk. Increased taxes on the mining industry through elimination of longstanding tax rules such as percentage depletion, would likely result in increased electricity prices and higher prices for consumers, sending crippling effects throughout the U.S. economy. Tax increases would not only affect the hundreds of thousands of people that the industry directly employs, but also negatively impact the additional secondary employment that is generated through demand for mining support services and generated by consuming industries through processing and refining activities and manufacturing operations.

Preserve the Percentage Depletion Tax Deduction for U.S. Mining Activities

NMA Position:

Congress should reject unwarranted proposals that would significantly harm the competitiveness of domestic mining by eliminating or reducing the present-law percentage depletion tax deduction for mining activities or by otherwise increasing taxes on mining. U.S. mineral and coal producers play an integral role in fostering continued American economic prosperity and energy security. The percentage depletion deduction is vitally important to U.S. mining operations and must be retained.

U.S. Mining:

U.S. mineral and coal producers play an integral role in fostering continued American economic prosperity by meeting, through domestic production, much of the nation's growing energy needs and by producing strategic minerals for commercial use as cost-effective inputs for farms, factories and other job creators. Domestic mining products are used in virtually every part of the economy. Ores and metals are used in the production of capital goods for manufacturing and construction. Essential electronic, telecommunications and medical processes depend on metals. Non-metallic minerals are used in agriculture as fertilizers, in medicine as pharmaceuticals and in construction and other industrial processes.

Many American mines have large coal and ore reserves, but often of lower ore grades than other mines around the world. Many U.S. mines simply cannot bear large tax increases and still remain globally competitive. Other U.S. mines would have their productive lives significantly shortened by major tax increases. As the U.S. economy is recovering from the recession, the mining industry is hiring and is poised to expand production and increase hiring. The industry is a major job creator, but tax increases would jeopardize that hiring.

U.S. mining directly employs more than 627,000 people. Additional secondary employment is generated through demand for mining support services. Significant further employment is generated by consuming industries through processing and refining activities and manufacturing operations. Mining's direct and indirect contribution to employment is nearly 2 million jobs. Furthermore, domestic mining products are used in virtually every part of the economy.
U.S. mining's total direct and indirect economic contribution to GDP was valued at more than $225 billion in 2010, the latest year available for this data. In addition, mining generated $50 billion in tax payments to federal, state, and local governments. The value added to GDP by major industries that consume processed mineral materials was an estimated $2.4 trillion in 2012. Also of note in 2012, mining exports added $23.8 billion in positive contributions to America's balance of trade.

Even with the percentage depletion tax deduction, the U.S. tax burden on mining puts domestic mining at a significant competitive disadvantage.

Current Tax Law on Percentage Depletion:

Under longstanding law, taxpayers producing from mines, wells, and other natural deposits are allowed to claim as a deduction for depletion a percentage of the gross income from these mining properties. This deduction is known as "percentage depletion." The percentage depletion deduction is an essential component of domestic mineral and coal mining operations and must be retained. The percentage depletion tax deduction recognizes the unique nature of mining investments and recognizes that the next ore body or coal mine to be mined will be more costly since the reserve may be smaller and the geology more difficult. Mining requires significant financial commitments to long-term projects to deliver a competitive product at a low margin. Enormous amounts of capital must be expended at the front end of mining projects to realize future returns. With such sizable capital costs, cost recovery through percentage depletion has a significant effect on the margins and prices at which minerals can be profitably sold. The present-law percentage depletion deduction is vitally important to the competitiveness of the domestic mining industry and to the U.S. economy, it must be retained.

Summary:

Congress should not impose a massive tax increase on U.S. mining companies by eliminating or reducing the percentage depletion deduction. This tax increase would raise the cost of doing business for U.S. mining companies and would threaten as many as 2 million jobs. Because mineral prices are established in world commodity markets, U.S. mining companies cannot easily pass on higher tax costs in the form of higher prices. A likely result of eliminating the percentage depletion deduction would be reduced domestic employment, increased electricity prices, and increased reliance on foreign producers for the materials used throughout our economy.

Preserve Expensing for Coal and Other Mining Exploration Costs

NMA Position:

Congress should preserve the present-law tax expensing of coal and other mining exploration and development costs.

Current Law on Expensing Exploration and Development Costs:

Under current law, taxpayers may elect to expense (i.e., deduct in the year the costs are incurred) mining exploration costs with respect to domestic ore and mineral deposits. Additional rules apply to require capitalization (and amortization over a 60-month period) of a portion of exploration costs for corporate taxpayers that elect to expense those costs and to recapture expensed exploration costs when a mine reaches the producing stage. Also, taxpayers electing to expense exploration costs may nevertheless elect to capitalize those costs and amortize them over a 10-year period. Similar rules apply with respect to mine development costs.

Why Present Law Should Be Retained:

The current law expensing/amortization deduction is appropriate.

The expensing of coal and other mining exploration and development costs is part of the current calculation for appropriately measuring taxable income from mining operations. That appropriate measurement of taxable income under present law should not be changed as a way of increasing taxes on the mining industry.

Eliminating expensing would increase electricity prices for American consumers and hurt the economy.

Nine out of every ten tons of coal mined each year in the U.S. is used for domestic electricity generation. Coal companies are like other businesses – if their costs go up, they must raise prices to maintain profitability. Since our country relies on coal to power 42% of its electricity generation, this means that utilities will pay more for coal and consumers will pay more for electricity. In addition to hurting hard-pressed consumers directly, increased electricity costs will ripple through the economy, costing jobs.

Eliminating expensing would threaten American mining jobs.

U.S. coal mining directly employs nearly 134,000 people in 25 states and, for each coal mining job, an additional 3.5 jobs are created elsewhere in the economy. To the extent coal companies are unable to recover through price increases the higher taxes caused by repeal of expensing and 60-month/10-year amortization of exploration and development costs, they will have that much less money to employ workers directly or to support additional indirect job creation elsewhere in the economy.

Taking into account all types of mining, U.S. mining directly employs more than 627,000 people. Additional secondary employment is generated through demand for mining support services. Significant further employment is generated by consuming industries through processing and refining activities and manufacturing operations. Mining's direct and indirect contribution to employment is nearly 2 million jobs. Furthermore, domestic mining products are used in virtually every part of the economy.

Eliminating expensing would impose a massive tax increase on an industry already overburdened by the alternative minimum tax (AMT).

The AMT greatly increases the cost of undertaking investments for the exploration and development of coal and other mines and reduces the returns to operating mines. Mining companies are several times more likely to incur AMT liability than companies in other industries. Between 1994 and 2001, 35 percent of mining companies made AMT payments. By comparison, in manufacturing – a sector often thought to be most heavily burdened by the AMT – 20 percent of companies made AMT payments over this period, when companies are weighted by asset size. In all other industries, 12 percent of companies paid the AMT. Put another way, mining companies were approximately three times more likely to pay AMT than all non-manufacturing corporations. The proposal would only exacerbate the substantial tax burden currently borne by the coal industry.

Current law recognizes the unique nature of mining investments.

Enormous amounts of capital must be expended as exploration and development costs at the front end of coal and other mining projects to realize future returns. Expensing of exploration and development costs has a significant effect on the margins and prices at which mined products can be profitably sold. The expensing of exploration and development costs reflects Congress's intention to keep U.S. mine products, coal prices, and electricity costs for consumers as low as possible.

Eliminating expensing would jeopardize domestic energy security.

The United States has nearly 259 billion tons of recoverable coal reserves, enough to provide a 235-year supply at current rates of use. Coal accounts for 94 percent of the nation's fossil energy reserve. By increasing costs for the domestic coal industry, the proposal would lead to a possibly permanent contraction of the nation's domestic energy production infrastructure – leaving the United States vulnerable to supply shocks and price increases for imported energy sources.

Summary:

Repealing expensing and 60-month/10-year amortization of coal and other mine exploration and development costs would raise the cost of doing business for U.S. mining companies, threaten nearly 2 million jobs, and increase electricity prices for U.S. consumers. The ability to expense the costs of exploration is vitally important to U.S. mining operations and must be retained.