

FISCAL NOTE

STATE OF ALASKA
2008 LEGISLATIVE SESSION

Fiscal Note Number: 2
 Bill Version: CSHB 156(W&M)
 (H) Publish Date: 2/4/08

Identifier (file name): HB156-DOR-TAX-1-25-08 Dept. Affected: Revenue 04
 Title: Mining Prod. & License Taxes/Royalties RDU: Taxation and Treasury
 Component: Taxation and Treasury
 Sponsor: Seaton, Doll
 Requester: House Ways and Means Component Number: 2476

Expenditures/Revenues (Thousands of Dollars)

Note: Amounts do not include inflation unless otherwise noted below.

| | Appropriation Required | Information | | | | | | |
|-------------------------------|---------------------------|-------------|------------|------------|------------|------------|------------|------------|
| | | FY 2009 | FY 2009 | FY 2010 | FY 2011 | FY 2012 | FY 2013 | FY 2014 |
| OPERATING EXPENDITURES | | | | | | | | |
| Personal Services | | | | | | | | |
| Travel | | | | | | | | |
| Contractual | | | | | | | | |
| Supplies | | | | | | | | |
| Equipment | | | | | | | | |
| Land & Structures | | | | | | | | |
| Grants & Claims | | | | | | | | |
| Miscellaneous | | | | | | | | |
| TOTAL OPERATING | | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |

| | | | | | | | | |
|-----------------------------|--|--|--|--|--|--|--|--|
| CAPITAL EXPENDITURES | | | | | | | | |
|-----------------------------|--|--|--|--|--|--|--|--|

| | | | | | | | | |
|-------------------------------|---|---|---|---|---|---|---|---|
| CHANGE IN REVENUES () | * | * | * | * | * | * | * | * |
|-------------------------------|---|---|---|---|---|---|---|---|

FUND SOURCE (Thousands of Dollars)

| | | | | | | | | |
|----------------------------|--|------------|------------|------------|------------|------------|------------|------------|
| 1002 Federal Receipts | | | | | | | | |
| 1003 GF Match | | | | | | | | |
| 1004 GF | | | | | | | | |
| 1005 GF/Program Receipts | | | | | | | | |
| 1037 GF/Mental Health | | | | | | | | |
| Other Interagency Receipts | | | | | | | | |
| TOTAL | | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |

Estimate of any current year (FY2008) cost: 0.0

POSITIONS

| | | | | | | | | |
|-----------|--|--|--|--|--|--|--|--|
| Full-time | | | | | | | | |
| Part-time | | | | | | | | |
| Temporary | | | | | | | | |

ANALYSIS: (Attach a separate page if necessary)

This bill will replace the current 3-tier tax rate structure which has a top tax rate of 7% of mining net income with a 4-tier tax rate structure which has a top tax rate of 11% of mining net income. This bill will also repeal the deduction allowed for percentage depletion and the current 3.5 year exemption from the tax. The 3.5 year exemption will be replaced with a 10 year deferral of the tax liability incurred during the first 3.5 years of production.

Expenses: This bill will not create additional duties for the Department. Therefore, there is no expected increase in operating costs incurred by the Department of Revenue, Tax Division as a result of this legislation.

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 Division: Tax Date/Time 1/25/2008 2:30 p.m.
 Approved by: Jerry Burnett Date 1/25/2008
Dept. of Revenue

FISCAL NOTE #2

STATE OF ALASKA
2008 LEGISLATIVE SESSION

BILL NO. CSHB 156(W&M)

ANALYSIS CONTINUATION

This bill currently has an effective date of January 1, 2008. Since this date has passed, this fiscal note assumes this legislation will take effect on January 1, 2009. Tax on net income earned in calendar year 2008 is required to be remitted to the state on or before May 1, 2009. Therefore, changes made by this bill would have no effect on tax payments made in FY 2009. This bill contains three major changes to the mining license tax. The effect on revenue from each change is addressed below:

1. Change the existing tax rate structure (Section 12). This bill would change the existing tax rate structure from a 3-tier graduated tax to a 4-tier tax with rates that are not graduated.

Current Tax Structure

| Net Income | Base Tax | Plus% | Of Excess Over |
|----------------------|----------|-------|----------------|
| \$0 - \$40,000 | \$0 | \$0 | 0 |
| \$40,001 - \$50,000 | \$1,200 | 3% | \$40,000 |
| \$50,001 - \$100,000 | \$1,500 | 5% | \$50,000 |
| >\$100,000 | \$4,000 | 7% | \$100,000 |

Proposed Tax Structure

| Net Income | Tax |
|-----------------------|--------------------------|
| \$0 - \$40,000 | No tax due |
| \$40,001 - \$50,000 | 5% of entire net income |
| \$50,001 - \$100,000 | 7% of entire net income |
| \$100,001 - \$500,000 | 9% of entire net income |
| >\$500,000 | 11% of entire net income |

We expect that tax revenues may increase approximately \$30 to \$40 million each year as a result of the proposed changes to the tax rate structure provided minerals prices remain at the levels projected in the Department's fall forecast.

2. Repeal percentage depletion statutes (Section 14). Currently, mining companies are allowed to calculate their depletion deduction using the greater of cost depletion or percentage depletion. This bill would eliminate percentage depletion and allow mining companies to use only cost depletion when calculating their depletion expense. In fiscal years 2005 and 2006, the use of percentage depletion saved the mining industry approximately \$3 million in tax liability each year as opposed to using cost depletion only. In fiscal year 2007, the mining industry saved in excess of \$20 million by using percentage depletion. The effect on future revenue as a result of this provision is estimated to be between \$3 and \$20 million each year.

3. Repeal the 3.5 year exemption from mining license tax (Section 10). Currently, income earned during the first 3.5 years of production is exempt from the mining license tax. This bill would repeal the exemption and, instead, allow any tax liability incurred during the first 3.5 years of production to be deferred over 10 years. A review of historical tax records of various mining properties indicates that most mining operations incurred losses during the first 3.5 years of production. As such, we do not see any additional mining license tax income generated as a result of this proposed change.

Total estimated revenues may increase between \$33 and \$60 million each year as a result of changes to the mining license tax as proposed by this bill.