Memorandum

To: Sen. Barrett, Revenue and Transportation Interim Committee

From: Aaron McNay, Tax Policy and Research AM

Date: May 24, 2016

Subject: Mining Sector Sales Tax Revenue

In a retail sales tax, the only transactions subject to the tax are the sale of goods and services to an end-use customer. Goods and services that are sold by one business to another for processing or resale are generally exempt from the sales tax. While some of the sales made by mining companies would fall into the non-taxable category, there are several areas where sales by companies in the mining sector could be subject to a retail sales tax. This memorandum provides a description of some of the types of mining goods and services that may be subject to an end-use sales tax, while providing an estimate of the amount of revenue a sales tax may generate from Montana's mining sector using the share of taxable sales the mining sector generates in surrounding states.

Retail Sales Tax and Taxable Sales

First, many mining companies provide support activities to other mining companies, which could be taxable. One example of this would be a mining company paying a third party contractor to take core samples and make geological observations at possible mine sites. Other support activates that may also be subject to the tax include excavating slush pits and cellars, surveying wells, running casings and tubes, and cementing wells.

Second, many businesses in the mining sector also sell goods to other companies that are not a direct component of the final good being produced. As a result, these business to business sales could be taxable as well. For example, the sale of materials to store clean water when drilling for oil and gas could be taxable. The sale of other items that may also be taxable include drilling rigs, strip vessels, reclamation equipment, and other machinery and tools.

Finally, mining sector businesses also make products that are purchased by end-users. For example, commercial sand and gravel pits sell some of their goods to end-use customers for construction and large household projects. In addition, a mining company may make a sale to another company that does not have the certification necessary to have their purchase considered for tax-exempt resale. As all these sales would be considered end-use sales, they would most likely be subject to a sales tax.

Other State's Taxable Mining Sales

When examining the states surrounding Montana, the share of the mining industry's sales that is subject to each state's sales tax is significant.[1] For 2012, the U.S. Census Bureau's Economic Census estimates that there was nearly $17 billion in total mining sales in North Dakota (Figure 1). For the same year, the State of North Dakota reports approximately $5.1 billion in taxable sales.[2] Based on these two estimates, approximately 30 percent of North Dakota's mining sector sales were subject to the state's sales tax. For South Dakota, the proportion of taxable sales is slightly less than North Dakota's share, at 24 percent.[3] Finally, Wyoming had the lowest share of their mining industry's sales subject to the state's sales tax, at only 16.9 percent.[4] When combined, the share of mining industry sales subject to each state's sales tax was approximately 22.8 percent, with an average of 23.7 percent.

Figure 1

Share of Taxable Sales to Total Sales By State, 2012

State	Total Value of Shipments and Receipts for Services	Net Taxable Sales	Share of Taxable Sales Relative to Total Sales
North Dakota	$16,952,524,000	$5,117,138,306	30.2%
South Dakota	$428,759,000	$103,080,709	24.0%
Wyoming	$20,884,473,000	$3,523,174,325	16.9%
Total	$38,265,756,000	$8,743,393,340	22.8%
Average	$12,755,252,000	$2,914,464,447	23.7%

The combined value of Montana's mining sector sales is projected to be approximately $6.1 billion in fiscal year 2017, according to the Montana Department of Revenue's sales tax model. If Montana's mining sector sales mirror its surrounding states, between 16.9 percent and 30.2 percent of the state's mining sector sales would be subject to a state sales tax. Assuming a sales tax rate of 4 percent, sales from the mining sector could generate between $41.3 million and $73.8 million in tax revenue in fiscal year 2017 (Figure 2). Using the combined rate of all three states, 22.8 percent, a similar sales tax has the potential to generate nearly $56 million in sales tax revenue for fiscal year 2017.

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[1] Idaho's industry level sales tax data is not available, due to data quality concerns.
[2] "Sales and Use Tax Statistical Report", North Dakota State Government, 2012, http://www.nd.gov/tax/data/upfiles/media/2012-annual-stat-report.pdf?20160321162218
[3] "South Dakota Sales and Use Tax Report," South Dakota Department of Revenue, 2012, http://dor.sd.gov/Taxes/Business_Taxes/Statistics/2012/PDFs/Calendar_Year/CY12StatebyDiv-MG-SIC.pdf
[4] " Wyoming Sales, Use, and Lodging Tax Revenue Report," Wyoming Department of Administration and Information, 2015, http://eadiv.state.wy.us/s&utax/Report_FY15.pdf

Figure 2			
Estimated Montana Mining Sales Tax Revenue			
Share of Sales	Total Sales	Taxable Sales	Tax Revenue (4% Sales Tax)
16.9%	$6,108,830,851	$1,032,392,414	$41,295,697
30.2%	$6,108,830,851	$1,844,866,917	$73,794,677
22.8%	$6,108,830,851	$1,392,813,434	$55,712,537