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Statement by Russ Fields
President, Nevada Mining Association
Before the
Assembly Committee on Taxation
On Sales Tax on Services
April 24, 2003

I am Russ Fields, President of the Nevada Mining Association. Joining me at the table today are Mary Beth Donnelly, Group Executive of Government Affairs of Newmont Mining Corporation and Michael Brown, Vice President of Public Affairs, of Barrick Gold Corporation. The NMA's membership includes mines of a wide variety, companies and individuals involved with mineral exploration and development and suppliers of goods and services to the mining industry.

We commend this committee for taking a leadership role in resolving these complicated and difficult issues. I understand the challenge, because last year I had the privilege to serve on the Governor's Task Force On Tax Policy In Nevada. As you know, one of its objectives of the task force was to provide the legislature and the Governor with ample options, backed by thorough analysis, that could be used as you evaluate how best to address the State's needs for new revenue.

In his recent State of the State speech, Governor Guinn identified the fiscal problems before us as a "full-blown storm." We understand that this is an area for debate, but mining agrees that Nevada's needs are outstripping the ability of the current revenue systems to meet those needs. Nevada, once a small state, cannot sustain a quality of life and fundamental government services demanded by its citizens under the existing tax structure.

Mining is willing to pay its fair share and we call on other sectors of the Nevada business community to do the same. Our industry has a special role in rural Nevada. In fact, we are the largest employer and represent 13% of the gross state product in the rural counties. However, a popular perception exists that mining is the state's 2nd largest industry. While our industry certainly played a pivotal role in the development of the

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state in the 19th century, in the modern Nevada economy of the 21st century we represent only 1.9% of the Gross State Product, according to the analysis contained in the report from the Task Force. This fact has significant implications in the larger debate on Nevada's fiscal problems.

Again, according to the Task Force Report, in the economy of modern Nevada, gaming, mining and government account for about half of the Gross State Product. Other industries such as finance/insurance and real estate (18%), manufacturing (4%), construction (10%), retail and wholesale trade (15%) account for the remaining half of the state's GSP. These sectors are fueling the engine of growth in the Nevada economy. Evidence of this can be found by looking at employment growth rates between 1995 and 2000. During that period, mining employment declined by 3.2%, while the other non-gaming sectors rose between 3% and 11%.

Our internal research at the mining association reveals even more stark trends. Using Department of Employment, training and Rehabilitation statistics, employment growth rates between 1998 and 2001 showed a 24.4% **reduction** in mining employment, in contrast, the non-gaming sectors **grew** by 14.5%.

Mining, like gaming, for reasons linked to the state's history already pays an industry specific tax – the net proceeds of minerals tax. In our case, half of the money is retained in the rural counties and reduces the need for urban Nevada to subsidize the rural counties. However, none of the other sectors of the Nevada economy that I detailed earlier, except insurance, pay any form of an industry specific tax. Nor do we think they should. Instead, we believe these sectors should step forward and join us in support of the Governor's call for a broad-based business tax.

As long ago as 1989-1990, the Board of Directors of the NMA came to understand the state was changing, and saw the dark clouds of our fiscal storm forming. We anticipated that new taxes would be needed. That is why we were one of the first business groups to adopt a policy on new taxes. This past year, the board again revisited that policy and

again said, in our view, any new state taxes must be broad-based and include all sectors of the modern Nevada economy. They should be apportioned according to a taxpayer's ability to pay and not focused on specific industries, individual citizens, or companies. Finally there should be sufficient safeguards to help small business owners using a minimum of exemptions.

We believe the Governor's proposed State Activity Tax (SAT), or gross receipts tax, meets these tests. However, the expansion of the sales and use tax base to include services (STS), does not meet our test.

We oppose extending the sales tax base to include services at this time. The Governor's task force noted that this matter needed more study and examination. Governor Guinn has recommended that the legislature evaluate this proposal independent of the consideration of his tax program.

During my service on the Governor's Task Force we considered and rejected the STS as a solution to the state's fiscal crisis. It was the conclusion of the task force that a tax that is more targeted at business, as opposed to the end consumer, was preferable. With any sales tax, the burden falls most squarely on the individual consumer.

From the mining industry's perspective we do not believe the STS is an appropriate substitute for the Governor's proposal. Let me elaborate:

The STS Is Not A Substitute For A Broad-based Business Tax

The STS is an extension of an existing tax, not a new broad-based tax. It does not provide the critical third leg of the stool deemed to be essential by the Governor's Task Force, to provide the stability needed to finance state government. The Task Force determined that the STS will ebb and flow with consumer purchases, increasing an already volatile tax structure and will not bring the stability we need.

Forty-eight states (including the District of Columbia) long ago adopted a broad-based business tax of some sort. These range from a traditional corporate income tax in Alabama to the Business and Occupations Tax in Washington. Nevada should first put a comprehensive broad-based business tax in place, before extending the sales tax to services. It seems as if we are putting the cart before the horse.

We recognize the growing role services play in this economy. But, we also know that most states have found it challenging to find a way to extend sales taxes to services. States that have tried to tax services provided by out of state companies have found that they can't collect them. This creates an incentive for consumers to purchase services such as tax preparation, consulting and legal work from out-of-state providers. Why would we ignore the lessons from other states and lead the way into uncharted territory, when we have yet to adopt a comprehensive, traditional business tax of some sort?

The STS Creates Tax Collectors, Not Taxpayers

Large sectors of the Nevada business community will escape direct taxation under the proposed STS. Most businesses will be able to restructure their pricing to pass the STS through to individual consumers. Instead of creating new taxpayers within the business community, the STS creates new tax collectors of business and unfairly burdens the most vulnerable of all present taxpayers -- the consumer.

STS Unfairly Targets Commodity Based Industries

As I mentioned earlier, mining is one of just three sectors of the Nevada economy that pays an industry specific tax. If the STS is enacted, it will create a way for other sectors of the Nevada economy to transfer taxes to those of us already paying those industry specific taxes.

The mining industry paid \$48.3 million in sales and use taxes in 2001. We had to fully absorb those costs. They were not added to the bottom of the bill of sale when the gold

bars left the refinery. Gold prices are set on international markets. We have absolutely no control over the price of gold. All we can do is contain costs. The same is true for ranching, agriculture and other commodity-based businesses in rural Nevada.

Adding burdensome taxes to the bottom line for commodity-based businesses will unfairly increase the cost of doing business. And when you increase the cost of doing business, less business will be done in this state.

Having said that, mining *is* willing to step forward and pay its fair share of the gross receipts tax. The GRT will truly expand the business tax base of the state and generate much needed revenue in a fair and equitable manner.

STS Shifts The Tax Burden From Business To Individuals

Even more alarming than the impact of the STS on mining, is the overall shift of the tax burden from businesses to individuals through an STS. Historically, sales and use taxes have proven to be regressive and will fall the hardest on households with lower incomes. It is not fair to further burden the consumer, while the Nevada business community continues to grow at a phenomenal rate. Furthermore, federal tax reform in the 1980's eliminated the deductibility of sales taxes; so individual taxpayers will not be able to deduct the cost of the STS.

STS is Cumbersome

Studies have shown that the track record on the STS across the nation is comparatively dismal. As a result, few states have enacted a STS – and NO state has enacted a STS as expansive as the one being proposed here. Furthermore, the Task Force advised that ease of administration be a key feature of any new tax structure. No one has successfully argued that STS will be easy to administer.

Finally, I find it ironic that while Congress is working to repeal the estate tax, under a STS, Nevada will begin to tax funerals. That brings entirely new meaning to the expression about not being able to escape death or taxes.

This concludes my prepared statement. I would be prepared, along with my colleagues in the mining industry, to answer any of your questions.

NEVADA

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NEVADA MINING ASSOCIATION'S POLICY ON NEW NEVADA TAXES

Adopted July 11, 2002

Policy Statement

1. The Nevada Mining Association recognizes that Nevada's state government faces future funding challenges because of its narrow tax base and increasing demands on state services caused by significant population growth. Under existing structures, the state's general fund will not keep pace with these new demands for state services.
2. The Association strongly believes that any new taxes must be broad-based, include all sectors of the Nevada economy, and apportioned according to the taxpayer's ability to pay.
3. The state must not seek any new single-source taxes such as new or increased taxes solely on the gaming, mining, or insurance industries.
4. The mining industry will pay its fair share of any new taxes in the same manner, and to the same extent, as any other Nevada business.
5. Finally, these new taxes should not be aimed at any individual citizens or companies, and appropriate safeguards or exemptions should be put in place to help Nevada's small business owners.

9210 Prototype Drive
Suite 200
Reno, NV 89511
(775) 829-2121
Fax (775) 852-2631

www.nevadamining.org

2300 W. Sahara Avenue
Suite 740 Box 33
Las Vegas, NV 89102
(702) 871-4356

Nevada Economy At A Glance

	A	B	C	D	E	F	G	H
	Gross State Product 2000	Gross State Product 2000	Employment 2000 (Full-Time and Part-Time)	Employment Share 2000 (Full-Time and Part-Time)	Employment Growth Rate (Full-Time and Part-Time)	Average Wage	Wage Index (100 = Average)	Sales Receipts 2001
	% of Total	(Millions \$)	(Thousands of Employees)	% of Total	1995 - 2000	Year 2000	Year 2000	Sales in 000's
Industrial Sector								
Agriculture	0.8%	\$ 582	18,961	1.5%	8.3%	\$ 23,304	71.3	Unavailable
Mining	1.9%	\$ 1,392	12,972	1.0%	-3.2%	\$ 55,639	170.2	\$ 2,415,731
Construction	9.9%	\$ 7,399	103,745	8.2%	6.6%	\$ 38,912	119.0	\$ 13,474,286
Manufacturing	4.1%	\$ 3,066	47,486	3.8%	3.7%	\$ 37,965	116.2	\$ 8,096,592
Transportation/Utilities	7.9%	\$ 5,924	61,583	4.9%	6.6%	\$ 38,569	118.0	\$ 9,612,015
Wholesale Trade	4.5%	\$ 3,386	42,052	3.3%	4.8%	\$ 42,679	130.5	\$ 18,452,764
Retail Trade	10.6%	\$ 7,920	202,448	16.0%	6.0%	\$ 21,245	65.0	\$ 26,617,585
Finance, Insurance, Real Estate Services	17.9%	\$ 13,379	119,168	9.4%	11.3%	\$ 41,058	125.6	\$ 12,215,131
Hotels & Lodging	32.3%	\$ 24,131	528,403	41.7%	4.8%	\$ 31,282	95.7	\$ 34,177,834
Amusement & Recreation	14.8%	\$ 11,058	228,825	18.1%	4.0%	\$ 30,435	93.1	-
Business Services	2.9%	\$ 2,181	-	-	-	-	-	-
Health Services	-	-	76,373	6.0%	-	-	-	-
Legal Services	-	-	56,610	4.5%	-	-	-	-
Other	-	-	9,056	0.7%	-	-	-	-
Government	10.1%	\$ 7,566	157,539	12.4%	-	-	-	-
			129,006	10.2%	3.6%	\$ 37,737	115.4	-
Total	100%	\$ 74,745	1,265,824	100%	5.5%	\$ 32,673		\$ 125,061,938

Source: "Analysis Of Fiscal Policy In Nevada" - Governor's Task Force On Tax Policy In Nevada - Section 1 - Economic Overview

Columns

Definitions: Gross State Product - A measure of a state's business and industry output.

A Exhibit 1A-38 Appendix 1A
 B Exhibit 1A-38 Appendix 1A
 C Exhibit 1A-19 Appendix 1A
 D Exhibit 1A-10 Appendix 1A
 E Exhibit 1A-14 Appendix 1A
 F Exhibit 1A-33 Appendix 1A
 G Exhibit 1A-33 Appendix 1A
 H Exhibit 1A-41 Appendix 1A