

NEW SUSTAINABLE

ALASKA

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Pulling Together to Build Our Future

Mining License Tax

SB137

Mining License Tax Increase

“An Act requiring the electronic filing of a tax return or report with the Department of Revenue; establishing a civil penalty for failure to electronically file a return or report; relating to exemptions from the mining license tax; relating to the mining license tax rate; relating to mining license application, renewal, and fees; and providing for an effective date.”

Mining Tax History

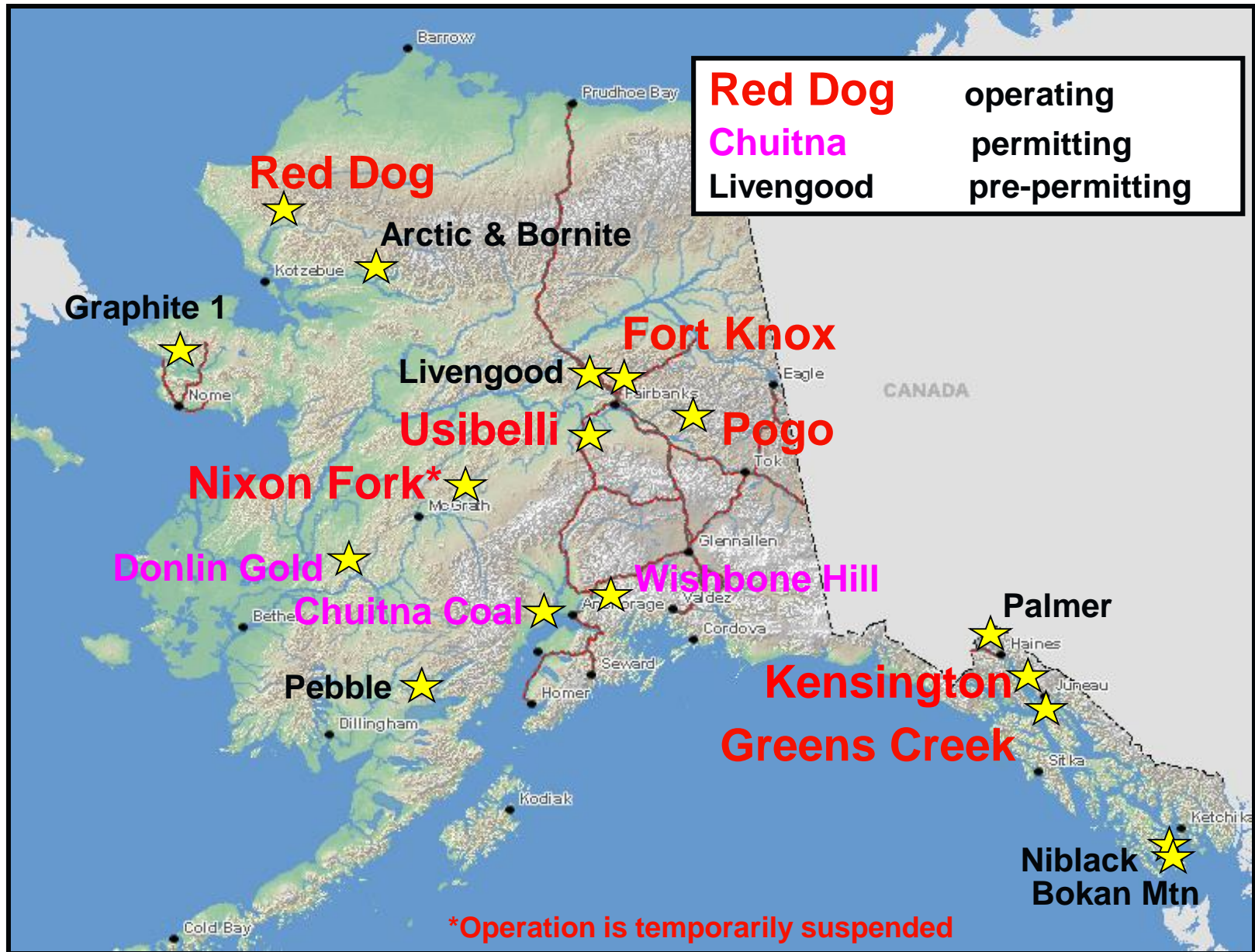
- Began in 1913; restructured several times
 - Original mining license tax was 0.5% tax on mining net income over \$5,000
- Collected on both net income from mining operations and from mining-related royalties
- Primarily from businesses engaged in coal and hard-rock mining

Mining Tax History (Continued)

- Numerous changes between 1915 and 1953 to the tax rates and the tax-free net income base
- In 1951, adopted 3 ½ year exemption for new mining operations
- Current tax structure since 1955:

Mining Net Income	Tax Rate
\$0-\$40,000	No Tax
\$40,001-\$50,000	\$1,200 plus 3% over \$40,000
\$50,001-\$100,000	\$1,500 plus 5% over \$50,000
Over \$100,000	\$4,000 plus 7% over \$100,000

Large mining projects in Alaska



Mines in Alaska

- Alaska has five large hard rock mines and one coal mine
- 200 small placer mines who, combined, have an economic impact that is similar to one large mine

Mining Tax Proposal

- Increases tax rate on highest bracket (net income greater than \$100,000) from 7% to 9%
- Removes 3 ½ year exemption
- Requires electronic filing
 - Provides exemption process
- Adds an application and renewal fee for tax license
 - Substitute for business license; same rate

Relative Mining Tax Rate

- Most other state mining taxes are based on value or tonnage, not net income.
- Examples from other states:
 - Wyoming tax on value varies by resource: 2% on sand and gravel, 7% on surface coal
 - South Dakota: 10% on profits or royalties; \$4 per ounce of gold
 - Wisconsin: 3% to 15% progressive tax on net mining proceeds
 - Colorado: 2.25% of *gross* income exceeding \$19 million

Impacts of Tax Proposal

- For large and profitable mines:
 - Most income falls above \$100,000, so effective tax rate goes up from 7% to 9%
 - In 2014, 13 entities paid at this level
- For small mining operations:
 - Little or no effect from tax rate change
 - However, removing 3 ½ year exemption may deter some future mines

Revenue Impact

- Dept. of Revenue estimates that increasing the mining tax rate will raise an additional \$6 million per year starting in FY 2018
 - Because this is an annual tax, we don't receive revenue until after the first full year after the 7/1/16 effective date
- Dept. of Revenue estimates license fee and renewal fee of \$50 per year will raise an additional \$25,000 per year
- Does not account for any changes in mining activity

Implementation Cost

- Dept. of Revenue must update:
 - Tax Revenue Management System (TRMS)
 - Revenue Online (ROL) which allows a taxpayer to file a return online
 - Tax return forms
- One-time implementation cost of \$100,000 to recreate tax forms and reprogram and test the tax system to accommodate the rate changes
- No additional costs to administer the tax program

Closing the Budget Gap

FY16 Budget	(Millions) \$ 5,200
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FY17 Baseline Revenue (after proposed legislation)

AK Permanent Fund Protection Act (annual draw)	\$ 3,300
Revenue from existing taxes and fees	\$ 850
Earnings on Savings	<u>\$ 135</u>
	\$ 4,285

FY17 Spending Reductions

Continue Cuts	\$ 140
Reform O&G Tax Credits	\$ 400
Net Priority Investments	<u>(\$ 40)</u>
	\$ 500

Closing the Budget Gap (Continued)

<u>New Revenue Components (estimated)</u>	(Millions)
<i>Mining (starting in FY 2018)</i>	\$ 6
Fishing	\$ 18
Tourism	\$ 15
Motor Fuel	\$ 49
Alcohol	\$ 40
Tobacco	\$ 29
Oil and Gas	\$ 100
Income Tax (half in FY17; first full year is FY18)	<u>\$ 200</u>
	\$ 457
Total with reductions and new revenue	\$ 5,242

Sectional Analysis

- Sec. 1.** Adds a \$25 or 1% tax penalty for failure to file electronically unless an exemption is received by the taxpayer.
- Sec. 2.** Requires electronic submission of tax returns, license applications, and other documents submitted to the Department of Revenue. This changes the general tax statutes, AS 43.05, and will apply to all tax types administered by the department. Provides a process to request an exemption if a taxpayer does not have the technological capability to do so.
- Sec. 3.** Removes the 3 ½ year exemption for new mining operations until after production begins from the mining tax. Instead, any persons engaged in the business of mining in the state will need to obtain a license and file an annual mining license tax return.

Sectional Analysis (Continued)

Sec. 4. Increases the highest tax rate from 7% to 9% for net taxable income in excess of \$100,000. The other tax rates remain the same. For net income over \$100,000 the tax is \$4,000 plus 9% of the amount in excess of \$100,000.

Sec. 5. Conforming language related to the requirement to submit returns or reports electronically. This section deletes the requirement for taxpayers to submit their returns to the department in Juneau.

Sec. 6. Establishes a mining license fee of \$50 per year, a license renewal fee of \$50 per year, and changes the due date for applications and renewals from May 1 to January 1.

Sec. 7. Conforming language related to the repeal of the 3 ½ year tax exemptions for new mining operations. Repeals AS 27.30.030(b)(2), AS 43.65.010(b), and AS 43.65.060(4).

Sectional Analysis (Continued)

- Sec. 8.** Applicability language to clarify that the change in Sec. 3 applies to all new mining operations in which production has begun on or after the effective date.
- Sec. 9.** Transition language so that the language repealed in Sec. 7 should be read as it was before the effective date while administering a certain tax credit for a person who began a mining operation before the effective date.
- Sec. 10.** Transitional language allowing for regulations
- Sec. 11.** Section 10 above takes effect immediately.
- Sec. 12.** Effective date of 7/1/16 for the rest of the bill including the tax rate change.

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