

HOUSE FINANCE COMMITTEE

May 4, 2016

10:38 a.m.

10:38:09 AM

CALL TO ORDER

Co-Chair Thompson called the House Finance Committee meeting to order at 10:38 a.m.

MEMBERS PRESENT

Representative Mark Neuman, Co-Chair  
Representative Steve Thompson, Co-Chair  
Representative Dan Saddler, Vice-Chair  
Representative Bryce Edgmon  
Representative Les Gara  
Representative Lynn Gattis  
Representative David Guttenberg  
Representative Scott Kawasaki  
Representative Cathy Munoz  
Representative Lance Pruitt  
Representative Tammie Wilson

MEMBERS ABSENT

None

ALSO PRESENT

Jerry Burnett, Deputy Commissioner, Treasury Division, Department of Revenue; Ken Alper, Director, Tax Division, Department of Revenue; Representative Sam Kito; Representative Louise Stutes.

PRESENT VIA TELECONFERENCE

Brandon S. Spanos, Deputy Director, Tax Division, Department of Revenue; Ed Fogels, Deputy Commissioner, Department of Natural Resources.

SUMMARY

HB 253 ELCTRNC TAX RETURN;MINING LIC. TAX & FEES

HB 253 was HEARD and HELD in committee for further consideration.

Co-Chair Thompson discussed the meeting agenda.

#hb253

HOUSE BILL NO. 253

"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."

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Co-Chair Neuman MOVED to ADOPT the proposed committee substitute for HB 253, Work Draft 29-GH2924\I (Nauman, 4/28/16). There being NO OBJECTION, it was so ordered.

JERRY BURNETT, DEPUTY COMMISSIONER, TREASURY DIVISION, DEPARTMENT OF REVENUE, provided a PowerPoint presentation titled "New Sustainable Alaska Plan: Pulling Together to Build Our Future: Mining Tax, HB 253" dated May 4, 2016 (copy on file). Slide 2 contained the new bill version's title as follows:

#### 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."

Mr. Burnett reminded the committee that the electronic filing provisions were placed in a separate bill. He moved to slide 3 and provided a history on the mining tax.

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

Mr. Burnett moved to slide 4:

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
\$40,000 - \$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

Representative Gattis wondered what the thought process was for structuring the tax at the time the mining tax was originally implemented. Mr. Burnett answered that he did not know the reason or what the economic analysis at the time was. He related that the brackets had been based on the income at the time however, currently many mines were in the lower tax brackets and few were in the higher tax brackets. Representative Gattis noted that from zero to \$40 thousand tax was not assessed on net income. She believed that knowing the reasons how and why the tax was originally structured helped her determine how to restructure them. She asked why the administration was restructuring the tax in the manner chosen. Mr. Burnett answered that a blanket graduated income tax was very common and recognized the fact that small operations with less income were not able to pay much tax. He reminded the committee that mines located on state land were required to pay a royalty and the taxes applied to mines on federal or non-state lands. Representative Gattis surmised that the tax was progressive and the reason was not known.

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Vice-Chair Saddler asked whether the Department of Revenue (DOR) considered changing the brackets instead of the rate of taxation. He noted that the original tax was currently on net income. He asked how onerous the net income calculation was for the department and industry. Mr. Burnett answered that companies had to determine net income tax for the federal government; therefore it was not terribly onerous. He reported that mining taxes applied to 500 tax filers, many paid no taxes and many were below the \$40 thousand limit and did not pay taxes. The department had considered the bracket sizes, but it had elected to leave the brackets alone. He revealed that the top bracket of earners consisted of between 13 to 17 tax payers that earned over \$500 million in total net income in a recent year - as the rest of the tax payers had net income in the neighborhood of \$3 million. Moving the brackets into higher ranges would have very little effect on the taxes.

Representative Kawasaki stated that he was distributing a document to members from DOR (copy on file) and noted that the mining tax was already based on a profits based system. The document contained data regarding mining tax filers per bracket. He related that the under \$0 and the \$0 to \$40 thousand filers were comprised of small business that lived off of mining income exclusively and totaled 193 and 239 tax filers respectively. The next bracket that included tax payers in the \$50 thousand to \$100 thousand bracket averaged over \$51 thousand and contained 25 tax payers in tax year 2014. He wondered whether the department discussed creating a bracket for income over \$1 million. Mr. Burnett answered that the average income for miners in the over \$100,000 was approximately \$43.9 million. He noted that very few companies existed in the highest tax bracket. The department wanted to keep the change as "simple as possible" and elected to maintain the brackets but raise taxes on companies that actually paid taxes. He pointed out that very little tax was paid at the lower levels.

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Representative Kawasaki stated that he had done an analysis based on the 13 highest earners and reported that five companies made over \$1 million in profit and the remaining made substantially less. He reiterated his question regarding whether the issue was addressed by the department. Mr. Burnett answered that he did not believe Representative Kawasaki's assumption about the data was

correct. He explained that within the five mines existed multiple owners, operators and royalties paid to the mine owners, which was complex, and resulted in the others in the top category being part of the five largest mines. He was not able to provide details due to confidentiality laws.

Co-Chair Neuman asked whether the tax information provided by mining companies was proprietary. Mr. Burnett answered in the affirmative. He elaborated that the 13 tax payers may represent multiple mines. Co-Chair Neuman believed Mr. Burnett had stated that the department had checked against federal tax returns to ensure the "checks and balances" within the tax system. Mr. Burnett answered that because the companies paid federal income tax the department had the ability to cross check between federal taxes filed and information provided to the state. He remarked that the larger miners were also state corporate tax payers and paid between zero and \$80 million per year in corporate income taxes. The companies reported their total nationwide corporate income tax and "apportion a portion" of that amount to the state.

Co-Chair Neuman asked whether there were any other deductions when determining net amounts besides the usual deductions. Mr. Burnett answered that the current system was like a typical income tax situation that included depreciation or depletion and typical business expenses. He elaborated that oil and gas was a cash flow type tax where capital expenditures were deducted in the same year the money was being spent.

Co-Chair Thompson noted that Representative Pruitt had joined the meeting.

BRANDON S. SPANOS, DEPUTY DIRECTOR, TAX DIVISION, DEPARTMENT OF REVENUE (via teleconference), elaborated on Mr. Burnett's answer. He explained that the costs were similar to what was allowable on a federal tax return and included direct, indirect, and specific allowances. Some direct costs such as salaries, equipment costs, and fuel were permitted to be netted against income. Some examples of indirect costs were insurance, overhead, and depletion allowance as well as indirect costs. He added that the education credit and the exploration credits were specific allowances and were not expenses but were specific credits.

Co-Chair Neuman asked what the exploration credit "carve out" was for mining. He wondered whether the department differentiated between types of mines. Mr. Burnett replied that the tax did not depend on the mineral type.

Representative Gara asked whether the mining tax was deductible against state corporate tax if the corporation was a C corporation. He wondered whether the taxes stacked. Mr. Spanos replied that normally state net income taxes were deductible from federal taxes. Representative Gara clarified that he was referring to state corporate income tax being stackable. Mr. Spanos answered that the taxes do not stack. Representative Gara spoke to a corporation's Alaska operations only and the Alaska corporate tax. He asked whether a company deducted its mining taxes from the C Corporation tax or paid both on top of each other. Mr. Spanos answered that the company was prohibited from deducting the mining tax from the C corporation tax.

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Representative Munoz stated that Alaska had a "relatively high net proceeds tax" at 7 percent compared to other metal mining states and "a very high corporate income tax" at 9.4 percent. She asked whether analysis was performed to determine whether a tax increase was appropriate for the industry. Mr. Burnett answered that the internal working group, which included commissioners of the Department of Natural Resources (DNR), Department of Commerce, Community and Economic Development (DCCED), and DOR and the economists from DOR performed analysis and comparisons with other states and Canada. He agreed that the state had a fairly high corporate tax rate at the highest bracket, but a number of companies were organized in a way to avoid paying any tax. The group engaged in discussions with the mining industry prior to the bill's introduction. Representative Munoz asked what was the "total take" was for the largest mining companies in corporate income tax including mining license fees. Mr. Burnett answered that it was different for each mine and would be significantly different on a year to year basis. He offered to provide the answer. Representative Munoz asked what the state brought in in total mining revenue. Mr. Burnett answered that the information was in a future slide. He added that nearly all of the revenue was from the five large mines and several placer mines. Representative Munoz asked whether the impact had been considered on developing mines. Mr.

Burnett answered in the affirmative. The original bill had included the removal of the 3.5 year tax holiday for new mines. The industry had relayed that the holiday was important. The Committee Substitute (CS) included a 3 year tax holiday for new mines. He acknowledged that there were some potential new large mines on the horizon. The administration did not believe the rate increase would be enough to negatively impact development of the new mines.

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Representative Edgmon asked how gravel pits fit into the tax picture. Mr. Burnett answered that a few years ago the legislature exempted gravel pits from the mining tax.

Representative Kawasaki wondered when the 3.5 year tax exemption began. Mr. Spanos replied that the exemption began when production started. The department was the body that determined whether it was a new mine or not and whether the mining was sufficiently different or new.

Mr. Burnett moved to slide 5 titled "Large mining projects in Alaska" that contained a map of the state depicting the locations of the mines.

ED FOGELS, DEPUTY COMMISSIONER, DEPARTMENT OF NATURAL RESOURCES (via teleconference), addressed slide 5 that also included the location of mines in development. {The teleconference connection was lost.]

Mr. Burnett turned to slide 6:

#### 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

Representative Wilson pondered the impact of all of the licensing and permitting fees for placer mines coupled with the proposed increase on the mining tax. Mr. Burnett answered that almost no placer mines would be impacted by the legislation. In a typical year, were very few mines netted \$100 thousand and therefore were not impacted by the proposal. Representative Wilson asked whether the

administration considered how all taxes combined, such as municipal and state, affected a mine like Pogo. Mr. Burnett affirmed that state taxes were separate from borough taxation and all mines pay municipal taxes in addition to state. He returned to slide 5 and asked Mr. Fogels to address the slide.

Co-Chair Thompson noted Fort Knox was located in Fairbanks.

Mr. Fogels addressed slide 5. He discussed the mines on the map. He highlighted that the Red Dog Mine was an open pit lead and zinc mine located on Nana Corporation land. The mine was one of the largest in the world. Red Dog employed 610 employees, was operated by Tech Alaska, and was the only tax payer in the North West Arctic Borough. He related that the Fort Knox mine was an open pit gold mine and was located on private and Alaska Mental Health Trust Authority (AMHTA) lands. Fort Knox was operated by Fairbanks Gold Mining and employed roughly 650 people and was the largest tax payer in the Fairbanks North Star Borough. He identified the Pogo underground gold mine located near Delta Junction and noted the mine was operating exclusively on state land. The mine was operated by Kinross Gold and employed 320 people. He reported that the family owned, Usibelli coal mine was located on state land and employed 140 people. He indicated that the Kensington Mine, near Juneau was an underground gold mine operated by Coeur Alaska and employed approximately 320 people. The mine was located on United States (US) Forest Service and private lands. He remarked that the Greens Creek Mine was also located near Juneau and mined lead, zinc, silver, and gold and was operating on US Forest Service and private lands. The mine was operated by Hecla Greens Creek Mining Company and employed approximately 415 workers. He noted that the Nixon Fork mine was in temporary cessation and was located on BLM (Bureau of Land Management) lands. The following three mines were currently in permitting. The Wishbone Hill Mine was a coal strip mine located near Sutton in the Mat-Su valley and was owned by Usibelli. He mentioned that the Chuitna Coal and Donlin Gold mines were midway through their environmental impact statements and the National Environmental Policy Act (NEPA) process. He reported that the map included the location of pre-permitting projects around the state. The operators had not yet applied for permits and he could not predict the outcomes of the sites. He added that the state roughly had 570 smaller placer and

suction dredge operations in 2015 and about 34 thousand active state mining claims on state lands.

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Co-Chair Neuman asked about the general discussions in the mining industry regarding the proposed taxes. Mr. Fogels responded that he had had discussions with many individuals in the industry and shared that miners were concerned about additional tax burdens under the current low metal price climate. However, industry understood the state's fiscal situation. He acknowledged that significant concern was expressed over the proposed elimination of the 3.5 year tax holiday. Co-Chair Neuman asked whether the Division of Mining, Land, and Water's mining regulatory costs were covered by fees. Mr. Fogels replied that part of the division's costs was covered. He explained that permitting costs were covered through a memorandum of understanding (MOU) between the mines and the state whereby the mines reimburse the state for employee costs associated with permitting, oversight monitoring, and permit administration. The MOU produced a fairly significant monetary stream coming from the projects. He commented that "all state agencies participated in permitting and oversight of the projects." In addition some of the royalty payments were allocated back to DNR.

Co-Chair Neuman asked for more information regarding what it took to run the division.

Representative Wilson wanted to better understand the cumulative impact of increased state taxes coupled with municipal taxes had on the mines and requested any information the department could provide. She requested information defining severance tax versus other state taxes. She asked how much state land was available for mining. She wondered what the state was doing to attract new development.

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Representative Gara asked what the mining royalty was. Mr. Fogels replied that the royalty was from mineral production on state lands and was 3 percent. He added that the state collected \$7 million last year from the gold production royalty on state lands. He elaborated that the bulk of the royalty was from Pogo. Representative Gara asked for

verification that the royalty was profits based and whether it was based off of the gross. Mr. Fogels replied that the royalty was based on net proceeds and affirmed it was profits based. Representative Gara asked for a comparison between what the department collected in mining taxes and royalties and "permitting and other related work through Department of Environmental Conservation (DEC), Department of Fish and Game (DFG), and DNR." Mr. Fogels answered that a report was recently done by the University that performed a comparison study. He did not currently have exact figures. He reiterated that the state collected more from the mines than the actual administration costs.

Vice-Chair Saddler asked what a profits based royalty was. Mr. Fogels answered that a profits based royalty was based off the same criteria that the mining license tax was based on and was set in statute. Vice-Chair Saddler asked for the statute reference AS 35.05.212. Vice-Chair Saddler wondered how "welcoming" Alaska was to the mineral industry and new mines.

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Mr. Fogels answered that DOR should have provided a comparison between other jurisdictions. He guessed that the state was in the "middle of the pack." He believed the state was open to new explorers and had a favorable jurisdiction in terms of state land. He delineated that 90 to 95 percent of the 100 million acres of state land was open to mining and carried a lot of potential. The low price environment was acting as a hindrance to new investment. Vice-Chair Saddler asked what DNR's "policy or orientation" was. He inquired whether the department focused on incentivizing "new exploration and development of basic geologic knowledge," help mines navigate the permitting process, or maximize the operation of current mines. Mr. Fogels responded that "on a number of levels" DNR maintained "a strong effort" to obtain more information on state lands. He related that DNR's "charge" was to generate more revenue from state land holdings. Geologic information was disseminated in order to incentivize new exploration. The permitting process was made more efficient while protecting other state resources. Vice-Chair Saddler asked where most of the department's effort was placed. Mr. Fogels answered that data collection was a large focus. He added that recently DNR engaged in permitting reform.

Representative Munoz asked whether any "metal activity" was occurring in the other states. Mr. Fogels answered that he did not have any recent information. He deferred to DOR for a possible answer.

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Representative Edgmon asked whether Mr. Fogels participated in the working group that developed HB 253. Mr. Fogels answered in the affirmative. Representative Edgmon asked for a "chronology" of when the large mines were developed. He recounted that most major mines in the state opened in the 1980s and the state was "basically a placer mine environment" in prior years. Mr. Fogels affirmed that the mines on the map were "fairly recent." He stated that there had not been much activity between the 1950s and 1980s. He added that Usibelli was an exception and was in operation for roughly 70 years.

Mr. Burnett moved to slide 7:

#### 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

Mr. Burnett turned to slide 8:

#### 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 proceed

Representative Munoz wondered whether Wisconsin had any metal mining. Mr. Burnett was uncertain.

Co-Chair Thompson asked the department to follow up. Mr. Burnett agreed to provide the information.

Representative Kawasaki asked why the slide contained information from states that used a net income tax. Mr. Burnett replied that the department wanted to compare states that used net income tax because it was very difficult to compare tax rates based on tonnage versus rates based on profit in a presentation. Representative Kawasaki asked whether the three states also paid royalties. Mr. Burnett responded that he would be surprised if the mining was done on state lands in most other states. He indicated that most other states had a significant amount of private land. Alaska was unique in its amount of state land.

Mr. Burnett moved to slide 9:

#### 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

Mr. Burnett advanced to slide 10:

#### 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

Mr. Burnett explained slide 11:

#### Implementation Costs

- 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

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Mr. Burnett highlighted slide 12:

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)

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Representative Gara asked whether the pre-development costs were deductible from the mining tax. Mr. Spanos explained that the exploration credit as part of the exploration phase of a project was viable for 15 years and once development of the mine began the development costs were typically capitalized and could be depleted over the life of the mine. The cost basis was able to be expensed in the fourth year. Representative Gara asked why a mining company received a 3.5 year tax holiday since the pre-development costs were deductible. Mr. Spanos speculated that the tax holiday was offered to incentivize new mines. Representative Gara reiterated his question. Mr. Spanos understood that the mines incurred heavy expenses in the early years. Representative Gara stated that his point was if expenses were so high in the early years of a mine that a profit was not realized, no tax was paid. He wondered why a mine was granted a tax holiday if all of the expenses were deducted and a profit was gained. Mr. Spanos answered that the administration wanted to eliminate the tax holiday in the original bill.

Co-Chair Thompson added that the decision was a policy call by the administration.

Representative Gara asked for clarification about the credits that were received for exploration and how much it was. Mr. Spanos stated that DNR had a good written explanation and would provide it to the committee. He delineated that the exploration credit included exploration costs allowance as a credit for up to 15 years that was calculated at half of the gross or net taxable income on corporate tax, mining tax, and royalty. He was not sure whether it was based on net or gross income.

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Representative Gara reiterated that a mining company could receive the credit for 15 years. He asked what the percentage of the credit was. Mr. Spanos was not familiar with the calculations. Representative Gara requested the information.

Mr. Burnett briefly addressed slide 13 and slide 14:

Closing the Budget Gap

FY16 Budget	\$5.2 (Millions)
AK Permanent Fund Protection Act (annual draw)	\$3.2 million
Revenue from existing taxes and fees	\$850 million
Earnings on Savings	<u>\$135 million</u>
Total	\$4,185 million

Spending Reductions (estimated amounts)	
Continue Cuts (through FY19)	\$200 million
Reform O&G Tax Credits	\$400 million
Net Priority Investments	<u>(\$ 44)</u>
	\$ 556 million

(Continued)

New Revenue Components (estimated amounts) (Millions)	
Mining (starting in FY 2018)	\$ 6
Fishing	\$ 18
Tourism	\$ 15
Motor Fuel	\$ 49
Alcohol	\$ 40
Tobacco	\$ 29
Oil and Gas	\$ 100

Individual Alaskans (Income Tax)	\$ 200
Total	\$ 457
Total Budget, Spend Rdctns, and New Rev	\$ 5,198

Mr. Burnett addressed the sectional analysis on slides 15 and 16:

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.

Sec. 5. Transitional language allowing for regulations.

Sec. 6. Section 5above takes effect immediately.

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

Representative Kawasaki did not realize a mining royalty was also related to profitability. He had questions regarding the entire structure for mining and asked for more information. Mr. Burnett agreed to provide the information. He expounded that royalties on oil and gas also existed in state statute and was not unique to mining.

Representative Gara referred to a report from the DOR tax division (page 14) that described the minerals exploration incentive as a full 100 percent credit capped at \$20 million per mine. Mr. Spanos replied that the amount was 100 percent of the cost but was limited to 50 percent of the mining license tax or the corporate income tax in the year the credit was used, which was the reason the tax lasted for up to 15 years. He answered a previous question regarding what activities expenses were allowed under the credit. He reported that geochemical and geophysical

surveys, exploration drilling, underground exploration, surface trenching and bulk sampling, and other exploration work including aerial photos, geographical and geophysical logging, sample analysis, and metallurgical work. Representative Gara referenced the tax report regarding the minerals exploration incentive and read:

"...the credits may not exceed \$20 million."

Representative Gara wondered whether the information was accurate, and whether the \$20 million applied per year or total and if the credit was valid for multiple owners. Mr. Spanos affirmed that the credit was a total of all of the expenses up to \$20 million over 15 years. He replied that the \$20 million was spread between multiple owners.

Vice-Chair Saddler asked about the orientation of DNR regarding the mineral industry. He asked whether the increased mining tax advanced the "policy goal" of DNR. Mr. Burnett answered that it would be difficult to say that the bill advanced the goal but deemed that the affect was neutral because the tax was not large enough to have a significant impact on mines. Vice-Chair Saddler asked whether the administration had analysis regarding the appropriate level of taxation to achieve DNR's goal. Mr. Burnett replied that an internal analysis was done "largely on judgement and economics." He determined that the rate was different for each of the companies and for each year due to widely divergent variables. He thought that the tax rate in Alaska had an effect, but it was difficult to estimate.

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Vice-Chair Saddler asked about the difference between an internal analysis and a "swag." Mr. Burnett answered that the tax was "a little bit more than a swag." Vice-Chair Saddler asked for further information regarding the analysis performed by DOR. Mr. Burnett answered that he had been peripherally involved and could not respond further.

KEN ALPER, DIRECTOR, TAX DIVISION, DEPARTMENT OF REVENUE, voiced that mining was an "incredibly volatile" industry tied to commodity prices. The state's mining industry corporate income tax ranged from \$15 to \$80 million over the last 5 years. He indicated that it was difficult to determine what an increase might do in any given year. He

reported that the mining tax was designed as an incremental increase that would not "break anyone's bank" and also as "part of a larger fiscal plan to balance the budget."

Vice-Chair Saddler asked whether there was any analysis about the number that had been selected. Mr. Alper answered that DOR picked a series of numbers, performed modeling, and talked to industry. The administration then presented a proposal in the bill before the committee. Vice-Chair Saddler asked DOR to share the modeling results with the committee. Mr. Alper replied that to the extent that the information could be shared the department would provide it.

Representative Wilson asked whether the department had analyzed the effects between cutting \$6 million more from the budget versus increasing industry taxes by the same amount. Mr. Burnett answered that all of the items were considered at a policy level. He felt that the question was more appropriate for the governor, Office of Management and Budget (OMB), and the committee. Representative Wilson thought that cutting \$6 million from the budget might produce "less negative impact on the economy" than taxing industry. She believed that the issue "was not just about revenue, but about making government the right size."

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Representative Gara asked for an estimate of what it cost the state to grant a 3.5 year mining exemption from taxation. Mr. Burnett responded that it was difficult to calculate because it depended on the year and other variables. He reported that the total take from the mining tax was \$30 million to \$50 million. He delineated that one large mine would pay one-third to one-quarter of the total take. He surmised that the impact could be from zero to \$30 million.

Mr. Alper elaborated on an earlier question by Representative Gara. He stated that the exploration credit was not a 100 percent credit against taxes. The credit was a deduction from income that would be taxed. He detailed that a company could offset up to 50 percent of its earnings in a given year until the credit was used up or within 15 years.

Mr. Spanos agreed with the statements.

Representative Gara asked for verification that the 3.5 year exemption could cost the state between zero to \$30 million per year. Mr. Burnett answered in the negative. He clarified that the figure was a possible total over three years at the high end for one mine.

Mr. Alper clarified that the fiscal note impact of the specific provision had been zero because there were no mines expected to open in the six year period of the fiscal note out years.

HB 253 was HEARD and HELD in committee for further consideration.

Co-Chair Thompson recessed the meeting to a call of the chair [Note: the meeting never reconvened].

^RECESSED TO A CALL OF THE CHAIR

[12:02:49 PM](#)

#  
ADJOURNMENT

[12:03:00 PM](#)

The meeting was adjourned at 12:04 p.m.