



Mining Tax

HB 253

Presentation to the House Finance Committee
May 4, 2016

Mining License Tax Increase

"An Act relating to an exemption from the mining license tax; relating to the mining license tax rate; relating to mining license application, renewal, and fees; relating to the exploration incentive credit; establishing a legislative working group to study the tax structure for mining; and providing for an effective date."

Mining Tax History

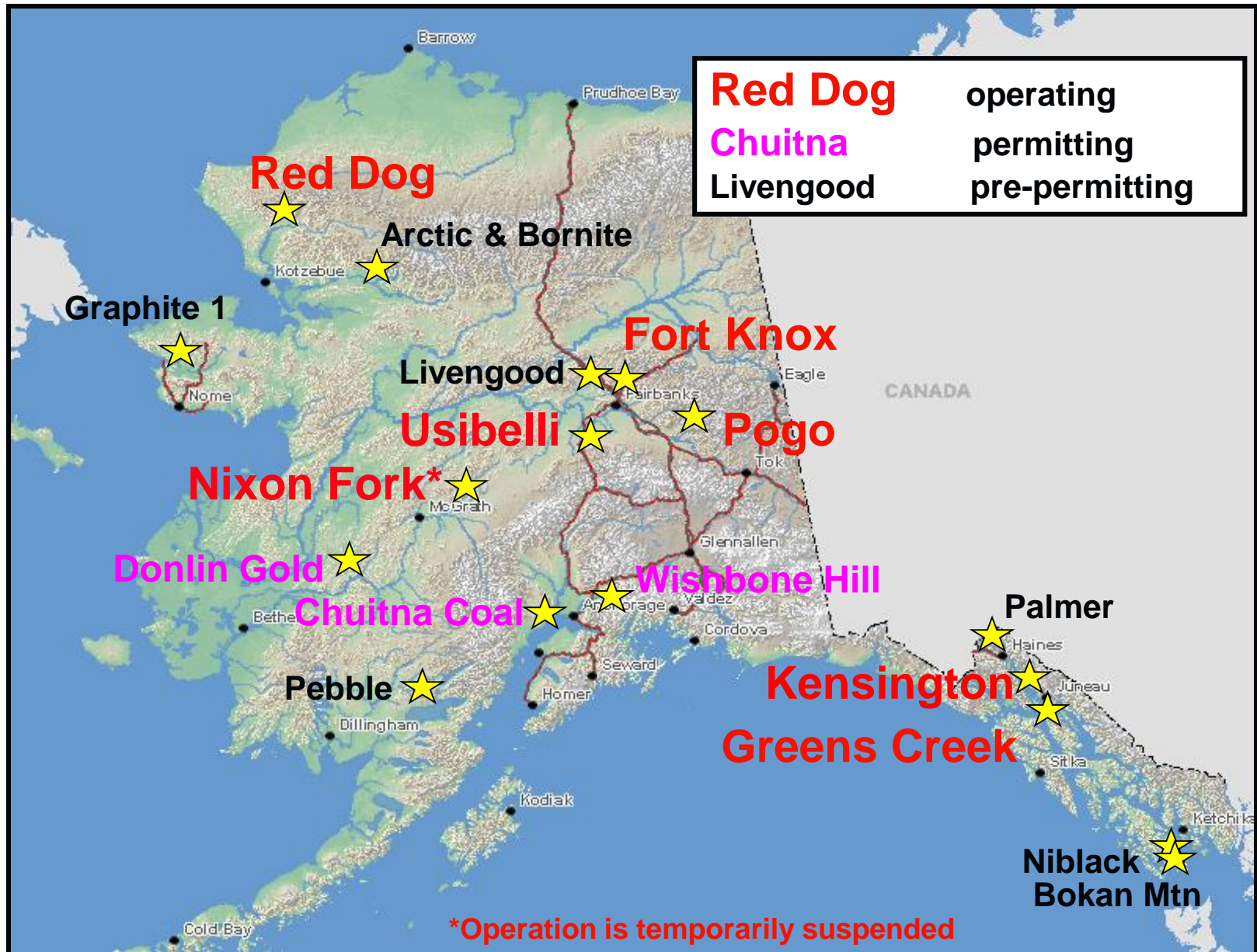
- Began in 1913; restructured several times
 - Original mining license tax was 0.5% tax on mining net income over \$5,000
- Collected on both net income from mining operations and from mining-related royalties
- Primarily from businesses engaged in coal and hard-rock mining

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 (Original)

- Increases tax rate on highest bracket (over \$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
 - Tax license is in lieu of business license for miners
 - Fee is set at the business license rate

Relative Tax Rate

- Most other state mining taxes are based on volume, not net income.
- Examples comparable to Alaska:
 - South Dakota: 10% on profits or royalties; \$4 per ounce of gold
 - Wisconsin: 3% to 15% progressive tax on net mining proceeds
 - Nevada: 2% to 5% of net proceeds

Impacts of Tax Proposal

- Raises the effective tax rate of the top tax bracket from 7% to 9%
 - Only affects large and profitable mining operations since most of their income falls above \$100,000
 - In 2015, 13 companies 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 estimated that increasing the top mining tax rate to 9% would raise an additional \$6 million per year starting in FY 2018
- 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 \$50,000 to recreate tax forms and reprogram and test the tax system to accommodate the rate changes
- No additional costs to administer the tax program

Mining Tax—Changes made in Committee Substitute

- Highest bracket moves to 8% instead of 9%
- 3 ½ year exemption is not removed, but reduced to 3 years
- Does not require electronic filing
 - This is done in a separate bill
- Revenue impact is \$3.5 million in FY 2018
 - Revenue impact of original proposal is \$7 million (new estimate)

Closing the Budget Gap

| | |
|--------------------|-------------------|
| | (Millions) |
| FY16 Budget | \$ 5,200 |

| | |
|--|---------------|
| AK Permanent Fund Protection Act (annual draw) | \$ 3,200 |
| Revenue from existing taxes and fees | \$ 850 |
| Earnings on Savings | <u>\$ 135</u> |
| | \$ 4,185 |

Spending Reductions (estimated amounts)

| | |
|------------------------------|----------------|
| Continue Cuts (through FY19) | \$ 200 |
| Reform O&G Tax Credits | \$ 400 |
| Net Priority Investments | <u>(\$ 44)</u> |
| | \$ 556 |

Closing the Budget Gap (Continued)

New Revenue Components (estimated amounts) (Millions)

| | | |
|--|-----------|--------------|
| <i>Mining (starting in FY 2018)</i> | \$ | 6 |
| Fishing | \$ | 18 |
| Tourism | \$ | 15 |
| Motor Fuel | \$ | 49 |
| Alcohol | \$ | 40 |
| Tobacco | \$ | 29 |
| Oil and Gas | \$ | 100 |
| Individual Alaskans (Income Tax) | \$ | 200 |
| | \$ | 457 |
| Total Budget, Spend Rdctns, and New Rev | \$ | 5,198 |

Sectional Analysis (Committee Substitute)

Sec. 1. Changes the 3 ½-year exemption for new mining operations to a to a 3-year exemption .

Sec. 2. Increases the highest tax rate from 7% to 8% 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 8% of the amount in excess of \$100,000.

Sec. 3. 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. 4. 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.

Sectional Analysis (Continued)

Sec. 5. Transitional language allowing for regulations.

Sec. 6. Section 5 above takes effect immediately.

Sec. 7. Effective date of 7/1/16 for the rest of the bill including the tax rate change.

NEW SUSTAINABLE

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PLAN



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