TAXPAYERS for COMMON SENSE

FACT SHEET

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Generous Tax Breaks for Hardrock Mining Companies Amount to A Double Giveaway for Taxpayers

For decades, hardrock mining companies have benefited from generous tax breaks at the expense of taxpayers, all the while extracting minerals from federal lands royalty-free. This makes them unique among the extractive industries operating on federal lands.

There are two main tax subsidies provided to the hardrock mining industry. The first is the deduction known as the percentage depletion allowance (PDA) and the second is the Expensing of Exploration and Development Costs.

What is the Percentage Depletion Allowance?

The Percentage Depletion Allowance (PDA) nominally enables companies to reduce their taxes to recoup investments in new mines, but in reality provides an ongoing production subsidy for as long as the mine generates income. The PDA permits a company to deduct a fixed percentage of their gross income – sales revenue – from extracting resources. Currently, the percentages for different types of hardrock minerals are set at:[1]

- 22% for uranium, lead, zinc, platinum, nickel, tungsten, molybdenum, etc.
- 15% for gold, silver, and copper
- 14% for barite, phosphate rock, fluorspar, etc.

Mining companies can continue to claim the PDA deduction even after all their capital investment in a mine is recovered. So taxpayers end up subsidizing the day-to-day operations

[1] 26 U.S. Code § 613

of the hardrock mining industry without getting any royalty revenue from the sale of the minerals produced by those operations, costing billions of the dollars in foregone royalty. The Joint Committee on Taxation estimated that from Fiscal Year (FY) 2020 to FY 2024, the PDA tax expenditure for non-fuel minerals will cost taxpayers $200 million.[2] Foregone royalty revenues top more than $1 billion every year.

What is the Expensing of Exploration and Development Costs?

In most cases businesses capitalize the costs of developing a new asset like a new factory or piece of software, meaning they spread the costs over a number of years. Mining firms, however, can expense certain exploration and development costs immediately, allowing for enormous write-offs in certain years. The Joint Committee on Taxation estimated that from Fiscal Year (FY) 2020 to FY 2024, the expensing of exploration and development costs for non-fuel minerals will cost taxpayers $200 million.[3]

Hardrock Industry Already Receives Subsidies

Under the General Mining Law of 1872, the hardrock industry has been allowed to extract previous federal resources without paying any royalty for almost 150 years. This results in a double giveaway because mining companies not only extract minerals from federal lands royalty-free, but receive tax breaks that pad their bottom line at taxpayers' expense.

[2] JCX-23-20
[3] Ibid.