

SENATE FINANCE COMMITTEE

April 9, 2012

9:13 a.m.

9:13:34 AM

CALL TO ORDER

Co-Chair Stedman called the Senate Finance Committee meeting to order at 9:13 a.m.

MEMBERS PRESENT

Senator Lyman Hoffman, Co-Chair  
Senator Bert Stedman, Co-Chair  
Senator Lesil McGuire, Vice-Chair  
Senator Johnny Ellis  
Senator Dennis Egan  
Senator Donny Olson  
Senator Joe Thomas

MEMBERS ABSENT

None

ALSO PRESENT

Representative Paul Seaton

PRESENT VIA TELECONFERENCE

John MacKinnon, Executive Directors, Associated General Contractors, Fairbanks; Matt Fonder, Director, Tax Division, Department of Revenue, Anchorage

SUMMARY

HB 298 EXEMPTIONS FROM MINING TAX

HB 298 was HEARD and HELD in committee for further consideration.

#sb298

CS FOR HOUSE BILL NO. 298(FIN)

"An Act exempting quarry rock, sand and gravel, and marketable earth mining operations from the mining license tax; and providing for an effective date."

9:14:25 AM

REPRESENTATIVE PAUL SEATON, explained HB 298. He referred to the Sponsor Statement (copy on file).

HB 298 repeals the requirement that operators who produce sand, gravel and quarry rock products pay the mining license tax. This tax costs the state nearly as much to administer as it raises. The Department of Revenue agrees that the mining license tax on sand and gravel operators is burdensome and labels the sand and gravel tax a "nuisance tax." During the last five years, the Department of Revenue collected between \$206,000 and \$320,000 annually in mining license tax revenue on sand and gravel operations and spent nearly \$1 50,000 each year to administer the tax.

Sand and gravel is processed into multiple products such as concrete, asphalt, concrete block and wide variety of aggregates. Each of the final products have a different expense track associated with them. They are sold at retail, wholesale and at competitive bid prices. Each of these products, their cost of extraction, transportation, various expense tracks from processing and multiple sales prices are part of the many permutations that sand and gravel operators use to calculate their mining license tax. The Department of Revenue ensures compliance through a very detailed audit. The cost of these audits to businesses often exceeds the tax amount paid by the business.

Between 40 percent and 60 percent of sand and gravel mined in the state is used in public works projects. The mining license tax payment on these projects is paid by the state and local governments through the increased cost of the projects. This "left pocket/right pocket" payment is a burden to the Department of Revenue auditors does not raise any additional funds for the state. Repealing the mining license tax requirement for sand and gravel operators will remove a significant burden to Alaska businesses, and will allow the Department of Revenue to direct

their auditing capabilities on higher cost mineral mining operations.

Co-Chair Stedman noted the two previously published fiscal notes from the Department of Revenue and the Department of Natural Resources.

9:18:29 AM

AT EASE

9:18:54 AM

RECONVENED

9:19:13 AM

JOHN MACKINNON, EXECUTIVE DIRECTORS, ASSOCIATED GENERAL CONTRACTORS, FAIRBANKS (via teleconference), testified in support of HB 298. He relayed a story regarding his frustrations related to the present tax structure, and the audit process. He felt that the current tax was a "nuisance tax." He remarked that in order to simplify the tax structure, sand, gravel and quarry rock operations should be exempt from the mining tax. He felt that the exemption would result in broad public benefit.

Representative Seaton thanked the committee for hearing HB 298.

Co-Chair Hoffman wondered if there was an anticipation of reducing personnel in the Department of Revenue.

MATT FONDER, DIRECTOR, TAX DIVISION, DEPARTMENT OF REVENUE, ANCHORAGE (via teleconference), responded that a reduction in personnel was not anticipated. He furthered that audit staff had been diverted from other excise tax programs to focus on the sand and gravel tax payers, which was a big lift. He noted that there were eleven licensed auditors in 2007, and there were 189 licensed auditors in 2011.

HB 298 was HEARD and HELD in committee for further consideration.

Co-Chair Stedman discussed the afternoon's agenda.

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ADJOURNMENT

9:24:28 AM

The meeting was adjourned at 9:24 AM.