

I am Ben Simmons, Vice President – Controller, of Anchorage Sand and Gravel Co., Inc. I have been employed in this capacity for the past 37 years. I have extensive experience with Chapter 43.65 Mining License Tax, filing required tax returns and responding to audits. Based upon my experience and knowledge of the Mining License Tax statute, the following testimony is respectfully submitted.

- **Ambiguous.** The Mining License Tax Statute as it pertains to sand and gravel is very ambiguous and difficult to apply to sand and gravel operations. All mining operations covered by the statute is basically one item (ie. Gold, silver, coal, etc.), with the exception of sand and gravel which can be between 20-30 products. Therefore, applying the statute to sand and gravel requires analysis of 20-30 different items instead of one. In the past 30 years I have been involved in three audits which included 1-3 years of tax returns each. Each audit was handled differently than the previous and final dispositions were settlement agreements with no real guidance for future return filings. The major points of contention are always “fair market value” and “ordinary treatment process” and value of sand and gravel used internally. The statute contains definitions of each, but each is difficult to apply to sand and gravel operators. For instance, operators in vertically integrated companies (typically suppliers) have very different processes from operators who are general contractors. AS&G is a vertically integrated company (supplier) which sells approximately 70% of its mined product to third parties and uses 30% internally. Mining operators who are general contractors sell approximately 30% of their mined product to third parties and use 70% internally (for asphalt, road beds, building pads, etc.). Suppliers’ internal sales would include aggregates for asphalt, ready mix concrete, concrete block, sacked goods, etc.
- **Inconsistent application of tax and No “market price” for sand and gravel.** The statute requires internal sales to be valued at “fair market value after they have been subjected to ordinary treatment processes”. Unlike gold, silver, lead, zinc, etc., there is no exchange or commodities board one can go to and get the “market or field price” for sand and gravel. So when determining the value to be used for internal use of sand and gravel auditors generally rely on the average sales price by product to third parties. This approach does not take into account bid prices for large quantities, high prices for hard to make specs or simple value added for additional handling. These prices are determined on a product by product basis from one producer to another, so the amount of tax paid by one producer can vary greatly from another on exactly the same product. Therefore, fair application of the tax is not consistent from one taxpayer to the next.
- **Burdensome.** A great deal of time is required to gather and generate the necessary information for filing a tax return. The current thinking at the Department of Revenue Auditing Division is that “fair market price” should be determined on a product by product basis. AS&G currently makes and inventories between 20-30 aggregate products, so gathering information is very time consuming. In addition, if audited the time requirement and expense grows significantly. Our last audit for tax years 2005-2006 took almost 18 months and costs to AS&G in time and

attorney expenses were well over \$50,000.00 just complying with requests for information and meetings.

- **Non-productive tax.** It is my belief that the amount of taxes collected from sand and gravel producers is insignificant compared to the cost to the state. During previous audits through discovery it was determined that the state had collected slightly more than \$200,000 in mining taxes and AS&G accounted for approximately 50% of this. I can only assume that audit costs are greater than revenue.

In summary, ambiguity as it pertains to sand and gravel, inconsistent application of tax, no markets or indexes for sand and gravel, burdensome and time consuming to comply and non-productive tax are reasons why sand and gravel should be exempted from the Mining License Tax statute. Government (local, state and federal) is the end customer for the majority of our products and ultimately pays this tax and our expense. I estimate that between 60 to 75% of aggregates produced by AS&G are used public or governmental projects. An exemption from this tax for sand and gravel producers should reflect lower costs of materials to construction projects. It will not be readily identifiable due to the competitive nature of the construction industry, but costs of construction materials should be lower.

Respectfully,

Ben D. Simmons
V.P. Controller