

HB

498

HFIN

FILE

A M E N D M E N T

OFFERED IN THE HOUSE

TO: CSHB 498(RES)

Page 2, line 30, after "CREDITS.":

Delete "The"

Insert "(a) Subject to (b) of this section, the"

Page 3, following line 14:

Insert a new subsection to read:

"(b) A qualified applicant may not apply the credit authorized by this chapter to reduce the applicant's total cumulative liability for taxes and mineral production royalty payments based on production against which the exploration incentive credit may be applied under this chapter by more than 50 percent during any year."

A M E N D M E N T

2 failed

OFFERED IN THE HOUSE
TO: CSHB 498(RES)

Page 2, line 31:

Delete "parcel or site"

Insert "mining lease or coal lease or, if the exploration activity is not under lease, then for each mining location or prospecting permit"

Page 3, line 3:

Delete "parcel or site"

Insert "mining lease, coal lease, mining location, or area described in the prospecting permit, as applicable,"

Page 3, line 6:

Delete "on the parcel or site"

Insert "within the area described in the mining lease, coal lease, mining location, or prospecting permit and"

Page 3, line 19:

Delete "site at"

Insert "mining lease, coal lease, mining location, or prospecting permit on"

AMENDMENT

1
failed

OFFERED IN THE HOUSE
TO: CSHB 498(RES)

Page 2, line 8:

Delete "AS 43.20 and"

Page 3, line 2:

Delete "AS 43.20 and"

Page 5, lines 16 - 19:

Delete all material.

Renumber the following bill sections accordingly.

Adopt

8-LS1644R.3 ✓
Chenoweth
4/5/94

AMENDMENT 3

OFFERED IN THE HOUSE
TO: CSHB 498(RES)

Page 3, lines 1 - 4:

Delete all material and insert:

"(1) 50 percent of the combined amount payable by the qualified applicant, based on the production from the parcel or site on which the exploration activity occurred, as taxes under AS 43.20 and AS 43.65 and as mineral production royalty payments due under AS 38.05.135 - 38.05.175; or"

HOUSE COMMITTEE REPORT

(11)

Date Referred: March 29, 1994

FURTHER REFERRALS:

Date of Committee Action: 4/6/94

The FINANCE Committee considered:

HB 498

HOUSE BILL NO. 498

MINERAL EXPLORATION INCENTIVE CREDITS

"An Act providing for exploration incentive credits for activities involving locatable and leasable minerals and coal deposits on certain land in the state; and providing for an effective date."

RECOMMENDATIONS:

be replaced with CS HB 498 (Fin)

the same title
 a new title

have attached amendments(s)

do pass

do not pass

no recommendations

individual recommendations

additional referral to the _____ Committee

ADOPTS: _____ letter of Intent

ATTACHES NEW FISCAL NOTE(S): _____ (Dept)

APPROVES PREVIOUS: _____ (Dept/Date)

fiscal impact _____

fiscal note(s) _____

zero fiscal note _____

zero fiscal note(s) REV 3/29/94

SIGNING DO PASS	DP	OTHER RECOMMENDATIONS	DNP	NR	AM
<i>Maclean</i>		<i>Grussendorf</i>		X	
<i>Eileen P. Maclean</i>		<i>Brown</i>			
<i>Ronald J. Hanson</i>	X	<i>Tam Brown Brown</i>			
<i>Mark J. Hanley</i>	X				
<i>Sean R. Farrell</i>	X				
<i>Therriault</i>	X				
<i>Richard Dorel</i>	X				
<i>Foster</i>					

Ronald J. Hanson
 CHAIRMAN'S SIGNATURE

FISCAL NOTE

STATE OF ALASKA
1994 LEGISLATIVE SESSION

BILL NO. CSHB 498 (RES)

Revis. on Date:	Dept. Affected: Revenue
Title: Mineral Exploration Incentive Credits	BRU: Revenue Operations
	Component: Income and Excise Audit
Sponsor: Representatives Foster, MacLean	
Requestor: (H) RES	COMPONENT SERIAL NO. 113

Expenditures/Revenues: (Thousands of Dollars)

OPERATING	FY95	FY96	FY97	FY98	FY99	FY00
PERSONAL SERVICES						
TRAVEL						
CONTRACTUAL						
SUPPLIES						
EQUIPMENT						
LAND & STRUCTURES						
GRANTS, CLAIMS						
MISCELLANEOUS						
TOTAL OPERATING	0.0	0.0	0.0	0.0	0.0	0.0

CAPITAL						
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REVENUE FUND SOURCE: General	Up to (17MM)	Up to (17MM)	Up to (17MM)	Up to (17MM)	Up to (17MM)	Up to (17MM)
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FUNDING: (Thousands of Dollars)

1002 Federal Receipts						
1003 GF Match						
1004 GF						
1005 GF/Program Receipts						
1006 GF/MHTIA						
Other						
TOTAL	0.0	0.0	0.0	0.0	0.0	0.0

POSITIONS:

FULL-TIME						
PART-TIME						
TEMPORARY						

Estimate of current year (FY94) impact: \$ 0.0

ANALYSIS: (Attach a separate page if necessary.)

MM equals millions
(See Attached)

Prepared by: <u>Larry E. Meyers</u>	Phone: <u>465-2320</u>
Division: <u>Income and Excise Audit Division</u>	Date: <u>March 29, 1994</u>
Approved by Commissioner: <u>Darrel J. Rexwinkel</u>	Date: <u>March 29, 1994</u>
Agency: <u>Department of Revenue</u>	

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Bill Analysis

This bill grants an exploration incentive credit to qualified applicants for activities related to determining the existence, location, extent and quality of a locatable or leasable mineral or coal deposits. The credit may be claimed against corporation net income and mining license taxes under AS 43.20 and AS 43.65, respectively, and royalties under AS 38.05.135 - 38.05.175.

The credit is limited in any one tax year to 60% of direct labor costs for Alaska residents and 50% of direct labor costs for nonresidents and other eligible costs that qualify for the credit not to exceed 50% of the sum amount payable as taxes and royalties under AS 43.20, AS 43.65 and AS 38.05. The credit is available as a carryforward for 15 years.

The credit may be assigned to the applicant's successor in interest for the site at which exploration activities occur if the successor is a qualified applicant.

This bill has a retroactive effective date of January 1, 1994.

Operating Costs

Department of Revenue does not anticipate additional costs to administer the provisions of this bill. The Department would modify current forms to provide for taxpayers to claim credits.

Revenue

Average corporation net income and mining license tax collections over the past three fiscal years were approximately \$186 million. According to Department of Natural Resources' publication *Alaska's Mineral Industry 1993: A Summary*, exploration expenditures in 1993 were \$28.2 million.

Since credits are limited to the lesser of the percentages of eligible costs outlined above or 50% of taxes payable, the maximum amount of credits which could have been claimed for 1993 would have been limited to 60% of expenditures (assuming all costs are for direct labor for residents) or approximately \$17 million. Total expenditures may increase as a result of the incentive program under this bill. Accordingly, the maximum amount of credits would increase over time in proportion to expenditures.

Amounts claimed as credits will vary each year depending on amounts expended for exploration, credits assigned to successor corporations, credits carried forward over the 15 year period allowed, and the effect of credits applied against royalty payments as provided for under this bill.

Sponsor Statement

HB 498

Rep. Richard Foster

HB 498: An Act Providing for Exploration Credits for Activities Involving locatable and leasable minerals and coal deposits.

HB 498 allows credits of up to 50% of qualified exploration expenditures that can be used to offset state royalty payments and income taxes. The credit must be used within 15 years after it is extended by the commissioner of Natural Resources.

The credit must be granted if the applicant is authorized to do business in the state and adequately documents the exploration activity. Data provided to the Commissioner must be kept confidential for 36 months after receipt. Credits are assignable and may be carried forward and/or apportioned between royalty and taxes, in the applicants discretion, but may not exceed the combined amount of taxes and royalties due for the period in which the credit is being used.

This bill implements one of the recommendations of the Alaska Minerals Commission contained in their January 1994 Report (Report). Over the past several years there has been a mass exodus of mineral exploration investment from the lower 48 states and to a lesser extent away from Alaska. These dollars are now being invested in Mexico, Chile, Indonesia, and Russia, to name a few.

Much of this shift is attributable to ever-increasing regulatory and political obstacles in the U.S. and pro-active foreign mineral exploration and development policies, including elimination of royalties and tax incentives. Fortunately, and while this could change at any time, Alaska's image has been improving for the past several years after a long period of disfavor; although there is still a concern that our remoteness and lack of infrastructure and access to public lands work as significant disadvantages.

Alaska is blessed with an abundance of geologically favorable terrain. This bill is one of several things the legislature can do to reinforce the distinction between Alaska and the the lower 48, address the issue of foreign competition and encourage further investment in our mining industry.

HB 498 proposes a meaningful and reasonably attractive economic incentive that will help offset real and perceived problems facing exploration here and send a clear message to the world that Alaska is a good place to do business.



Council of Alaska Producers

P.O. Box 22653 Juneau, Alaska 99802

POSITION STATEMENT: CSHB 498

House Finance Committee

The Council of Alaska Producers, otherwise known as the Producers Council, is an Alaska non-profit corporation whose members include Alaska Gold Company, American Copper and Nickel Company, Inc., Cambior Alaska, Cominco Alaska Incorporated, Echo Bay Alaska, Fairbanks Gold Mining, Inc., Greens Creek Mining Company, Kensington Venture, and North Pacific Mining. The Producers Council strongly supports CS for HB 498 (Resources) which allows tax and royalty credits for qualified mineral exploration expenditures.

Alaska is competing with a global market for mineral exploration and development dollars. Throughout the world, countries are actively courting mining companies by offering economic incentives and other inducements. These efforts have been particularly successful in Chile and Mexico where privatization and tax incentives have revitalized their mining industries.

At the same time, ever-increasing regulatory and political obstacles in the lower 48 are forcing many companies to look elsewhere. While Alaska's image has actually improved over the last several years, exploration expenditures also are down here and we still must overcome legitimate concerns about our remoteness, weather and lack of access to public lands, along with an overriding perception that state and federal agencies are not that friendly to mining in the Last Frontier.

The CS for HB 498 - which implements a key recommendation of the Alaska Minerals Commission in their January 1994 Report - begins to address these issues by proposing a modestly attractive incentive system that encourages reasonable exploration efforts, helps to offset logistical disadvantages and sends a clear message to industry that we want to see more, not less mining activity in this state. HB 498 will not solve all of our problems but it is one of several things we can and should do to draw more industry attention to Alaska and compete in this increasingly competitive global marketplace.

Our mineral industry is in its infancy and there is much room to grow. If we truly want to help diversify an oil dependent economy and fully develop our vast mineral resource potential we must take action now to encourage more exploration activity. Yes, there may be some impact on the

treasury but there also may be more money circulating in the economy. And if this strategy works as expected, expanded exploration efforts eventually will lead to more operating mines, and as important, more good jobs for Alaskans.



ALASKA MINERS ASSOCIATION, INC.

501 W. Northern Lights Blvd., Suite 203, Anchorage, Alaska 99503 FAX: (907) 278-7997 Telephone: (907) 276-0347

March 9, 1994

Honorable William Williams
Chairman
House Resources Committee
State Capitol
Juneau, AK 99811

RE: HB-498, Exploration Incentives

Dear Representative Williams,

The Alaska Miners Association wishes to go on record in support of House Bill 498 which provides financial incentives for companies and individuals to explore for and develop mineral deposits in the state. This is an important bill that will encourage both the small prospector as well as large international mining companies to invest here in Alaska.

In addition to being an encouragement to invest, HB-498 also insures that the state and the rest of the industry will have access to the data generated. This bill requires that the company wishing to receive the incentive credit document the expenditures it has made and provide the State Division of Geological & Geophysical Surveys with drill core, drill cuttings, sample analysis, etc. This can be a tremendous help for the other companies as they search for minerals and without this provision of the bill this data would remain proprietary and would not be available to the industry as a whole.

One important aspect of the bill is that a company can assign their exploration credit to another company. This can become very important when developing financing for a mineral project. A company that may otherwise not invest can be encouraged if they know they can assign their expenditures, if for example they are not able to continue in the project due to other unrelated financial reasons. If they can assign their credits to the next company to buy into the project, they can recover some of their expenditures. The bottom line is that more exploration will result and more mineral deposits will likely be discovered which can provide jobs, facilities that increase the local tax base, and ultimately company profits that can then be taxed by the state.

There is one location where a minor but important change is needed. That location is in Section 27.30.090. DEFINITIONS, where page 3, line 18 should be changed to read "(2) "geochemical methods" means [ore] soil, rock, water, vegetation, etc. samples collected and



ALASKA MINERS ASSOCIATION, INC.

their chemical analyses;". The term "ore" is not appropriate here because that term, by definition, means material that can be mined at a profit. Geochemical sampling on the other hand is a technique used to find minerals long before it is known if a minable deposit actually exists. Also, some geochemical samples are taken of soil or vegetation while looking for trace elements that may be present and could be an indicator of metals in the area.

HB-498 comes at an important time for encouraging the minerals investments in Alaska. There is now a mass exodus of exploration funds away from federal lands throughout the western U.S. This is due primarily to the increasingly oppressive regulatory climate in the U.S. and to the efforts to change the federal mining law. Alaska cannot correct all of these problems but Alaska can add this incentive to encourage investment. HB-498 will send the message to the international mining industry that Alaska is seeking to improve the investment climate. This bill is one more indication that Alaska is working to encourage mineral development.

If you have any questions regarding this bill please contact me.

Sincerely,

Steven C. Borell, P.E.
Executive Director

cc: Representative Foster
Representative MacLean

(9)

Date Referred: February 14, 1994

FURTHER REFERRALS:

Finance

Date of Committee Action: 3/25/94

The RESOURCES Committee considered:

HB 498

HOUSE BILL NO. 498

MINERAL EXPLORATION INCENTIVE CREDITS

"An Act providing for exploration incentive credits for activities involving locatable and leasable minerals and coal deposits on certain land in the state; and providing for an effective date."

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individual recommendations

additional referral to the _____ Committee

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APPROVES PREVIOUS: _____ (Dept/Date)

fiscal impact Revenue

fiscal note(s) _____

zero fiscal note _____

zero fiscal note(s) _____

SIGNING <u>DO</u> PASS	DP	OTHER RECOMMENDATIONS	DNP	NR	AM
<u>Bill Hudson</u> Hudson	<input checked="" type="checkbox"/>	<u>David Hubsten</u> Hinkelstein			<input checked="" type="checkbox"/>
<u>John Carney</u> Carney	<input checked="" type="checkbox"/>				
<u>Robert Green</u> Green	<input checked="" type="checkbox"/>				
<u>James James</u> James	<input checked="" type="checkbox"/>				
<u>James Davies</u> Davies	<input checked="" type="checkbox"/>				
<u>Car Bunde</u> Bunde	<input checked="" type="checkbox"/>				
<u>W.R. Williams</u> Williams	<input checked="" type="checkbox"/>				

W.R. Williams
CHAIRMAN'S SIGNATURE



ALASKA MINERS ASSOCIATION, INC.

501 W. Northern Lights Blvd., Suite 203, Anchorage, Alaska 99503 FAX: (907) 276-7997 Telephone: (907) 276-0347

Honorable Ron Larson
Honorable Eileen MacLean
Co-Chairmen
House Finance Committee
State Capitol
Juneau, AK 99811

April 4, 1994

RE: CSHB-498, Exploration Incentives

Dear Representatives Larson and MacLean,

The Alaska Miners Association wishes to go on record in support of the Committee Substitute for House Bill 498 which provides financial incentives for companies and individuals to explore for and develop mineral deposits in the state. This is an important bill that will encourage both the small prospector as well as large international mining companies to invest here in Alaska.

In addition to being an encouragement to invest, CSHB-498 also insures that the state and the rest of the industry will have access to the data generated. This bill requires that the company wishing to receive the incentive credit document the expenditures it has made and provide the State Division of Geologic & Geophysical Surveys with drill core, drill cuttings, sample analysis, etc. This can be a tremendous help for other companies as they search for minerals. Without this provision the data would remain proprietary and would not be available to the industry as a whole.

One important aspect of the bill is that a company can assign their exploration credit to another company that may become the owner of the project at a later date. This can become very important when developing financing for a mineral project. A company that may otherwise not invest can be encouraged if they know they can assign their expenditures, if for example they are not able to continue in the project due to other un-related financial reasons. If they can assign their credits to the next company to buy into the project, they can recover some of their expenditures. The bottom line is that more exploration will result and more mineral deposits will likely be discovered that can provide jobs, facilities that increase the local tax base, and ultimately company profits that can then be taxed by the state.

CSHB-498 comes at an important time for encouraging the mineral investment in Alaska. There is now a mass exodus of exploration funds away from federal lands throughout the western U.S. This is due primarily to the increasingly oppressive regulatory climate in the U.S. and to the efforts to change the federal mining law. Alaska cannot correct all of these problems but Alaska can add the exploration incentive of this bill to encourage investment. CSHB-498 will send the message to the international mining industry that Alaska is seeking to improve the investment climate. This bill is one more indication that Alaska is working to encourage mineral development.

If you have any questions regarding this bill please contact me.

Sincerely,


Steven C. Borell, P.E.
Executive Director

cc: Representative Foster