

BILL # HB 2839

TITLE: mining classification; deduction

SPONSOR: Yarbrough

STATUS: As Introduced

PREPARED BY: Juan Beltran

FISCAL ANALYSIS

Description

The bill provides an exemption under the mining classification of the Transaction Privilege Tax (TPT) for services or manufacturing performed for the taxpayer.

Estimated Impact

The bill may have a negative fiscal impact to the state General Fund that cannot be determined due to uncertainty as to how contractors are currently paying TPT on these activities. To the extent that contractors are currently paying TPT on these services, the loss would be some portion of the current collections for nonmetal mining, oil, and gas activities. To the extent that contractors are not paying TPT, the bill would result in foregone General Fund revenues.

The Department of Revenue (DOR) does not have an estimate of the bill's fiscal impact.

Analysis

Under current statute, the tax base for the business of mining is the gross proceeds of sales or gross income derived from the mining of any nonmetal, oil, or gas products. There are instances where a mining business hires contractors to provide assistance in crushing or manufacturing the mineral product. These "service crushers" provide services to mining operations that do not have enough crushing or manufacturing capacity. They are not involved in selling or extracting the product. Under current DOR rules, these services would also be subject to TPT.

According to the Arizona Rock Products Association (ARPA), during FY 2007 only 1 out of 5 contractors surveyed by ARPA remitted TPT for the sale of services or manufacturing for approximately \$100,000. If contractors are not remitting TPT for these services, the fiscal impact to the bill would be foregone revenue rather than a loss. If other non-surveyed contractors are currently remitting TPT for their services, the bill will cause a loss of existing revenue, though the magnitude of the loss cannot be determined with certainty.

DOR reports that the total TPT revenue from nonmetal mining, oil, and gas activities during FY 2007 to be approximately \$8 million. DOR was unable to determine what percentage of the tax base would be eligible for the proposed exemption.

Local Government Impact

The bill would have an undetermined negative impact on the distribution of revenues to both counties and cities from their share of TPT collections.