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February 10, 2012

Senator Joe Paskvan  
Senator Thomas Wagoner  
Senate Resources Committee Co-Chairs  
State Capitol  
Juneau, AK

Email transmission to:      Senator\_Joe\_Paskvan@legis.state.ak.us  
   Senator\_Thomas\_Wagoner@legis.state.ak.us

Re:     Senate Bill 176      "An Act exempting sand and gravel and marketable earth mining operations from the mining license tax; and providing for an effective date."

Dear Senator Paskvan and Senator Wagoner,

Next week, on Wednesday, Feb 15<sup>th</sup>, you will be receiving testimony on SB 176 regarding the taxation of sand and gravel operations in the State of Alaska. Please consider the following comments as you discuss the numerous merits of this bill.

#### **Sand & Gravel tax return**

There is no clear guidance on how to comply with the mining return. While this is manifested in many ways, from a sand & gravel standpoint – and especially for a company engaged in additional processing or use of the aggregate - there are some calculations / allocations that don't make economic sense. These sometimes work in the state's favor and other times in the company's.

#### **Sand & Gravel tax return audits**

The state's resources that were spent in auditing our returns (labor, airfare, hotels etc) could have had a much bigger impact auditing different areas. For the years in question there was much less use or sale of aggregates than the current years which in turn would reduce the chance of collecting enough additional revenue to justify the cost of the audit.

The company also suffers financially in complying with the filing of the return and any subsequent audits. We have spent over 150 hours searching for and copying documents, preparing schedules and answering

questions. The cost to the company has included labor, postage, office supplies (paper) and the opportunity cost of the employee's time that would have been better spent elsewhere.

The current taxation system requires a company to report based upon their tax year. Our financial statements are prepared by calendar year and our state and federal taxes are reported with a year end of March 31<sup>st</sup>. While our current accounting system is configured to accommodate the "routine" filings for state and local corporate taxes, it is not customized to provide the data required by the mining tax return, which must be extracted from our financial statements. This therefore requires that significant additional time be spent reconciling the two financial reporting periods in order to comply with the return requirements. Internally, the best solution would be to keep separate ledgers but this is cost prohibitive with our current set-up.

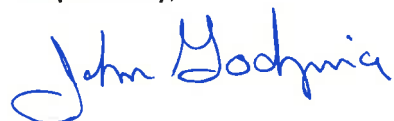
If the tax for sand & gravel is not abolished it should at the very least be simplified so that compliance is no longer burdensome.

#### **Sand & Gravel tax paid by DOT**

While we could focus merely on the fact that administering this tax costs more than it raises, that doesn't address the core issue of who is paying most of the tax – the State of Alaska Department of Transportation. The majority of the aggregates removed from our Interior pits finds its way into a state road or airport project, which means the state is actually taxing itself, and costing itself additional administrative expense in the process.

Our state economy is in a precarious state. It is of utmost importance that we get the most bang for our buck in all areas of state government. The sand and gravel tax system works against that end. Please support SB 176.

Respectfully,



John Godzina, CPA  
Controller

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