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MINERAL TAXATION - ALASKA

A Report of Studies Conducted
by the
Alaska Taxation Committee
Northwest Mining Association

December 1975

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Jim -

this was dropped

off for you -

Pg 28 shows what
you wanted but

"they conveniently left
out Calif. which has a
higher tax than even Alaska."

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JUNEAU, ALASKA 99801

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A Report of Studies Conducted

By The

Alaska Taxation Committee

Northwest Mining Association

SPOKANE, WASHINGTON
December 1, 1975

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1. SUMMARY

1.1 The Argument

Some basic information on the mining industry is presented which shows that the developed reserves of most minerals in the U. S. are grossly inadequate to meet demands over the next 25 years. This demand must be supplied by often tenuous imports. Increases in domestic production are possible but are hampered by the greater than 1,000 to 1 chance of new discoveries, the 10 to 20 year lead time between discovery and production, and the rapidly dwindling capital base from which to draw the needed \$150 billion mineral investment funds. Superimposed on these factors is a history of taxation which is both higher and more changeable than for almost all other major industries.

It is shown here that the mining industry can have a major, and favorable economic impact on a state by producing jobs and tax revenue, in addition to the profits which are needed to continue exploration for, and development of new mines to meet the nation's needs. The total impact of a mining operation, including the jobs and the business or tax revenues generated by support and secondary industries, is three times larger than that of the mining operation alone.

Alaska was built on its mineral industry. It does not now, but could soon have a strong, viable mineral industry -- the base is there in the numerous mineral deposits which compare favorably in tonnage and grade with major producing mines

throughout North America. Coal, copper, and nickel will be prominent in the near future. The industry is showing confidence in Alaska and its potential by spending as much as \$35 million a year in the exploration for hard minerals.

U. S. Bureau of Mines models of Alaskan deposits have been analyzed to test the impact of the current and proposed tax legislation, with some impressive conclusions. The existing Mining License Tax, when taken together with the State corporate income tax, allows the State to collect amounts equal to about 35% of net income. Substitution of a severance tax could raise this share to well over 100%, and in some cases, to over 500%. It is clear that existing tax laws do allow the State to benefit from mineral production, especially when multiplier effects are considered. Mining can pay its way without additional taxation.

A severance tax, applied on the basis of gross values, would be a fixed charge against production and have little or no relationship to profitability. It would be paid even when there was no profit. The effects of this are to require mining of higher grade ore, to exaggerate the negative aspects of the low parts of business cycles, and to act as a real disincentive for exploration.

The existing Mining License Tax has the potential of producing a significant revenue for the State of Alaska. Although it is an additional, special tax on the mining industry, it does include provisions for a 3½-year tax exemption in recognition of the high cost of new mines, and it recognizes the need for capital generation through a depletion allowance. It may benefit from revision of language, but by being based on net income, it is collected only when there are profits, and clearly shares in these.

Preservation of the Mining License Tax would demonstrate the stability of Alaskan tax legislation. Where long lead times are involved for exploration and development, it is essential that businessmen have confidence that the rules will not be changed as soon as value or profits are generated. It may be 10 to 20 years before a discovery becomes a mine, but without the promise of stability and an honest profit in the future, no exploration money will be spent in Alaska and no discoveries made.

It is recognized that the State of Alaska is entitled to collect taxes from its corporate and private citizens, for services it provides. But there is more to gaining revenue than just adding on more tax to the bills of a few industries. Certainly more sources of revenue could mean more total revenue. Perhaps less special taxation could produce more general tax revenue. With Alaska mineral taxation one of the highest in the nation and mineral production one of the lowest, the state needs to legislate incentives. This may be achieved both by revision of existing tax legislation and by presenting other types of incentives for the development of a broadly-based mineral industry.

This study indicates that by providing the climate for a healthy mining industry through incentives, rather than disincentives, higher general tax revenues would be realized. Alaska will share in its hard mineral wealth, but will do so only when there is a viable, profitable mining industry. Remember, a mineral deposit has no value at all until it is discovered and mined at a profit.

1.2 The Results

Hearings and several discussion periods involving Department of Revenue personnel and industry people were attended in Anchorage on November 6 and 7. Commissioner Sterling Gallagher presided, and he was assisted by Gary L. Jenkins, Director - Audit Division, and Fred Boetsch, Deputy Commissioner. Twenty-five formal presentations were made by mining industry, Native Corporation, and service industry spokesmen. Over 60 people attended.

Significant points made by various spokesmen on the part of the industry were:

A severance tax as a fixed cost would be anti-conservation and a strong disincentive.

Additional taxes would decrease both exploration and development, and result in reduced tax revenues.

Both revenue and jobs are being lost because of the threat of S. B. 294.

Present taxes already burden the high-cost operations necessary in Alaska.

Incentives such as lower taxes would increase exploration and development, and increase tax revenue.

Alaska should strive for stability in taxation and provide a favorable climate for investigation of all types.

The problems of industry are such that capital and profits may not be available for needed expansion, unless strong incentives appear.

Mining operations usually pay their way by providing most of the infrastructure as well as paying taxes.

The State made these points:

The present Mining License Tax is so worded that no tax might ever be paid even if the mining industry was viable.

Fishing, timber, and oil all have a severance tax.

The State spends about \$3,200 per year for each person on a payroll in the state.

The State is interested in broadening its tax base.

Discussions were amiable and productive, with information flowing freely in both directions. This was facilitated by the State's acknowledgement that S. B. 294 was not good and would not be pursued. An apparent industry and State consensus developed on these points;

S. B. 294 should be withdrawn.

Incentives should be discussed, but may not be attainable at this time.

The Mining License Tax should be improved to allow definition of who should be taxed and what is allowable for deductions.

The 3½-year tax holiday and allowance for deduction of depletion should remain a part of the Mining License Tax.

Revision of the Mining License Tax should be pursued in the legislature, but only to tidy up language, and a parallel statement of friendliness toward industry and a policy of economic (tax) stability should be made.

In the next month, the Department of Revenue (Mr. Fred Boetsch, Mining Tax Policy, Pouch S, Juneau, Alaska 99811) will be redrafting the Mining License Tax. We are urged to comment on this as soon as possible. Particular items scheduled for definition are the tax-free period, how to describe the deposit to which it applies, the beginning of production, the range of minerals covered by depletion, the people and companies to which a mining license applies, the items which can be deducted in computing "net income", and whether or not operating losses can be carried forward (the State does not presently allow this).

It would be advantageous for all of us to forward to the state our views and recommendations on the language and principles involved in revising the Mining License Tax. The State would like us to do this. They have agreed to then circulate a draft in early December for further comment before any final legislation is drawn up. The State intends to introduce a revised law in January.

Your prompt action, individually and through the Alaska Miner's Association and the Northwest Mining Association, has been effective in helping the State of Alaska avoid the pitfalls of harmful tax legislation. Your continued interest and prompt attention will insure the mining industry's point of view is considered in revising the existing law.

2. INTRODUCTION

Senate Bill 294 was introduced into the Alaskan Legislature in early 1975. It called for a 5% severance tax on hard minerals and this stimulated strong comment by the mining industry. During the summer, Governor Hammond expressed interest in discussing with the mining industry "...how we (the State) can accomplish our objective of seeing the Alaskans share in the mineral development of the State without discouraging investment or destroying the industry." Senate Bill 294 has been tabled, and hearings to discuss mining taxation were announced by the Department of Revenue. These hearings were held on November 6 and 7 in Anchorage at which time preliminary copies of this report and a verbal statement along the lines of the summary were presented to the Department of Revenue.

The Northwest Mining Association and its members felt that the taxation policies of the State of Alaska were a matter of their concern, and began studies of the problem and possible solutions. This report is an effort to transmit the results of the Northwest Mining Association's studies to its membership, to the Department of Revenue, State of Alaska, to the members of the Alaskan Legislature, to the Alaskan business communities, or anyone else concerned enough to take part in the formulation of just and fair tax legislation in the State of Alaska.

Some revisions and additions have been made to the preliminary report dated November 1, 1975 and are incorporated herein. It is hoped that additional

data will be gathered and provided to concerned parties as the legislation is formulated. The Northwest Mining Association feels that it can serve the industry, the State of Alaska, the people of the region and its membership best by providing a factual basis for discussion on taxation:

The Northwest Mining Association wishes to acknowledge the efforts of its Alaska Taxation Committee listed below and the numerous concerned individuals and corporations who have contributed to this study and report.

Russell C. Babcock, Jr., Chairman

G. G. Booth

P. P. De William

E. D. Fields

John B. Hite

H. A. Sichermann

E. D. Smith

Jackie Stephens

R. R. Walters

We would like to acknowledge the many contributions of the Alaska Miner's Association and its members who have supported these efforts with facts, encouragement and discussions. Particular acknowledgement is given to C. C. Hawley, Chairman of the Anchorage Branch, who organized the hearings with the Department of Revenue, and Jeff Knaebel of the Fairbanks Branch, who provided stimulus for this report through his outspoken defense of the mining industry in Alaska.

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3. GENERAL BACKGROUND

3.1 Mineral Supply

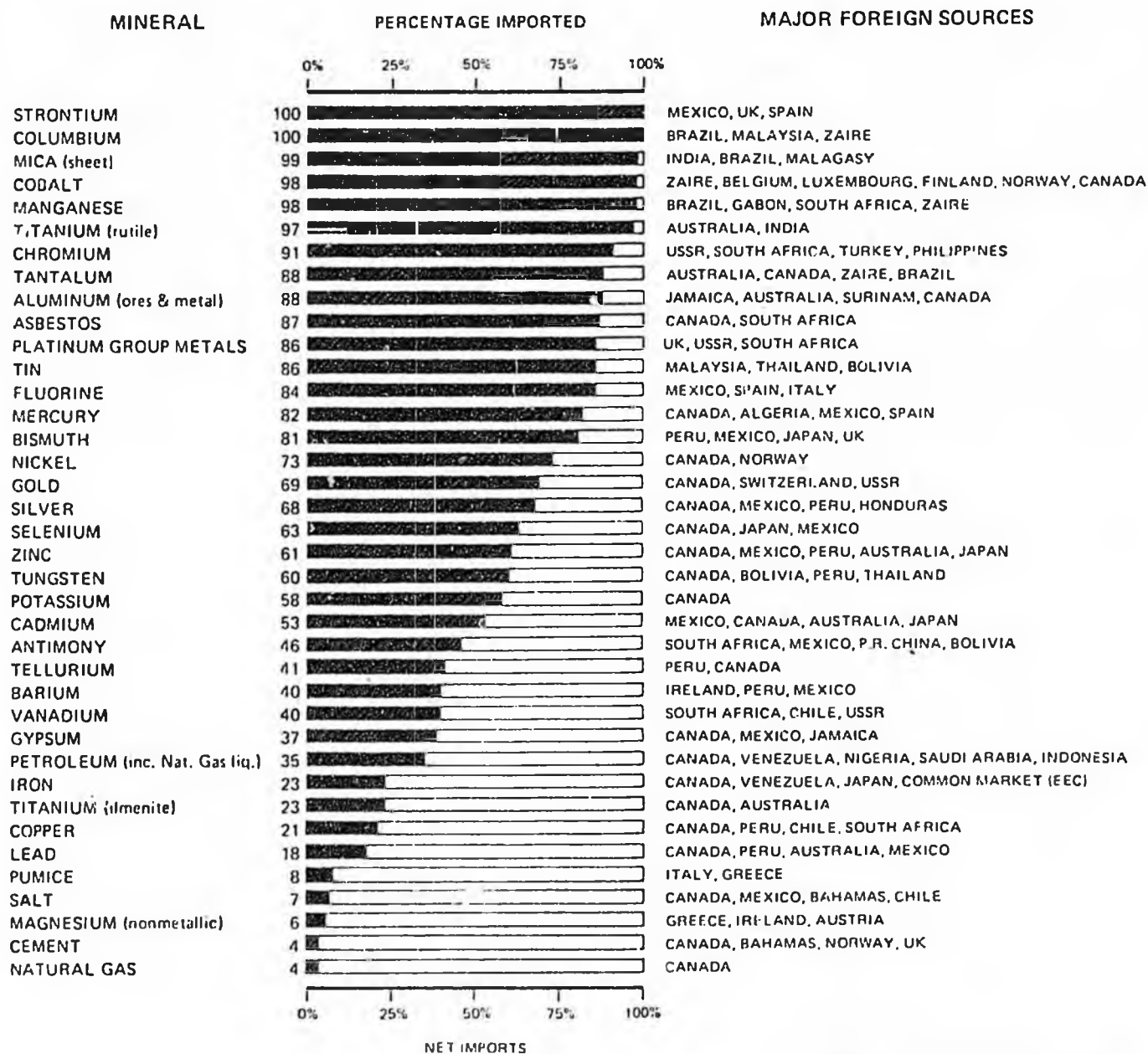
The entire U. S. economy depends on an adequate supply of minerals. For example, in 1972, some \$32 billion worth of raw materials were converted into energy and processed materials worth a value of \$150 billion, a significant part of a GNP of \$1.1 trillion. Each person in the U. S. now uses about 40,000 pounds of mineral materials every year, a total use of over 4 billion tons a year (36).

Your share looks like this:

- 9,000 pounds of sand and gravel
- 8,500 pounds of stone
- 450 pounds of salt
- 1,200 pounds of iron and steel
- 50 pounds of aluminum
- 25 pounds of copper
- 15 pounds of zinc
- 15 pounds of lead
- 7,800 pounds of petroleum
- 5,000 pounds of coal
- 5,000 pounds of natural gas
- 1/20 pounds of uranium

Almost one-half of the basic raw materials needed by our economy in 1974 had to be imported in significant amounts (19). This dependency on imports is graphically illustrated on Figure 3-1. If the present trend continues, most metals except for phosphate and molybdenum will be included on the import list by the year 2000.

IMPORTS SUPPLIED SIGNIFICANT PERCENTAGE OF TOTAL U.S. DEMAND IN 1974



U. S. BUREAU OF MINES (import-export data
from U. S. Bureau of the Census)

Skillings Mining Review
October 18, 1975

Figure 3-1

Most of the imported raw materials are available in the U. S. in commercial quantities, but presently they are more conveniently accessible and less expensive outside the U.S. However, this situation may change significantly -- outside the U.S. consumption is expected to triple by the year 2000 and exporting nations, being more and more aware of their growing importance, are moving to exploit this new-found strength by forming cartel-type arrangements for copper, tin, and bauxite. The economic impact of such cartels has been clearly demonstrated by the success of OPEC, the Arab's Oil Cartel.

To reduce this growing dependence on imports, exploration and development for new resources should be initiated immediately to offset or balance the following negative factors:

1. The low chance for success in finding new mines or mining districts.
2. The long lead time required to develop a new mine or mining district.
3. The high capital investment necessary to develop a new mine or mining district.

3.2 Chances For and Cost of Success

Out of 1,000 Cominco, Ltd. projects worthy of separate budgets from 1927 to 1969, 78 required programs in excess of \$100,000; 18 were brought into production, and only 7 out of the original 1,000 became profitable mines (22, 39). Other sources indicate that from 1,000 to 3,000 prospects must be examined and millions

of dollars spent in order to find one deposit which will eventually be a mine. When such a deposit is found, large amounts of time and money are still needed. Some of the steps necessary to carry a deposit from initial exploration through mining are shown on Figure 3-2. The orders of magnitude of both time and cost for these steps can be seen in the following examples.

International Nickel spent ten years (1946 to 1956) and \$10 million before the Thompson, Manitoba deposit was found. Development costs amounted to another \$15 million and total capital expenditures were \$140 million before the property was brought into production in 1962 (42).

The White Pine Mine in Michigan was discovered in 1929, but remained subeconomic until 1955, when production started after an initial investment of \$61.7 million (41).

The Henderson molybdenum deposit in Colorado has so far required eight years of development work at an estimated cost of almost \$400 million (15). This mine is not yet in production, and additional time and money may be needed.

A recent study of new mines in Canada reports an average exploration to production time of from 12 to 14 years for a single economic discovery, with an average expenditure of \$18 to \$21 million (30).

3.3 Grade and Cost Structure

At a time when long-term copper consumption trends are increasing, the average recoverable grade in U. S. open-pit mines continued to decline,

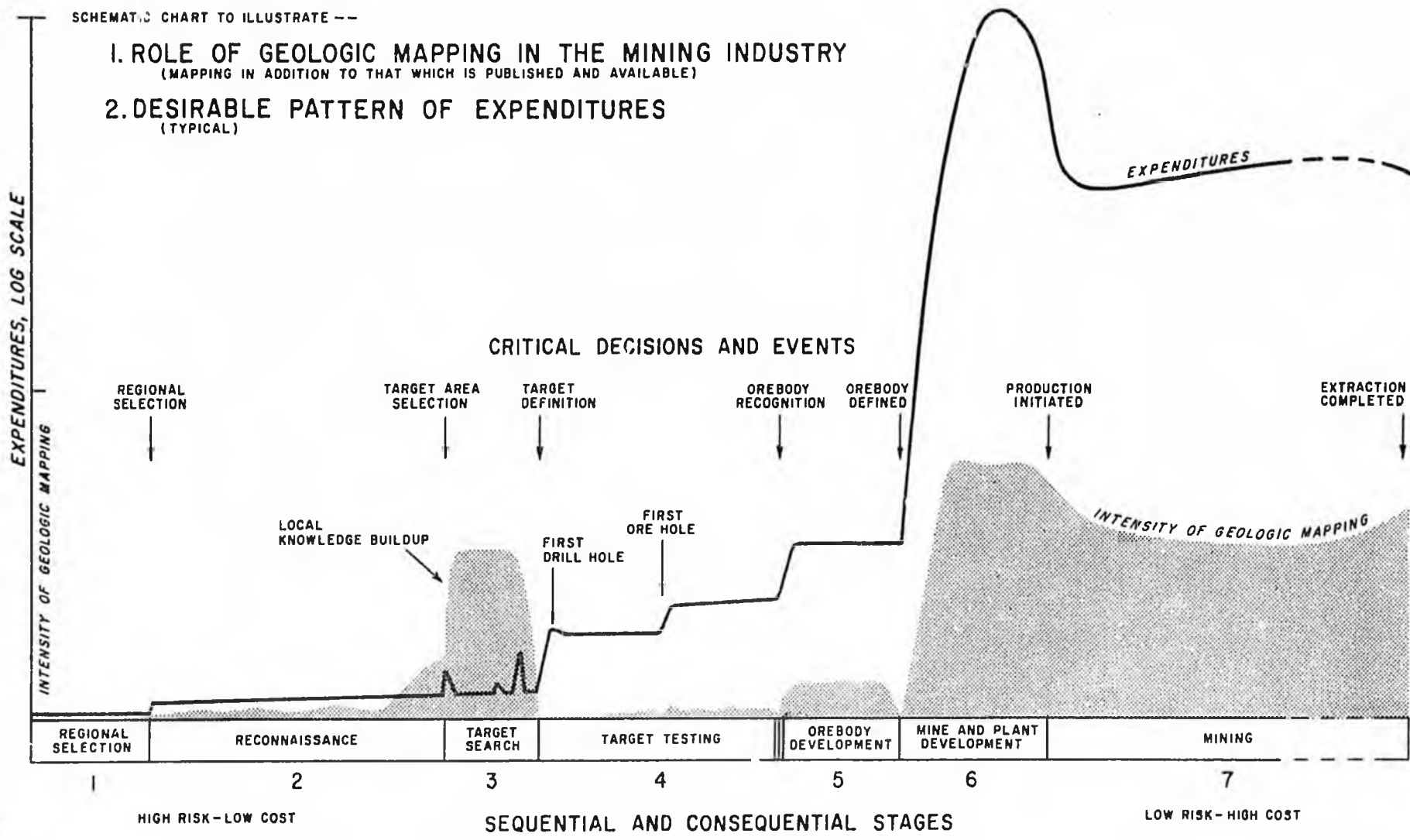
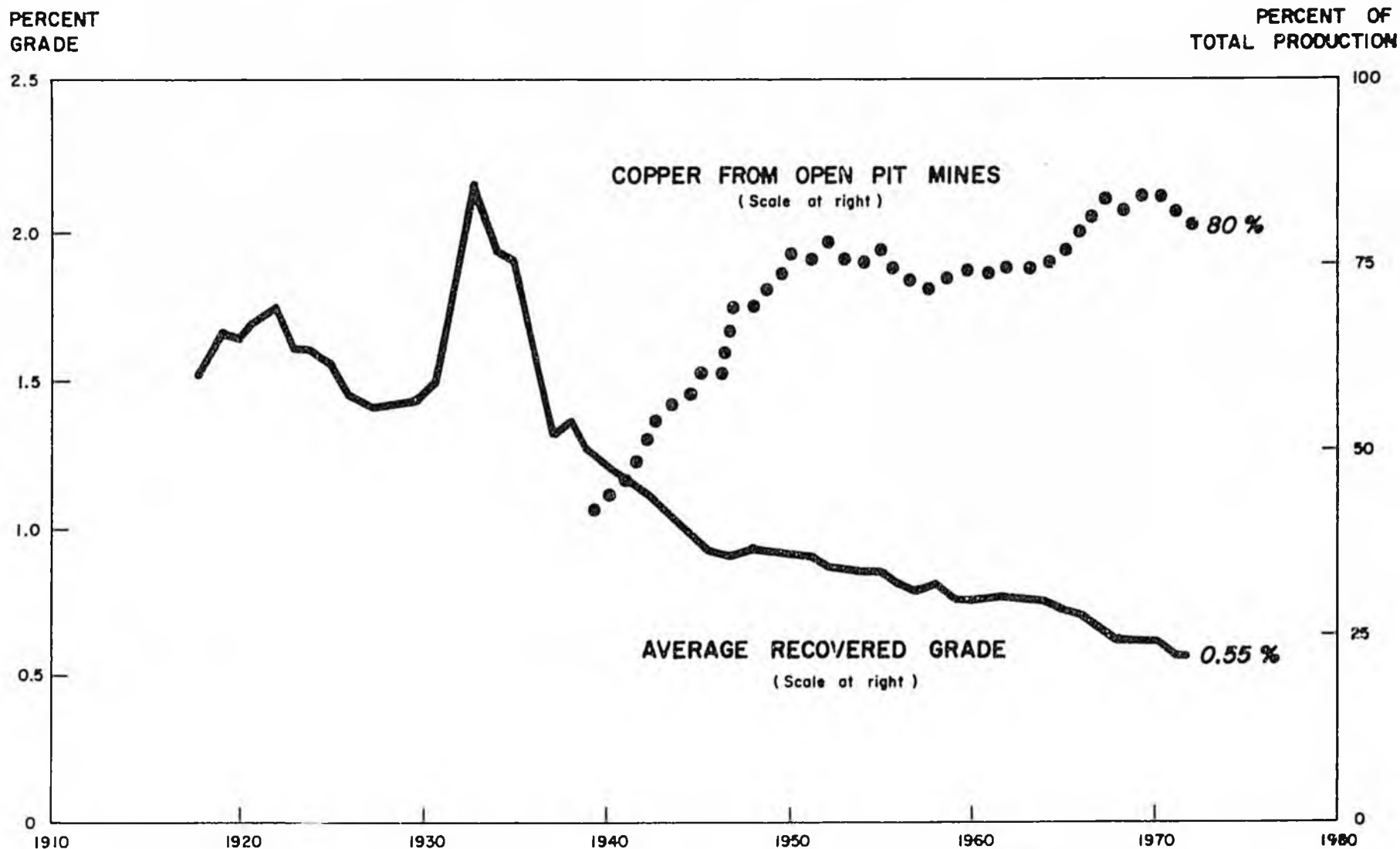


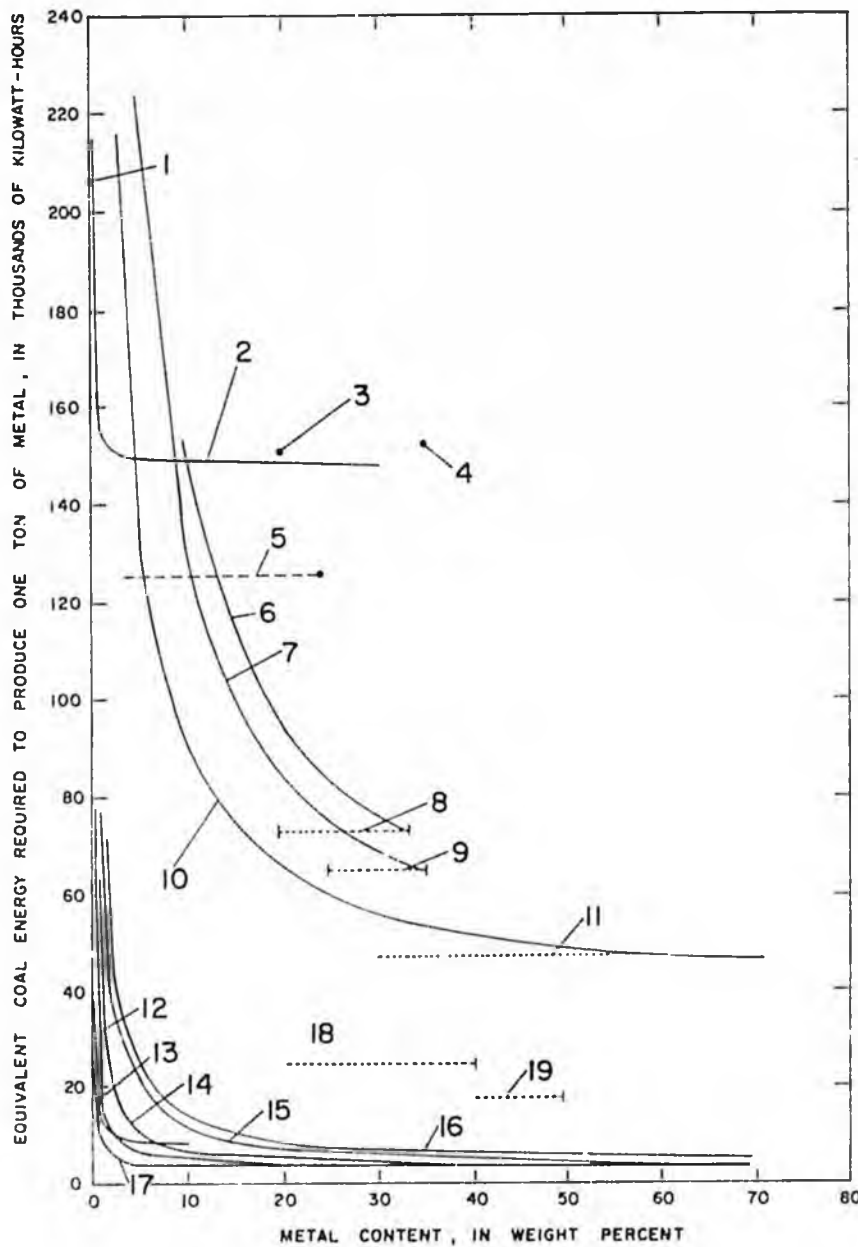
Figure 3-2
(33)

as shown in Figure 3-3. For other sections of the industry and other commodities the picture is the same. Contrary to this trend, production costs per unit of commodity throughout the industry are increasing dramatically due to a combination of inflation pressures, energy costs, and government imposed regulations. For instance, treatment of ore is an energy-intensive process, with the lower grade ores requiring more energy per recovered unit, as shown on Figure 3-4 (14). In addition, capital costs are increasing for mining as they are for all industry. The capital costs for several recent large copper mines are shown on Figure 3-5, and there is every indication that costs per daily ton of mill capacity, the standard measure of capital costs in the industry, are still increasing. The impact of increasing energy prices is obvious. A few specific problems of the mining industry will be covered in Section 4.



DATA: U.S. Bureau of Mines
 REFERENCE: Joklik, G. F., Skilling Mining Review, October 11, 1975 (24)

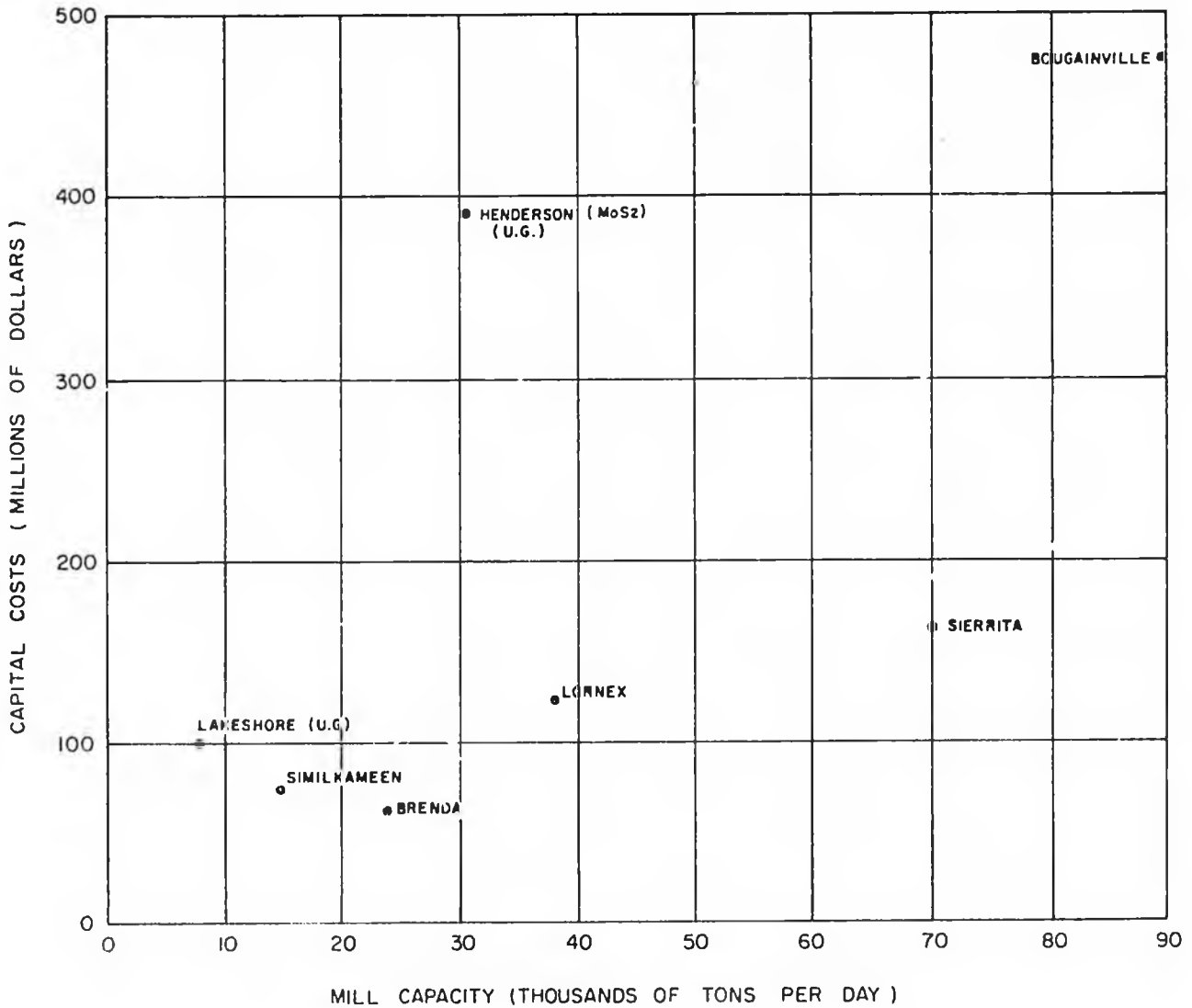
Recovered grade of U.S. copper ore and relative production from open pit mines.



Energy requirements for recovery of Fe, Ti, and Al at different grades from various sources. 1 titanium in soils; 2 titanium in beach sands rich in ilmenite; 3 titanium in all rock; 4 titanium in ferruginous rocks; 5 titanium in beach sands rich in rutile; 6 aluminium in anorthosite; 7 aluminium in clays; 8 range of Al_2O_3 content; 9 range of Al_2O_3 content of clays; 10 aluminium in bauxite (from Al_2O_3); 11 range of Al_2O_3 content of U.S. bauxite resources; 12 iron in magnetic taconite; 13 copper in sulphides; 14 iron in non-magnetic taconite; 15 iron in specular hematite; 16 iron in laterites; 17 iron in hematite; 18 range of iron content of taconites; 19 range of iron content of laterites.

Energy requirements for mining various ore grades.

Reproduced from : Mining Magazine — Aug. 1975 (14)



CAPITAL COST of several open pit copper mines and an underground (U.G.) mine project related to mill capacity.

Reproduced from : WORLD MINING - Aug. 1972 (25)

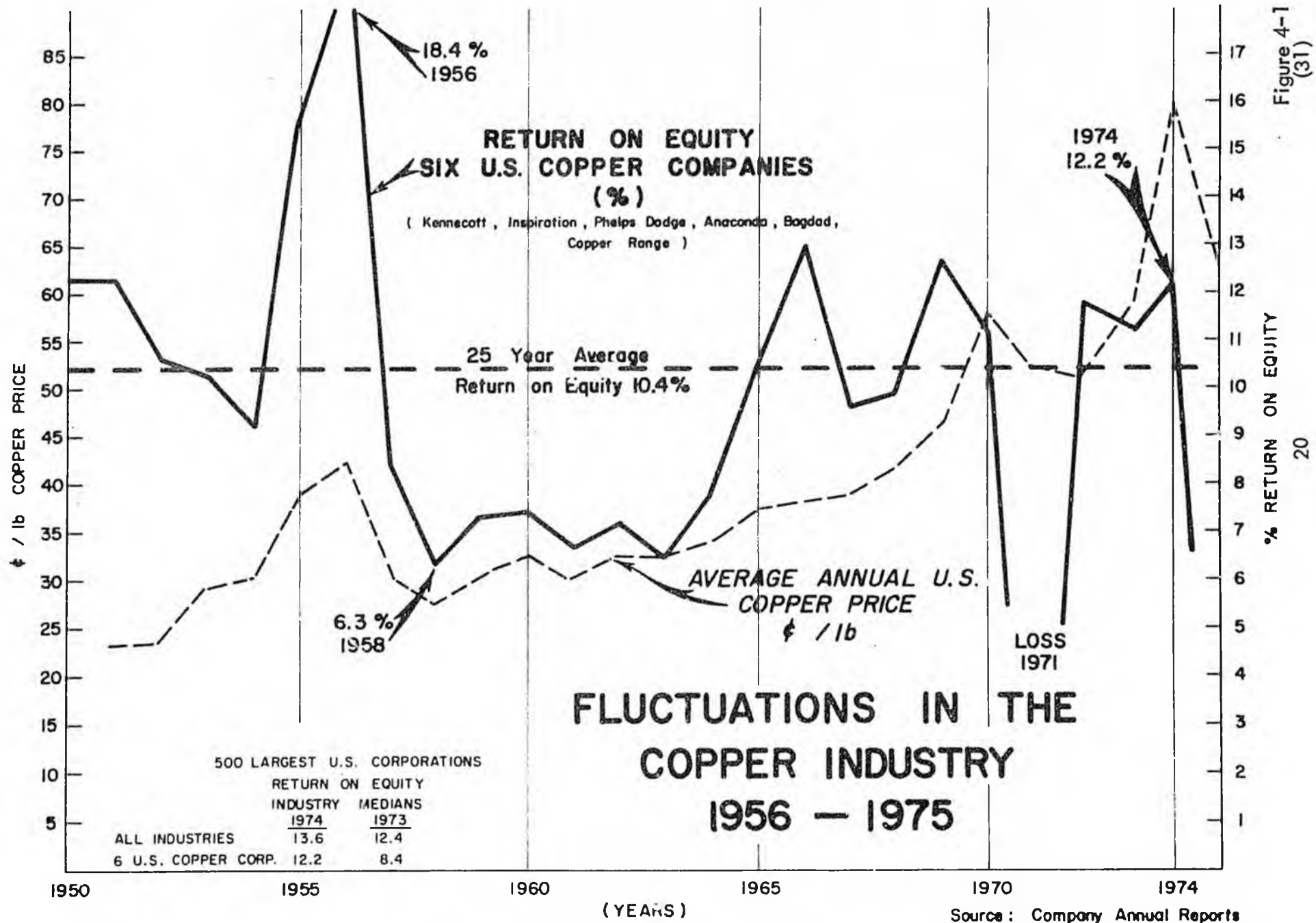
4. CURRENT PROBLEMS IN THE MINING INDUSTRY

4.1 A Complex Industry

The mining industry represents a complex business in which the most important aspects are influenced by external factors over which little or no control can be exercised. It operates in very competitive world-wide markets in which individual operators have no control over prices. It is subject to costs which may increase significantly more than commodity prices during the planned life of an operation, making acceptable return on investments after payout of capital hard to achieve. Fluctuations typical in the industry are shown for copper on Figure 4-1; other commodities show similar drastic changes in profits and prices. Governments often institute regulations and taxes which seriously inhibit reasonable profits, and which certainly decrease the industry's ability to replace mined reserves. Several problems now chronic to the industry are discussed in the following paragraphs.

4.2 Mineral Shortages

Shortages of mineral resources are being forecast right and left in popular and trade journals, and a public recently bitten by an oil shortage is willing to accept that such shortages may occur. As the world's leading industrial nation, the U. S. is the leading consumer of most resources. In 1975, a total usage of minerals in the U. S. exceeded 4 billion tons, or nearly 40,000 pounds per person



500 LARGEST U.S. CORPORATIONS
 RETURN ON EQUITY

	INDUSTRY	MEDIANS
ALL INDUSTRIES	1974 13.6	1973 12.4
6 U.S. COPPER CORP.	12.2	8.4

Figure 4-1
(31)

20
% RETURN ON EQUITY

Source : Company Annual Reports
 E / M J

as we have seen in Section 3. This constituted 23% of the world's annual consumption of non-fuel minerals and in excess of 30% of its energy. The U. S. is dependent for much of these resources in many categories on foreign sources, and is vulnerable to the rapidly accelerating trend toward commodity cartels by groups of foreign nations.

The size of ore deposits is usually governed by economics. Mining works its way out to economic limits, beyond which continued mining would produce low or negative profits. Changes in commodity, price, costs, and technology (our ability to recover the commodity of value at a lower price) move the economic limits with time, in either direction. Economics change through more effective exploration, development of new and more efficient technology, and larger operations. These, combined with recycling and more efficient use of available products, may allow us to avoid runaway shortages. Many people agree with G. F. Joklik (25), who recently pointed out:

"Contrary to periodical forecasts based on conventional conservative reasoning, the exhaustion of most mineral reserves appears at least as far off today as it did 50 years ago. In the case of copper, the ratio of domestic reserves to annual production has held steady at about 50-to-1, even though production nearly has quadrupled. Much the same holds true for world copper reserves".

It may not be our shortage of minerals, but our shortage of money and time, which produces the forecast "Mineral Crisis".

4.3 Capital Shortages

The key to sustaining our mineral production, the source of much of the real, new wealth in our economy, is providing the industry with the vast amount

of capital required to finance exploration, technological developments and new and larger mines. The mining industry is not doing as well as others, as can be seen by the diagrams on Figure 4-2. For an industry that was debt-free 25 years ago (29), the present burden is large, and the trend frightening. A capital demand for all industries in the nation of \$4.5 trillion is predicted for the next ten years (12) -- mining's share of this will be one of the highest. Figure 4-3 shows how capital expenditures are increasing. It is obvious that the depletion allowances and investment credits touted as being windfalls for the mining industry are not sufficient to generate the capital now required. It was estimated that the mining and primary metals industry will require investments of \$150 billion between now and 1985 (37). We believe additional new incentives to invest in mining are required. Keep in mind that in the long term, the mining industry is less profitable than most (16, 17, Figure 4-1).

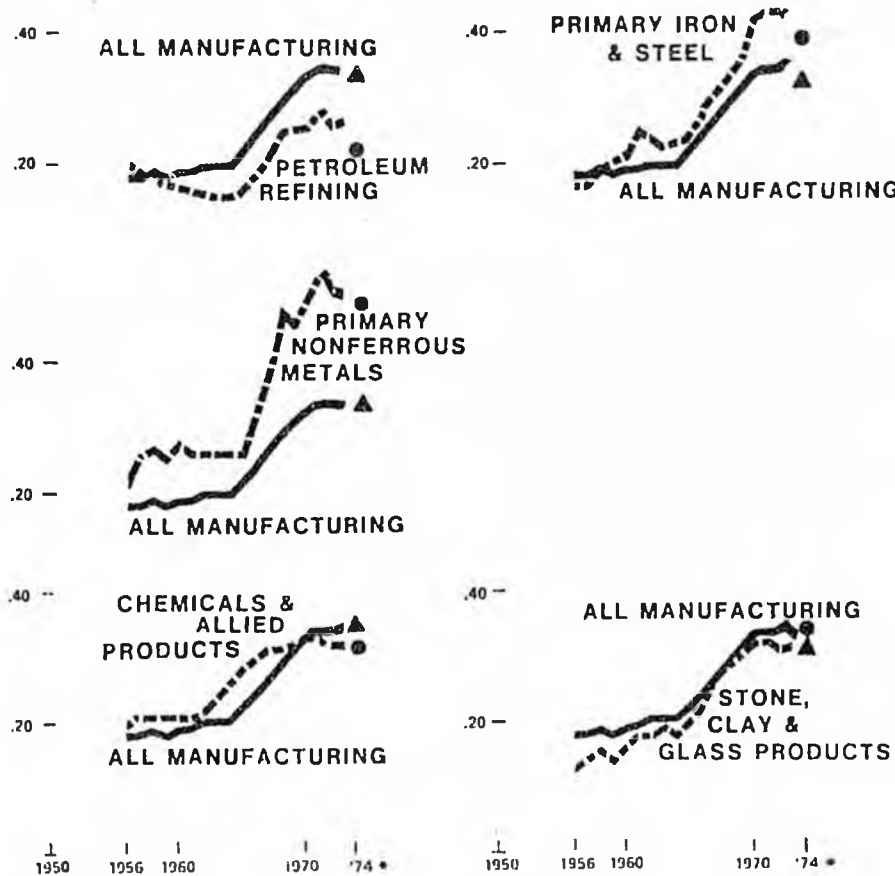
4.4 Land and Land Use Restrictions

The mineral deposits which support much of the industry are scattered throughout western North America. Where will the new deposits needed to sustain our demands come from? Most land in the U. S. is privately owned and much of this has restrictive zoning related to populated areas and existing commitments to active development such as real estate, farming, and so on.

Public land available to development of mineral resources comprises approximately 700 million acres, or just over one-third of the U. S. Until 1968, approximately 17% of this area had been withdrawn from mineral development.

DEBT-EQUITY RATIOS

(NUMBERS ARE RATIOS OF DOLLARS INVOLVED)

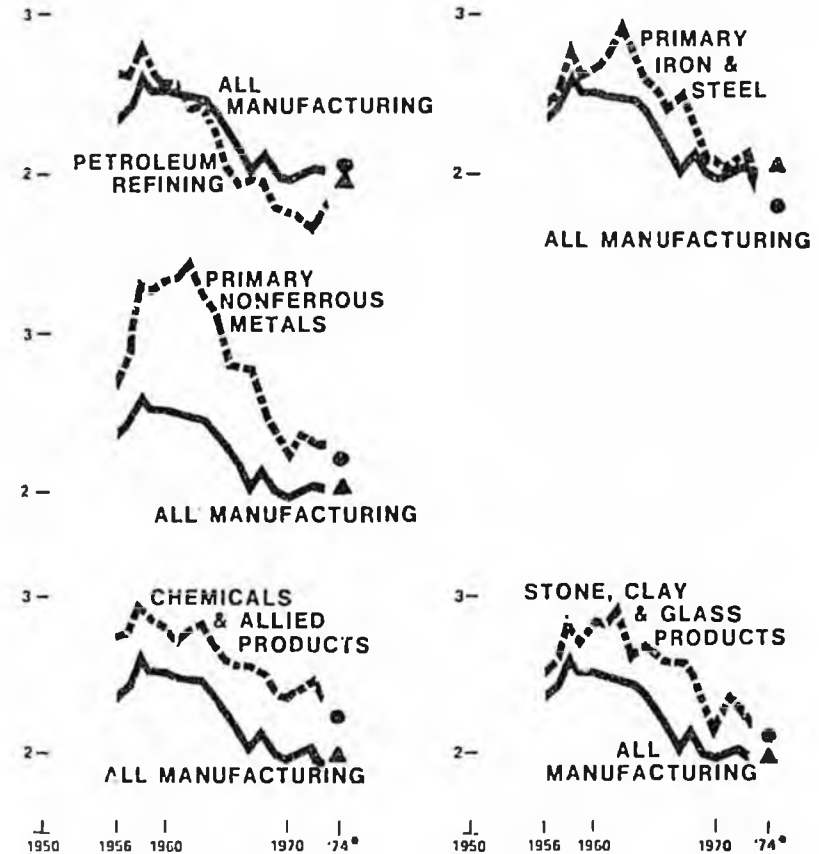


*Data are not comparable with those for earlier years because of changes in method of consolidation (to minimize the effect of foreign operations of multinational enterprises) which were initiated the fourth quarter, 1973.

▲ All manufacturing
● Specific industries

CURRENT ASSET TO CURRENT LIABILITY RATIOS

(NUMBERS ARE RATIOS OF DOLLARS INVOLVED)



*Data are not comparable with those for earlier years because of changes in method of consolidation (to minimize the effect of foreign operations of multinational enterprises) which were initiated the fourth quarter, 1973.

▲ All manufacturing
● Specific industries

Reprinted from October 18, 1975 - Skillings' Mining Review article entitled: World Minerals: The U.S. Perspective, by Thomas V. Falkie, Director, U. S. Bureau of Mines

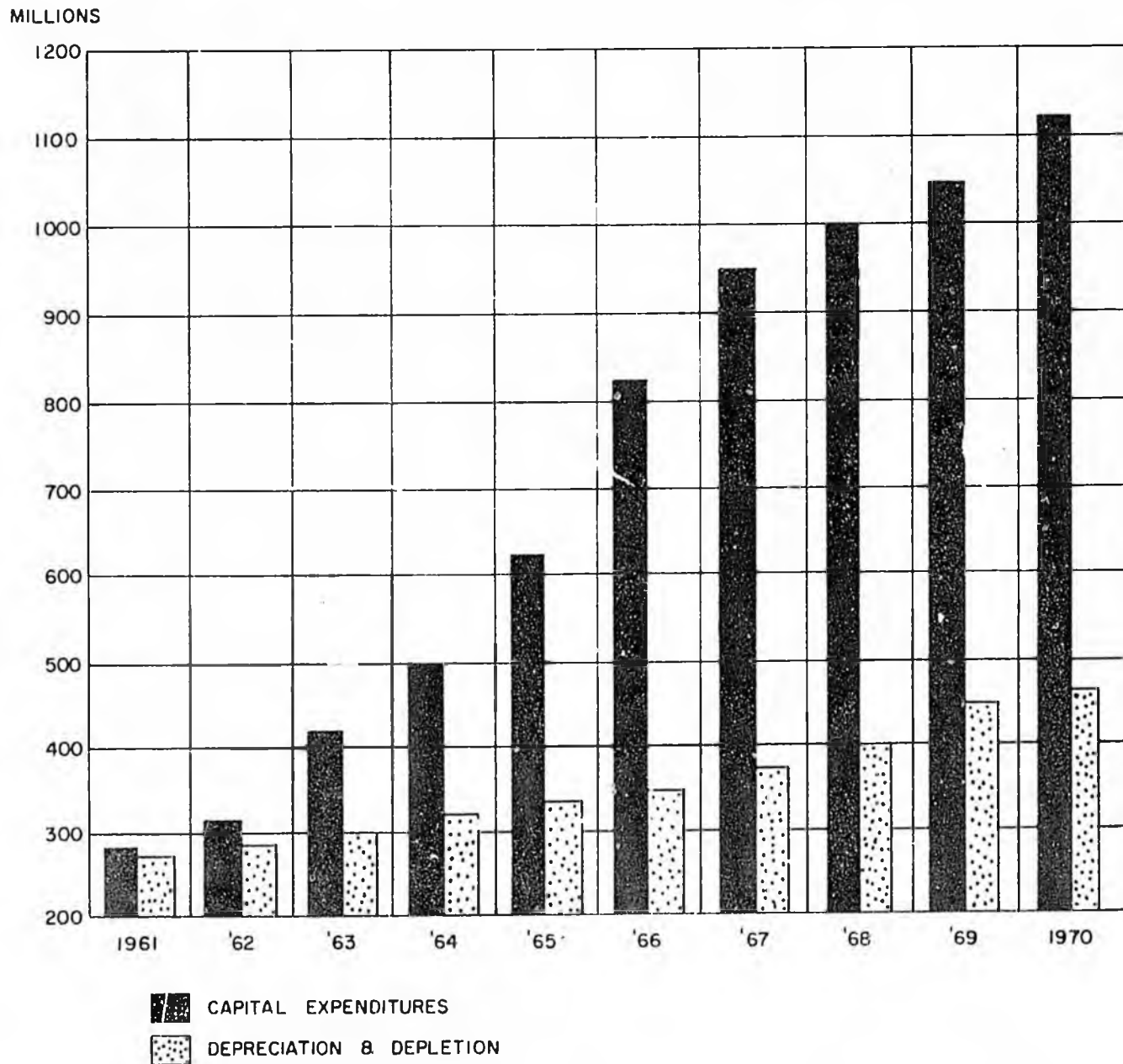


Figure 4-3

Capital Expenditures, Depreciation & Depletion

Reproduced from: MacGregor, 1971 (27)

Since 1968, land withdrawals have escalated because the cumulative impact of thousands of unrelated discrete withdrawal actions. The trend has been aggravated by the paucity of review or retraction mechanisms, and the tendency for each withdrawal action to ignore the others. By 1974, 67% of all public land had been closed to mining, freezing the economic usefulness of an area equal in size to all the states east of the Mississippi, excluding Maine (4). The breakdown of these closures is shown on Figure 4-4. Unfortunately, you cannot move a mineral deposit out of a withdrawn area so it can be mined.

Attendant on the land-use restrictions are the studies, reports and statements required by the numerous regulating agencies. In one instance involving an operative mine the company had to report to, and therefore, was regulated by 32 assorted federal and state agencies (3). This must add to both costs and uncertainties. Before a mine begins production delays caused by this type of "regulation" are common and costly, as shown on Figure 4-5. Increased payout periods and longer term interest or discount factors seriously affect viability.

4.5 Mineral Taxation

On top of these problems, as if they were not enough, the mining industry must contend with a continuously fluctuating tax base.

Mining tax rates in 13 western states are shown on Figure 4-6 with our addition of Alaska's present laws. The relatively high rate of taxation in Alaska is apparent. In considering the long-range, high-cost, high-risk nature of mining investment, a policy of stability in tax rates has something to offer both the taxing bodies and the industry.

FEDERAL LANDS EXCLUDED FROM MINERAL EXPLORATION AND
DEVELOPMENT DUE TO ALL TYPES OF WITHDRAWALS -- 1974

(in millions of acres)

UNDER 1972 HARDROCK MINING LAW

Alaska Native Claims Act	.....	249.6
USFS roadless areas	.....	55.9
Military	.....	41.3
State selections, pending state selections, and unperfected entries	.....	25.6
BLM roadless study areas	.....	19.2
Wildlife refuges	.....	15.3
Power site withdrawals	.....	15.2
National Park System	.....	14.6
National Wilderness System	.....	10.7
Reclamation	.....	5.7
BLM primitive areas (all types)	...	5.6
Utility corridors	.....	5.3
Indian purposes	.....	4.2
USFS proposed wilderness	.....	3.8
Oil shale withdrawals	.....	3.7
Alaska wildlife ranges	.....	3.3
Proposed withdrawals	.....	2.6
Recreation	.....	1.9
AEC	.....	1.4
BLM Classification Act	.....	0.7
Wild and Scenic Rivers	.....	0.5
Small Tract Act	.....	0.5
Natural areas	.....	0.3
Miscellaneous	.....	7.6

TOTAL CLOSED TO MINING

UNDER 1872 MINING LAW .. 495.0

*TOTAL THEORETICALLY OPEN .. 247.3

Closed - 67%

Open - 33%

UNDER MINERAL LEASING LAWS

Alaska Native Claims Act	.....	249.6
USFS roadless areas	.....	55.9
Military	.....	48.1
Wildlife refuges	.....	28.1
State selections, pending state selections, and unperfected entries	.....	25.6
National Park System	.....	24.6
BLM roadless study areas	.....	19.2
Power site withdrawals	.....	15.2
National Wilderness System	.....	11.6
BLM primitive areas (all types)	...	5.6
Utility corridor in Alaska	.....	5.3
USFS primitive areas	.....	3.8
Oil shale	.....	3.7
Proposed withdrawals	.....	1.2
TVA acquired land	.....	0.9
Indian purposes	.....	0.8
AEC	.....	0.7
Wild and Scenic Rivers	.....	0.5
Oil reserve buffer zone	.....	0.1
Miscellaneous	.....	26.0

Subtotal closed to leasing 526.0

Acreage already under lease 73.8

TOTAL CLOSED TO NEW

LEASING UNDER MINERAL

LEASING LAWS 599.8

**TOTAL THEORETICALLY OPEN .. 224.4

Closed - 73%

Open - 27%

* -- including land already under lease and land on which more than 10 million mining claims have been staked.

** -- New coal leasing is suspended on all federal lands.

Source: Gary Bennethum and L. Courtland Lee, Washington, D.C.

HYPOTHETICAL DEPOSITS IN CONTERMINIOUS USA
EFFECTS OF DELAYS ON RETURN RATE (2)

	<u>Evaluation Without Delays</u>			<u>Evaluation With Delays</u>			<u>Evaluation After Delays, Without Depletion</u>
	<u>Life</u>	<u>Payout</u>	<u>DCF-ROI</u>	<u>Time & Cost</u>	<u>Payout</u>	<u>DCF-ROI</u>	
1) Small copper blast & leach surface project, 1974 (8.5 mt, 0.35% Cu, capital investment of \$4,250,000)	4 yrs.	1.5 yrs.	21%	1 year delay after full investment, at \$ $\frac{1}{2}$ million cost.	-	11.4%	9%
2) Medium size underground zinc project, 1973 (29 mt, 6% Zn, 4,800 tpd, capital investment \$34,000,000)	23 yrs.	4.6 yrs.	19%	2 year delay before construction at \$1 million added cost.	7.7 yrs.	17%	13%
				1 year delay during construction at \$2 million added cost.	8.9 yrs.	14.7%	10.7%
3) Large copper open-pit project, 1974 (125 mt, 0.8% Cu, 22,000 tpd, capital investment \$170,000,000)	17 yrs.	5.0 yrs.	17%	2 year delay before construction at \$2 million added cost.	8.2 yrs.	14.5%	13.5%
				1 year delay after full investment, at \$5 million added cost.	9.4 yrs.	14.0%	11%

Data Source: Bailly, 1975

—Comparison of metal mining taxation in 13 selected western states and Alaska

Arizona		Data: E/MJ—June 1975
Corp. income tax	Effective rate 5.5%. (Rate is 10.5%, but Federal income tax is deductible)	
Severance tax	2.5% on gross income from mining, less freight	
Sales and use tax	4%, purchases of mining and milling machinery and equipment exempt	
Property tax	Producing mine is assessed at 60% of valuation of reserves. This includes mining and milling property and inventories (No separate assessment)	
Colorado		
Corp. income tax	5%, Federal income tax not deductible	
Severance tax	None on metals	
Sales and use tax	3%, only purchases of electric power and fuel exempt	
Property tax	Producing mine: 100% of net proceeds, or 1/4 of gross proceeds of previous year's production, whichever is larger. Separate assessment on mining machinery and equipment, and surface improvements, machinery, and equipment at 30%; product inventories at 5%; supply inventories at 30%	
Idaho		
Corp. income tax	6.5%, Federal income tax not deductible	
Severance tax	2% on net proceeds for all metals, all expenses deducted.	
Sales and use tax	3%, electric power and fuel exempt	
Property tax	Producing mine assessed on net proceeds. Separate assessment on machinery and equipment and surface improvements. Pollution control facilities and inventories exempt.	
Kansas		
Corp. income tax	6.75% Federal income tax not deductible	
Severance tax	None on metals	
Sales and use tax	3%, sales of property consumed in manufacturing, processing, or mining is exempt	
Property tax	30% assessment	
Minnesota		
Corp. income tax	12%, Federal income tax not deductible	
Severance tax	15.5% on iron, 15.0% on taconite, 1% on copper-nickel—all based on net proceeds, with mining costs deductible	
Sales and use tax	4%, purchases of mill liners, grinding rods, and grinding balls are exempt, materials, supplies and equipment used in constructing a new or expanded taconite plant are also exempt	
Property tax	Very complex and difficult to compare with information available—except that inventories, machinery and equipment, and pollution control facilities are exempt	
Missouri		
Corp. income tax	Effective rate 2.6% (Rate is 5% but Federal income tax is deductible)	
Severance tax	None on metals	
Sales and use tax	3%, machinery and equipment exempt	
Property tax	33 1/3% assessment	
Montana		
Corp. income tax	6.75%, Federal income tax not deductible	
Severance tax	1.938% on gross value of all metals at E/MJ quoted metal prices	
Sales and Use tax	None	
Property tax	Producing mine: average of net proceeds of five years of production. Other property at 40%, except pollution control facilities at 7%	
Nebraska		
Corp. income tax	2.5%, Federal income tax not deductible	
Severance tax	None on metals	
Sales and use tax	2.5%, electric power and fuel exempt	
Property tax	35% assessment	
Nevada		
Corp. income tax	None	
Severance tax	None—except property tax on net proceeds of mine sometimes referred to as a severance tax	
Sales and use tax	3%, electric power and fuel exempt	
Property tax	Producing mine is assessed on net proceeds, other property separately assessed, pollution control facilities exempt	
New Mexico		
Corp. income tax	5%, Federal income tax not deductible	
Severance tax	For molybdenum, 1/4% of 50% of gross income from mining	
Sales and use tax	4%, chemicals and reagents exempt	
Property tax	Producing mine assessed at 33 1/3% of gross value of production. Other property separately assessed at 33 1/3% inventories at 15%	
South Dakota		
Corp. income tax	None	
Severance tax	4% of net income	
Sales and use tax	4%, no pertinent exemptions	
Property tax	60% assessment	
Utah		
Corp. income tax	Effective rate 3.1% (Rate is 6% but Federal income tax is deductible)	
Severance tax	1% on gross proceeds for all metals, processing deductible	
Sales and use tax	4%, purchase of pollution control facilities exempt	
Property tax	Producing mine assessed at two times of average of three years' net proceeds. Other property separately assessed at 30%, except that inventories are exempt	
Wyoming		
Corp. income tax	None	
Severance tax	7% on gross value of ore at the mine	
Sales and use tax	3%, mining machinery and equipment and supplies exempt	
Property tax	Producing mine assessed at gross proceeds. No separate assessment on mining machinery and equipment, inventories exempt	

ALASKA

Corp. income tax . . . 9.4% of taxable income. Federal income tax not deductible.
 Severance tax None
 Sales and use tax . . . None
 Mining license tax . . 7% (net income with depletion)
 Property tax Maximum 3% of assessed value. Set locally.

5. TOTAL IMPACT OF THE MINING INDUSTRY

5.1 Aspects of the Industry

Total impact of the mining industry extends over a considerable period of time through exploration, economic evaluation, construction-development and ultimately, production. The long gestation period stretching from discovery to a viable mining operation produces a variable short-term and long-term impact on the local and regional community. Each phase of the program -- exploration, development, mining -- has a different set of expenditure levels, monetary flow patterns, employment characteristics, and tax revenue levels. However, one of the most important effects of these operations is the economic impact as it is multiplied several times throughout the region, providing business and tax revenue far and above the original revenues.

5.2 Exploration Phase

Average exploration investment required for an economic discovery has been documented and reviewed in several studies (11, 30). In recent years, it is estimated to be on the order of \$18 to \$21 million per successful mine, including write off and unsuccessful ventures, with an average exploration period of 12 to 14 years. During this exploration phase, the contribution to the regional economic base is considerable and can have positive short-term effects on the local employment situation. Reported annual exploration expenditures in Alaska

over the past five years have been on the order of \$6 to \$10 million with well over half of this paid out to Alaska-based businesses (9). The actual total expenditures might be as much as twice the reported amounts. Expenditures for 1975 are reported to be near \$35 million. A review of exploration expenditures indicates transportation expenses accounted for the largest single cost factors, about 46% of total costs for reconnaissance programs and 22% for advanced-staged projects (21). Most of this accrued to local air carriers providing fix-wing and helicopter support. Other expenditures for provisions, fuel, and equipment were also spent locally. Exploration expenditures have created a positive input in terms of employment opportunities. Exploration activity is usually conducted on a seasonal basis in remote areas, with little need for or demand on local government facilities. Alaska, even today, is relatively unexplored for most minerals and metals, and a significant exploration industry could be sustained for decades.

5.3 Development Phase

Pre-mine evaluation and development costs represent an additional contribution to the regional economic base. It is estimated that individual pre-mine feasibility study costs are on the order of \$5 to \$10 million, representing a substantial investment before there is any guarantee of any economically viable project. Much of this is local expenditure on aircraft support, drilling, sampling, surveying and engineering programs.

During the plant construction phase, expenditures and work force would peak temporarily over a period of two to five years. Total capital investment in

Alaska for substantial mining operations is estimated to range from \$38 million for a massive sulfide deposit (31) to \$347 million or more for a large porphyry copper deposit (6). These figures may be conservative today -- the \$347 million figure, for instance, was determined in 1973.

Expenditures of this magnitude would benefit the local economic base to a considerable degree and would multiply several times through the secondary activity which is generated.

5.4 Production Phase

Ultimately, mine production provides long-term employment stability, sustained economic stimulation, and an extended-term tax base for local and state governments. Particularly important in any operation of substantial magnitude is the compound economic effect generated by mine revenue and expenditure on the local community and region. This multiplier effect can amount to several times the original direct expenditures in terms of personnel income, business income and local government revenue.

Employment figures for a large, open-pit mining operation at a remote site in Alaska have been estimated to be on the order of 300 people (7). This study suggests that total township population could be 1.5 to 2.5 times the mine employment. Service industry for the mining operation and townsite is substantial and it is estimated that the creation of 100 jobs in the basic industry will create between 70 to 110 new jobs in associated support industry. Thus a total of 300 new mine-related jobs might produce an additional 200 to 320 jobs throughout the State of Alaska.

A mining company employing 300 people in steady year-round jobs could form the nucleus for a townsite with the following makeup based on maximum and minimum projections.

Estimated Townsite Population
(See Figure 5-1 For Additional Data)

	<u>Low</u>	<u>Medium</u>	<u>High</u>
Mine Company Employees	150	300	450
Service Industry Employees	26	60	115
Dependents	<u>0</u>	<u>720</u>	<u>1,130</u>
Total	176	1,080	1,695

Establishment of a mining operation would create a dual effect on the State revenue expenditure pattern by providing long-term, year-round job opportunities with associated State personal income tax revenue and also significantly reducing outlay for seasonal unemployment benefits.

Even more dramatic are the economic output multiplier effects which relate the increased impact of each product value dollar to the commercial business activity in the immediate townsite area and the surrounding region. Results of an input-output model generated for such an economic situation in a bi-regional economy are outlined below and on Figure 5-2 (20):

Regional Sector Mining Output Multipliers

Immediate Area	1.4652
Regional Area	<u>.6266</u>
Total	2.0918

- Estimates of employment and population of mining communities by size and type of mine

Item	Open Pit			Underground - Room & Pillar			Underground - Open Stope		
	Small	Medium	Large	Small	Medium	Large	Small	Medium	Large
Daily tons of ore and waste 1/	15,000 - 50,000	30,000 - 75,000	50,000 - 175,000	250 - 1,000	1,000 - 5,000	5,000 - 25,000	250 - 500	500 - 2,000	2,000 - 5,000
Daily tons of ore	7,500 - 15,000	15,000 - 25,000	25,000 - 50,000	250 - 1,000	1,000 - 4,000	4,000 - 20,000	250 - 500	500 - 2,000	2,000 - 4,000
Daily tons concentrated	7,500 - 15,000	15,000 - 25,000	25,000 - 50,000	250 - 1,000	1,000 - 4,000	4,000 - 20,000	250 - 500	500 - 2,000	2,000 - 4,000
Mine personnel 2/	35 - 80	60 - 100	80 - 160	30 - 60	60 - 160	160 - 430	60 - 80	80 - 210	210 - 330
Concentrator personnel 2/	40 - 70	70 - 110	110 - 180	5 - 10	10 - 25	25 - 90	5 - 5	5 - 15	15 - 25
Plant personnel 3/	50 - 100	80 - 140	120 - 220	20 - 35	35 - 90	90 - 260	30 - 40	40 - 110	110 - 175
Office personnel 3/	25 - 50	50 - 70	70 - 120	5 - 15	15 - 35	35 - 100	10 - 15	15 - 45	45 - 70
Total company	150 - 300	260 - 420	380 - 680	60 - 120	120 - 310	310 - 880	105 - 140	140 - 380	380 - 600
Service industry personnel onsite 4/	30 - 60	50 - 80	80 - 140	10 - 25	25 - 60	60 - 180	20 - 30	30 - 80	80 - 120
Dependents 5/	360 - 720	620 - 1,000	920 - 1,640	140 - 290	290 - 740	740 - 2,120	250 - 340	340 - 920	920 - 1,440
Medium estimate of townsite population 6/	500 - 1,100	900 - 1,500	1,400 - 2,500	200 - 400	400 - 1,100	1,100 - 3,200	400 - 500	500 - 1,400	1,400 - 2,200
Low estimate of townsite population 7/	200 - 600	400 - 800	700 - 1,200	100 - 200	200 - 600	600 - 1,600	200 - 200	200 - 700	700 - 1,100
High estimate of townsite population 8/	800 - 1,600	1,400 - 2,200	2,100 - 3,800	300 - 600	600 - 1,600	1,600 - 4,800	600 - 800	800 - 2,100	2,100 - 3,300

1/ Rounded to nearest 1,000 tons except for small mines.

2/ Taken from table 2.

3/ Calculated by formula in table 2, rounded to nearest 10.

4/ Based upon 20 service employees per 100 company employees, rounded to nearest 10.

5/ Based upon 2 dependents for each service and company employee.

6/ Summation of company and service employees plus their dependents, rounded to nearest 100.

7/ Medium estimate of townsite population minus 50 percent, rounded to nearest 100.

8/ Medium estimate of townsite population plus 50 percent, rounded to nearest 100.

33

SAWTOOTH REGION SECTOR (5) MINING
OUTPUT MULTIPLIERS
(Central Idaho)

Sector Name	STR		GIR	
	No.	Multiplier	No.	Multiplier
Dairy and Poultry	1.	.0036	25.	.0040
Livestock	2.	.0019	26.	.0143
Crops	3.	.0071	27.	.0110
Ag Services	4.	.0002	28.	.0010
Mining	5.	1.0000	29.	.0020
Construction	6.	.0107	30.	.0036
Food Products	7.	.0166	31.	.0497
Logging	8.	.0023	32.	.0000
Sawmills	9.	.0057	33.	.0007
Wood and Paper Products	10.	.0034	34.	.0044
Other Manufacturing	11.	.0327	35.	.0546
Transportation	12.	.0080	36.	.0281
Comm. and Utilities	13.	.0307	37.	.0314
Wholesale Trade	14.	.0064	38.	.0474
Retail Trade	15.	.0237	39.	.0563
F.I.R.E.	16.	.0253	40.	.0457
Lodging	17.	.0016	41.	.0010
Personal Services	18.	.0014	42.	.0073
Business Services	19.	.0068	43.	.0267
Auto Services	20.	.0011	44.	.0069
Recreation Services	21.	.0011	45.	.0041
Medical, Social Services	22.	.0085	46.	.0289
Government Enterprises	23.	.0056	47.	.0060
Households	24.	.2608	48.	.1915
SUBTOTALS		1.4652		.6266
TOTAL			2.0918	

Thus, each dollar of revenue produced by the local mining operation generates an additional \$2 revenue in surrounding service industries. The multiplier for total impact is three.

A comprehensive study (27) on the copper industry's impact on the 1973 Arizona economy shows a very substantial multiplier effect on personal income, business income, and state-local tax income as outlined below and presented on Figure 5-3.

Distribution of Copper Industry Income to the Arizona Economy
(Millions of Dollars)

Value of Output: \$1,109

	<u>Direct Income</u>	<u>Secondary Income Generated</u>	<u>Apparent Multiplier Effect</u>
Personal Income	\$306	\$831	2.7
Business Income (wholesale and retail, industry, transport, manufacturing, utilities)	300	2,411	7.8
Government Income (State, County, Municipal, and School District revenues)	82	251	3.1
Leakage (to federal taxes, for out-of-state supplies and services, debt service, and profits)	412	--	--

The Mining Association of British Columbia statistics for 1974 indicate that for every person employed directly to the British Columbia mining industry, there were approximately 2.8 workers in other jobs based on the mining industry in the Province. Their figures also indicated that this mining industry employee in British Columbia supported a total of 7.9 workers throughout Canada (18).

DISTRIBUTION OF COPPER INDUSTRY INCOME TO THE ARIZONA ECONOMY
 1973 ANNUAL AMOUNTS IN MILLIONS OF DOLLARS

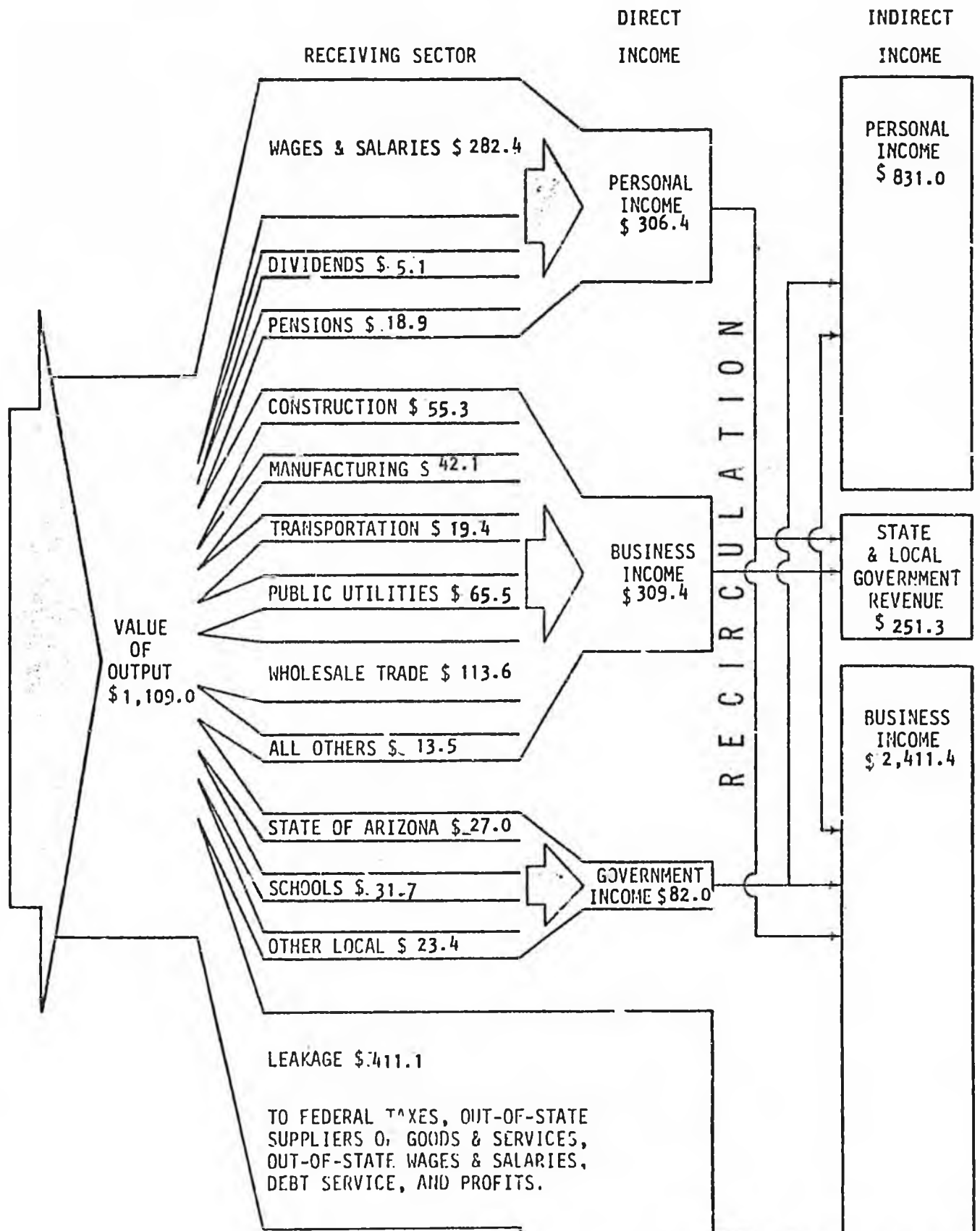


Figure 5-3
(27)

Certainly the mining industry in British Columbia is now well developed, but much of it still takes place in remote areas, and drawing an analogy with a future mining industry in Alaska may be justified.

5.5 Summary of Multiplier Effects and Impact

Discovery of mineral deposits and establishment of a viable mining operation would provide stable, long-term economic and employment benefits which are compounded substantially by associated industries and services. Employment characteristics indicate a 1:1 ratio between basic employment and supporting business employment. In conjunction, a 1:2 ratio between product value and increased commercial business activity is evident. Together, the basic product and expanded commercial activity could result in a two to three-fold increase in tax revenues over and above that from the initial direct mining operation.

The major impact in Alaska of all aspects of a mining industry stems from its tendency to develop in remote areas rather than existing population centers. It could provide a geographically broad foundation for employment and the development of secondary industry throughout the state.

6. THE MINERAL INDUSTRY IN ALASKA

6.1 The Past

Mining has played a major role in Alaska's history along with fishing and forestry. Mining was principally responsible for the development of most Alaskan cities including Fairbanks, Nome, Juneau, Ketchikan, and Skagway. Alaska has produced \$765.6 million in gold, of which nearly 94% was contributed prior to statehood in 1959. Copper is another mineral of significant historic impact, with total production valued at \$226.7 million, 99.94% of which came prior to statehood. Approximately 92% of all of Alaska's mineral production was realized prior to 1959.

6.2 The Present

There are presently only five operating hard mineral mines of importance in the state, exclusive of stone and construction aggregate: Usibelli's coal mine at Healy; Alaska Gold Corporation's placer gold mines at Hogotza and Nome; Inlet Oil's barite mine near Petersberg; and Goodnews Bay Mining Company's placer platinum mine on the Salmon River. This average of one mine per 117,200 square miles is probably the lowest in the nation as shown in Figure 6-1. In addition to these operations, about 30 small placer gold and tin miners are intermittent producers. Total gold production over the last five years averages 14,350 ounces, or about \$2

AVERAGE HARD MINERAL PRODUCT VALUE & EMPLOYMENT
WESTERN U. S. MINING STATES
(Compiled from Bureau of Mines Mineral Yearbook)

State	1970			1971		1972	
	Area Square Mile	\$ Per Square Mile	Average Employment	\$ Per Square Mile	Average Employment	\$ Per Square Mile	Average Employment
Arizona	113,909	10,185	14,320	8,577	14,525	9,550	13,700
California	158,693	4,442	16,350	4,372	15,795	4,335	11,070
Colorado	104,247	2,793	8,525	2,660	8,570	2,820	6,610
Idaho	83,557	1,433	3,770	1,344	3,695	1,271	2,990
Montana	147,138	1,381	5,230	1,202	5,625	1,356	3,855
Nevada	110,540	1,686	4,530	2,395	3,355	1,644	2,715
New Mexico	121,666	3,488	8,255	3,261	7,975	3,447	7,410
Oregon	96,981	702	2,205	803	2,960	789	1,395
Utah	84,916	6,241	8,725	5,261	8,055	5,313	6,405
Washington	68,192	1,333	2,865	1,387	2,695	1,610	1,880
Wyoming	97,914	1,750	4,640	1,871	5,030	2,343	4,860
Total 11 Western States	1,187,573	---	78,415	3,116	78,180	3,236	62,890
Average 11 Western States	107,978	3,326	7,130	---	7,107	---	5,717
Total Arizona, Utah, California & New Mexico	479,184	---	31,300 ⁽¹⁾	5,247	46,250	5,523	38,585
Average 4 High States	119,796	6,598 ⁽¹⁾	10,433	---	11,562	---	9,646
Total 7 Western States	708,569	---	47,115 ⁽¹⁾	1,675	31,930	1,690	24,305
Average Low 7 States	101,224	2,117 ⁽¹⁾	5,890	---	4,561	---	3,472
Alaska	586,412	101	1,300	81	1,765	55	850

(1) Grouping average for 1970 was for Arizona, New Mexico, and Utah, and the remainder 8 Western States.

million dollars per year at the present gold price, which amounts to less than 15% of production levels for pre-statehood years. There is presently no significant base metal production (1).

The current mining scene is dominated by the extraction of sand, gravel, and stone (Figure 6-2). Pre-statehood production totals only about 13% of the \$413.6 million total sand and gravel production through 1974. Oil pipeline and affiliated construction are primarily responsible for this sharp rise. The growing significance of coal production is reflected by a similar pattern, with 50% of the 85-year total of \$176.6 million produced during the last 15 years. Of the \$605.9 million attributed to coal, stone, sand, and gravel cumulative production through 1974, approximately 68% has been registered since 1959.

The foregoing points up an important basic trend established in Alaska's hard mineral mining industry. Total mined product values for the period 1959 to 1974 have grown 275% from \$20 million to \$55 million, but the contribution from minerals exclusive of coal, stone, and construction aggregate has simultaneously decreased from 77% in 1959 to about 31% in 1974 (5). The dollar value of those minerals is about \$8.5 million for both 1959 and 1974, reflecting true production decline equivalent to the monetary inflation for the period (Figure -3).

6.3 Exploration

This degeneration of the precious and base metal segment of the Alaska mining industry is anomalous in light of growing mineral exploration expenditures. Exploration expenditures being reported by mining companies within the state have steadily increased from about \$1 million in 1959 to \$10 million in 1974

HARD MINERAL PRODUCTION IN ALASKA

Year	Mining License Tax \$1,000 (1)	Exploration Expense \$1 million (2)	Non-Petroleum Minerals \$1 million (3)	Construction Aggregates \$1 million (3)	Mining \$1 million
1957	109.6	1.140	30.153	10.752	19.401
1958	20.8	1.180	20.892	5.936	14.956
1959	7.3	1.285	20.183	5.642	14,541
1960	33.8	2.100	20.601	6.335	14.267
1961	4.9	1.770	16.957	4.185	12.772
1962	16.0	1.300	22.539	5.355	17.184
1963	30.2	2.645	34.079	22.005	12.074
1964	46.5	1.600	30.601	18.488	12.213
1965	88.1	3.182	47.583	34.367	13.216
1966	66.2	2.645	35.882	21.793	14.089
1967	45.7	NA	39.292	26.248	13.044
1968	57.6	4.510	30.634	20.366	10.268
1969	78.3	4.900	30.547	22.517	8.130
1970	45.0	6.850	59.139	51.106	8.033
1971	16.6	9.000	47.383	37.872	9.511
1972	30.7	6.500	32.231	18.266	14.005
1973	16.0	6.550	47.429	32.654	14.775
1974	28.4	10.000	55.000(P)	37.822(P)	17.178

Adapted from total mineral production value by subtracting oil and gas values.

(1) Alaska Financial Report

(2) Alaska Division of Mines & Minerals Annual Reports

(3) U. S. Bureau of Mines, Minerals Yearbook

(P) Preliminary Figures, subject to revision

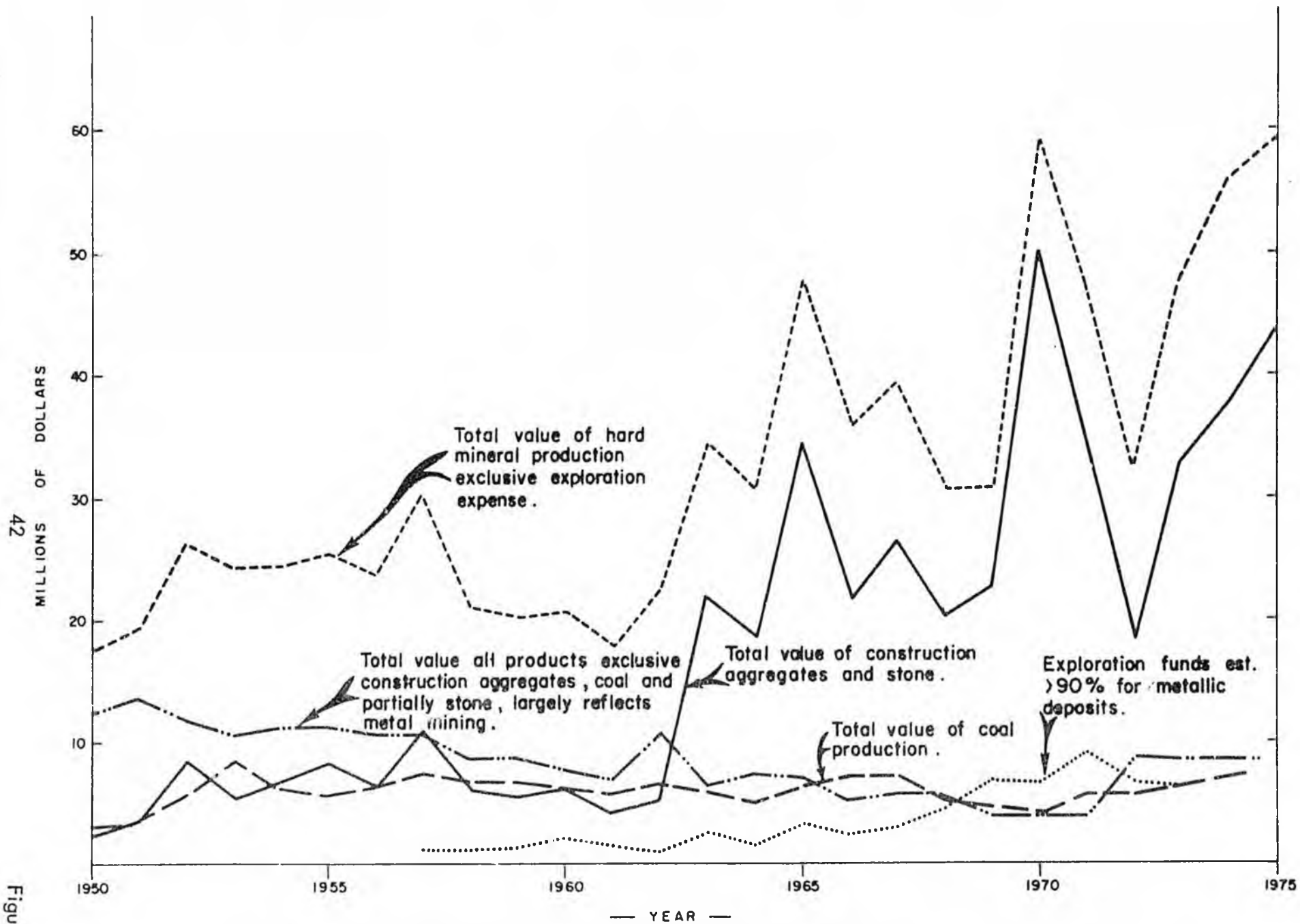


Figure 6-3

HARD MINERAL PRODUCTION IN ALASKA

DATA: Bracken, 1975; Battge, 1975 & 1973 Annual Report Alaska Div. of Geol. & Geophys. Surveys.

(Figure 6-3), and may reach \$35 million in 1975. Something less than 8% of these amounts totaling more than \$70 million since 1959 have been spent on locating sand, gravel, and coal deposits. In addition, the U. S. Geological Survey and the U. S. Bureau of Mines have expended large untabulated sums for natural resource evaluations in Alaska. These risk dollars have found mineral reserves, but production lead times and the generally adverse economic conditions in Alaska have precluded their development as ore bodies.

6.4 The Future

Alaska has potential and proven mineral resources which could support a significant mining industry within ten years. Potential mining developments include porphyry coppers in the Forty Mile and Alaska Range areas. A uranium discovery in the Healy area precipitated more than 80 square miles of claim staking by major mining companies within the last two years. Low-grade placer gold reserves on the Seward Peninsula are known to far exceed 1 million ounces (1). Significant massive sulfide copper discoveries have been made in southeast Alaska and the central Brooks Range. Marginal deposits exemplified by the Kasna Creek porphyry copper and the Klukwan iron deposit (300 million tons at 15 to 35% Fe) (24) are scattered about the state. Extensive coal deposits in the Healy area are being tested. An interesting asbestos deposit occurs near Eagle. Prospecting continues in the Kennecott area where new, high-grade copper deposits may still be found. The numerous possibilities are perhaps best highlighted by three areas: The Ambler copper district, the Yakobi-Glacier Bay nickel-copper district, and the Beluga coal fields. The metal inventories in the Ambler district exceed 1.5 million tons

each of copper and zinc metal in at least three deposits of comparatively high-grade massive sulfide, with an excellent outlook for additional discoveries. The Yakobi-Glacier Bay area is known to contain relatively low-grade, but extensive nickel-copper reserves near tidewater, conservatively estimated at greater than 500,000 tons each of nickel and copper metal. The Beluga coal fields are undergoing intensive drilling which has outlined accessible, near tidewater reserves likely to exceed a billion tons (19).

Certainly all of these deposits to be viable must overcome present economic barriers imposed by remoteness and/or marginal grade, but the trend toward marginally higher commodity prices, advancing technology and lower grades of production is sure to persist. Therefore, it is fair to assume that some of these deposits will be economic within a decade. Incentives, if provided by the State, could well make these deposits economically competitive at an even earlier date.

7. SPECIFIC MODELS OF ALASKAN OPERATIONS

7.1 Basis of Study

Owing to a number of factors, Alaskan mineral development has lagged behind the remainder of the country and thus we lack actual operational data to study. The U. S. Bureau of Mines published economic model studies for three hypothetical Alaskan deposits to provide State and Federal Governments with information to aid in appraising Alaska's mineral potential. While we may differ in detail over many of the assumptions and cost parameters used in these models, nevertheless, they provide a convenient framework in which to study the effects of the Severance Tax as well as existing corporate income and Mining License taxes. It is our intention to illustrate the nature of effects rather than the precise impact any given tax would have on a particular operation. The results of our study of each model are presented below. Our estimate of impact of the Severance Tax proposal is summarized on Figure 7-4 following the last model.

7.2 Alaskan Asbestos Operation (8)

This model compares a hypothetical Alaskan operation with an identical, currently operating mine in the Yukon. Bottge shows to obtain a 12% discounted cash flow rate of return (DCF-ROR) the Alaskan operator would have to receive about \$356 per ton of fiber product, compared to \$287 per ton in the Yukon, indicating a 25% higher cost in Alaska. The cost of the Mining License Tax was

in Bottge's computation of these figures. In Figure 7-1, we show the impact of the addition of a 5% Severance Tax, which we calculated as both deductible and non-deductible from federal taxable income since this is presently ambiguous.

7.3 Kennecott Mine (31)

This model assesses the economic viability of the famous Kennecott deposits as if they were to be developed today. Maloney and Bottge show in their study that such a mine could produce the specified 12% DCF-ROR provided prices were greater than \$0.347 per pound for copper and \$1.04 per ounce for silver. If the mine operator would have to build a new road, the attractiveness of such a deposit would be greatly diminished.

In Figure 7-2 we show the devastating effect a 5% Mineral Severance Tax has on this model.

7.4 Alaskan Porphyry Copper Deposit (6)

This model compares the costs of a hypothetical Alaskan copper mine with an identical hypothetical deposit in Arizona. The study concludes that the Alaskan mine operator would have to receive a metal price double that of the Arizona operator to provide the same 12% DCF-ROR, or in other words, that the costs in Alaska are twice those in Arizona. Obviously, charging a higher price is impossible for an internationally marketed commodity such as copper, implying grades must be better in Alaska or that Alaska mines will run only when copper prices are much higher than at present.

Figure 7-3 shows the further deleterious effect of adding a severance tax.

ALASKA ASBESTOS MINE
Effect of a 5% Severance Tax on Net Income
for Year 11 of Operations (Thousands of Dollars)

Capital Investment \$ 72,319

Tons ore per year	1,380,000 tons
Tons fiber per year	99,360 tons
Life of mine	20 years
Minimum acceptable DCF-ROI	12%
Annual Sales	
99,360 tons x \$356.65	\$35,437
Operating Costs	
Direct	\$16,826
Transportation	7,857
Depreciation (Year 11)	2,323
Total	<u>\$27,007</u>

	No Severance Tax	5% Severance Tax	
		Deductible From FIT	Non Deductible From FIT
Annual Sales	\$ 35,437	\$ 35,437	\$ 35,437
Operating Costs	27,007	27,007	27,007
Gross Profit	8,430	8,430	8,430
Depletion	4,215	4,215	4,215
Mineral Severance Tax (5%)	--	1,772	1,772
Taxable Income (State)	<u>4,215</u>	<u>2,443</u>	<u>2,443</u>
Corporate Income Tax (State) (9.4% Taxable Income After Net)	371	230	230
Mining License Tax (State) (Tax. Income - \$1,000,000 x 7% +\$4,000 after CIT)	266	--	--
Total State Tax (MST+CIT+MLT)	<u>637</u>	<u>2,002</u>	<u>2,002</u>
Taxable Income (Federal)	3,577	2,213	3,984
Federal Income Tax (48%)	<u>1,717</u>	<u>1,062</u>	<u>1,912</u>
Net Income	<u>1,860</u>	<u>1,150</u>	<u>300</u>
State Tax as % Net Income	34%	174%	667%

KENNECOTT COPPER MINE
Effect of Severance Tax on Net Income (Thousands of Dollars)

Capital Investment \$ 39,662

Tons ore per year 235,000 tons
Pounds copper per year 57,753,000 pounds
(96% recovery)
Ounces silver per year 439,920 ounces
Life of mine 20 years
Minimum acceptable DCF-ROI 12%

Annual Sales
57,753,000 pounds @ 0.347 cents/pound \$ 20,043
439,920 ounces @ \$1.040/ounces 457
Total \$ 20,500

Operating Costs
Direct 6,131
Smelting, refining, transportation 7,366
Depreciation 2,072
Total \$ 15,569

	<u>No Severance Tax</u>	<u>5% Severance Tax</u>	
		<u>Deductible From FIT</u>	<u>Non-Deductible From FIT</u>
Annual Sales	\$ 20,501	\$ 20,501	\$ 20,501
Operating Costs	15,569	15,569	15,569
Gross Profit	4,932	4,932	4,932
Depletion	2,089	2,089	2,089
Mineral Severance Tax (5%)	--	1,025	1,025
Taxable Income (State)	<u>2,843</u>	<u>1,818</u>	<u>1,818</u>
Corporate Income Tax (State) (9.4% Taxable Income after MLT)	251	171	171
Mining License Tax (State) (Tax Income - \$100,000 x 7% + \$4,000 after CIT)	178	--	--
Total State Tax (MST+CIT+MLT)	<u>429</u>	<u>1,196</u>	<u>1,196</u>
Taxable Income (Federal)	2,414	1,647	2,672
Federal Income Tax (48%)	1,159	791	1,283
Net Income	<u>1,255</u>	<u>856</u>	<u>364</u>
State Tax as % Net Income	34%	140%	329%

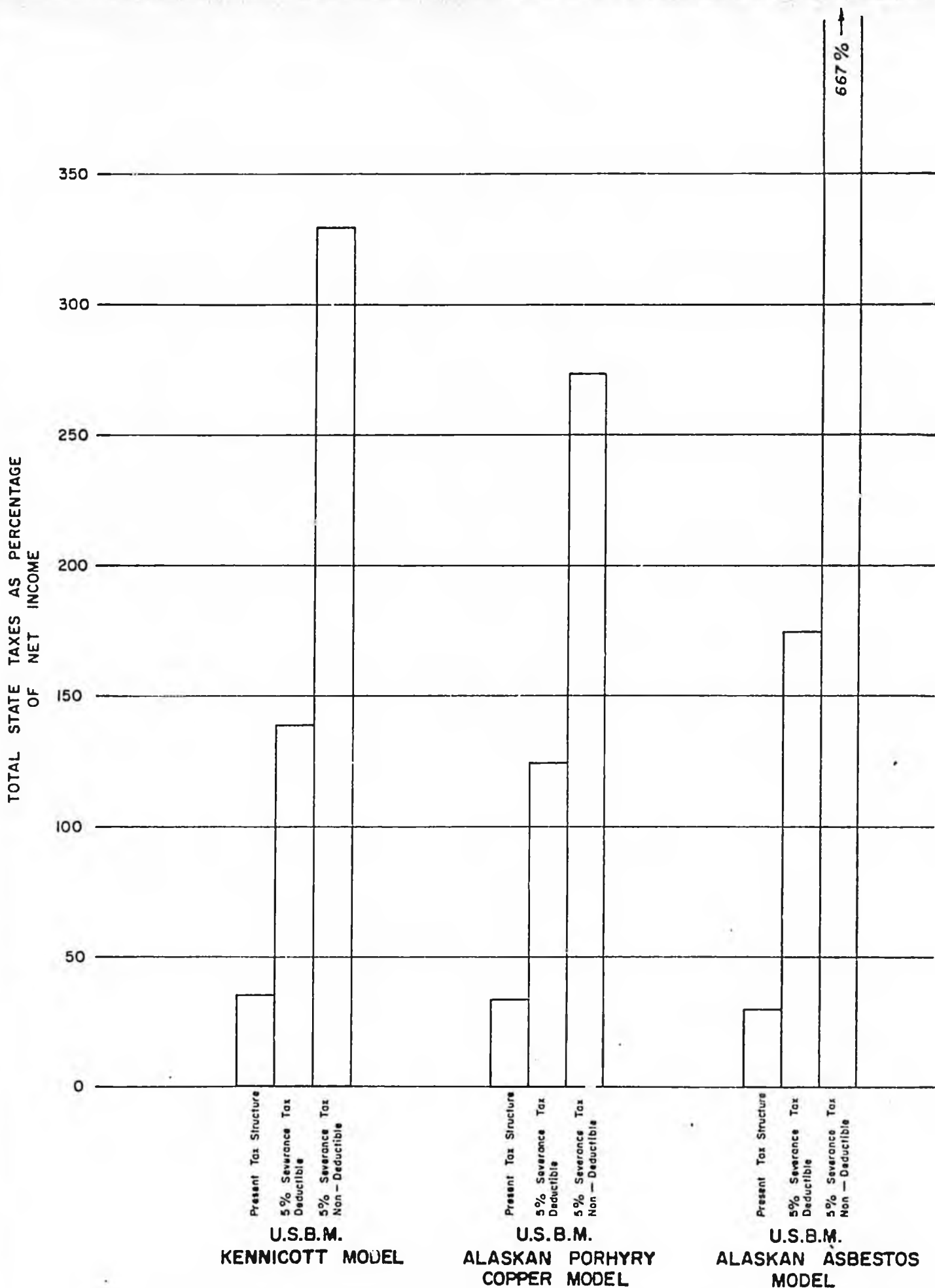
ALASKA PORPHYRY COPPER DEPOSITS
Effect of Severance Tax on Net Income (Thousands of Dollars)

Capital Investment \$346,648

Tons per year (grade 0.50% Cu)	14,280,000 tons	
Pounds copper per year (90% recovery)	128,520,000 pounds	
Life of mine	20 years	
Minimum acceptable DCF-ROI	12%	
Annual Sales		
128,520,000 pounds x \$1.12/pound copper		\$143,936
By-product credit		<u>6,295</u>
Total		\$150,231

Operating Costs		
Direct		59,117
Smelting, refining, transportation		33,446
Depreciation		<u>17,636</u>
Total		\$110,199

	<u>No Severance Tax</u>	<u>5% Severance Tax</u>	
		<u>Deductible from FIT</u>	<u>Non-Deductible from FIT</u>
Annual Sales	150,231	150,231	150,231
Operating Costs	110,199	110,119	110,199
Gross Profit	40,032	40,032	40,032
Depletion	17,518	17,518	17,518
Mineral Severance Tax (5% Sales)	-	<u>7,512</u>	<u>7,512</u>
Taxable Income (State)	<u>22,514</u>	15,002	15,002
Corporate Income Tax (State) (9.4% of Taxable Income after MLT)	1,981	1,410	1,410
Mining License Tax (Tax Income - \$100,000 X 7% + \$4,000 after CIT)	<u>1,434</u>	-	-
Total State Tax	<u><u>3,415</u></u>	<u><u>8,922</u></u>	<u><u>8,922</u></u>
Taxable Income (Federal)	19,099	13,592	21,104
Federal Income Tax (48%)	<u>9,168</u>	<u>6,524</u>	<u>10,130</u>
Net Income	<u><u>9,931</u></u>	<u><u>7,068</u></u>	<u><u>3,462</u></u>
State Tax as % Net Income	34%	126%	258%



GRAPH SHOWING EFFECTS OF SEVERANCE TAX RELATIVE TO NET PROFIT

Figure 7-4

7.5 Multiplier Effects

Mines such as those modeled by the U. S. Bureau of Mines may be developed in Alaska within the next decade. To be developed, they would have to generate gross income (annual sales) and net income in the range of those shown in the left-hand columns of Figures 7-1 through 7-3. Total revenues from such a group of operations would be sizable, and when multipliers are applied as illustrated in Section 5, the total effect as shown by Figure 7-5 is impressive. It should be noted that in these models the unemployment tax (4.7% of gross employment earnings) payable to the State was not included on State receipts.

Federal taxes paid by such a group of operations would be large, but would not be lost to the state. A comparison of Federal funds flowing out of and into Alaska for 1972 and 1973 follows (38):

	<u>FY 1972</u>	<u>FY 1973</u>
1. Federal Receipts from Alaska	\$279.5 million	\$246.7 million
2. State Receipts from Federal Government	124.7 million	188.9 million
3. Total Federal Expenditures in Alaska (Including 2)	1,016.9 million	1,018.6 million

Although Federal receipts and expenditures in Alaska may not vary in exact proportion, there is some relationship between state population and productivity, and demands on or return of federal funds.

ANNUAL IMPACT OF THREE USBM MODELS (\$000's)

	<u>Primary Amount</u>	<u>Possible Multiplier</u>	<u>Total</u>
Gross Income	\$ 206,169	3	\$ 618,507
Net Profit	13,046	--	--
Federal Tax	12,044	4	48,176
State Tax (Income and Mining License)	4,481	3	13,443

8. THE MATTER OF SEVERANCE

8.1 Definition and Purpose

Severance tax on minerals can be defined as a tax on minerals that are severed or removed from the ground. Such a tax could be a specific monetary amount for each ton of ore or unit of mineral severed, or it could be a percentage of the monetary value of the ore at the point of severance, or a percentage of the monetary net or gross value of the first saleable product.

On March 21, 1975, Senate Bill 294 was introduced at the request of the Governor. It was entitled "An Act Relating to Alaska Minerals Severance Tax". Based on statements made by the Governor as quoted in newspapers and magazines, and in statements made in letters to interested parties, it can be assumed that the purpose of the proposed Severance Tax was to provide, in part, the revenue needed to offset the growing State deficit, and that the burden of providing some additional revenue was placed on the mining industry of Alaska because it is not paying its way.

The Governor stated in a letter to the Honorable John Huber in regard to the proposed November Mining Tax hearings that their purpose was to jointly develop a rational tax which would be fair to the mining industry and yet provide the State with adequate revenue from its non-renewable resources. This statement implies that the State owns an interest in all mineral resources in Alaska regardless

of legal ownership, and that the State is entitled to a revenue (a royalty or percentage of net profits) therefrom. We accept the right of the State to tax its citizens for the purpose of acquiring the revenue necessary for the services it renders, and we accept the right of the State to be compensated for the taking by others of any mineral interest it owns. However, we believe it is important that the implication that the State has an ownership interest in all the minerals within the State be clarified so that every citizen of Alaska knows that the proposed Severance Tax or similar special tax is solely an exercise of the right of the State to levy taxes. In this particular case, it would be a tax levied against a minority interest to meet the financial needs of the State.

8.2 The Damage Of A Severance Tax

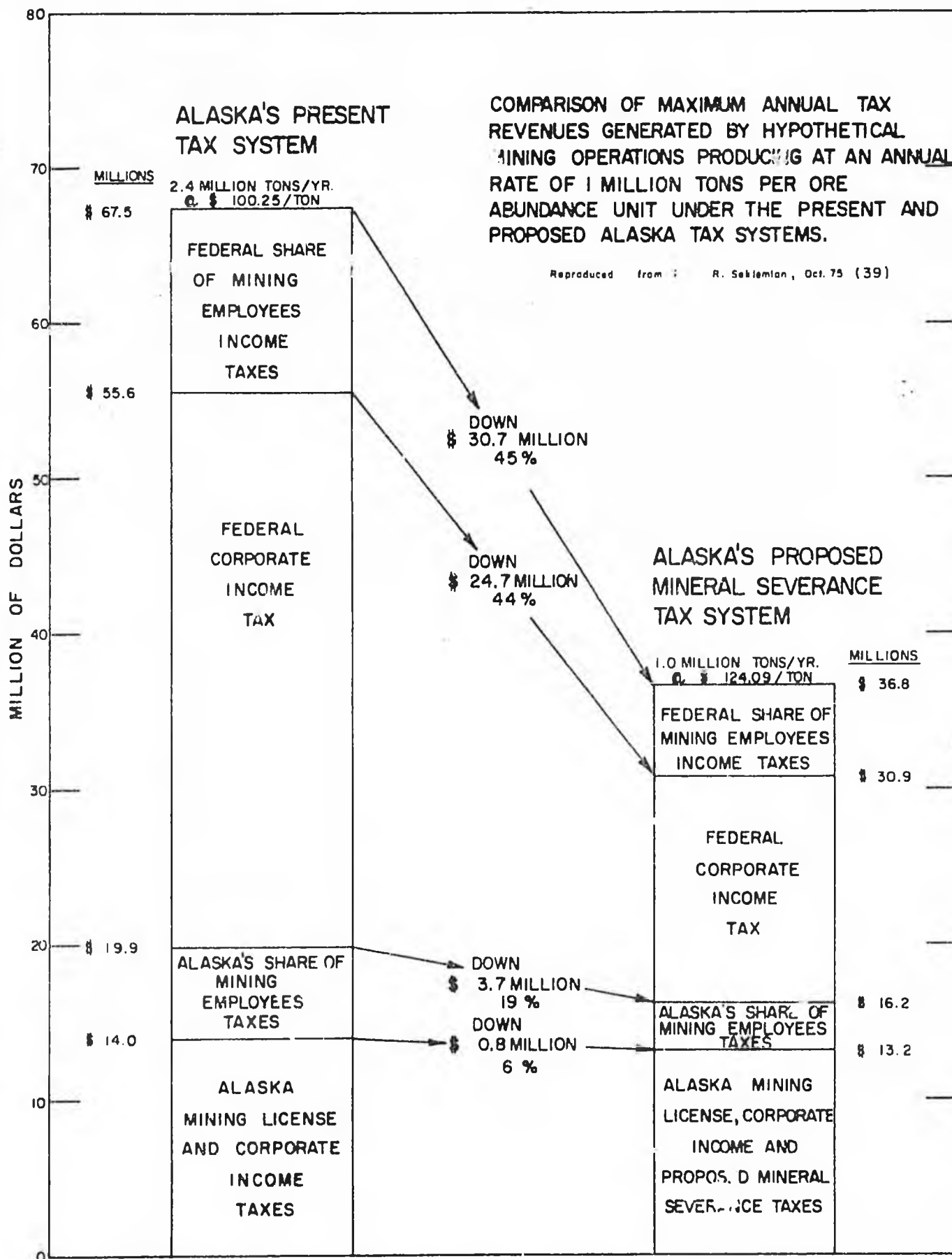
It can be demonstrated that a severance tax would be damaging to the long-range economic development of Alaska. All the minerals covered by Senate Bill 294 except stone, sand and gravel, and perhaps gypsum and coal, which are severed, processed and sold will be marketed outside of Alaska, and thus will have to compete in the arena of world prices. Prices in such markets will be dictated by demand and competition; therefore, any severance tax placed on the mineral reserves in Alaska must be absorbed by the mining operations in one of two ways: (1) reducing other costs to compensate, or (2) limiting, if possible, operations to higher grade ore (increasing the cut-off grade). A severance tax would also have the effect of decreasing new exploration and development.

We must all accept the fact that, based on operating cost trends, there is little hope that mining operators will be able to significantly reduce operating

costs in the near future; therefore, a severance tax will result in a reduction in the ore reserves of the mining industry and the total mineral wealth of the State of Alaska and the U. S. Such a result is anti-conservation and contrary to the Minerals Policy Act of 1970 which states in part:

"The Congress declares that it is the continuing policy of the Federal Government in the national interest to foster and encourage private enterprise in (1) the development of economically sound and stable domestic mining, minerals, metal and minerals reclamation industries, (2) the orderly and economic development of domestic mineral resources, reserves and reclamation of metals and minerals to help assure satisfaction of industrial security and environmental needs..."

We have previously cited the U. S. Bureau of Mines model Alaska operations and the relatively high cost of operating in Alaska. As stated, the U. S. Bureau of Mines estimates the operating cost of mining in Alaska is approximately twice the comparable cost of operations in the conterminous U. S. Such high operating costs have already limited the viable mineral deposits that can be developed, limited the recoverable mineral from such deposits, and added to the risk of such ventures. It is clear from data presented in Figures 7-2 to 7-4 that the Severance Tax can only further limit reserves and increase the risk of exploration and development. In his study of the possible impact of the Severance Tax (Senate Bill 294) on the type of deposits which occur in the Brooks Range, Seklemian found that imposition of such a tax would produce less overall state revenue, as shown on Figure 8-1 (39).



8.3 How To Achieve More Tax Revenue

George F. Leaming recently studied the potential impact of changing the severance tax rate in Arizona and found that serious and long-range adverse effects would result (27):

"Proposed increases in severance taxes imposed by the State of Arizona on the state's copper industry, under 1973 conditions, would tend to decrease employment in the industry by 700 persons and annual payrolls by \$11 million for each one percent in the total effective rate. Increases to as much as 6.5 percent as have been proposed by some under expected 1975 conditions could lower copper industry payrolls by more than \$99 million yearly and cut employment in the industry by about 7,600. The increase in severance taxes from 2.0 to 2.5 percent enacted last year have probably already resulted in payrolls that are \$300,000 per month lower than they would have been and caused the loss of more than 300 jobs".

The total work force in Arizona in 1973 was 26,400 persons, thus for each 1% increase in the tax rate, a 2.7% reduction in the work force could be anticipated. Regarding reserves, Leaming points out:

"The short-run impact of potential tax increases on Arizona copper resources would be relatively slight, resulting in the loss of some three million tons of copper contained in about 750 million tons of ore. This would be equivalent to one of the larger copper deposits currently being mined in the state. The longer term effects would be much greater, with higher taxes preventing the economical use of from 33 to 44 million tons of copper contained in low-grade rock. This would reduce Arizona's indicated copper resources by a third".

Alaska should be offering incentives to encourage mineral exploration and development. Much of Alaska is remote and unexplored and has great potential for mineral wealth. The costs of exploration and development are high and the risks are great, and it will be only through incentives rather than tax burdens that the State of Alaska can hope to benefit from this wealth. Minerals in the ground

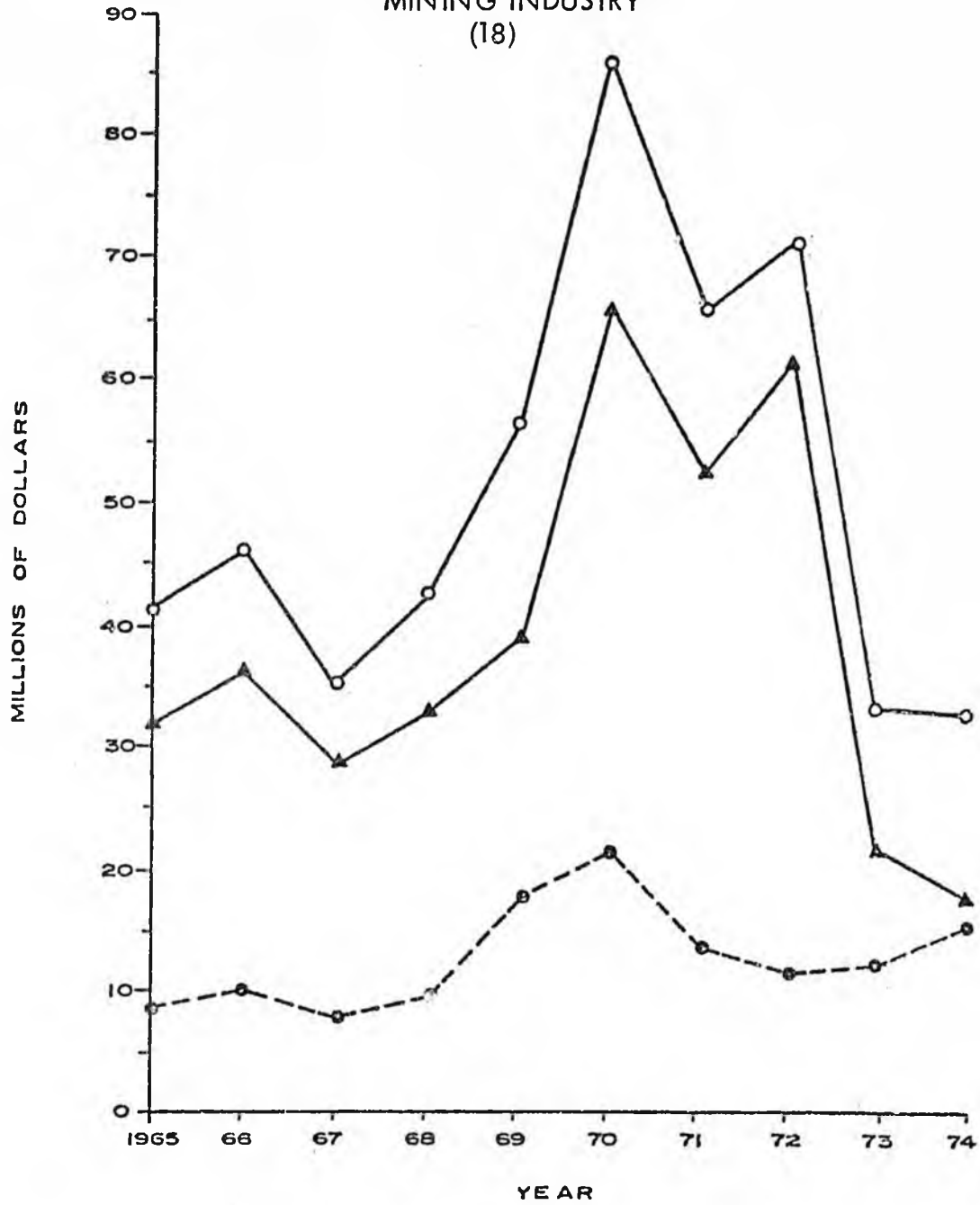
have no value until someone incurs the risk of exploration and development. The wealth is only created when the minerals are mined, processed and sold. If Alaska wants its fair share, it must legislate to create wealth rather than to divide up the wealth it has.

Most of the exploration carried out in Alaska is done by the major mining corporations which have exploration programs all over the U. S. and the world. These corporations allocate their exploration and development budgets to targets and areas which have the best potential for discovery considering the risk involved. Figure 8-2 shows how such budgets were reduced in British Columbia when Bill 31 was introduced in 1972, in spite of the fact that both 1973 and 1974 were good years for the mining industry (See Figure 4-1). The threat posed by the introduction of Senate Bill 294 in Alaska is similar and reduced efforts could be anticipated in 1976 as a result.

EXPLORATION AND DEVELOPMENT ANNUAL EXPENDITURE

1965-1974

BRITISH COLUMBIA
MINING INDUSTRY
(18)



Total Exploration & Development —○—

On property Exploration & Development —▲—

Primary Exploration - - ● - -

Data: Mining Association of British Columbia

Figure 8-2

9. REVISION OF THE MINING LICENSE TAX - THE BEST ALTERNATIVE?

9.1 Definition and Advantages

At present, Alaska has a tax on hard mineral production -- the Mining License Tax (AS 43-65). It is a tax on net income, defined as the gross income from the property, less such allowable deductions as overhead, operating expenses, development costs, depreciation, taxes, losses and "etc". Excluded for computation of net income are depletion, federal income taxes, and the Mining License Tax itself. Rates vary from 3 to 7% between net incomes of \$40,000 to \$100,000, with all annual net income over \$100,000 being taxed at the flat rate of 7%. Written into this law are two important "incentive" provisions -- the first allows for a 3- $\frac{1}{2}$ year tax exemption for new mining operations, and the second is a depletion allowance similar to that of the Federal Government; that is, it allows a deduction from gross income of an amount equal to a percentage of this gross income less any rents or royalties paid. The rates are 10% for coal, 23% for sulphur, and 15% for many other specified minerals. The depletion allowance is limited to 50% of the pre-depletion net income as in Federal laws. Revenues from the Mining License Tax for 1957 to 1974 are shown on Figure 9-1.

The advantages of the existing Mining License Tax are threefold:

1. It is based on net income
2. It recognizes the high capital costs and risks of new ventures with a 3 $\frac{1}{2}$ -year tax holiday

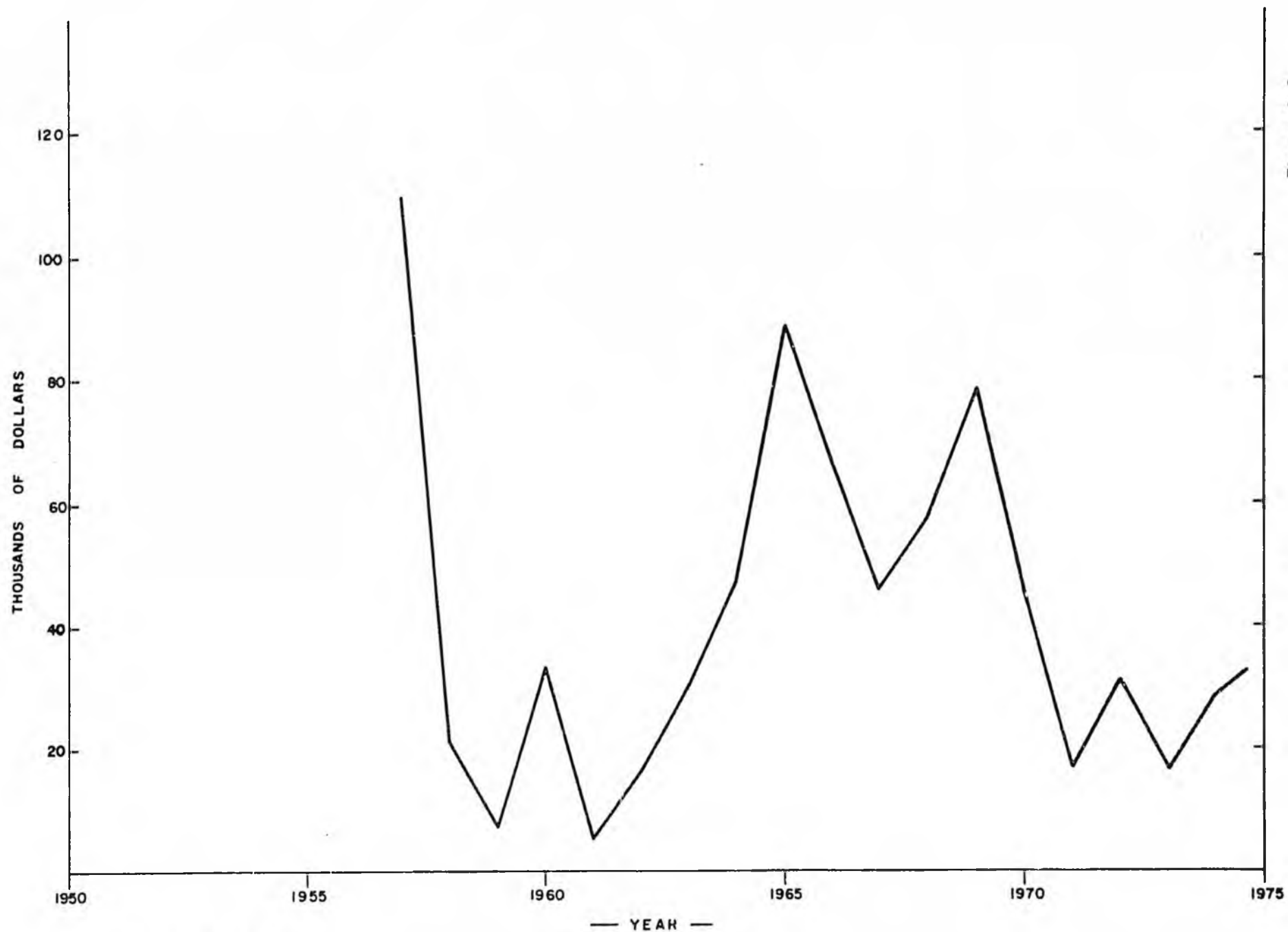


Figure 9-1
(9)

61

ALASKA MINING LICENSE TAX REVENUES

DATA : Pracken, 1975 (9)
(See figure 5-2)

3. It supports reinvestment in exploration for, and development of, new resources through a depletion allowance

Each of these will be discussed briefly.

9.2 A Net Income Base

A tax based on net income recognizes that the fortunes of a business go through cycles of high and low, sometimes negative profitability, and seeks to share both the rewards of good times and the burden of bad times. No tax is payable until a profit is made, then the governing body, in this case the State, shares in the profit. It is clear to see that a tax applied on the basis of units of production, rather than profit, would be collected during unprofitable business cycles, and in marginal times could, in fact, change a profitable venture to an unprofitable one, as shown above for the Severance Tax. Using net income as a basis for taxation recognizes operating costs and other expenses required for productive mining as valid and necessary charges in the process of converting resources into products with real value.

9.3 Incentives

Incentives are important to establishment of a mining industry. The risks and high costs of exploration, development and even production have been explained. The long lead time from discovery to production, and the exceptionally large capital expenditures required, result in a long payback period for most mining ventures. During such payback periods, the risks of business cycles, changes in laws, and other unknown factors may seriously challenge overall profitability. During such periods, the mining operation supports communities, provides jobs, and pays all

ordinary and most special taxes. It is obviously good policy for a state interested in orderly development of its mineral resources to stimulate projects with long lives through reducing or waiving its special tax during the high risk periods of early production. Everyone is well aware of the fact that you can get moving faster if you let the engine of your car warm up properly before engaging the transmission.

Incentives can take the form of lower taxes or no taxes, or, in light of recent tax increases throughout the states, they can be a promise of stable taxes. Other incentives could be any means of providing less risk through faster payout, such as initial tax-free periods for new mines, the right to take accelerated depreciation, or cost sharing in remote areas on infrastructure such as new roads, town-sites and local utilities. A statement by the Governor that a viable mining industry would be welcomed and supported would be a real incentive. Many other incentives outside of the area of state tax legislation are possible and reasonable.

9.4 Depletion Allowances

Depletion allowances are presently very controversial, for emotional rather than sound economic reasons. The original purpose of depletion allowances was to provide funds for the exploration for, and development of, new reserves to replace those being mined or depleted. It has been said that the mining companies have misused the funds so generated by taking them as profit and not placing them back into development of new resources. This is not the case. Clayton J. Parr, Counsel for The Anaconda Company, in speaking to the Rocky Mountain Mineral Law Institute in 1974 summed up what has indeed happened, as follows (37):

Ideally, individual companies will finance new projects internally out of earnings. Depreciation and the depletion allowance have a direct bearing on the amount of such funds that are available. In most mining companies, such earnings have been insufficient, however, and outside sources of funds have been turned to. In 1961, all capital expenditures by the major firms in the non-ferrous metal mining industry were financed by depreciation and depletion, but by 1970 capital expenditures amounted to 2.5 times depreciation and depletion. Long-term debt of nine major copper companies has increased from \$0.3 billion in 1964 to \$1.7 billion in 1973.

New mine development has been severely influenced by the need for extensive, non-productive improvements dealing with environmental quality, and because present regulations prohibit or add significantly to the cost of new mines, not because the total amount of funds is less. Capital expenditures in the industry are in fact increasing. By recognizing and allowing for depletion, the Mining License Tax and the State of Alaska are providing for a climate of sustained growth in the mineral industry, whether this growth is manifested by increased pollution controls or by new production. Finally, depletion allowances are a special tax benefit received only by the mining industry, but then the Mining License Tax is also a special tax. One is as sound as the other.

9.5 Disadvantages

The present Mining License Tax has certain disadvantages. Mainly, it is an extra tax above what other industries must pay in Alaska. It is not paid in lieu of corporate income tax, property tax, unemployment tax or other state and local tax; it is paid in addition to these already significant taxes, giving a total tax on net income of up to 64% (48% Federal, plus 9.4% State Corporate Income Tax, plus 7% Mining License Tax). The corporate income tax alone is higher than for most mining

states. The rate of special taxation (essentially 7% of net income for large operations) is high, as can be seen by comparison with the tax rates of other mining states presented in Figure 4-6, particularly when one considers the high cost of doing business in Alaska. We have presented in Section 7 evaluations which show that taxes do have an impact on mining operations. It can be inferred that lower special taxes would mean greater development and higher corporate income tax revenue -- the trade off needs to be studied and evaluated. Complete elimination of the Mining License Tax was discussed in 1970 as an incentive for development of the mineral industry. Such action plus additional incentive would certainly stimulate development of a mining industry.

Other disadvantages stem from problems of clarity in the act, the changing emphasis in business which has left some matters uncertain, and other so-called "loop holes". In some areas, the Mining License Tax may involve different usage or interpretation from other state laws and the Federal tax laws. Many minerals are not specifically covered and the type of mining operations to which the tax pertains are not listed. Clarification of all these matters would not significantly effect the levels of tax revenue from a viable mineral industry, but could improve the administration of the law.

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THE LEGISLATURE OF THE STATE OF ALASKA
FISCAL NOTE
 Second Session - Ninth Legislature

I. REQUEST

Bill No. House Bill No. 878
 Title: An Act relating to the Alaska Mining License Tax
 Requested by: House Resources & Finance Committee Date: March 22, 1976
 Return Date Requested: _____
 Agency: Revenue Program: Audit

II. FISCAL DETAIL

Budget Request Unit(s) Affected: N/A

A. EXPENDITURES: (Thousands of dollars)

OBJECT	FY 76	FY 77	FY 78	FY 79	FY 80	FY 81
100 PERSONAL SERVICES						
200 TRAVEL						
300 CONTRACTUAL						
400 COMMODITIES						
500 EQUIPMENT						
600 LAND & STRUCTURES						
700 GRANTS, GIFTS, ETC.						
TOTAL	None	None	None	None	None	None

B. FUNDING: (Thousands of dollars)

GENERAL FUND	None	None	None	None	None	None
FEDERAL FUNDS						
OTHER						

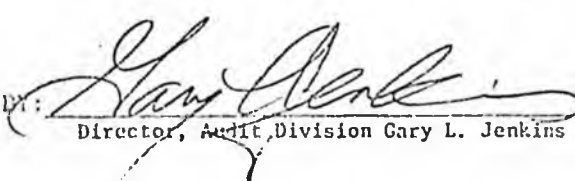
C. POSITIONS: None

PERMANENT/TEMPORARY	/	/	/	/	/	/
MAN MONTHS (P./T.)	/	/	/	/	/	/

III. ANALYSIS (See Fiscal Note Preparation Instructions, Section III)

N/A

IV. ATTACHMENTS See attached memo to R. D. Stevenson dated March 31, 1976.

V. DATE: 3-31-76 PREPARED BY: 
 Director, Audit Division Gary L. Jenkins

Original: Legislative Finance
 cc: Budget and Management
 Prime Sponsor (First Legislator Named)

CHAIRMAN:
NELS A. ANDERSON, JR.

STAFF ASSISTANT:
GUY VANDOREN

POUCH V
JUNEAU, ALASKA 99811



VICE CHAIRMAN
TED SMITH

SECRETARY:
~~XXXXXXXXXXXXXXX~~
Ruth I. Allington
PHONE: 465-3715
465-3781

House Resource Committee

FRED BROWN

ALVIN OSTERBACK

DICK ELIASON

LEO RHODE

MIKE HERSHBERGER

LESLIE (RED) SWANSON

JAMES HUNTINGTON

April 12, 1976

To: Hugh Malone
House Finance Committee

From: Guy Van Doren
Staff Assistant-House Resources Committee

Subject: HB 878 - An Act Relating to the Alaska Mining Tax

The original bill was worked out jointly between the Dept. of Revenue and representatives of the mining industry. The bill makes several modifications to the current Mining License Act, mainly in the area of clarifying who is taxable, what activities are taxable, and how taxable proceeds for purposes of computing the tax are arrived at.

The legislation will not cost the State of Alaska additional dollars for administration nor will it immediately generate additional dollars for the state since there is an extremely small number of mines operating in the State of Alaska.

The Committee Substitute reflects the concerns of the industry in testimony before the Committee, and clarifies the definition of minerals by taking out specific minerals and making the definition cover all minerals not specifically excluded. The Committee also added a definition of "materials" in order that there would be no confusion. The reason the word topsoil was used was because of "rare earth", which is highly valuable. Building materials were included under materials because of the use of rock, slate, sandstone, etc. for construction.

Changes other than those mentioned above are found on Page 2 Sec (d) which allows more than one mining operation by a single company, to be considered one mining business.

Page 3, Line 9. This adds "net operating costs set out in the Internal Revenue Code, as amended" Industry had requested this as an added deduction from gross receipts.

Page 4. Where the word "minerals" appeared in the original bill, the word "materials" was added due to the addition of the material definition section. Presently, the largest amount of tax is derived from the removal of sand and gravel.

Page 10 Sec. B, was added to exclude the casual prospector, as opposed to an actual mining operation or business.

In summary, the bill will make significant strides in clarifying how this tax is applied but does not change the basic mode of taxation and is a good example of cooperation between the Legislature, Administration and the industry.

THE LEGISLATURE OF THE STATE OF ALASKA
FISCAL NOTE

Second Session - Ninth Legislature

I. REQUEST

Bill No. Committee Substitute for House Bill No. 878
 Title: an Act relating to the Alaska Mining License Tax
 Requested by: House Finance Committee Date: April 13, 1976
 Return Date Requested: _____
 Agency: Revenue Program: Audit

II. FISCAL DETAIL

Budget Request Unit(s) Affected: None

A. EXPENDITURES: (Thousands of dollars)

OBJECT	FY 76	FY 77	FY 78	FY 79	FY 80	FY 81
100 PERSONAL SERVICES						
200 TRAVEL						
300 CONTRACTUAL						
400 COMMODITIES						
500 EQUIPMENT						
600 LAND & STRUCTURES						
700 GRANTS, CLAIMS, ETC.						
TOTAL	None	None	None	None	None	None

B. FUNDING: (Thousands of dollars)

GENERAL FUND						
FEDERAL FUNDS						
OTHER						

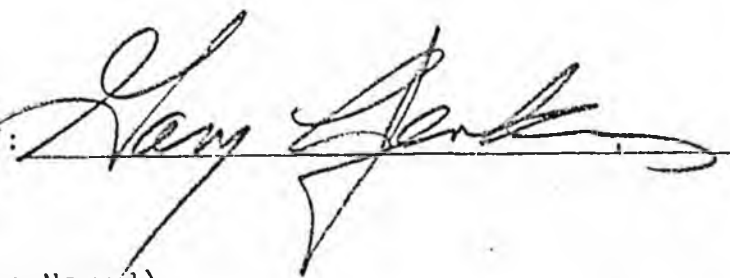
C. POSITIONS: N/A

PERMANENT/TEMPORARY	/	/	/	/	/	/
MAN MONTHS (P./T.)	/	/	/	/	/	/

III. ANALYSIS (See Fiscal Note Preparation Instructions, Section III)

N/A

IV. ATTACHMENTS See memorandum dated April 21, 1976 to R. D. Stevenson

V. DATE: April 21, 1976 PREPARED BY: 

Original: Legislative Finance
 cc: Budget and Management
 Prime Sponsor (First Legislator Named)

MEMORANDUM

State of Alaska

TO: R. D. Stevenson
Special Assistant

DATE: April 21, 1976

FILE NO:

TELEPHONE NO:

FROM: Gary L. Jenks
Director
Audit Division

SUBJECT: CS for House Bill 878

The Committee Substitute for House Bill 878 made two basic changes to the original bill. First of all, it provided that taxpayers may elect to report all mining operations in the State as one mining business or may treat each separate mine as an individual mining business. The effect of this provision would be to multiply the amount of net proceeds which would be exempt from tax for an individual company. For example, if a company had three mines in the State, they would be able to have up to \$120,000 per year not subject to taxation. That would mean a revenue loss of \$4,200 each year to the State of Alaska for that company. The total revenue loss would depend on how many companies have multiple mining operations in the State.

The reasoning behind allowing \$40,000 in net proceeds to be tax exempt was that there are many small mines in the State who we agreed should be encouraged to pursue marginal mining operations generating a limited amount of income. This amendment is in direct opposition of the principal by allowing multiple exemptions to larger companies.

Second, the Committee Substitute would allow the deduction of a net operating loss as provided for in the Internal Revenue Code. Apparently this provision was added to provide an additional incentive for mining operations to come into the State. It should be remembered that we have already provided an incentive for the mining industry in the form of a 3 1/2 year period beginning at the time of production, during which a company would be tax exempt on a new mine. To provide yet additional incentives such as the net operating loss carryforward is showing very obvious favoritism where none is needed or justified. None of the other licensing laws in the State of Alaska have any tax exempt or other incentive provisions.

I feel the State of Alaska is being more than generous in allowing the 3 1/2 year exemption from taxation and that no additional incentives are needed. The lack of major mining operations in the State is totally unrelated to the lack of incentives in our mining license law.

GLJ:lc

CHAIRMAN:
NELS A. ANDERSON, JR.

STAFF ASSISTANT:
GUY VANDOREN

POUCH V
JUNEAU, ALASKA 99811



VICE CHAIRMAN:
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House Resource Committee

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JAMES HUNTINGTON

April 12, 1976

To: Hugh Malone
House Finance Committee

From: Guy Van Doren
Staff Assistant-House Resources Committee

Subject: HB 878 - An Act Relating to the Alaska Mining Tax

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In summary, the bill will make significant strides in clarifying how this tax is applied but does not change the basic mode of taxation and is a good example of cooperation between the Legislature, Administration and the industry.

9
March 18, 1976

The Honorable Mike Bradner
Speaker of the House
Alaska State Legislature
Juneau, Alaska 99811

HB 578

Dear Mr. Speaker:

In accordance with AS 24.30.060(b) and the Uniform Rules of the Alaska State Legislature, I am transmitting a bill relating to the Alaska mining license tax. Last year, when I indicated that SB 294, establishing a mineral severance tax, would be withdrawn, I stated that members of my administration would be meeting with representatives of the mining industry during the remainder of the year to reach a consensus on a better taxing approach for mineral extraction.

After a substantial amount of research and discussion between the Department of Revenue and mining industry people, a consensus of opinion has indicated that the goal of insuring a fair return to the state from mineral resources could be accomplished by strengthening our present mining license tax.

Accordingly, the bill I am introducing today amends the mining license tax in several respects to achieve a more effective taxing system than we presently have in Alaska.

The bill would impose the tax on the net proceeds of a mining business. It would be calculated using the total gross receipts from the business less certain specified direct expenses of mining. The bill also insures that all mining businesses would be subject to the tax regardless of the form of business or the nature of the operation. The bill also clarifies several ambiguous areas of the present law which serve as loopholes for some mining businesses. In addition, the bill expands and strengthens tax penalties.

Sincerely,

Jay S. Hammond
Governor

COMMITTEE REPORT

4/12/76

HOUSE

Mr. Speaker:

Date _____

The Committee on FINANCE has had HB 878

under consideration. A Majority of the members of the Committee

() recommends it DO PASS

() recommends it DO NOT PASS

() recommends it DO PASS WITH ATTACHED AMENDMENT(S)

() recommends it BE REPLACED WITH CS FOR _____ AND THAT

CS FOR _____ DO PASS

() "and" recommends it BE REFERRED TO THE _____

COMMITTEE

() reports it back WITHOUT RECOMMENDATION

() "other"

Members signing the Majority report:

Members NOT concurring in the Majority report:

_____ recommends:

_____ recommends:

_____ recommends:

_____ recommends:

_____ recommends:

_____ Chairman

"An Act relating to the Alaska Mining License Tax; and providing for an effective date."

COMMITTEE REPORT

3/19/76

HOUSE

FINANCE

Mr. Speaker:

Date 4-12-76

The Committee on RESOURCES has had HB 878

under consideration. A Majority of the members of the Committee

recommends it DO PASS

recommends it DO NOT PASS

recommends it DO PASS WITH ATTACHED AMENDMENT(S)

recommends it BE REPLACED WITH CS FOR HB 878 AND THAT

CS FOR it DO PASS

"and" recommends it BE REFERRED TO THE _____ COMMITTEE

reports it back WITHOUT RECOMMENDATION

"other"

Members signing the Majority report:

Nels C. Anderson J. Hamington

John B. ... _____
John ... _____
Alvin Osterbach _____

Members NOT concurring in the Majority report:

TITUS HERSH BERGER recommends: ~~Do Not Pass~~ No Recommendation
John ... recommends: No Rec.

Nels C. Anderson Chairman

Original sponsor: Rules Committee by
request of the Governor

Offered: 4/12/76
Referred: Finance

1 IN THE HOUSE

BY THE RESOURCES COMMITTEE

2 CS FOR HOUSE BILL NO. 878

3 IN THE LEGISLATURE OF THE STATE OF ALASKA

4 NINTH LEGISLATURE - SECOND SESSION

5 A BILL

6 For an Act entitled: "An Act relating to the Alaska mining license tax; and
7 providing for an effective date."

8 BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF ALASKA:

9 * Section 1. AS 43.65.010 is repealed and re-enacted to read:

10 Sec. 43.65.010 MINING LICENSE AND TAX. (a) For the privilege of
11 engaging in the business of mining in the state, a person shall first
12 apply and obtain a license from the department. The license fee is
13 \$25, which must accompany the application for a license.

14 (b) There is also levied an annual license tax on each person
15 engaging in the business of mining in the state computed on the net
16 proceeds of the taxpayer from the mining business. The license tax
17 shall be computed according to the following table:

18 If the net proceeds are:	Then the tax is:
19 over \$40,000 but not over \$50,000	3 per cent of the excess over 20 \$40,000
21 over \$50,000 but not over \$100,000	\$300 plus 5 per cent of the 22 excess over \$50,000
23 over \$100,000	\$2,800 plus 7 per cent of the 24 excess over \$100,000

25 (c) Upon application and receipt of an exemption certificate, a
26 new mining business operation is exempt from the license tax levied by
27 this chapter for three and one-half years after production from the
28 mining business operation begins. The tax exemption granted to new
29 mining business operations does not apply to the business of mining sand

1 and gravel. The Department of Natural Resources shall certify to the
2 department the date upon which production began from the mining business
3 operation, and the department shall issue a certificate of exemption to
4 the applicant after this certification. A person must apply for an
5 exemption certificate in the first year of production from the mining
6 business operation in order to qualify for the exemption under this
7 section.

8 (d) If mining business operations not subject to sec. 10(c) of
9 this chapter are conducted in two or more places in the state by one
10 person, those operations may, at the person's option, be considered as
11 one mining business, and the tax shall be computed upon the net proceeds
12 of all those mining business operations.

13 * Sec. 2. AS 43.65 is amended by adding new sections to read:

14 Sec. 43.65.015. NET PROCEEDS. (a) In this chapter, "net pro-
15 ceeds" means the total gross receipts from the mining business less the
16 following deductions incurred during the taxable year:

17 (1) all expenses incurred directly in the extraction of
18 minerals in the state;

19 (2) all expenses incurred in transporting the minerals from
20 the point of extraction to any further processing plant where only
21 necessary treatment processes are applied to obtain a commercially
22 marketable product;

23 (3) all expenses directly related to the production, re-
24 fining, crushing, screening or other necessary process incurred to make
25 a commercially marketable product;

26 (4) the actual selling expenses incurred in marketing the
27 product;

28 (5) all expenses incurred in transporting the marketable
29 product to a buyer;

1 (6) depreciation of the mining business equipment, works,
2 plant and facilities used directly in the extraction, transportation and
3 processing phases of the mining business, in accordance with sec. 167 of
4 the Internal Revenue Code as amended (26 U.S.C. sec. 167);

5 (7) amortization of exploration and mining development costs
6 not included in (6) of this subsection;

7 (8) an allowance for depletion on a cost or percentage basis
8 at the rates set out in secs. 611 - 614 of the Internal Revenue Code as
9 amended (26 U.S.C. secs. 611 - 614) except that the allowance for
10 depletion may not exceed 50 per cent of the taxpayer's net proceeds
11 calculated before the allowance for depletion;

12 (9) net operating losses as set out in the Internal Revenue
13 Code as amended.

14 (b) If the taxpayer has expenses in the state other than those
15 specified in (a) of this section, such as general overhead expenses,
16 relating to the business of mining or to the business of mining and
17 other business activities, the deductions shall be apportioned in the
18 ratio which the direct expenses of the mining business in the state
19 under (a) of this section bear to the total direct expenses of all
20 business activities of that taxpayer in the state.

21 (c) Except for wages paid during temporary travel out of the state
22 by an employee who is domiciled in the state, the deductions allowed in
23 (a) and (b) of this section do not include wages or other payments for
24 services not performed in the state.

25 (d) If a person is engaged in the business of mining and the only
26 receipts from the business are royalties, the net proceeds of the
27 mining business are the royalties received less the depletion allowance
28 under sec. 15(a)(8) of this chapter.

29 Sec. 43.65.017. GROSS RECEIPTS. (a) In this chapter, "gross

COMMITTEE COPY

1 receipts" means all revenue received, including royalties, rental pay-
2 ments, and all other compensation from the business of mining. Gross
3 receipts include the actual amount received during the year for the
4 sale of minerals or materials whether or not the minerals or materials
5 were actually extracted during that year.

6 (b) If minerals or materials are sold or transferred at a price
7 other than the true market price, such as when a wholly owned subsidiary
8 transfers or sells the mineral or material to its parent at a price less
9 than market value, gross receipts are the true market price or average
10 market price per ton or other measurable unit of the mineral or material
11 multiplied by the total units of the mineral or material sold or trans-
12 ferred during the year.

13 (c) Gross receipts from the business of mining sand and gravel
14 include

15 (1) receipts from the sale to customers directly from the pit
16 or mine;

17 (2) receipts from the sale to customers at their place of
18 business or their business site, including receipts relating to the
19 delivery of the sand and gravel; and

20 (3) the average market value of sand and gravel from inter-
21 company transfers of the minerals calculated immediately before the
22 transfer, including intercompany transfers of sand and gravel to a
23 ready-mix or concrete plant.

24 * Sec. 3. AS 43.65.020 is amended to read:

25 Sec. 43.65.020. TAXPAYER'S DUTIES. (a) A person subject to tax
26 under this chapter shall make a return stating specifically the items of
27 gross receipts [INCOME] from the business [PROPERTY], including royalty
28 received and the deductions [AND CREDITS] allowed by this chapter, and
29 other information for carrying out this chapter which the department

1 [DEPARTMENT OF REVENUE] prescribes. The return shall show the mining
2 license number and shall be signed by the taxpayer or his authorized
3 agent, under penalty of perjury. If receivers, trustees, or assigns are
4 operating the mining [PROPERTY OR] business, they shall make returns for
5 the person engaged in the mining business [, OR THE RECIPIENT OF ROYALTY
6 IN CONNECTION WITH MINING PROPERTY]. The tax due on the basis of the
7 returns shall be collected in the same manner as if collected from the
8 person of whose business they have custody and control.

9 (b) A return made on the basis of the calender year shall be filed
10 [MADE] before March 15 [MAY 1] of the next year. A return made on the
11 basis of a fiscal year shall be filed [MADE] before the 15th [FIRST] day
12 of the third [FIFTH] month of the next fiscal year.

13 (c) The department [DEPARTMENT OF REVENUE] may grant a reasonable
14 extension of time for filing returns, under regulations adopted [PRE-
15 SCRIBED] by it. Except in the case of a taxpayer going abroad, no
16 extension may be granted [MADE] for more than six months.

17 (d) A [TAXPAYER'S] return shall be filed with [MADE TO] the
18 department using the same tax year as the person uses in filing his
19 federal income tax return [DEPARTMENT OF REVENUE AT JUNEAU. A TAXPAYER
20 SHALL MAKE HIS RETURN EITHER ON A CALENDER YEAR OR FISCAL YEAR BASIS, IN
21 CONFORMANCE WITH THE BASIS USED IN MAKING HIS RETURN FOR FEDERAL INCOME
22 TAX PURPOSES].

23 (e) The total amount of tax imposed by this chapter shall be paid
24 on or before the due date of the tax return required under this section
25 [THE 30TH DAY OF APRIL OF THE NEXT CALENDER YEAR, OR IF THE RETURN IS
26 MADE ON THE BASIS OF THE FISCAL YEAR, THEN ON THE LAST DAY OF THE FOURTH
27 MONTH OF THE NEXT FISCAL YEAR.

28 (f) EVERY PERSON PROSECUTING OR ATTEMPTING TO PROSECUTE OR EN-
29 GAGING IN THE BUSINESS OF MINING IN THE STATE SHALL COMPLY WITH THE

1 DEPARTMENT'S REGULATIONS AND SHALL KEEP SUCH RECORDS, GIVE SUCH STATE-
2 MENTS UNDER OATH, AND MAKE SUCH RETURNS AS THE DEPARTMENT OF REVENUE
3 PRESCRIBES].

4 (g) When the department considers it necessary, it may require a
5 person, by notice served upon him, to make a return, give statements
6 under oath, or keep records as it considers sufficient to show whether
7 or not the person is liable for the [TO] tax under this chapter. If a
8 person fails to file a return at the time prescribed by law or regula-
9 tion, or makes, wilfully or otherwise, a false or fraudulent return, the
10 department shall make the return from its own knowledge and from such
11 information as it can obtain [THROUGH TESTIMONY OR OTHERWISE]. A
12 return so made and subscribed by the department is prima facie good and
13 sufficient for all legal purposes.

14 * Sec. 4. AS 43.65.030 is amended to read:

15 Sec. 43.65.030. APPLICATION FOR RENEWALS. A person engaged in the
16 business of mining shall apply [APPLICATION] for a renewal of a mining
17 license each year [SHALL BE MADE] before the 30th day of the first month
18 of the person's tax year [MAY 1 OF EACH YEAR].

19 * Sec. 5. AS 43.65.040 is repealed and re-enacted to read:

20 Sec. 43.65.040. LIMITATION. The department shall review returns
21 and assess any additional tax due under this chapter within three years
22 of the due date of the return or the date that the return was filed,
23 whichever is later. If a return has not been filed the tax ma, be
24 assessed at any time.

25 * Sec. 6. AS 43.65.050 is amended to read:

26 Sec. 43.65.050. [VIOLATIONS AND] PENALTIES AND INTEREST. (a) In
27 case of failure to obtain a license or file a return [REQUIRED BY THIS
28 CHAPTER] within the time prescribed by this chapter, or to pay the full
29 amount of the tax due on the return or a deficiency of the tax as

1 determined by the department [LAW OR PRESCRIBED BY THE DEPARTMENT
2 ACCORDING TO LAW], unless it is shown that the failure is due to reason-
3 able cause and not due to wilful neglect, five per cent is added for
4 each 30 days or fraction of 30 days during which the failure continues,
5 but not exceeding 25 per cent in the aggregate. The amount [50] added
6 to the tax shall be collected at the same time, in the same manner, and
7 as a part of the tax. If the tax is paid before discovery of the
8 neglect, the amount added shall be collected in the same manner as the
9 tax.

10 [(b) IF PART OF A DEFICIENCY IN THE TAX IS DUE TO NEGLIGENCE OR
11 INTENTIONAL DISREGARD OF REGULATIONS, BUT WITHOUT INTENT TO DEFRAUD,
12 FIVE PER CENT OF THE TOTAL AMOUNT OF THE DEFICIENCY, IN ADDITION TO THE
13 DEFICIENCY, SHALL BE ASSESSED, COLLECTED, AND PAID IN THE SAME MANNER AS
14 IF IT WERE A DEFICIENCY, EXCEPT THAT (d) OF THIS SECTION IS NOT APPLI-
15 CABLE.]

16 (c) If part of a deficiency in the tax is due to fraud with
17 intent to evade the tax, then 50 per cent of the total amount of the
18 deficiency, in addition to the deficiency, shall be assessed and col-
19 lected. If this penalty is assessed, then the penalty in (a) of this
20 section does not apply.

21 (d) When the tax levied by this chapter becomes delinquent, it
22 bears interest at the rate of eight per cent a year. The tax is delin-
23 quent if it is not paid on its due date. [INTEREST UPON THE AMOUNT
24 DETERMINED AS A DEFICIENCY IN THE TAX SHALL BE ASSESSED AT THE SAME TIME
25 AS THE DEFICIENCY, AND PAID UPON NOTICE AND DEMAND BY THE DEPARTMENT.
26 THE INTEREST SHALL BE COLLECTED AS A PART OF THE TAX, AT THE RATE OF SIX
27 PER CENT A YEAR FROM THE TIME PRESCRIBED FOR PAYMENT OF THE TAX TO THE
28 DATE THE DEFICIENCY IS PAID.]

29 (e) The tax levied or accruing under this chapter and the penalties

1 and interest on the tax are a lien prior, paramount, and superior to all
2 other liens, mortgages, hypothecations, conveyances, and assignments,
3 upon all the real and personal property of the person liable for them,
4 and upon the real and personal property used with the permission of the
5 owner in carrying on the business of mining. This lien is [SHALL]
6 not [BE CONSIDERED] exclusive of other civil or criminal remedies pro-
7 vided by law for the recovery of license taxes.

8 (f) A person who is required under this chapter to pay the [A]
9 tax, make a return, keep records, or supply information [FOR THE COM-
10 PUTATION, ASSESSMENT, OR COLLECTION OF THE TAX IMPOSED BY THIS CHAPTER],
11 who wilfully fails to pay the tax, make the return, keep the records, or
12 supply the information, at the time required by law or regulations, is,
13 in addition to other penalties provided by this chapter [LAW], guilty of
14 a misdemeanor, and upon conviction is punishable by a fine of not more
15 than \$1,000, or by imprisonment for not more than one year, or by both
16 [, TOGETHER WITH THE COST OF PROSECUTION].

17 [(g) A PERSON WHO WILFULLY MAKES AND SIGNS A RETURN WHICH HE DOES
18 NOT BELIEVE TO BE TRUE AND CORRECT AS TO EVERY MATERIAL MATTER IS
19 GUILTY OF A FELONY, AND UPON CONVICTION IS SUBJECT TO THE PENALTIES
20 PRESCRIBED FOR PERJURY UNDER THE LAWS OF THE STATE.]

21 (h) In this section "person" includes an officer or employee of a
22 corporation or a member or employee of a partnership who is under duty
23 to perform the act in respect to which the violation occurs.

24 (i) A person who wilfully attempts to evade the tax imposed by
25 this chapter is, in addition to other penalties provided by this chapter,
26 guilty of a felony and, upon conviction, is punishable by a fine of not
27 more than \$5,000, or by imprisonment for not more than five years, or
28 by both.

29 (j) A person who wilfully makes and subscribes a return, statement,

1 or other document required under this chapter which contains or is
2 verified by a written declaration that it is made under the penalties of
3 perjury which he does not believe to be true and correct as to every
4 material matter is, in addition to other penalties provided by this
5 chapter, guilty of a felony and, upon conviction, is punishable by a
6 fine of not more than \$5,000, or by imprisonment for not more than three
7 years, or by both.

8 (k) A person who wilfully or knowingly aids, procures, or counsels
9 the preparation or presentation in connection with any matter arising
10 under this chapter of a return, affidavit, claim, or other document,
11 which is fraudulent or is false as to any material matter is guilty of a
12 felony whether or not the falsity or fraud is with the knowledge or
13 consent of the person required to present the return, affidavit, claim,
14 or document, and, upon conviction, is punishable by a fine of not more
15 than \$5,000, or by imprisonment for not more than three years, or by
16 both.

17 (1) A person who wilfully delivers or discloses to the department
18 under this chapter any list, return, account, statement, or other
19 document, known by him to be fraudulent or to be false as to any materi-
20 al matter is, upon conviction, punishable by a fine of not more than
21 \$1,000, or by imprisonment for not more than one year, or by both.

22 # Sec. 7. AS 43.65.060(4) is amended to read:

23 (4) "new mining business operation [OPERATIONS]" means a
24 mining operation [OPERATIONS] which began production after January 1,
25 1953, and which has not acquired the ownership or property of another
26 mining business which has previously received an exemption certificate
27 under sec. 10 of this chapter [OR WHICH HAVE NOT BEEN LIABLE TO PAY A
28 MINING LICENSE TAX UNDER THIS CHAPTER ON NET INCOME SINCE JANUARY 1,
29 1948];

1 * Sec. 8. AS 43.65.060 is amended by adding new paragraphs to read:

2 (7) "minerals" means all locatable and leasable minerals
3 except sand, gravel, oil, gas, building materials and topsoil;

4 (8) "materials" includes sand, gravel, building material and
5 topsoil;

6 (9) "business of mining"

7 (A) means a business operation for the extraction of
8 minerals from the earth or water of the state, operated by a person

9 (i) who owns and operates, works, or develops a
10 mineral property, whether or not that property is currently
11 producing a marketable product;

12 (ii) who leases a mineral property and operates the
13 mineral property, whether or not the mineral property is
14 producing a marketable product;

15 (iii) who leases a mineral property and pays royal-
16 ties, rents or other payments to the owner of the property;

17 (iv) who has an interest in a lease, concession,
18 joint venture, or other agreement for the exploration or
19 development, or extraction of a mineral property if royalties,
20 rents, or other payments are to be paid for that interest;

21 (B) does not include a prospector who explores for new
22 mineral deposits, stakes a claim, performs the required assessment
23 work to keep it in good standing, and holds it for possible devel-
24 opment by others;

25 (10) "department" means the Department of Revenue.

26 * Sec. 9. AS 43.65.060(1) - (3) are repealed.

27 * Sec. 10. This Act is retroactive to January 1, 1976.

28 * Sec. 11. This Act takes effect immediately in accordance with AS 01.10.
29 070(c).

Introduced: 3/19/76
Referred: Resources and
Finance

BY THE RULES COMMITTEE BY
REQUEST OF THE GOVERNOR

1 IN THE HOUSE

2 HOUSE BILL NO. 878

3 IN THE LEGISLATURE OF THE STATE OF ALASKA

4 NINTH LEGISLATURE - SECOND SESSION

5 A BILL

6 For an Act entitled: "An Act relating to the Alaska Mining License Tax;
7 and providing for an effective date."

8 BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF ALASKA:

9 * Section 1. AS 43.65.010 is repealed and re-enacted to read:

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11 of engaging in the business of mining in the state, a person shall
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24	excess over \$100,000

25 (c) Upon application and receipt of an exemption certificate, a
26 new mining business operation is exempt from the license tax levied by
27 this chapter for three and one-half years after production from the
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29 mining business operations does not apply to the business of mining

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1 sand and gravel. The Department of Natural Resources shall certify to
2 the department the date upon which production began from the mining
3 business operation, and the department shall issue a certificate of
4 exemption to the applicant after this certification. A person must
5 apply for an exemption certificate in the first year of production
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7 under this section.

8 (d) If mining business operations are conducted in two or more
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11 proceeds of all those mining business operations.

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17 minerals in the state;

18 (2) all expenses incurred in transporting the minerals from
19 the point of extraction to any further processing plant where only
20 necessary treatment processes are applied to obtain a commercially
21 marketable product;

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23 fining, crushing, screening or other necessary process incurred to
24 make a commercially marketable product;

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26 product;

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28 product to a buyer;

29 (6) depreciation of the mining business equipment, works,

1 plant and facilities used directly in the extraction, transportation
2 and processing phases of the mining business, in accordance with sec.
3 167 of the Internal Revenue Code (26 U.S.C. sec. 167);

4 7) amortization of mining development costs not included
5 in (6) this subsection;

6 (8) an allowance for depletion on a cost or percentage
7 basis at the rates set out in secs. 611--614 of the Internal Revenue
8 Code as amended (26 U.S.C. secs. 611--614) except that the allowance
9 for depletion may not exceed 50 per cent of the taxpayer's net proceeds
10 calculated before the allowance for depletion.

11 (b) If the taxpayer has expenses within the state other than
12 those specified in (a) of this section, such as general overhead
13 expenses, relating to the business of mining or to the business of
14 mining and other business activities, the deductions shall be appor-
15 tioned in the ratio which the direct expenses of the mining business
16 within the state under (a) of this section bear to the total direct
17 expenses of all business activities of that taxpayer in the state.

18 (c) Except for wages paid during temporary travel out of the
19 state by an employee who is domiciled in the state, the deductions
20 allowed in (a) and (b) of this section do not include wages or other
21 payments for services not performed in the state.

22 (d) If a person is engaged in the business of mining and the
23 only receipts from the business are royalties, the net proceeds of the
24 mining business are the royalties received less the depletion allowance
25 under sec. 15(a)(8) of this chapter.

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27 receipts" means all revenue received, including royalties, rental pay-
28 ments, and all other compensation from the business of mining. Gross
29 receipts include the actual amount received during the year for the

1 sale of minerals whether or not the minerals were actually extracted
2 during that year.

3 (b) If minerals are sold or transferred at a price other than
4 the true market price, such as when a wholly owned subsidiary transfers
5 or sells the mineral to its parent at a price less than market value,
6 gross receipts are the true market price or average market price per
7 ton or other measurable unit of the mineral multiplied by the total
8 units of the mineral sold or transferred during the year.

9 (c) Gross receipts from the business of mining sand and gravel
10 include:

11 (1) receipts from the sale to customers directly from the
12 pit or mine;

13 (2) receipts from the sale to customers at their place of
14 business or their business site, including receipts relating to the
15 delivery of the sand and gravel; and

16 (3) the average market value of sand and gravel from inter-
17 company transfers of the minerals calculated immediately before the
18 transfer, including intercompany transfers of sand and gravel to a
19 ready-mix or concrete plant.

20 * Sec. 3. AS 43.65.020 is amended to read:

21 Sec. 43.65.020. TAXPAYER'S DUTIES. (a) A person subject to tax
22 under this chapter shall make a return stating specifically the items
23 of gross receipts [INCOME] from the business [PROPERTY], including
24 royalty received and the deductions [AND CREDITS] allowed by this
25 chapter, and other information for carrying out this chapter which the
26 department [DEPARTMENT OF REVENUE] prescribes. The return shall show
27 the mining license number and shall be signed by the taxpayer or his
28 authorized agent, under penalty of perjury. If receivers, trustees,
29 or assigns are operating the mining [PROPERTY OR] business, they shall

HB 828

1 make returns for the person engaged in the mining business [, OR THE
2 RECIPIENT OF ROYALTY IN CONNECTION WITH MINING PROPERTY]. The tax due
3 on the basis of the returns shall be collected in the same manner as
4 if collected from the person of whose business they have custody and
5 control.

6 (b) A return made on the basis of the calender year shall be
7 filed [MADE] before March 15 [MAY 1] of the next year. A return made
8 on the basis of a fiscal year shall be filed [MADE] before the fifteenth
9 [FIRST] day of the third [FIFTH] month of the next fiscal year.

10 (c) The department [DEPARTMENT OF REVENUE] may grant a reasonable
11 extension of time for filing returns, under regulations adopted
12 [PRESCRIBED] by it. Except in the case of a taxpayer going abroad, no
13 extension may be granted [MADE] for more than six months.

14 (d) A [TAXPAYER'S] return shall be filed with [MADE TO] the
15 department [DEPARTMENT OF REVENUE AT JUNEAU] using the same tax year
16 as the person uses in filing his federal income tax return. [A TAX-
17 PAYER SHALL MAKE HIS RETURN EITHER ON A CALENDER YEAR OR FISCAL YEAR
18 BASIS, IN CONFORMANCE WITH THE BASIS USED IN MAKING HIS RETURN FOR
19 FEDERAL INCOME TAX PURPOSES.]

20 (e) The total amount of tax imposed by this chapter shall be
21 paid on or before the due date of the tax return required under this
22 section [THE 30TH DAY OF APRIL OF THE NEXT CALENDER YEAR, OR IF THE
23 RETURN IS MADE ON THE BASIS OF THE FISCAL YEAR, THEN ON THE LAST DAY
24 OF THE FOURTH MONTH OF THE NEXT FISCAL YEAR].

25 (f) [EVERY PERSON PROSECUTING OR ATTEMPTING TO PROSECUTE OR
26 ENGAGING IN THE BUSINESS OF MINING IN THE STATE SHALL COMPLY WITH THE
27 DEPARTMENT'S REGULATIONS AND SHALL KEEP SUCH RECORDS, GIVE SUCH STATE-
28 MENTS UNDER OATH, AND MAKE SUCH RETURNS AS THE DEPARTMENT OF REVENUE
29 PRESCRIBES.]

1 (g) When the department considers it necessary, it may require a
2 person, by notice served upon him, to make a return, give statements
3 under oath, or keep records as it considers sufficient to show whether
4 or not the person is liable for the [TO] tax under this chapter. If a
5 person fails to file a return at the time prescribed by law or regula-
6 tion, or makes, wilfully or otherwise, a false or fraudulent return,
7 the department shall make the return from its own knowledge and from
8 such information as it can obtain [THROUGH TESTIMONY OR OTHERWISE]. A
9 return so made and subscribed by the department is prima facie good
10 and sufficient for all legal purposes.

11 * Sec. 4. AS 43.65.030 is amended to read:

12 Sec. 43.65.030. APPLICATION FOR RENEWALS. A person engaged in
13 the business of mining shall apply [APPLICATION] for a renewal of a
14 mining license each year [SHALL BE MADE] before the 30th day of the
15 first month of the person's tax year [MAY 1 OF EACH YEAR].

16 * Sec. 5. AS 43.65.040 is repealed and re-enacted to read:

17 Sec. 43.65.040. LIMITATION. The department shall review returns
18 and assess any additional tax due under this chapter within three
19 years of the due date of the return or the date that the return was
20 filed, whichever is later. If a return has not been filed the tax may
21 be assessed at any time.

22 * Sec. 6. AS 43.65.050 is amended to read:

23 Sec. 43.65.050. [VIOLATIONS AND] PENALTIES AND INTEREST. (a)
24 In case of failure to obtain a license or file a return [REQUIRED BY
25 THIS CHAPTER] within the time prescribed by this chapter [LAW OR
26 PRESCRIBED BY THE DEPARTMENT ACCORDING TO LAW], or to pay the full
27 amount of the tax due on the return or a deficiency of the tax as
28 determined by the department, unless it is shown that the failure is
29 due to reasonable cause and not due to wilful neglect, five per cent

1 is added for each 30 days or fraction of 30 days during which the
2 failure continues, but not exceeding 25 per cent in the aggregate.
3 The amount [50] added to the tax shall be collected at the same time,
4 in the same manner, and as a part of the tax. If the tax is paid
5 before discovery of the neglect, the amount added shall be collected
6 in the same manner as the tax.

7 (b) [IF PART OF A DEFICIENCY IN THE TAX IS DUE TO NEGLIGENCE OR
8 INTENTIONAL DISREGARD OF REGULATIONS, BUT WITHOUT INTENT TO DEFRAUD,
9 FIVE PER CENT OF THE TOTAL AMOUNT OF THE DEFICIENCY, IN ADDITION TO
10 THE DEFICIENCY, SHALL BE ASSESSED, COLLECTED, AND PAID IN THE SAME
11 MANNER AS IF IT WERE A DEFICIENCY, EXCEPT THAT (d) OF THIS SECTION IS
12 NOT APPLICABLE.]

13 (c) If part of a deficiency in the tax is due to fraud with
14 intent to evade the tax, then 50 per cent of the total amount of the
15 deficiency, in addition to the deficiency, shall be assessed and
16 collected. If this penalty is assessed, then the penalty in (a) of
17 this section does not apply.

18 (d) When the tax levied by this chapter becomes delinquent, it
19 bears interest at the rate of eight per cent a year. The tax is
20 delinquent if it is not paid on its due date. [INTEREST UPON THE
21 AMOUNT DETERMINED AS A DEFICIENCY IN THE TAX SHALL BE ASSESSED AT THE
22 SAME TIME AS THE DEFICIENCY, AND PAID UPON NOTICE AND DEMAND BY THE
23 DEPARTMENT. THE INTEREST SHALL BE COLLECTED AS A PART OF THE TAX, AT
24 THE RATE OF SIX PER CENT A YEAR FROM THE TIME PRESCRIBED FOR PAYMENT
25 OF THE TAX TO THE DATE THE DEFICIENCY IS PAID.]

26 (e) The tax levied or accruing under this chapter and the
27 penalties and interest on the tax are a lien prior, paramount, and
28 superior to all other liens, mortgages, hypothecations, conveyances,
29 and assignments, upon all the real and personal property of the person

1 liable for them, and upon all the real and personal property used with
2 the permission of the owner in carrying on the business of mining.
3 This lien is [SHALL] not [BE CONSIDERED] exclusive of other civil or
4 criminal remedies provided by law for the recovery of license taxes.

5 (f) A person who is required under this chapter to pay the [A]
6 tax, make a return, keep records, or supply information [FOR THE COM-
7 PUTATION, ASSESSMENT, OR COLLECTION OF THE TAX IMPOSED BY THIS CHAPTER]
8 who wilfully fails to pay the tax, make the return, keep the records,
9 or supply the information, at the time required by law or regulations,
10 is, in addition to other penalties provided by this chapter [LAW],
11 guilty of a misdemeanor, and upon conviction is punishable by a fine
12 of not more than \$1,000, or by imprisonment for not more than one
13 year, or by both [, TOGETHER WITH THE COST OF PROSECUTION].

14 (g) [A PERSON WHO WILFULLY MAKES AND SIGNS A RETURN WHICH HE DOES
15 NOT BELIEVE TO BE TRUE AND CORRECT AS TO EVERY MATERIAL MATTER IS
16 GUILTY OF A FELONY, AND UPON CONVICTION IS SUBJECT TO THE PENALTIES
17 PRESCRIBED FOR PERJURY UNDER THE LAWS OF THE STATE.]

18 (h) In this section "person" includes an officer or employee
19 of a corporation or a member or employee of a partnership who is under
20 duty to perform the act in respect to which the violation occurs.

21 (i) A person who wilfully attempts to evade the tax imposed by
22 this chapter is, in addition to other penalties provided by this
23 chapter, guilty of a felony and, upon conviction, shall be fined not
24 more than \$5,000, or imprisoned for not more than five years, or both.

25 (j) A person who wilfully makes and subscribes a return, statement,
26 or other document required under this chapter which contains or is
27 verified by a written declaration that it is made under the penalties
28 of perjury which he does not believe to be true and correct as to
29 every material matter is, in addition to other penalties provided by

1 this chapter, guilty of a felony and, upon conviction, shall be fined
2 not more than \$5,000, or imprisoned for not more than three years, or
3 both.

4 (k) A person who wilfully or knowingly aids, procures, or
5 counsels the preparation or presentation in connection with any matter
6 arising under this chapter of a return, affidavit, claim, or other
7 document, which is fraudulent or is false as to any material matter is
8 guilty of a felony whether or not the falsity or fraud is with the
9 knowledge or consent of the person required to present the return,
10 affidavit, claim, or document, and, upon conviction, shall be fined
11 not more than \$5,000, or imprisoned for not more than three years, or
12 both.

13 (1) A person who wilfully delivers or discloses to the department
14 under this chapter any list, return, account, statement, or other
15 document, known by him to be fraudulent or to be false as to any
16 material matter shall be fined not more than \$1,000, or imprisoned for
17 not more than one year, or both.

18 * Sec. 7. AS 43.65.060(4) is amended to read:

19 (4) "new mining business operation [OPERATIONS]" means a
20 mining operation [OPERATIONS] which began production after January 1,
21 1953, and which has not acquired the ownership or property of another
22 mining business which has previously received an exemption certificate
23 under sec. 10 of this chapter [OR WHICH HAVE NOT BEEN LIABLE TO PAY A
24 MINING LICENSE TAX UNDER THIS CHAPTER ON NET INCOME SINCE JANUARY 1,
25 1948];

26 * Sec. 8. AS 43.65.060 is amended by adding new paragraphs to read:

27 (7) "minerals" means asbestos, coal, sulphur, iron ore,
28 lead, zinc, mercury, tin, chromite, bauxite, copper, gold, silver,
29 platinum, potash, clay, stone, sand, gravel, and other valuable metals,

1 ores and marketable earth or stone but not including oil and gas;

2 (8) "business of mining" means a business operation for the
3 extraction of minerals from the earth or water of the state, operated
4 by a person

5 (A) owning, operating, working or developing a mineral
6 property, whether or not that property is currently producing a
7 marketable product;

8 (B) leasing a mineral property and operating the
9 mineral property, including performing exploratory work whether
10 or not the mineral property is producing a marketable product;

11 (C) leasing a mineral property and paying royalties,
12 rents or other payments to the owner of the property;

13 (D) having an interest in a lease, concession, joint
14 venture, or other agreement for the exploration or development,
15 or extraction of a mineral property if royalties, rents, or other
16 payments are to be paid for that interest;

17 (9) "department" means the Department of Revenue.

18 * Sec. 9. AS 43.65.060(1)--(3) are repealed.

19 * Sec. 10. This Act is retroactive to January 1, 1976.

20 * Sec. 11. This Act takes effect immediately in accordance with AS
21 01.10.070(c).

HB 878

March 18, 1976

The Honorable Mike Bradner
Speaker of the House
Alaska State Legislature
Juneau, Alaska 99811

Dear Mr. Speaker:

In accordance with AS 24.30.060(b) and the Uniform Rules of the Alaska State Legislature, I am transmitting a bill relating to the Alaska mining license tax. Last year, when I indicated that SB 294, establishing a mineral severance tax, would be withdrawn, I stated that members of my administration would be meeting with representatives of the mining industry during the remainder of the year to reach a consensus on a better taxing approach for mineral extraction.

After a substantial amount of research and discussion between the Department of Revenue and mining industry people, a consensus of opinion has indicated that the goal of insuring a fair return to the state from mineral resources could be accomplished by strengthening our present mining license tax.

Accordingly, the bill I am introducing today amends the mining license tax in several respects to achieve a more effective taxing system than we presently have in Alaska.

The bill would impose the tax on the net proceeds of a mining business. It would be calculated using the total gross receipts from the business less certain specified direct expenses of mining. The bill also insures that all mining businesses would be subject to the tax regardless of the form of business or the nature of the operation. The bill also clarifies several ambiguous areas of the present law which serve as loopholes for some mining businesses. In addition, the bill expands and strengthens tax penalties.

Sincerely,

Jay S. Hammond
Governor

ALASKA STATE LEGISLATURE

NINTH Legislature SECOND Session

HOUSE BILL NO. 878

By RULES COMMITTEE BY REQUEST OF THE GOVERNOR

"An Act relating to the Alaska Mining License Tax; and providing for an effective date."

Alaska Mining License Tax

Introduced in the House ... 3/19, 1976

HISTORY IN THE HOUSE

19 76	Read first time and referred to Committee on Resources and Finance
Mar 19	Reported back with recommendation that
	Read second time and
	Read third time and
	PASS Effective Date
	Yeas Yeas
	Nays Nays
	Absent Absent
	Excused Excused
	Reconsideration
	PASS Effective Date
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	Reported correctly engrossed
	Signed by Speaker
	Sent to Senate

CHIEF CLERK OF THE HOUSE

HISTORY IN THE SENATE

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SECRETARY OF THE SENATE

HISTORY IN THE HOUSE

19	Received from Senate
	Reported correctly enrolled
	Sent to Governor
	..... By Governor
	Filed with Lt. Governor
	Chapter No.

Introduced: 3/19/76
Referred: Resources and
Finance

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26 ENGAGING IN THE BUSINESS OF MINING IN THE STATE SHALL COMPLY WITH THE
27 DEPARTMENT'S REGULATIONS AND SHALL KEEP SUCH RECORDS, GIVE SUCH STATE-
28 MENTS UNDER OATH, AND MAKE SUCH RETURNS AS THE DEPARTMENT OF REVENUE
29 PRESCRIBES.]

1 (g) When the department considers it necessary, it may require a
2 person, by notice served upon him, to make a return, give statements
3 under oath, or keep records as it considers sufficient to show whether
4 or not the person is liable for the [TO] tax under this chapter. If a
5 person fails to file a return at the time prescribed by law or regula-
6 tion, or makes, wilfully or otherwise, a false or fraudulent return,
7 the department shall make the return from its own knowledge and from
8 such information as it can obtain [THROUGH TESTIMONY OR OTHERWISE]. A
9 return so made and subscribed by the department is prima facie good
10 and sufficient for all legal purposes.

11 * Sec. 4. AS 43.65.030 is amended to read:

12 Sec. 43.65.030. APPLICATION FOR RENEWALS. A person engaged in
13 the business of mining shall apply [APPLICATION] for a renewal of a
14 mining license each year [SHALL BE MADE] before the 30th day of the
15 first month of the person's tax year [MAY 1 OF EACH YEAR].

16 * Sec. 5. AS 43.65.040 is repealed and re-enacted to read:

17 Sec. 43.65.040. LIMITATION. The department shall review returns
18 and assess any additional tax due under this chapter within three
19 years of the due date of the return or the date that the return was
20 filed, whichever is later. If a return has not been filed the tax may
21 be assessed at any time.

22 * Sec. 6. AS 43.65.050 is amended to read:

23 Sec. 43.65.050. [VIOLATIONS AND] PENALTIES AND INTEREST. (a)
24 In case of failure to obtain a license or file a return [REQUIRED BY
25 THIS CHAPTER] within the time prescribed by this chapter [LAW OR
26 PRESCRIBED BY THE DEPARTMENT ACCORDING TO LAW], or to pay the full
27 amount of the tax due on the return or a deficiency of the tax as
28 determined by the department, unless it is shown that the failure is
29 due to reasonable cause and not due to wilful neglect, five per cent

1 is added for each 30 days or fraction of 30 days during which the
2 failure continues, but not exceeding 25 per cent in the aggregate.
3 The amount [SO] added to the tax shall be collected at the same time,
4 in the same manner, and as a part of the tax. If the tax is paid
5 before discovery of the neglect, the amount added shall be collected
6 in the same manner as the tax.

7 (b) [IF PART OF A DEFICIENCY IN THE TAX IS DUE TO NEGLIGENCE OR
8 INTENTIONAL DISREGARD OF REGULATIONS, BUT WITHOUT INTENT TO DEFRAUD,
9 FIVE PER CENT OF THE TOTAL AMOUNT OF THE DEFICIENCY, IN ADDITION TO
10 THE DEFICIENCY, SHALL BE ASSESSED, COLLECTED, AND PAID IN THE SAME
11 MANNER AS IF IT WERE A DEFICIENCY, EXCEPT THAT (d) OF THIS SECTION IS
12 NOT APPLICABLE.]

13 (c) If part of a deficiency in the tax is due to fraud with
14 intent to evade the tax, then 50 per cent of the total amount of the
15 deficiency, in addition to the deficiency, shall be assessed and
16 collected. If this penalty is assessed, then the penalty in (a) of
17 this section does not apply.

18 (d) When the tax levied by this chapter becomes delinquent, it
19 bears interest at the rate of eight per cent a year. The tax is
20 delinquent if it is not paid on its due date. [INTEREST UPON THE
21 AMOUNT DETERMINED AS A DEFICIENCY IN THE TAX SHALL BE ASSESSED AT THE
22 SAME TIME AS THE DEFICIENCY, AND PAID UPON NOTICE AND DEMAND BY THE
23 DEPARTMENT. THE INTEREST SHALL BE COLLECTED AS A PART OF THE TAX, AT
24 THE RATE OF SIX PER CENT A YEAR FROM THE TIME PRESCRIBED FOR PAYMENT
25 OF THE TAX TO THE DATE THE DEFICIENCY IS PAID.]

26 (e) The tax levied or accruing under this chapter and the
27 penalties and interest on the tax are a lien prior, paramount, and
28 superior to all other liens, mortgages, hypothecations, conveyances,
29 and assignments, upon all the real and personal property of the person

1 liable for them, and upon all the real and personal property used with
2 the permission of the owner in carrying on the business of mining.
3 This lien is [SHALL] not [BE CONSIDERED] exclusive of other civil or
4 criminal remedies provided by law for the recovery of license taxes.

5 (f) A person who is required under this chapter to pay the [A]
6 tax, make a return, keep records, or supply information [FOR THE COM-
7 PUTATION, ASSESSMENT, OR COLLECTION OF THE TAX IMPOSED BY THIS CHAPTER],
8 who wilfully fails to pay the tax, make the return, keep the records,
9 or supply the information, at the time required by law or regulations,
10 is, in addition to other penalties provided by this chapter [LAW],
11 guilty of a misdemeanor, and upon conviction is punishable by a fine
12 of not more than \$1,000, or by imprisonment for not more than one
13 year, or by both [, TOGETHER WITH THE COST OF PROSECUTION].

14 (g) [A PERSON WHO WILFULLY MAKES AND SIGNS A RETURN WHICH HE DOES
15 NOT BELIEVE TO BE TRUE AND CORRECT AS TO EVERY MATERIAL MATTER IS
16 GUILTY OF A FELONY, AND UPON CONVICTION IS SUBJECT TO THE PENALTIES
17 PRESCRIBED FOR PERJURY UNDER THE LAWS OF THE STATE.]

18 (h) In this section "person" includes an officer or employee
19 of a corporation or a member or employee of a partnership who is under
20 duty to perform the act in respect to which the violation occurs.

21 (i) A person who wilfully attempts to evade the tax imposed by
22 this chapter is, in addition to other penalties provided by this
23 chapter, guilty of a felony and, upon conviction, shall be fined not
24 more than \$5,000, or imprisoned for not more than five years, or both.

25 (j) A person who wilfully makes and subscribes a return, statement,
26 or other document required under this chapter which contains or is
27 verified by a written declaration that it is made under the penalties
28 of perjury which he does not believe to be true and correct as to
29 every material matter is, in addition to other penalties provided by

1 this chapter, guilty of a felony and, upon conviction, shall be fined
2 not more than \$5,000, or imprisoned for not more than three years, or
3 both.

4 (k) A person who wilfully or knowingly aids, procures, or
5 counsels the preparation or presentation in connection with any matter
6 arising under this chapter of a return, affidavit, claim, or other
7 document, which is fraudulent or is false as to any material matter is
8 guilty of a felony whether or not the falsity or fraud is with the
9 knowledge or consent of the person required to present the return,
10 affidavit, claim, or document, and, upon conviction, shall be fined
11 not more than \$5,000, or imprisoned for not more than three years, or
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13 (l) A person who wilfully delivers or discloses to the department
14 under this chapter any list, return, account, statement, or other
15 document, known by him to be fraudulent or to be false as to any
16 material matter shall be fined not more than \$1,000, or imprisoned for
17 not more than one year, or both.

18 * Sec. 7. AS 43.65.060(4) is amended to read:

19 (4) "new mining business operation [OPERATIONS]" means a
20 mining operation [OPERATIONS] which began production after January 1,
21 1953, and which has not acquired the ownership or property of another
22 mining business which has previously received an exemption certificate
23 under sec. 10 of this chapter [OR WHICH HAVE NOT BEEN LIABLE TO PAY A
24 MINING LICENSE TAX UNDER THIS CHAPTER ON NET INCOME SIN JANUARY 1,
25 1948];

26 * Sec. 8. AS 43.65.060 is amended by adding new paragraphs to read:

27 (7) "minerals" means asbestos, coal, sulphur, iron ore,
28 lead, zinc, mercury, tin, chromite, bauxite, copper, gold, silver,
29 platinum, potash, clay, stone, sand, gravel, and other valuable metals,

1 ores and marketable earth or stone but not including oil and gas;

2 (8) "business of mining" means a business operation for the
3 extraction of minerals from the earth or water of the state, operated
4 by a person

5 (A) who (i) owns and operates, (ii) works, or (iii)
6 develops a mineral property, whether or not that property is
7 currently producing a marketable product;

8 (B) who leases a mineral property and operates the
9 mineral property, whether or not the mineral property is producing
10 a marketable product;

11 (C) who leases a mineral property and pays royalties,
12 rents or other payments to the owner of the property;

13 (D) who has an interest in a lease, concession, joint
14 venture, or other agreement for the exploration or development,
15 or extraction of a mineral property if royalties, rents, or other
16 payments are to be paid for that interest;

17 (9) "department" means the Department of Revenue.

18 * Sec. 9. AS 43.65.060(1)--(3) are repealed.

19 * Sec. 10. This Act is retroactive to January 1, 1976.

20 * Sec. 11. This Act takes effect immediately in accordance with AS
21 01.10.070(c).

Introduced: 3/19/76
Referred: Resources and
Finance

1 IN THE HOUSE

BY THE RULES COMMITTEE BY
REQUEST OF THE GOVERNOR

2 HOUSE BILL NO. 878

3 IN THE LEGISLATURE OF THE STATE OF ALASKA

4 NINTH LEGISLATURE - SECOND SESSION

5 A BILL

6 For an Act entitled: "An Act relating to the Alaska Mining License Tax;
7 and providing for an effective date."

8 BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF ALASKA:

9 * Section 1. AS 43.65.010 is repealed and re-enacted to read:

10 Sec. 43.65.010 MINING LICENSE AND TAX. (a) For the privilege
11 of engaging in the business of mining in the state, a person shall
12 first apply and obtain a license from the department. The license fee
13 is \$25.00, which must accompany the application for a license.

14 (b) There is also levied an annual license tax on each person
15 engaging in the business of mining in the state computed on the net
16 proceeds of the taxpayer from the mining business. The license tax
17 shall be computed according to the following table:

18 If the net proceeds are:	Then the tax is:
19 Over \$40,000 but not over	3 per cent of the excess over
20 \$50,000	\$40,000
21 Over \$50,000 but not over	\$300 plus 5 per cent of the
22 \$100,000	excess over \$50,000
23 Over \$100,000	\$2,800 plus 7 per cent of the
24	excess over \$100,000

25 (c) Upon application and receipt of an exemption certificate, a
26 new mining business operation is exempt from the license tax levied by
27 this chapter for three and one-half years after production from the
28 mining business operation begins. The tax exemption granted to new
29 mining business operations does not apply to the business of mining

1 sand and gravel. The Department of Natural Resources shall certify to
2 the department the date upon which production began from the mining
3 business operation, and the department shall issue a certificate of
4 exemption to the applicant after this certification. A person must
5 apply for an exemption certificate in the first year of production
6 from the mining business operation in order to qualify for the exemption
7 under this section.

8 (d) If mining business operations are conducted in two or more
9 places within the state by one person, those operations are considered
10 as one mining business, and the tax shall be computed upon the net
11 proceeds of all those mining business operations.

12 * Sec. 2. AS 43.65 is amended by adding new sections to read:

13 Sec. 43.65.015. NET PROCEEDS. (a) In this chapter, "net proceeds"
14 means the total gross receipts from the mining business less the
15 following deductions incurred during the taxable year:

16 (1) all expenses incurred directly in the extraction of
17 minerals in the state;

18 (2) all expenses incurred in transporting the minerals from
19 the point of extraction to any further processing plant where only
20 necessary treatment processes are applied to obtain a commercially
21 marketable product;

22 (3) all expenses directly related to the production, re-
23 fining, crushing, screening or other necessary process incurred to
24 make a commercially marketable product;

25 (4) the actual selling expenses incurred in marketing the
26 product;

27 (5) all expenses incurred in transporting the marketable
28 product to a buyer;

29 (6) depreciation of the mining business equipment, works,

1 plant and facilities used directly in the extraction, transportation
2 and processing phases of the mining business, in accordance with sec.
3 167 of the Internal Revenue Code (26 U.S.C. sec. 167);

4 (7) amortization of mining development costs not included
5 in (6) of this subsection;

6 (8) an allowance for depletion on a cost or percentage
7 basis at the rates set out in secs. 611--614 of the Internal Revenue
8 Code as amended (26 U.S.C. secs. 611--614) except that the allowance
9 for depletion may not exceed 50 per cent of the taxpayer's net proceeds
10 calculated before the allowance for depletion.

11 (b) If the taxpayer has expenses within the state other than
12 those specified in (a) of this section, such as general overhead
13 expenses, relating to the business of mining or to the business of
14 mining and other business activities, the deductions shall be appor-
15 tioned in the ratio which the direct expenses of the mining business
16 within the state under (a) of this section bear to the total direct
17 expenses of all business activities of that taxpayer in the state.

18 (c) Except for wages paid during temporary travel out of the
19 state by an employee who is domiciled in the state, the deductions
20 allowed in (a) and (b) of this section do not include wages or other
21 payments for services not performed in the state.

22 (d) If a person is engaged in the business of mining and the
23 only receipts from the business are royalties, the net proceeds of the
24 mining business are the royalties received less the depletion allowance
25 under sec. 15(a)(8) of this chapter.

26 Sec. 43.65.017. GROSS RECEIPTS. (a) In this chapter, "gross
27 receipts" means all revenue received, including royalties, rental pay-
28 ments, and all other compensation from the business of mining. Gross
29 receipts include the actual amount received during the year for the

1 sale of minerals whether or not the minerals were actually extracted
2 during that year.

3 (b) If minerals are sold or transferred at a price other than
4 the true market price, such as when a wholly owned subsidiary transfers
5 or sells the mineral to its parent at a price less than market value,
6 gross receipts are the true market price or average market price per
7 ton or other measurable unit of the mineral multiplied by the total
8 units of the mineral sold or transferred during the year.

9 (c) Gross receipts from the business of mining sand and gravel
10 include:

11 (1) receipts from the sale to customers directly from the
12 pit or mine;

13 (2) receipts from the sale to customers at their place of
14 business or their business site, including receipts relating to the
15 delivery of the sand and gravel; and

16 (3) the average market value of sand and gravel from inter-
17 company transfers of the minerals calculated immediately before the
18 transfer, including intercompany transfers of sand and gravel to a
19 ready-mix or concrete plant.

20 * Sec. 3. AS 43.65.020 is amended to read:

21 Sec. 43.65.020. TAXPAYER'S DUTIES. (a) A person subject to tax
22 under this chapter shall make a return stating specifically the items
23 of gross receipts [INCOME] from the business [PROPERTY], including
24 royalty received and the deductions [AND CREDITS] allowed by this
25 chapter, and other information for carrying out this chapter which the
26 department [DEPARTMENT OF REVENUE] prescribes. The return shall show
27 the mining license number and shall be signed by the taxpayer or his
28 authorized agent, under penalty of perjury. If receivers, trustees,
29 or assigns are operating the mining [PROPERTY OR] business, they shall

1 make returns for the person engaged in the mining business [, OR THE
2 RECIPIENT OF ROYALTY IN CONNECTION WITH MINING PROPERTY]. The tax due
3 on the basis of the returns shall be collected in the same manner as
4 if collected from the person of whose business they have custody and
5 control.

6 (b) A return made on the basis of the calendar year shall be
7 filed [MADE] before March 15 [MAY 1] of the next year. A return made
8 on the basis of a fiscal year shall be filed [MADE] before the fifteenth
9 [FIRST] day of the th.rd [FIFTH] month of the next fiscal year.

10 (c) The department [DEPARTMENT OF REVENUE] may grant a reasonable
11 extension of time for filing returns, under regulations adopted
12 [PRESCRIBED] by it. Except in the case of a taxpayer going abroad, no
13 extension may be granted [MADE] for more than six months.

14 (d) A [TAXPAYER'S] return shall be filed with [MADE TO] the
15 department [DEPARTMENT OF REVENUE AT JUNEAU] using the same tax year
16 as the person uses in filing his federal income tax return. [A TAX-
17 PAYER SHALL MAKE HIS RETURN EITHER ON A CALENDER YEAR OR FISCAL YEAR
18 BASIS, IN CONFORMANCE WITH THE BASIS USED IN MAKING HIS RETURN FOR
19 FEDERAL INCOME TAX PURPOSES.]

20 (e) The total amount of tax imposed by this chapter shall be
21 paid on or before the due date of the tax return required under this
22 section [THE 30TH DAY OF APRIL OF THE NEXT CALENDER YEAR, OR IF THE
23 RETURN IS MADE ON THE BASIS OF THE FISCAL YEAR, THEN ON THE LAST DAY
24 OF THE FOURTH MONTH OF THE NEXT FISCAL YEAR].

25 (f) [EVERY PERSON PROSECUTING OR ATTEMPTING TO PROSECUTE OR
26 ENGAGING IN THE BUSINESS OF MINING IN THE STATE SHALL COMPLY WITH THE
27 DEPARTMENT'S REGULATIONS AND SHALL KEEP SUCH RECORDS, GIVE SUCH STATE-
28 MENTS UNDER OATH, AND MAKE SUCH RETURNS AS THE DEPARTMENT OF REVENUE
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1 (g) When the department considers it necessary, it may require a
2 person, by notice served upon him, to make a return, give statements
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5 person fails to file a return at the time prescribed by law or regula-
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8 such information as it can obtain [THROUGH TESTIMONY OR OTHERWISE]. A
9 return so made and subscribed by the department is prima facie good
10 and sufficient for all legal purposes.

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15 first month of the person's tax year [MAY 1 OF EACH YEAR].

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25 THIS CHAPTER] within the time prescribed by this chapter [LAW OR
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27 amount of the tax due on the return or a deficiency of the tax as
28 determined by the department, unless it is shown that the failure is
29 due to reasonable cause and not due to wilful neglect, five per cent

1 is added for each 30 days or fraction of 30 days during which the
2 failure continues, but not exceeding 25 per cent in the aggregate.
3 The amount [SO] added to the tax shall be collected at the same time,
4 in the same manner, and as a part of the tax. If the tax is paid
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6 in the same manner as the tax.

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8 INTENTIONAL DISREGARD OF REGULATIONS, BUT WITHOUT INTENT TO DEFRAUD,
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11 MANNER AS IF IT WERE A DEFICIENCY, EXCEPT THAT (d) OF THIS SECTION IS
12 NOT APPLICABLE.]

13 (c) If part of a deficiency in the tax is due to fraud with
14 intent to evade the tax, then 50 per cent of the total amount of the
15 deficiency, in addition to the deficiency, shall be assessed and
16 collected. If this penalty is assessed, then the penalty in (a) of
17 this section does not apply.

18 (d) When the tax levied by this chapter becomes delinquent, it
19 bears interest at the rate of eight per cent a year. The tax is
20 delinquent if it is not paid on its due date. [INTEREST UPON THE
21 AMOUNT DETERMINED AS A DEFICIENCY IN THE TAX SHALL BE ASSESSED AT THE
22 SAME TIME AS THE DEFICIENCY, AND PAID UPON NOTICE AND DEMAND BY THE
23 DEPARTMENT. THE INTEREST SHALL BE COLLECTED AS A PART OF THE TAX, AT
24 THE RATE OF SIX PER CENT A YEAR FROM THE TIME PRESCRIBED FOR PAYMENT
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26 (e) The tax levied or accruing under this chapter and the
27 penalties and interest on the tax are a lien prior, paramount, and
28 superior to all other liens, mortgages, hypothecations, conveyances,
29 and assignments, upon all the real and personal property of the person

1 liable for them, and upon all the real and personal property used with
2 the permission of the owner in carrying on the business of mining.
3 This lien is [SHALL] not [BE CONSIDERED] exclusive of other civil or
4 criminal remedies provided by law for the recovery of license taxes.

5 (f) A person who is required under this chapter to pay the [A]
6 tax, make a return, keep records, or supply information [FOR THE COM-
7 PUTATION, ASSESSMENT, OR COLLECTION OF THE TAX IMPOSED BY THIS CHAPTER],
8 who wilfully fails to pay the tax, make the return, keep the records,
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13 year, or by both [, TOGETHER WITH THE COST OF PROSECUTION].

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20 duty to perform the act in respect to which the violation occurs.

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15 following deductions incurred during the taxable year:

16 (1) all expenses incurred directly in the extraction of
17 minerals in the state;

18 (2) all expenses incurred in transporting the minerals from
19 the point of extraction to any further processing plant where only
20 necessary treatment processes are applied to obtain a commercially
21 marketable product;

22 (3) all expenses directly related to the production, re-
23 fining, crushing, screening or other necessary process incurred to
24 make a commercially marketable product;

25 (4) the actual selling expenses incurred in marketing the
26 product;

27 (5) all expenses incurred in transporting the marketable
28 product to a buyer;

29 (6) depreciation of the mining business equipment, works,

1 plant and facilities used directly in the extraction, transportation
2 and processing phases of the mining business, in accordance with sec.
3 167 of the Internal Revenue Code (26 U.S.C. sec. 167);

4 (7) amortization of mining development costs not included
5 in (6) of this subsection;

6 (8) an allowance for depletion on a cost or percentage
7 basis at the rates set out in secs. 611--614 of the Internal Revenue
8 Code as amended (26 U.S.C. secs. 611--614) except that the allowance
9 for depletion may not exceed 50 per cent of the taxpayer's net proceeds
10 calculated before the allowance for depletion.

11 (b) If the taxpayer has expenses within the state other than
12 those specified in (a) of this section, such as general overhead
13 expenses, relating to the business of mining or to the business of
14 mining and other business activities, the deductions shall be appor-
15 tioned in the ratio which the direct expenses of the mining business
16 within the state under (a) of this section bear to the total direct
17 expenses of all business activities of that taxpayer in the state.

18 (c) Except for wages paid during temporary travel out of the
19 state by an employee who is domiciled in the state, the deductions
20 allowed in (a) and (b) of this section do not include wages or other
21 payments for services not performed in the state.

22 (d) If a person is engaged in the business of mining and the
23 only receipts from the business are royalties, the net proceeds of the
24 mining business are the royalties received less the depletion allowance
25 under sec. 15(a)(8) of this chapter.

26 Sec. 43.65.017. GROSS RECEIPTS. (a) In this chapter, "gross
27 receipts" means all revenue received, including royalties, rental pay-
28 ments, and all other compensation from the business of mining. Gross
29 receipts include the actual amount received during the year for the

1 sale of minerals whether or not the minerals were actually extracted
2 during that year.

3 (b) If minerals are sold or transferred at a price other than
4 the true market price, such as when a wholly owned subsidiary transfers
5 or sells the mineral to its parent at a price less than market value,
6 gross receipts are the true market price or average market price per
7 ton or other measurable unit of the mineral multiplied by the total
8 units of the mineral sold or transferred during the year.

9 (c) Gross receipts from the business of mining sand and gravel
10 include:

11 (1) receipts from the sale to customers directly from the
12 pit or mine;

13 (2) receipts from the sale to customers at their place of
14 business or their business site, including receipts relating to the
15 delivery of the sand and gravel; and

16 (3) the average market value of sand and gravel from inter-
17 company transfers of the minerals calculated immediately before the
18 transfer, including intercompany transfers of sand and gravel to a
19 ready-mix or concrete plant.

20 * Sec. 3. AS 43.65.020 is amended to read:

21 Sec. 43.65.020. TAXPAYER'S DUTIES. (a) A person subject to tax
22 under this chapter shall make a return stating specifically the items
23 of gross receipts [INCOME] from the business [PROPERTY], including
24 royalty received and the deductions [AND CREDITS] allowed by this
25 chapter, and other information for carrying out this chapter which the
26 department [DEPARTMENT OF REVENUE] prescribes. The return shall show
27 the mining license number and shall be signed by the taxpayer or his
28 authorized agent, under penalty of perjury. If receivers, trustees,
29 or assigns are operating the mining [PROPERTY OR] business, they shall

1 make returns for the person engaged in the mining business [, OR THE
2 RECIPIENT OF ROYALTY IN CONNECTION WITH MINING PROPERTY]. The tax due
3 on the basis of the returns shall be collected in the same manner as
4 if collected from the person of whose business they have custody and
5 control.

6 (b) A return made on the basis of the calender year shall be
7 filed [MADE] before March 15 [MAY 1] of the next year. A return made
8 on the basis of a fiscal year shall be filed [MADE] before the fifteenth
9 [FIRST] day of the third [FIFTH] month of the next fiscal year.

10 (c) The department [DEPARTMENT OF REVENUE] may grant a reasonable
11 extension of time for filing returns, under regulations adopted
12 [PRESCRIBED] by it. Except in the case of a taxpayer going abroad, no
13 extension may be granted [MADE] for more than six months.

14 (d) A [TAXPAYER'S] return shall be filed with [MADE TO] the
15 department [DEPARTMENT OF REVENUE AT JUNEAU] using the same tax year
16 as the person uses in filing his federal income tax return. [A TAX-
17 PAYER SHALL MAKE HIS RETURN EITHER ON A CALENDER YEAR OR FISCAL YEAR
18 BASIS, IN CONFORMANCE WITH THE BASIS USED IN MAKING HIS RETURN FOR
19 FEDERAL INCOME TAX PURPOSES.]

20 (e) The total amount of tax imposed by this chapter shall be
21 paid on or before the due date of the tax return required under this
22 section [THE 30TH DAY OF APRIL OF THE NEXT CALENDER YEAR, OR IF THE
23 RETURN IS MADE ON THE BASIS OF THE FISCAL YEAR, THEN ON THE LAST DAY
24 OF THE FOURTH MONTH OF THE NEXT FISCAL YEAR].

25 (f) [EVERY PERSON PROSECUTING OR ATTEMPTING TO PROSECUTE OR
26 ENGAGING IN THE BUSINESS OF MINING IN THE STATE SHALL COMPLY WITH THE
27 DEPARTMENT'S REGULATIONS AND SHALL KEEP SUCH RECORDS, GIVE SUCH STATE-
28 MENTS UNDER OATH, AND MAKE SUCH RETURNS AS THE DEPARTMENT OF REVENUE
29 PRESCRIBES.]

1 (g) When the department considers it necessary, it may require a
2 person, by notice served upon him, to make a return, give statements
3 under oath, or keep records as it considers sufficient to show whether
4 or not the person is liable for the [TO] tax under this chapter. If a
5 person fails to file a return at the time prescribed by law or regula-
6 tion, or makes, wilfully or otherwise, a false or fraudulent return,
7 the department shall make the return from its own knowledge and from
8 such information as it can obtain [THROUGH TESTIMONY OR OTHERWISE]. A
9 return so made and subscribed by the department is prima facie good
10 and sufficient for all legal purposes.

11 * Sec. 4. AS 43.65.030 is amended to read:

12 Sec. 43.65.030. APPLICATION FOR RENEWALS. A person engaged in
13 the business of mining shall apply [APPLICATION] for a renewal of a
14 mining license each year [SHALL BE MADE] before the 30th day of the
15 first month of the person's tax year [MAY 1 OF EACH YEAR].

16 * Sec. 5. AS 43.65.040 is repealed and re-enacted to read:

17 Sec. 43.65.040. LIMITATION. The department shall review returns
18 and assess any additional tax due under this chapter within three
19 years of the due date of the return or the date that the return was
20 filed, whichever is later. If a return has not been filed the tax may
21 be assessed at any time.

22 * Sec. 6. AS 43.65.050 is amended to read:

23 Sec. 43.65.050. [VIOLATIONS AND] PENALTIES AND INTEREST. (a)
24 In case of failure to obtain a license or file a return [REQUIRED BY
25 THIS CHAPTER] within the time prescribed by this chapter [LAW OR
26 PRESCRIBED BY THE DEPARTMENT ACCORDING TO LAW], or to pay the full
27 amount of the tax due on the return or a deficiency of the tax as
28 determined by the department, unless it is shown that the failure is
29 due to reasonable cause and not due to wilful neglect, five per cent

1 is added for each 30 days or fraction of 30 days during which the
2 failure continues, but not exceeding 25 per cent in the aggregate.
3 The amount [SO] added to the tax shall be collected at the same time,
4 in the same manner, and as a part of the tax. If the tax is paid
5 before discovery of the neglect, the amount added shall be collected
6 in the same manner as the tax.

7 (b) [IF PART OF A DEFICIENCY IN THE TAX IS DUE TO NEGLIGENCE OR
8 INTENTIONAL DISREGARD OF REGULATIONS, BUT WITHOUT INTENT TO DEFRAUD,
9 FIVE PER CENT OF THE TOTAL AMOUNT OF THE DEFICIENCY, IN ADDITION TO
10 THE DEFICIENCY, SHALL BE ASSESSED, COLLECTED, AND PAID IN THE SAME
11 MANNER AS IF IT WERE A DEFICIENCY, EXCEPT THAT (d) OF THIS SECTION IS
12 NOT APPLICABLE.]

13 (c) If part of a deficiency in the tax is due to fraud with
14 intent to evade the tax, then 50 per cent of the total amount of the
15 deficiency, in addition to the deficiency, shall be assessed and
16 collected. If this penalty is assessed, then the penalty in (a) of
17 this section does not apply.

18 (d) When the tax levied by this chapter becomes delinquent, it
19 bears interest at the rate of eight per cent a year. The tax is
20 delinquent if it is not paid on its due date. [INTEREST UPON THE
21 AMOUNT DETERMINED AS A DEFICIENCY IN THE TAX SHALL BE ASSESSED AT THE
22 SAME TIME AS THE DEFICIENCY, AND PAID UPON NOTICE AND DEMAND BY THE
23 DEPARTMENT. THE INTEREST SHALL BE COLLECTED AS A PART OF THE TAX, AT
24 THE RATE OF SIX PER CENT A YEAR FROM THE TIME PRESCRIBED FOR PAYMENT
25 OF THE TAX TO THE DATE THE DEFICIENCY IS PAID.]

26 (e) The tax levied or accruing under this chapter and the
27 penalties and interest on the tax are a lien prior, paramount, and
28 superior to all other liens, mortgages, hypothecations, conveyances,
29 and assignments, upon all the real and personal property of the person

1 liable for them, and upon all the real and personal property used with
2 the permission of the owner in carrying on the business of mining.
3 This lien is [SHALL] not [BE CONSIDERED] exclusive of other civil or
4 criminal remedies provided by law for the recovery of license taxes.

5 (f) A person who is required under this chapter to pay the [A]
6 tax, make a return, keep records, or supply information [FOR THE COM-
7 PUTATION, ASSESSMENT, OR COLLECTION OF THE TAX IMPOSED BY THIS CHAPTER],
8 who wilfully fails to pay the tax, make the return, keep the records,
9 or supply the information, at the time required by law or regulations,
10 is, in addition to other penalties provided by this chapter [LAW],
11 guilty of a misdemeanor, and upon conviction is punishable by a fine
12 of not more than \$1,000, or by imprisonment for not more than one
13 year, or by both [, TOGETHER WITH THE COST OF PROSECUTION].

14 (g) [A PERSON WHO WILFULLY MAKES AND SIGNS A RETURN WHICH HE DOES
15 NOT BELIEVE TO BE TRUE AND CORRECT AS TO EVERY MATERIAL MATTER IS
16 GUILTY OF A FELONY, AND UPON CONVICTION IS SUBJECT TO THE PENALTIES
17 PRESCRIBED FOR PERJURY UNDER THE LAWS OF THE STATE.]

18 (h) In this section "person" includes an officer or employee
19 of a corporation or a member or employee of a partnership who is under
20 duty to perform the act in respect to which the violation occurs.

21 (i) A person who wilfully attempts to evade the tax imposed by
22 this chapter is, in addition to other penalties provided by this
23 chapter, guilty of a felony and, upon conviction, shall be fined not
24 more than \$5,000, or imprisoned for not more than five years, or both.

25 (j) A person who wilfully makes and subscribes a return, statement,
26 or other document required under this chapter which contains or is
27 verified by a written declaration that it is made under the penalties
28 of perjury which he does not believe to be true and correct as to
29 every material matter is, in addition to other penalties provided by

1 this chapter, guilty of a felony and, upon conviction, shall be fined
2 not more than \$5,000, or imprisoned for not more than three years, or
3 both.

4 (k) A person who wilfully or knowingly aids, procures, or
5 counsels the preparation or presentation in connection with any matter
6 arising under this chapter of a return, affidavit, claim, or other
7 document, which is fraudulent or is false as to any material matter is
8 guilty of a felony whether or not the falsity or fraud is with the
9 knowledge or consent of the person required to present the return,
10 affidavit, claim, or document, and, upon conviction, shall be fined
11 not more than \$5,000, or imprisoned for not more than three years, or
12 both.

13 (l) A person who wilfully delivers or discloses to the department
14 under this chapter any list, return, account, statement, or other
15 document, known by him to be fraudulent or to be false as to any
16 material matter shall be fined not more than \$1,000, or imprisoned for
17 not more than one year, or both.

18 * Sec. 7. AS 43.65.060(4) is amended to read:

19 (4) "new mining business operation [OPERATIONS]" means a
20 mining operation [OPERATIONS] which began production after January 1,
21 1953, and which has not acquired the ownership or property of another
22 mining business which has previously received an exemption certificate
23 under sec. 10 of this chapter [OR WHICH HAVE NOT BEEN LIABLE TO PAY A
24 MINING LICENSE TAX UNDER THIS CHAPTER ON NET INCOME SINCE JANUARY 1,
25 1948];

26 * Sec. 8. AS 43.65.060 is amended by adding new paragraphs to read:

27 (7) "minerals" means asbestos, coal, sulphur, iron ore,
28 lead, zinc, mercury, tin, chromite, bauxite, copper, gold, silver,
29 platinum, potash, clay, stone, sand, gravel, and other valuable metals,

1 ores and marketable earth or stone but not including oil and gas;

2 (8) "business of mining" means a business operation for the
3 extraction of minerals from the earth or water of the state, operated
4 by a person

5 (A) who (i) owns and operates, (ii) works, or (iii)
6 develops a mineral property, whether or not that property is
7 currently producing a marketable product;

8 (B) who leases a mineral property and operates the
9 mineral property, whether or not the mineral property is producing
10 a marketable product;

11 (C) who leases a mineral property and pays royalties,
12 rents or other payments to the owner of the property;

13 (D) who has an interest in a lease, concession, joint
14 venture, or other agreement for the exploration or development,
15 or extraction of a mineral property if royalties, rents, or other
16 payments are to be paid for that interest;

17 (9) "department" means the Department of Revenue.

18 * Sec. 9. AS 43.65.060(1)--(3) are repealed.

19 * Sec. 10. This Act is retroactive to January 1, 1976.

20 * Sec. 11. This Act takes effect immediately in accordance with AS
21 01.10.070(c).

a-
March 18, 1976

The Honorable Mike Bradner
Speaker of the House
Alaska State Legislature
Juneau, Alaska 99811

Dear Mr. Speaker:

In accordance with AS 24.30.060(b) and the Uniform Rules of the Alaska State Legislature, I am transmitting a bill relating to the Alaska mining license tax. Last year, when I indicated that SB 294, establishing a mineral severance tax, would be withdrawn, I stated that members of my administration would be meeting with representatives of the mining industry during the remainder of the year to reach a consensus on a better taxing approach for mineral extraction.

After a substantial amount of research and discussion between the Department of Revenue and mining industry people, a consensus of opinion has indicated that the goal of insuring a fair return to the state from mineral resources could be accomplished by strengthening our present mining license tax.

Accordingly, the bill I am introducing today amends the mining license tax in several respects to achieve a more effective taxing system than we presently have in Alaska.

The bill would impose the tax on the net proceeds of a mining business. It would be calculated using the total gross receipts from the business less certain specified direct expenses of mining. The bill also insures that all mining businesses would be subject to the tax regardless of the form of business or the nature of the operation. The bill also clarifies several ambiguous areas of the present law which serve as loopholes for some mining businesses. In addition, the bill expands and strengthens tax penalties.

Sincerely,

Jay S. Hammond
Governor

Original sponsor: Rules Committee by
request of the Governor

Offered: 4/12/76
Referred: Finance

1 IN THE HOUSE

BY THE RESOURCES COMMITTEE

2 CS FOR HOUSE BILL NO. 878

3 IN THE LEGISLATURE OF THE STATE OF ALASKA

4 NINTH LEGISLATURE - SECOND SESSION

5 A BILL

6 For an Act entitled: "An Act relating to the Alaska mining license tax; and
7 providing for an effective date."

8 BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF ALASKA:

9 * Section 1. AS 43.65.010 is repealed and re-enacted to read:

10 Sec. 43.65.010 MINING LICENSE AND TAX. (a) For the privilege of
11 engaging in the business of mining in the state, a person shall first
12 apply and obtain a license from the department. The license fee is
13 \$25, which must accompany the application for a license.

14 (b) There is also levied an annual license tax on each person
15 engaging in the business of mining in the state computed on the net
16 proceeds of the taxpayer from the mining business. The license tax
17 shall be computed according to the following table:

18 If the net proceeds are:	Then the tax is:
19 over \$40,000 but not over \$50,000	3 per cent of the excess over 20 \$40,000
21 over \$50,000 but not over \$100,000	\$300 plus 5 per cent of the 22 excess over \$50,000
23 over \$100,000	\$2,800 plus 7 per cent of the 24 excess over \$100,000

25 (c) Upon application and receipt of an exemption certificate, a
26 new mining business operation is exempt from the license tax levied by
27 this chapter for three and one-half years after production from the
28 mining business operation begins. The tax exemption granted to new
29 mining business operations does not apply to the business of mining sand

1 and gravel. The Department of Natural Resources shall certify to the
2 department the date upon which production began from the mining business
3 operation, and the department shall issue a certificate of exemption to
4 the applicant after this certification. A person must apply for an
5 exemption certificate in the first year of production from the mining
6 business operation in order to qualify for the exemption under this
7 section.

8 (d) If mining business operations not subject to sec. 10(c) of
9 this chapter are conducted in two or more places in the state by one
10 person, those operations may, at the person's option, be considered as
11 one mining business, and the tax shall be computed upon the net proceeds
12 of all those mining business operations.

13 * Sec. 2. AS 43.65 is amended by adding new sections to read:

14 Sec. 43.65.015. NET PROCEEDS. (a) In this chapter, "net pro-
15 ceeds" means the total gross receipts from the mining business less the
16 following deductions incurred during the taxable year:

17 (1) all expenses incurred directly in the extraction of
18 minerals in the state;

19 (2) all expenses incurred in transporting the minerals from
20 the point of extraction to any further processing plant where only
21 necessary treatment processes are applied to obtain a commercially
22 marketable product;

23 (3) all expenses directly related to the production, re-
24 fining, crushing, screening or other necessary process incurred to make
25 a commercially marketable product;

26 (4) the actual selling expenses incurred in marketing the
27 product;

28 (5) all expenses incurred in transporting the marketable
29 product to a buyer;

1 (6) depreciation of the mining business equipment, works,
2 plant and facilities used directly in the extraction, transportation and
3 processing phases of the mining business, in accordance with sec. 167 of
4 the Internal Revenue Code as amended (26 U.S.C. sec. 167);

5 (7) amortization of exploration and mining development costs
6 not included in (6) of this subsection;

7 (8) an allowance for depletion on a cost or percentage basis
8 at the rates set out in secs. 611 - 614 of the Internal Revenue Code as
9 amended (26 U.S.C. secs. 611 - 614) except that the allowance for
10 depletion may not exceed 50 per cent of the taxpayer's net proceeds
11 calculated before the allowance for depletion;

12 (9) net operating losses as set out in the Internal Revenue
13 Code as amended.

14 (b) If the taxpayer has expenses in the state other than those
15 specified in (a) of this section, such as general overhead expenses,
16 relating to the business of mining or to the business of mining and
17 other business activities, the deductions shall be apportioned in the
18 ratio which the direct expenses of the mining business in the state
19 under (a) of this section bear to the total direct expenses of all
20 business activities of that taxpayer in the state.

21 (c) Except for wages paid during temporary travel out of the state
22 by an employee who is domiciled in the state, the deductions allowed in
23 (a) and (b) of this section do not include wages or other payments for
24 services not performed in the state.

25 (d) If a person is engaged in the business of mining and the only
26 receipts from the business are royalties, the net proceeds of the
27 mining business are the royalties received less the depletion allowance
28 under sec. 15(a)(8) of this chapter.

29 Sec. 43.65.017. GROSS RECEIPTS. (a) In this chapter, "gross

1 receipts" means all revenue received, including royalties, rental pay-
2 ments, and all other compensation from the business of mining. Gross
3 receipts include the actual amount received during the year for the
4 sale of minerals or materials whether or not the minerals or materials
5 were actually extracted during that year.

6 (b) If minerals or materials are sold or transferred at a price
7 other than the true market price, such as when a wholly owned subsidiary
8 transfers or sells the mineral or material to its parent at a price less
9 than market value, gross receipts are the true market price or average
10 market price per ton or other measurable unit of the mineral or material
11 multiplied by the total units of the mineral or material sold or trans-
12 ferred during the year.

13 (c) Gross receipts from the business of mining sand and gravel
14 include

15 (1) receipts from the sale to customers directly from the pit
16 or mine;

17 (2) receipts from the sale to customers at their place of
18 business or their business site, including receipts relating to the
19 delivery of the sand and gravel; and

20 (3) the average market value of sand and gravel from inter-
21 company transfers of the minerals calculated immediately before the
22 transfer, including intercompany transfers of sand and gravel to a
23 ready-mix or concrete plant.

24 * Sec. 3. AS 43.65.020 is amended to read:

25 Sec. 43.65.020. TAXPAYER'S DUTIES. (a) A person subject to tax
26 under this chapter shall make a return stating specifically the items of
27 gross receipts [INCOME] from the business [PROPERTY], including royalty
28 received and the deductions [AND CREDITS] allowed by this chapter, and
29 other information for carrying out this chapter which the department

1 [DEPARTMENT OF REVENUE] prescribes. The return shall show the mining
2 license number and shall be signed by the taxpayer or his authorized
3 agent, under penalty of perjury. If receivers, trustees, or assigns are
4 operating the mining [PROPERTY OR] business, they shall make returns for
5 the person engaged in the mining business [, OR THE RECIPIENT OF ROYALTY
6 IN CONNECTION WITH MINING PROPERTY]. The tax due on the basis of the
7 returns shall be collected in the same manner as if collected from the
8 person of whose business they have custody and control.

9 (b) A return made on the basis of the calender year shall be filed
10 [MADE] before March 15 [MAY 1] of the next year. A return made on the
11 basis of a fiscal year shall be filed [MADE] before the 15th [FIRST] day
12 of the third [FIFTH] month of the next fiscal year.

13 (c) The department [DEPARTMENT OF REVENUE] may grant a reasonable
14 extension of time for filing returns, under regulations adopted [PRE-
15 SCRIBED] by it. Except in the case of a taxpayer going abroad, no
16 extension may be granted [MADE] for more than six months.

17 (d) A [TAXPAYER'S] return shall be filed with [MADE TO] the
18 department using the same tax year as the person uses in filing his
19 federal income tax return [DEPARTMENT OF REVENUE AT JUNEAU. A TAXPAYER
20 SHALL MAKE HIS RETURN EITHER ON A CALENDER YEAR OR FISCAL YEAR BASIS, IN
21 CONFORMANCE WITH THE BASIS USED IN MAKING HIS RETURN FOR FEDERAL INCOME
22 TAX PURPOSES].

23 (e) The total amount of tax imposed by this chapter shall be paid
24 on or before the due date of the tax return required under this section
25 [THE 30TH DAY OF APRIL OF THE NEXT CALENDER YEAR, OR IF THE RETURN IS
26 MADE ON THE BASIS OF THE FISCAL YEAR, THEN ON THE LAST DAY OF THE FOURTH
27 MONTH OF THE NEXT FISCAL YEAR.

28 (f) EVERY PERSON PROSECUTING OR ATTEMPTING TO PROSECUTE OR EN-
29 GAGING IN THE BUSINESS OF MINING IN THE STATE SHALL COMPLY WITH THE

1 DEPARTMENT'S REGULATIONS AND SHALL KEEP SUCH RECORDS, GIVE SUCH STATE-
2 MENTS UNDER OATH, AND MAKE SUCH RETURNS AS THE DEPARTMENT OF REVENUE
3 PRESCRIBES].

4 (g) When the department considers it necessary, it may require a
5 person, by notice served upon him, to make a return, give statements
6 under oath, or keep records as it considers sufficient to show whether
7 or not the person is liable for the [TO] tax under this chapter. If a
8 person fails to file a return at the time prescribed by law or regula-
9 tion, or makes, wilfully or otherwise, a false or fraudulent return, the
10 department shall make the return from its own knowledge and from such
11 information as it can obtain [THROUGH TESTIMONY OR OTHERWISE]. A
12 return so made and subscribed by the department is prima facie good and
13 sufficient for all legal purposes.

14 * Sec. 4. AS 43.65.030 is amended to read:

15 Sec. 43.65.030. APPLICATION FOR RENEWALS. A person engaged in the
16 business of mining shall apply [APPLICATION] for a renewal of a mining
17 license each year [SHALL BE MADE] before the 30th day of the first month
18 of the person's tax year [MAY 1 OF EACH YEAR].

19 * Sec. 5. AS 43.65.040 is repealed and re-enacted to read:

20 Sec. 43.65.040. LIMITATION. The department shall review returns
21 and assess any additional tax due under this chapter within three years
22 of the due date of the return or the date that the return was filed,
23 whichever is later. If a return has not been filed the tax may be
24 assessed at any time.

25 * Sec. 6. AS 43.65.050 is amended to read:

26 Sec. 43.65.050. [VIOLATIONS AND] PENALTIES AND INTEREST. (a) In
27 case of failure to obtain a license or file a return [REQUIRED BY THIS
28 CHAPTER] within the time prescribed by this chapter, or to pay the full
29 amount of the tax due on the return or a deficiency of the tax as

1 determined by the department [LAW OR PRESCRIBED BY THE DEPARTMENT
2 ACCORDING TO LAW], unless it is shown that the failure is due to reason-
3 able cause and not due to wilful neglect, five per cent is added for
4 each 30 days or fraction of 30 days during which the failure continues,
5 but not exceeding 25 per cent in the aggregate. The amount [SO] added
6 to the tax shall be collected at the same time, in the same manner, and
7 as a part of the tax. If the tax is paid before discovery of the
8 neglect, the amount added shall be collected in the same manner as the
9 tax.

10 [(b) IF PART OF A DEFICIENCY IN THE TAX IS DUE TO NEGLIGENCE OR
11 INTENTIONAL DISREGARD OF REGULATIONS, BUT WITHOUT INTENT TO DEFRAUD,
12 FIVE PER CENT OF THE TOTAL AMOUNT OF THE DEFICIENCY, IN ADDITION TO THE
13 DEFICIENCY, SHALL BE ASSESSED, COLLECTED, AND PAID IN THE SAME MANNER AS
14 IF IT WERE A DEFICIENCY, EXCEPT THAT (d) OF THIS SECTION IS NOT APPLI-
15 CABLE.]

16 (c) If part of a deficiency in the tax is due to fraud with
17 intent to evade the tax, then 50 per cent of the total amount of the
18 deficiency, in addition to the deficiency, shall be assessed and col-
19 lected. If this penalty is assessed, then the penalty in (a) of this
20 section does not apply.

21 (d) When the tax levied by this chapter becomes delinquent, it
22 bears interest at the rate of eight per cent a year. The tax is delin-
23 quent if it is not paid on its due date. [INTEREST UPON THE AMOUNT
24 DETERMINED AS A DEFICIENCY IN THE TAX SHALL BE ASSESSED AT THE SAME TIME
25 AS THE DEFICIENCY, AND PAID UPON NOTICE AND DEMAND BY THE DEPARTMENT.
26 THE INTEREST SHALL BE COLLECTED AS A PART OF THE TAX, AT THE RATE OF SIX
27 PER CENT A YEAR FROM THE TIME PRESCRIBED FOR PAYMENT OF THE TAX TO THE
28 DATE THE DEFICIENCY IS PAID.]

29 (e) The tax levied or accruing under this chapter and the penalties

1 and interest on the tax are a lien prior, paramount, and superior to all
2 other liens, mortgages, hypothecations, conveyances, and assignments,
3 upon all the real and personal property of the person liable for them,
4 and upon the real and personal property used with the permission of the
5 owner in carrying on the business of mining. This lien is [SHALL]
6 not [BE CONSIDERED] exclusive of other civil or criminal remedies pro-
7 vided by law for the recovery of license taxes.

8 (f) A person who is required under this chapter to pay the [A]
9 tax, make a return, keep records, or supply information [FOR THE COM-
10 PUTATION, ASSESSMENT, OR COLLECTION OF THE TAX IMPOSED BY THIS CHAPTER],
11 who wilfully fails to pay the tax, make the return, keep the records, or
12 supply the information, at the time required by law or regulations, is,
13 in addition to other penalties provided by this chapter [LAW], guilty of
14 a misdemeanor, and upon conviction is punishable by a fine of not more
15 than \$1,000, or by imprisonment for not more than one year, or by both
16 [, TOGETHER WITH THE COST OF PROSECUTION].

17 [(g) A PERSON WHO WILFULLY MAKES AND SIGNS A RETURN WHICH HE DOES
18 NOT BELIEVE TO BE TRUE AND CORRECT AS TO EVERY MATERIAL MATTER IS
19 GUILTY OF A FELONY, AND UPON CONVICTION IS SUBJECT TO THE PENALTIES
20 PRESCRIBED FOR PERJURY UNDER THE LAWS OF THE STATE.]

21 (h) In this section "person" includes an officer or employee of a
22 corporation or a member or employee of a partnership who is under duty
23 to perform the act in respect to which the violation occurs.

24 (i) A person who wilfully attempts to evade the tax imposed by
25 this chapter is, in addition to other penalties provided by this chapter
26 guilty of a felony and, upon conviction, is punishable by a fine of not
27 more than \$5,000, or by imprisonment for not more than five years, or
28 by both.

29 (j) A person who wilfully makes and subscribes a return, statement,

1 or other document required under this chapter which contains or is
2 verified by a written declaration that it is made under the penalties of
3 perjury which he does not believe to be true and correct as to every
4 material matter is, in addition to other penalties provided by this
5 chapter, guilty of a felony and, upon conviction, is punishable by a
6 fine of not more than \$5,000, or by imprisonment for not more than three
7 years, or by both.

8 (k) A person who wilfully or knowingly aids, procures, or counsels
9 the preparation or presentation in connection with any matter arising
10 under this chapter of a return, affidavit, claim, or other document,
11 which is fraudulent or is false as to any material matter is guilty of a
12 felony whether or not the falsity or fraud is with the knowledge or
13 consent of the person required to present the return, affidavit, claim,
14 or document, and, upon conviction, is punishable by a fine of not more
15 than \$5,000, or by imprisonment for not more than three years, or by
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17 (l) A person who wilfully delivers or discloses to the department
18 under this chapter any list, return, account, statement, or other
19 document, known by him to be fraudulent or to be false as to any materi-
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22 * Sec. 7. AS 43.65.060(4) is amended to read:

23 (4) "new mining business operation [OPERATIONS]" means a
24 mining operation [OPERATIONS] which began production after January 1,
25 1953, and which has not acquired the ownership or property of another
26 mining business which has previously received an exemption certificate
27 under sec. 10 of this chapter [OR WHICH HAVE NOT BEEN LIABLE TO PAY A
28 MINING LICENSE TAX UNDER THIS CHAPTER ON NET INCOME SINCE JANUARY 1,
29 1948];

1 * Sec. 8. AS 43.65.060 is amended by adding new paragraphs to read:

2 (7) "minerals" means all locatable and leasable minerals
3 except sand, gravel, oil, gas, building materials and topsoil;

4 (8) "materials" includes sand, gravel, building material and
5 topsoil;

6 (9) "business of mining"

7 (A) means a business operation for the extraction of
8 minerals from the earth or water of the state, operated by a person

9 (i) who owns and operates, works, or develops a
10 mineral property, whether or not that property is currently
11 producing a marketable product;

12 (ii) who leases a mineral property and operates the
13 mineral property, whether or not the mineral property is
14 producing a marketable product;

15 (iii) who leases a mineral property and pays royalti-
16 ties, rents or other payments to the owner of the property;

17 (iv) who has an interest in a lease, concession,
18 joint venture, or other agreement for the exploration or
19 development, or extraction of a mineral property if royalties,
20 rents, or other payments are to be paid for that interest;

21 (B) does not include a prospector who explores for new
22 mineral deposits, stakes a claim, performs the required assessment
23 work to keep it in good standing, and holds it for possible devel-
24 opment by others;

25 (10) "department" means the Department of Revenue.

26 * Sec. 9. AS 43.65.060(1) - (3) are repealed.

27 * Sec. 10. This Act is retroactive to January 1, 1976.

28 * Sec. 11. This Act takes effect immediately in accordance with AS 01.10.
29 070(c).

Original sponsor: Rules Committee by
request of the Governor

Offered: 4/12/76
Referred: Finance

1 IN THE HOUSE

BY THE RESOURCES COMMITTEE

2 CS FOR HOUSE BILL NO. 878

3 IN THE LEGISLATURE OF THE STATE OF ALASKA

4 NINTH LEGISLATURE - SECOND SESSION

5 A BILL

6 For an Act entitled: "An Act relating to the Alaska mining license tax; and
7 providing for an effective date."

8 BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF ALASKA:

9 * Section 1. AS 43.65.010 is repealed and re-enacted to read:

10 Sec. 43.65.010 MINING LICENSE AND TAX. (a) For the privilege of
11 engaging in the business of mining in the state, a person shall first
12 apply and obtain a license from the department. The license fee is
13 \$25, which must accompany the application for a license.

14 (b) There is also levied an annual license tax on each person
15 engaging in the business of mining in the state computed on the net
16 proceeds of the taxpayer from the mining business. The license tax
17 shall be computed according to the following table:

18 If the net proceeds are:	Then the tax is:
19 over \$40,000 but not over \$50,000	3 per cent of the excess over 20 \$40,000
21 over \$50,000 but not over \$100,000	\$300 plus 5 per cent of the 22 excess over \$50,000
23 over \$100,000	\$2,800 plus 7 per cent of the 24 excess over \$100,000

25 (c) Upon application and receipt of an exemption certificate, a
26 new mining business operation is exempt from the license tax levied by
27 this chapter for three and one-half years after production from the
28 mining business operation begins. The tax exemption granted to new
29 mining business operations does not apply to the business of mining sand

1 and gravel. The Department of Natural Resources shall certify to the
2 department the date upon which production began from the mining business
3 operation, and the department shall issue a certificate of exemption to
4 the applicant after this certification. A person must apply for an
5 exemption certificate in the first year of production from the mining
6 business operation in order to qualify for the exemption under this
7 section.

8 (d) If mining business operations not subject to sec. 10(c) of
9 this chapter are conducted in two or more places in the state by one
10 person, those operations may, at the person's option, be considered as
11 one mining business, and the tax shall be computed upon the net proceeds
12 of all those mining business operations.

13 * Sec. 2. AS 43.65 is amended by adding new sections to read:

14 Sec. 43.65.015. NET PROCEEDS. (a) In this chapter, "net pro-
15 ceeds" means the total gross receipts from the mining business less the
16 following deductions incurred during the taxable year:

17 (1) all expenses incurred directly in the extraction of
18 minerals in the state;

19 (2) all expenses incurred in transporting the minerals from
20 the point of extraction to any further processing plant where only
21 necessary treatment processes are applied to obtain a commercially
22 marketable product;

23 (3) all expenses directly related to the production, re-
24 fining, crushing, screening or other necessary process incurred to make
25 a commercially marketable product;

26 (4) the actual selling expenses incurred in marketing the
27 product;

28 (5) all expenses incurred in transporting the marketable
29 product to a buyer;

1 (6) depreciation of the mining business equipment, works,
2 plant and facilities used directly in the extraction, transportation and
3 processing phases of the mining business, in accordance with sec. 167 of
4 the Internal Revenue Code as amended (26 U.S.C. sec. 167);

5 (7) amortization of exploration and mining development costs
6 not included in (6) of this subsection;

7 (8) an allowance for depletion on a cost or percentage basis
8 at the rates set out in secs. 611 - 614 of the Internal Revenue Code as
9 amended (26 U.S.C. secs. 611 - 614) except that the allowance for
10 depletion may not exceed 50 per cent of the taxpayer's net proceeds
11 calculated before the allowance for depletion;

12 (9) net operating losses as set out in the Internal Revenue
13 Code as amended.

14 (b) If the taxpayer has expenses in the state other than those
15 specified in (a) of this section, such as general overhead expenses,
16 relating to the business of mining or to the business of mining and
17 other business activities, the deductions shall be apportioned in the
18 ratio which the direct expenses of the mining business in the state
19 under (a) of this section bear to the total direct expenses of all
20 business activities of that taxpayer in the state.

21 (c) Except for wages paid during temporary travel out of the state
22 by an employee who is domiciled in the state, the deductions allowed in
23 (a) and (b) of this section do not include wages or other payments for
24 services not performed in the state.

25 (d) If a person is engaged in the business of mining and the only
26 receipts from the business are royalties, the net proceeds of the
27 mining business are the royalties received less the depletion allowance
28 under sec. 15(a)(8) of this chapter.

29 Sec. 43.65.017. GROSS RECEIPTS. (a) In this chapter, "gross

1 receipts" means all revenue received, including royalties, rental pay-
2 ments, and all other compensation from the business of mining. Gross
3 receipts include the actual amount received during the year for the
4 sale of minerals or materials whether or not the minerals or materials
5 were actually extracted during that year.

6 (b) If minerals or materials are sold or transferred at a price
7 other than the true market price, such as when a wholly owned subsidiary
8 transfers or sells the mineral or material to its parent at a price less
9 than market value, gross receipts are the true market price or average
10 market price per ton or other measurable unit of the mineral or material
11 multiplied by the total units of the mineral or material sold or trans-
12 ferred during the year.

13 (c) Gross receipts from the business of mining sand and gravel
14 include

15 (1) receipts from the sale to customers directly from the pit
16 or mine;

17 (2) receipts from the sale to customers at their place of
18 business or their business site, including receipts relating to the
19 delivery of the sand and gravel; and

20 (3) the average market value of sand and gravel from inter-
21 company transfers of the minerals calculated immediately before the
22 transfer, including intercompany transfers of sand and gravel to a
23 ready-mix or concrete plant.

24 * Sec. 3. AS 43.65.020 is amended to read:

25 Sec. 43.65.020. TAXPAYER'S DUTIES. (a) A person subject to tax
26 under this chapter shall make a return stating specifically the items of
27 gross receipts [INCOME] from the business [PROPERTY], including royalty
28 received and the deductions [AND CREDITS] allowed by this chapter, and
29 other information for carrying out this chapter which the department

1 [DEPARTMENT OF REVENUE] prescribes. The return shall show the mining
2 license number and shall be signed by the taxpayer or his authorized
3 agent, under penalty of perjury. If receivers, trustees, or assigns are
4 operating the mining [PROPERTY OR] business, they shall make returns for
5 the person engaged in the mining business [, OR THE RECIPIENT OF ROYALTY
6 IN CONNECTION WITH MINING PROPERTY]. The tax due on the basis of the
7 returns shall be collected in the same manner as if collected from the
8 person of whose business they have custody and control.

9 (b) A return made on the basis of the calender year shall be filed
10 [MADE] before March 15 [MAY 1] of the next year. A return made on the
11 basis of a fiscal year shall be filed [MADE] before the 15th [FIRST] day
12 of the third [FIFTH] month of the next fiscal year.

13 (c) The department [DEPARTMENT OF REVENUE] may grant a reasonable
14 extension of time for filing returns, under regulations adopted [PRE-
15 SCRIBED] by it. Except in the case of a taxpayer going abroad, no
16 extension may be granted [MADE] for more than six months.

17 (d) A [TAXPAYER'S] return shall be filed with [MADE TO] the
18 department using the same tax year as the person uses in filing his
19 federal income tax return [DEPARTMENT OF REVENUE AT JUNEAU. A TAXPAYER
20 SHALL MAKE HIS RETURN EITHER ON A CALENDER YEAR OR FISCAL YEAR BASIS, IN
21 CONFORMANCE WITH THE BASIS USED IN MAKING HIS RETURN FOR FEDERAL INCOME
22 TAX PURPOSES].

23 (e) The total amount of tax imposed by this chapter shall be paid
24 on or before the due date of the tax return required under this section
25 [THE 30TH DAY OF APRIL OF THE NEXT CALENDER YEAR, OR IF THE RETURN IS
26 MADE ON THE BASIS OF THE FISCAL YEAR, THEN ON THE LAST DAY OF THE FOURTH
27 MONTH OF THE NEXT FISCAL YEAR.

28 (f) EVERY PERSON PROSECUTING OR ATTEMPTING TO PROSECUTE OR EN-
29 GAGING IN THE BUSINESS OF MINING IN THE STATE SHALL COMPLY WITH THE

1 DEPARTMENT'S REGULATIONS AND SHALL KEEP SUCH RECORDS, GIVE SUCH STATE-
2 MENTS UNDER OATH, AND MAKE SUCH RETURNS AS THE DEPARTMENT OF REVENUE
3 PRESCRIBES].

4 (g) When the department considers it necessary, it may require a
5 person, by notice served upon him, to make a return, give statements
6 under oath, or keep records as it considers sufficient to show whether
7 or not the person is liable for the [TO] tax under this chapter. If a
8 person fails to file a return at the time prescribed by law or regula-
9 tion, or makes, wilfully or otherwise, a false or fraudulent return, the
10 department shall make the return from its own knowledge and from such
11 information as it can obtain [THROUGH TESTIMONY OR OTHERWISE]. A
12 return so made and subscribed by the department is prima facie good and
13 sufficient for all legal purposes.

14 * Sec. 4. AS 43.65.030 is amended to read:

15 Sec. 43.65.030. APPLICATION FOR RENEWALS. A person engaged in the
16 business of mining shall apply [APPLICATION] for a renewal of a mining
17 license each year [SHALL BE MADE] before the 30th day of the first month
18 of the person's tax year [MAY 1 OF EACH YEAR].

19 * Sec. 5. AS 43.65.040 is repealed and re-enacted to read:

20 Sec. 43.65.040. LIMITATION. The department shall review returns
21 and assess any additional tax due under this chapter within three years
22 of the due date of the return or the date that the return was filed,
23 whichever is later. If a return has not been filed the tax may be
24 assessed at any time.

25 * Sec. 6. AS 43.65.050 is amended to read:

26 Sec. 43.65.050. [VIOLATIONS AND] PENALTIES AND INTEREST. (a) In
27 case of failure to obtain a license or file a return [REQUIRED BY THIS
28 CHAPTER] within the time prescribed by this chapter, or to pay the full
29 amount of the tax due on the return or a deficiency of the tax as

1 determined by the department [LAW OR PRESCRIBED BY THE DEPARTMENT
2 ACCORDING TO LAW], unless it is shown that the failure is due to reason-
3 able cause and not due to wilful neglect, five per cent is added for
4 each 30 days or fraction of 30 days during which the failure continues,
5 but not exceeding 25 per cent in the aggregate. The amount [SO] added
6 to the tax shall be collected at the same time, in the same manner, and
7 as a part of the tax. If the tax is paid before discovery of the
8 neglect, the amount added shall be collected in the same manner as the
9 tax.

10 [(b) IF PART OF A DEFICIENCY IN THE TAX IS DUE TO NEGLIGENCE OR
11 INTENTIONAL DISREGARD OF REGULATIONS, BUT WITHOUT INTENT TO DEFRAUD,
12 FIVE PER CENT OF THE TOTAL AMOUNT OF THE DEFICIENCY, IN ADDITION TO THE
13 DEFICIENCY, SHALL BE ASSESSED, COLLECTED, AND PAID IN THE SAME MANNER AS
14 IF IT WERE A DEFICIENCY, EXCEPT THAT (d) OF THIS SECTION IS NOT APPLI-
15 CABLE.]

16 (c) If part of a deficiency in the tax is due to fraud with
17 intent to evade the tax, then 50 per cent of the total amount of the
18 deficiency, in addition to the deficiency, shall be assessed and col-
19 lected. If this penalty is assessed, then the penalty in (a) of this
20 section does not apply.

21 (d) When the tax levied by this chapter becomes delinquent, it
22 bears interest at the rate of eight per cent a year. The tax is delin-
23 quent if it is not paid on its due date. [INTEREST UPON THE AMOUNT
24 DETERMINED AS A DEFICIENCY IN THE TAX SHALL BE ASSESSED AT THE SAME TIME
25 AS THE DEFICIENCY, AND PAID UPON NOTICE AND DEMAND BY THE DEPARTMENT.
26 THE INTEREST SHALL BE COLLECTED AS A PART OF THE TAX, AT THE RATE OF SIX
27 PER CENT A YEAR FROM THE TIME PRESCRIBED FOR PAYMENT OF THE TAX TO THE
28 DATE THE DEFICIENCY IS PAID.]

29 (e) The tax levied or accruing under this chapter and the penalties

1 and interest on the tax are a lien prior, paramount, and superior to all
2 other liens, mortgages, hypothecations, conveyances, and assignments,
3 upon all the real and personal property of the person liable for them,
4 and upon the real and personal property used with the permission of the
5 owner in carrying on the business of mining. This lien is [SHALL]
6 not [BE CONSIDERED] exclusive of other civil or criminal remedies pro-
7 vided by law for the recovery of license taxes.

8 (f) A person who is required under this chapter to pay the [A]
9 tax, make a return, keep records, or supply information [FOR THE COM-
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11 who wilfully fails to pay the tax, make the return, keep the records, or
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22 corporation or a member or employee of a partnership who is under duty
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8 at the rates set out in secs. 611 - 614 of the Internal Revenue Code as
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18 ratio which the direct expenses of the mining business in the state
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THE LEGISLATURE OF THE STATE OF ALASKA

FISCAL NOTE

Second Session - Ninth Legislature

I. REQUEST

Bill No. Committee Substitute for House Bill No. 878
 Title: an Act relating to the Alaska Mining License Tax
 Requested by: House Finance Committee Date: April 13, 1976
 Return Date Requested: _____
 Agency: Revenue Program: Audit

II. FISCAL DETAIL

Budget Request Unit(s) Affected: None

A. EXPENDITURES: (Thousands of dollars)

OBJECT	FY 76	FY 77	FY 78	FY 79	FY 80	FY 81
100 PERSONAL SERVICES						
200 TRAVEL						
300 CONTRACTUAL						
400 COMMODITIES						
500 EQUIPMENT						
600 LAND & STRUCTURES						
700 GRANTS, CLAIMS, ETC.						
TOTAL	None	None	None	None	None	None

B. FUNDING: (Thousands of dollars)

GENERAL FUND						
FEDERAL FUNDS						
OTHER						

C. POSITIONS: N/A

PERMANENT/TEMPORARY	/	/	/	/	/	/
HAN MONTHS (P./T.)	/	/	/	/	/	/

III. ANALYSIS (See Fiscal Note Preparation Instructions, Section III)

N/A

IV. ATTACHMENTS

See memorandum dated April 21, 1976 to R. D. Stevenson

V. DATE: April 21, 1976 PREPARED BY: 

Original: Legislative Finance
 cc: Budget and Management
 Prime Sponsor (First Legislator Named)

MEMORANDUM

State of Alaska

TO: R. D. Stevenson
Special Assistant

DATE: April 21, 1976

FILE NO:

TELEPHONE NO:

FROM: Gary L. Jenks
Director
Audit Division

SUBJECT: CS for House Bill 878

The Committee Substitute for House Bill 878 made two basic changes to the original bill. First of all, it provided that taxpayers may elect to report all mining operations in the State as one mining business or may treat each separate mine as an individual mining business. The effect of this provision would be to multiply the amount of net proceeds which would be exempt from tax for an individual company. For example, if a company had three mines in the State, they would be able to have up to \$120,000 per year not subject to taxation. That would mean a revenue loss of \$4,200 each year to the State of Alaska for that company. The total revenue loss would depend on how many companies have multiple mining operations in the State.

The reasoning behind allowing \$40,000 in net proceeds to be tax exempt was that there are many small mines in the State who we agreed should be encouraged to pursue marginal mining operations generating a limited amount of income. This amendment is in direct opposition of the principal by allowing multiple exemptions to larger companies.

Second, the Committee Substitute would allow the deduction of a net operating loss as provided for in the Internal Revenue Code. Apparently this provision was added to provide an additional incentive for mining operations to come into the State. It should be remembered that we have already provided an incentive for the mining industry in the form of a 3 1/2 year period beginning at the time of production, during which a company would be tax exempt on a new mine. To provide yet additional incentives such as the net operating loss carryforward is showing very obvious favoritism where none is needed or justified. None of the other licensing laws in the State of Alaska have any tax exempt or other incentive provisions.

I feel the State of Alaska is being more than generous in allowing the 3 1/2 year exemption from taxation and that no additional incentives are needed. The lack of major mining operations in the State is totally unrelated to the lack of incentives in our mining license law.

GLJ:lc

1534

THE LEGISLATURE OF THE STATE OF ALASKA
FISCAL NOTE
 Second Session - Ninth Legislature

I. REQUEST

Bill No. House Bill No. 878
 Title: An Act relating to the Alaska Mining License Tax
 Requested by: House Resources & Finance Committee Date: March 22, 1976
 Return Date Requested: _____
 Agency: Revenue Program: Audit

II. FISCAL DETAIL

Budget Request Unit(s) Affected: N/A

A. EXPENDITURES: (Thousands of dollars)

OBJECT	FY 76	FY 77	FY 78	FY 79	FY 80	FY 81
100 PERSONAL SERVICES						
200 TRAVEL						
300 CONTRACTUAL						
400 COMMODITIES						
500 EQUIPMENT						
600 LAND & STRUCTURES						
700 GRANTS, CLAIMS, ETC.						
TOTAL	None	None	None	None	None	None

B. FUNDING: (Thousands of dollars)

GENERAL FUND	None	None	None	None	None	None
FEDERAL FUNDS						
OTHER						

C. POSITIONS: None

PERMANENT/TEMPORARY	/	/	/	/	/	/
MAN MONTHS (P.T.)	/	/	/	/	/	/

III. ANALYSIS (See Fiscal Note Preparation Instructions, Section III)

N/A

IV. ATTACHMENTS See attached memo to R. D. Stevenson dated March 31, 1976.

V. DATE: 3-31-76 PREPARED BY: Gary L. Jenkins
 Director, Audit Division

Original: Legislative Finance
 cc: Budget and Management
 Prime Sponsor (First Legislator Named)

CHAIRMAN:
NELS A. ANDERSON, JR.

STAFF ASSISTANT:
GUY VANDOREN

POUCH V
JUNEAU, ALASKA 99811



VICE CHAIRMAN
TED SMITH

SECRETARY
XXXXXXXXXXXXXXXXXXXX
Ruth I. Allington
PHONE: 465-3715
465-3701

House Resource Committee

FRED BROWN

ALVIN OSTERBACK

DICK ELIASON

LEO RHODE

MIKE HERSHBERGER

LESLIE (RED) SWANSON

JAMES HUNTINGTON

April 12, 1976

To: Hugh Malone
House Finance Committee

From: Guy Van Doren
Staff Assistant-House Resources Committee

Subject: HB 878 - An Act Relating to the Alaska Mining Tax

The original bill was worked out jointly between the Dept. of Revenue and representatives of the mining industry. The bill makes several modifications to the current Mining License Act, mainly in the area of clarifying who is taxable, what activities are taxable, and how taxable proceeds for purposes of computing the tax are arrived at.

The legislation will not cost the State of Alaska additional dollars for administration nor will it immediately generate additional dollars for the state since there is an extremely small number of mines operating in the State of Alaska.

The Committee Substitute reflects the concerns of the industry in testimony before the Committee, and clarifies the definition of minerals by taking out specific minerals and making the definition cover all minerals not specifically excluded. The Committee also added a definition of "materials" in order that there would be no confusion. The reason the word topsoil was used was because of "rare earth", which is highly valuable. Building materials were included under materials because of the use of rock, slate, sandstone, etc. for construction.

Changes other than those mentioned above are found on Page 2 Sec (d) which allows more than one mining operation by a single company, to be considered one mining business.

Page 3, Line 9. This adds "net operating costs set out in the Internal Revenue Code, as amended" Industry had requested this as an added deduction from gross receipts.

Page 4. Where the word "minerals" appeared in the original bill, the word "materials" was added due to the addition of the material definition section. Presently, the largest amount of tax is derived from the removal of sand and gravel.

Page 10 Sec. B, was added to exclude the casual prospector, as opposed to an actual mining operation or business.

In summary, the bill will make significant strides in clarifying how this tax is applied but does not change the basic mode of taxation and is a good example of cooperation between the Legislature, Administration and the industry.

THE LEGISLATURE OF THE STATE OF ALASKA
FISCAL NOTE
Second Session - Ninth Legislature

I. REQUEST

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 Requested by: House Resources & Finance Committee Date: March 22, 1976
 Return Date Requested: _____
 Agency: Revenue Program: Audit

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Budget Request Unit(s) Affected: N/A

A. EXPENDITURES: (Thousands of dollars)

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TOTAL	None	None	None	None	None	None

B. FUNDING: (Thousands of dollars)

GENERAL FUND	None	None	None	None	None	None
FEDERAL FUNDS						
OTHER						


C. POSITIONS: None

PERMANENT/TEMPORARY	/	/	/	/	/	/
MAN MONTHS (P./T.)	/	/	/	/	/	/

III. ANALYSIS (See Fiscal Note Preparation Instructions, Section III)

N/A

IV. ATTACHMENTS See attached memo to R. D. Stevenson dated March 31, 1976.

V. DATE: 3-31-76 PREPARED BY: 
 Director, Audit Division Gary L. Jenkins

Original: Legislative Finance
 cc: Budget and Management
 Prime Sponsor (First Legislator Named)

CHAIRMAN:
NELS A. ANDERSON, JR.

STAFF ASSISTANT:
GUY VANDOREN

POUCH V
JUNEAU, ALASKA 99811



VICE CHAIRMAN
TED SMITH

SECRETARY:
~~XXXXXXXXXXXXXXXXXX~~
Ruth I. Allington
PHONE: 465-3715
465-3781

House Resource Committee

FRED BROWN
MIKE HERSHBERGER

ALVIN OSTERBACK
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JAMES HUNTINGTON

April 12, 1976

To: Hugh Malone
House Finance Committee

From: Guy Van Doren *(Signature)*
Staff Assistant-House Resources Committee

Subject: HB 878 - An Act Relating to the Alaska Mining Tax

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THE LEGISLATURE OF THE STATE OF ALASKA
FISCAL NOTE
 Second Session -- Ninth Legislature

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TOTAL	None	None	None	None	None	None

B. FUNDING: (Thousands of dollars)

GENERAL FUND	None	None	None	None	None	None
FEDERAL FUNDS						
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C. POSITIONS: None


PERMANENT/TEMPORARY	/	/	/	/	/	/
PER MONTHS (P./T.)	/	/	/	/	/	/

III. ANALYSIS (See Fiscal Note Preparation Instructions, Section III)

N/A

IV. ATTACHMENTS See attached memo to R. D. Stevenson dated March 31, 1976.

V. DATE: 3-31-76 PREPARED BY:


 Director, Audit Division Gary L. Jenkins

Original: Legislative Finance
 cc: Budget and Management
 Prime Sponsor (First Legislator Named)

CHAIRMAN:
NELS A. ANDERSON, JR.

STAFF ASSISTANT:
GUY VANDOREN

POUCH V
JUNEAU, ALASKA 99011



VICE CHAIRMAN
TED SMITH

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XXXXXXXXXXXXXXXXXXXX
Ruth I. Allington
PHONE: 465-3715
465-3781

House Resource Committee

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JAMES HUNTINGTON

April 12, 1976

To: Hugh Malone
House Finance Committee

From: Guy Van Doren
Staff Assistant-House Resources Committee

Subject: HB 878 - An Act Relating to the Alaska Mining Tax

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THE LEGISLATURE OF THE STATE OF ALASKA
FISCAL NOTE
 Second Session - Ninth Legislature

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TOTAL	None	None	None	None	None	None

B. FUNDING: (Thousands of dollars)

GENERAL FUND	None	None	None	None	None	None
FEDERAL FUNDS						
OTHER						

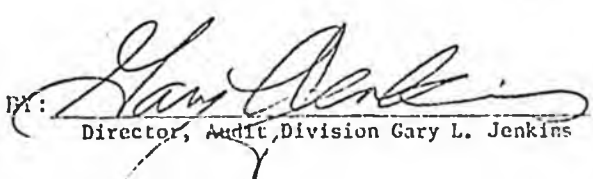
C. POSITIONS: None

PERMANENT/TEMPORARY	/	/	/	/	/	/
MAN MONTHS (P./T.)	/	/	/	/	/	/

III. ANALYSIS (See Fiscal Note Preparation Instructions, Section III)

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V. DATE: 3-31-76 PREPARED BY: 

Director, Audit Division Gary L. Jenkins

Original: Legislative Finance
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 Prime Sponsor (First Legislator Named)

CHAIRMAN:
NELS A. ANDERSON, JR.

STAFF ASSISTANT:
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In summary, the bill will make significant strides in clarifying how this tax is applied but does not change the basic mode of taxation and is a good example of cooperation between the Legislature, Administration and the industry.

Present were Hershberger, Huntington, Osterback, Rhode, Brown, Staff Assistant Van Doren and Chairman Anderson.

Subject: HB 878 CS HB 615

Phil Holdsworth began testimony. During the last session the governor asked that no action be taken on a bill comparable to HB 878. On Nov. 6 and 7, in Anchorage, agreements were reached with the Dept. of Revenue on aspects of this bill (HB878) The mining license tax has been on the books without changes since 1965. There is no real mining industry in Alaska today.

A suggested amendment: Smaller miners shouldn't have to do all of the complicated forms. Dept. of Revenue has tried to clarify the issue.

Other incentives might result in acceleration of the mining industry in Alaska. \$35 million was spent in exploration in Alaska in 1975.

Holdsworth felt that this was a "workable" bill.

Hershberger asked where we were in the status of precious metals in Alaska. Holdsworth answered that it depends on the area. In the Brooks range there is a richness of precious metals.

Chairman Anderson stated that letters received have expressed concern that special taxes are discriminatory. Some think we should be giving monetary incentives instead of taxing.

Holdsworth answered that most people don't even realize that there is already a mining tax law on the books.

Mr. Fred Detch, of the Dept. of Commerce, stated that the Dept. of Revenue was involved in the background of this bill. The bill basically has clarified how the taxes are to be assessed. He also agreed with Holdsworth as to the need for the amendment.

Question: How much will be added to the "coffers" with this bill
Answer: No more, as it stands now. There just isn't much mining in Alaska. Also, receipts aren't recognized until a sale of the product takes place.

Chuck Hawley of the Alaska Miners Association, testified that they generally support HB878. He added that there is felt that since the state has recognized the industry with a special tax, the state then has some obligation to the industry. (Roads, specifically, and also air access)/ There are only two sizeable operations in the state at present--Usibelli and Goodnews Bay. A.J. in Juneau was the last hardrock mine, and was closed around 1945.

However, Industry didn't write the bill. There are possible inequities.
1) It is set up the opposite of the way royalty rates usually work, i.e. an escalating rate.
2) Exemptions are needed for capital improvement costs.
3) Net operating losses should be carried over to succeeding years.
Corporate income taxes would still be paid to the state during this time.

Regarding special taxes--mining has not developed because of lack of transportation. Possibly the Haul Road could be kept open. Possibly Railroad extensions could be built. This would not be in the same category as a depletion allowance,.

Brown asked whether mining gets the same types of benefits as oil, etc.
Answer: No.

Chairman Anderson asked about the fixed tax at the intermediate level.
Answer: It would do away with the escalation basis. Obviously, a large mining industry will pay more. Also, the state would end up gaining revenue if the capital recouping were allowed.

The District Manager for the Bear Creek Mining Company spoke. His group is a subsidiary of the Kennicott Copper Co. New areas of Alaska are being explored that appear to have a favorable mining future. The Cost of production in Alaska is higher than other Western States. Mining is one of the few industries that can go in rural Alaska. Incentives are needed--transportation, communication, ports, etc. Also stability is needed. Additional taxes would be harmful.

An amendment was presented adding language to clarify that two locations of the same company could be considered as one operation for tax purposes. The current problem is that after initial 3-year "tax holiday" is passed, if the company begins at a new location, the original costs of that new location need to be regained by the company.

Rhode suggested that as items of cost are amortized, they should be charged and taxable at that time.

It was stated that the main problem with mining in Alaska has been that costs of development are so high. Stability of the tax structure is needed.

Dale Tubbs, Deputy Director of the Division of Lands, mentioned the "sleeper" in the bill. It now includes sand and gravel. In the definitions on Page 9, Line 27, sand and gravel aren't included. Sand and gravel need to be listed as a material, not a mineral. Also, regarding the multiple-site situation, sand and gravel need to be split off from this. It can be cleared up with definitions. Clarification needs to be defined as to "mined" vs. "excavate". It must be kept in mind that sand and gravel are the biggest source of "mining" income now.

Re: clay and stone--it is not clear yet.

Chairman Anderson asked that Tubbs and VAn Doren redraft Page 9.

Wallace MacGregg, of the Northwest Mining Association, spoke. He was concerned with the semantics problem (net proceeds, severance, etc.) Alaska's corporate tax is second only to that of Minnesota. Usually, the states with the highest taxation have a mature industry. This is not the case with Alaska.

Mr. Brown asked whether Mr. MacGreggor advises people as to whether to invest in Alaska. A. No. As to whether this bill really won't change the tax, Brown was answered that this was true.

Macgreggor stated, that regarding the percentage of net to gross, as you increase the initial costs of operation, it takes more capital to cover the costs. The mining license tax is much higher than a business license tax. Revenue derived by the state from mining could be greater than any other industry. The way it stands now, 2 out of 3 dollars received in mining would go to taxes. Because Alaska's base figure is higher than other states, the end result is that low-grade operations are cut out.

Carl McCowan, of the U.S. Borate and Chemical Corporation, stated that they have a propsect in Alaska. He stated that corporations contribute to the resource and economic well-being of the country. Their company will spend about one million dollars in exploration in Alaska in 1976. The government gets the biggest share of profits in any mining operation.

Question was asked as to what good the bill was if it hasn't produced any income yet.

It takes capital to create jobs. It takes people willing to take a risk. A profit isn't always possible in the first year. The 3 1/2 year "tax holiday" per operation is needed to recoup. Economic changes are needed in the state. We need to harvest the minerals.

Brown stated that it is the general feeling that the law is not unfavorable. Also, there are tremendous differences between mining and oil and gas.

(Meeting recessed, and resumed at 1:30 p.m.)

Donald McDonald, a propector, spoke. There is a question regarding taxing royalties. Would you be paying double on the same money? The company pays a tax on net proceeds. Are royalty payments deducted first?

Mr. Betch answered. Royalties are a deduction to the operator, and the receiver pays the tax.

Question: The difference between the mining Development Company, and the owner of the land needs to be clarified. Proving up a claim can take a long time.

Betch answered that he had no idea why the situation wasn't taken care of in the original bill.

McDonald: More time is needed to recoup expenses. Existing leases can't be rewritten to take care of the new tax structure. The problem is the royalty payments.

Also, if sand, rock and gravel are going to be taxed, must they be filed as mineral claims?

Bill Huff, of the Ketchikan Miners Association, presented testimony. Sand and gravel must now be purchased from the state. There is a problem regarding state leases as opposed to mining claims.

McDonald stated that if gravel and sand is treated separately, it should be put in a separate bill. Make it completely separate, or operable under a mining claim.

You can't hold a mining claim unless you are processing a metal.

Huff: Changes in the law have prohibited staking a gravel claim. Why call it a mineral now.

Vance Thornsbury, of Inspiration Exploration, testified. This bill would somewhat stabilize the taxation policy of Alaska. However, the rate as expressed in the bill shouldn't be escalating. It should be declining, or a solid 5%. Alaska must attract industry by a declining or set rate.

Inspiration is working on Chichagoff Island at this point. If the mine goes into operation, everything will be done except smelting on location. Refining could be done, possibly, in the future. As to the number of people to be employed, 200 was the estimate.

Eliason asked about land classification. Thornsbury stated that a wilderness classification would make it impossible to meet the requirements in order to mine.

Bill Huff spoke about land withdrawals vs. national security. We must have good domestic mineral supply. There is a long time-lag between finding minerals and developing them. An example of mining that must be developed is the nickel deposit in Glacier Bay.

Chairman Anderson expressed committee support of development. Rural areas must be developed to support themselves. However, there are many anti-development people in Alaska.

It was moved to add the amendment on Page 10, Line 16 and 17. Motion passed.

Betch expressed concern about the amendment. The "one mining business" wording could be a loophole for several mines, and lots of deductions. He had no objection to the first amendment. It was Line 9 of that amendment that was the problem.

Discussion of the "one business" situation ascertained that "mining business operations" needs to be clarified as opposed to "mining business"

Betch said that the second amendment would allow separation for taxation. The rate schedule would be applied. Motion carried to add the amendment to Line 8.

Motion to amend Line 9 passed, with Smith objecting.

Re: Line 15, Betch stated that this is standard accounting language that is proposed. No action was taken on the amendment.

Motion was made to amend Line 4, page 3, by adding the words "exploration and". Motion carried.

Motion was made to amend Page 3 Line 11 by adding a new subsection allowing offsetting losses in subsequent years. Motion passed.

Re: definition of minerals on page 9, Line 27 and 28, discussion included the fact that molibdanum, uranium and titanium should be added to the list of minerals. "Sand and gravel" should be struck from the mineral list and classified as "materials." Also, on Pg. 4, every place minerals occurs, "or materials" should be added.

Eliason asked about the handling of rock quarries. Smith answered that they are "materials" under a state sale.

McDona stated that even dirt is a mineral. Valuable metals should be the same, not minerals.

Smith suggested listing by exception instead of attempting to name all of the minerals.

Re: definitions, "all locatable and leasable minerals except sand, gravel, building materials, topsoil, oil and gas" Motion to adopt the definitions passed.

Motion to adopt the new subsection 8 on page 10 and add "materials" and also on page 4 wherever "minerals" occurs, passed.

Betch questioned page 1, the net proceeds tax wording, and the graduated increase based on ability to pay. A flat rate would give the incentive to the larger operator.

Eliason suggested listing the changes line by line for the Finance Committee.

Re: CSSS HB 615. Motion was made to adopt the new \$19,690,000 amount. Smith stated that he was not concerned with detail. Experts will take care of that. Also, non-profit groups will take over alot of what Fish and Game has proposed. He would exclude items 2, 3, 15 and 16 from the list of projects. "Let's not support hatcheries yet."

Eliason stated that we need to either get with it or get out of it. By removing hatchery programs we're regressing.

Smith stated that he had no qualms about the hatchery program, but do we want hatchery programs? It is the first phase of a 300 million dollar program.

Eliason stated that most people seem to be behind the program.

Chairman Anderson mentioned the lack of definitive site selection information at this time.

Eliason stated the difficulty in Southeast as to getting together on

projects. The private sector can't do it in SE.

Huntington stated that the Interior rivers need to be rehabilitated.

Motion to amend to delete items 2, 3, 15 and 16 was defeated.

Motion was made to specify areas and amounts, specifying by line item certain projects totaling \$45,000.

Anderson asked what Huntington would do with the facility? Huntington answered that experiments could be done, with development at the same time.

Brown answered that the intent of the motion is to make distribution of the monies specific. He favored it.

As to what to do if the designated areas don't lend themselves to development, Huntington answered that a small unit could be developed and used.

Motion to pass the Huntington amendment passed.

Motion to pass the original motion as amended passed, with a majority of Do Pass recommendations.

Re: CS HB 654. The Committee Substitute was presented. There was brief discussion, including that the definition of minerals is different for tax purposes than for land. Discussion also zeroed in on the need for a 60-day notification to persons before a classification change. Concern was stated regarding agricultural changes, when agriculture may not be the highest and best use.

An amendment to paragraph c, Line 26, page 5, regarding notice----if requested a hearing may be held-----etc. Motion adopted
Motion to move CS HB 654 out of committee with a Do Pass recommendation carried.