

HB

498

SFIN

FILE

SENATE FINANCE COMMITTEE REPORT

DATE: 4/18/94

FURTHER:

DATE TURNED INTO OFFICE: 5-1-94

The Finance Committee considered **CS FOR HOUSE BILL NO. 498(FIN)**

"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."

and recommends:

replace with S CS CS HB 498 (FINANCE)
 or adopt previous _____ CS _____
 attaches amendment(s)

same title
 new title
 technical title change (HB only)

adopts _____ Letter of Intent

further referral to the _____

do pass

do not pass

no recommendation

individual recommendations

NEW FISCAL NOTES

Department	Date	Zero	Fiscal
Revenue	5/2/94	<input checked="" type="checkbox"/>	

PREVIOUS FISCAL NOTES

Department	Date	Zero	Fiscal

Appropriation No Fiscal Note

DO PASS:

Tim Kelly
Barry Sharp

OTHER RECOMMENDATIONS:

Steve Kren No Recommendation

1. Mark do Pass
 Co-Chair: Signature/Recommendation

2. Tim Kren - No Rec
 Co-Chair: Signature/Recommendation

Call from

5/1/94
4:30pm

Chenoweth 3867

Conflicting Amends #1 & 5

#1 (Kerthala) allows credits up
to 50% based on residency

#5 (Kelly) allows credits up
to 50% on state land and
25% on non-state land
with no reference to
residency.

What should he do?

Attempt to marry the two?

Sen. Pearce said to marry.



HOB
498
Rec'd by
Carol

4-19-94
JK 3/1
Adopted

8-LS1872E.1
Chenoweth
4/18/94

A M E N D M E N T

OFFERED IN THE SENATE

TO: ~~CSSB 371~~(RES)
HB 498

SENATE FINANCE
COMMITTEE

Amendment Number: #1
Bill Number: HB 498
Sponsor: KERTTUA Date: 4/18/94
Logged In By: SJS

Page 2, line 30, through page 3, line 14:

Delete all material and insert:

"Sec. 27.30.020. LIMIT ON CREDITS. The amount of exploration incentive credits for each parcel or site may not exceed the lesser of

(1) 50 percent of the combined amount payable by the qualified applicant 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 for production from the parcel or site on which the exploration activity occurred; or

(2) with reference to activities that qualify for an exploration incentive credit that occur on the parcel or site on which the exploration activity occurred, 50 percent of

(A) direct labor costs, including the cost of benefits, incurred by the applicant for employees directly associated with work described in AS 27.30.010(a)(1) - (4) who are residents; and

(B) other eligible costs."

Page 4, lines 2 - 13:

Delete all material and insert:

"(3) "other eligible costs" means the costs incurred for activities in direct support of exploration activity conducted for the purpose of determining the existence, location, extent, or quality of a mineral or coal deposit; the term

(A) includes the cost of renting or leasing equipment from parties not affiliated with the applicant, the reasonable costs of maintaining and operating equipment, payments to consultants and independent contractors not affiliated with the applicant, and costs of materials and supplies;

(B) does not include

(i) direct labor costs, including the cost of benefits, incurred by the applicant for employees directly associated with work described in AS 27.30.010(a)(1) - (4) who are not residents; and

(ii) noncash expenses such as depreciation and reserves, interest or other costs of borrowed funds, return on investment, overhead, insurance or bond premiums, or any other expense that is unreasonable or that the applicant has not incurred to complete work described in AS 27.30.010(a)(1) - (4);"

4-19-94
SF
Adopted

8-LS1644NU.9
Chenoweth
4/18/94

AMENDMENT

OFFERED IN THE SENATE
TO: CSHB 498(FIN)

SENATE FINANCE
COMMITTEE #2
Amendment Number:
Bill Number: HB 498
Sponsor: FRANK Date: 19 APR 94
Logged In By: [Signature]

Page 1, line 8, after "(a)":

Delete "The"

Insert "Unless otherwise provided by law, the"

4-19-94
TKZ
Accepted
8-LS1644U.14
Chenoweth
4/19/94

AMENDMENT

OFFERED IN THE SENATE

TO: CSHB 498(FIN)

Page 6, lines 1 - 3:

Delete all material.

Re-number the following bill section accordingly.

SENATE FINANCE
COMMITTEE #3
Amendment Number: #3
Bill Number: HB 498
Sponsor: KELLY Date: 19APR294
Logged In By: SIS

4-19-94
TK3

3-LS1644U.18^v removed
Chenoweth notice
4/19/94

Pending
at SF
request

AMENDMENT

ADOPTED

OFFERED IN THE SENATE
TO: CSHB 498(FIN)

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

Insert "(a)"

Page 3, following line 14:

Insert a new subsection to read:

"(b) The amount of an exploration incentive credit extended under this chapter may not exceed an amount per parcel or site, as determined by the commissioner by regulation."

SENATE FINANCE
COMMITTEE #4
Amendment Number: #4
Bill Number: HB 498
Sponsor: KELLY Date: 11 APR 94
Logged In By: SJA

4-19-94

Pending

8-LS1644U.17
Chenoweth
4/19/94

ADOPTED

A M E N D M E N T

OFFERED IN THE SENATE

TO: CSHB 498(FIN)

SENATE FINANCE
COMMITTEE

Amendment Number: #5
Bill Number: HB 498
Sponsor: KELLY Date: 19 APR 94
Logged In By: [Signature]

Page 2, line 30, through page 3, line 14:

Delete all material and insert:

"Sec. 27.30.020. LIMIT ON CREDITS. The amount of an exploration incentive credit may not exceed 50 percent of eligible costs relating to activities performed on state-owned land and 25 percent of eligible costs relating to activities performed on land in the state not owned by the state."

Page 3, line 28, after "(1)":

Insert ""eligible costs" means those costs incurred for activities in direct support of an exploration activity conducted for the purpose of determining the existence, location, extent, or quality of a mineral or coal deposit; the term

(A) includes

(i) direct labor costs, including the cost of benefits, incurred by the applicant for employees directly associated with work described in AS 27.30.010(a)(1) - (4); and

(ii) the cost of renting or leasing equipment from parties not affiliated with the applicant, the reasonable costs of maintaining and operating equipment, payments to consultants and independent contractors not affiliated with the applicant, and costs of materials and supplies;

(B) does not include noncash expenses such as depreciation and reserves, interest or other costs of borrowed funds, return on investment, overhead, insurance or bond premiums, or any other expense that is unreasonable or that the applicant has not incurred to complete work described in AS 27.30.010(a)(1) - (4);

over

(2)"

Renumber the following paragraphs accordingly.

Page 4, lines 2 - 13:

Delete all material.

Renumber the following paragraph accordingly.

Page 4, line 23:

Delete ";

Insert "."

Page 4, lines 24 - 25:

Delete all material.

A M E N D M E N T

OFFERED IN THE SENATE
TO: CSHB 498(FIN)

Page 2, line 8:

Delete "AS 43.20 and"

Page 3, line 3:

Delete "AS 43.20 and"

Page 5, lines 16 - 19:

Delete all material.

Renumber the following bill sections accordingly.

716
by FRANK
MOVED &
ADOPTED

FISCAL NOTE

STATE OF ALASKA
1994 LEGISLATIVE SESSION

BILL NO. SCS CSHB 498 (FIN)

Revision Date: _____
Title: Mineral Exploration Incentive Credits
Sponsor: Representatives Foster, MacLean
Requestor: (S) RLS

Dept. Affected: Revenue
BRU: Revenue Operations
Component: Income and Excise Audit

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						

REVENUE FUND SOURCE: General	Up to (205.0)	Up to (205.0)	Up to (205.0)	Up to (205.0)	Up to (205.0)	Up to (205.0)
------------------------------	---------------	---------------	---------------	---------------	---------------	---------------

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.)

Average mining license tax collections for the past three fiscal years were approximately \$410,000. Since credits are limited to the lesser of 50% of taxes payable or a percentage of costs, the maximum amount of credits which could be claimed in a year is estimated to be \$205,000, assuming that the cost limitation exceeds the tax limitation.

Prepared by: Larry E. Meyers LEM Phone: 465-2320
 Division: Income and Excise Audit Division Date: May 2, 1994
 Approved by Commissioner: Darrel J. Rexwinkel Date: May 2, 1994
 Agency: Department of Revenue

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FISCAL NOTE

No. 1
 Bill Version: CSHB 498 (RES)
 (H) Publish Date: 3/29/94

STATE OF ALASKA
 1994 LEGISLATIVE SESSION

BILL

Revision 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						
---------	--	--	--	--	--	--

REVENUE FUND SOURCE: General	Up to (17MM)	Up to (17MM)	Up to (17MM)	Up to (17MM)	Up to (17MM)	Up to (17MM)
------------------------------	--------------	--------------	--------------	--------------	--------------	--------------

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.

SENATE FINANCE COMMITTEE REPORT

DATE: 4/18/94

FURTHER:

DATE TURNED INTO OFFICE: 5-1-94

The Finance Committee considered **CS FOR HOUSE BILL NO. 498(FIN)**

"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."

and recommends:

- replace with S CS CS HB 498 (FINANCE)
- or adopt previous _____ CS _____
- attaches amendment(s)

- same title
- new title
- technical title change (HB only)

adopts _____ Letter of Intent

further referral to the _____

do pass

do not pass

no recommendation

individual recommendations

NEW FISCAL NOTES

Department	Date	Zero	Fiscal
Revenue			

PREVIOUS FISCAL NOTES

Department	Date	Zero	Fiscal

Appropriation No Fiscal Note

DO PASS:

Tim Kelly
Bob Chang

OTHER RECOMMENDATIONS:

None then No Recommendation

1. Mark do pass
Co-Chair: Signature/Recommendation

2. Tim Kelly - No Rec
Co-Chair: Signature/Recommendation

AMENDMENT

#6

OFFERED IN THE SENATE
TO: CSHB 498(FIN)

Page 2, line 8:

Delete "AS 43.20 and"

Page 3, line 3:

Delete "AS 43.20 and"

Page 5, lines 16 - 19:

Delete all material.

Renumber the following bill sections accordingly.

FISCAL NOTE

Deery
NB 498
SBSTI

STATE OF ALASKA
1994 LEGISLATIVE SESSION

BILL NO.

Revision Date: Original Dept Affected: Natural Resources
 Title: "An Act providing for exploration incentive
credits for activities involving locatable and leaseable minerals... BRU: Resource Development
 Sponsor: Senate Resources Committee Component: Mining Development
 Requestor: Senate Resources Committee Component Serial No. 442

Expenditures/Revenues

(Thousands of Dollars)

OPERATING EXPENDITURES	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 EXPENDITURES	0.0	0.0	0.0	0.0	0.0	0.0
CHANGE IN REVENUES (1004)	(0.5)	(0.5)	(0.5)	(0.5)	(0.5)	(0.5)

FUND SOURCE

(Thousands of Dollars)

	FY95	FY96	FY97	FY98	FY99	FY00
1002 Federal Receipts						
1003 GF Match						
1004 GF						
1005 GP/Program Receipts						
1008 GF/MHTIA						
Other						
TOTAL	0.0	0.0	0.0	0.0	0.0	0.0

Estimate of any current year (FY94) cost: \$ None

POSITIONS

	FY95	FY96	FY97	FY98	FY99	FY00
FULL-TIME	0	0	0	0	0	0
PART-TIME	0	0	0	0	0	0
TEMPORARY	0	0	0	0	0	0

ANALYSIS: (Attach a separate page if necessary)
 SEE ATTACHED.

Prepared by: Jerry Gallagher, Director Phone: 465-2400
 Division: Mining Date: 13-Apr-94
 Approved by Commissioner: Harry A. Noah Date: 13-Apr-94
 Agency: Natural Resources

PREPARED TO PROVIDE ALL DISTRIBUTION COPIES TO GOVERNOR'S LEGISLATIVE OFFICE

SB 371Fiscal Impacts for Royalty

- Assume:
- 1) Calculations for this F/N only applies to royalty portions. Corporate tax impacts to be provided by Dept. of Revenue.
 - 2) Development work at existing mines does not fall under the definition, or intent, of "exploration" of SB 371.
 - 3) Credit calculated after 50% of royalty accounted to Permanent Fund. Therefore, credit is 50% of the remaining 50% of royalty paid (or 25% of total paid).
 - 4) Exploration that can be credited can only be counted after the effective date of this act. (For example, exploration conducted at a site in 1985 that's now in production cannot be used to affect current royalty obligation.)
 - 5) Ten (10) new placer mines that qualify during the first year; and at year 10, one new major hardrock and one new coal mine.

therefore:

- 1) Annual Royalty from 10 Placer Mine = \$2,000
25% x \$2,000 = \$500.00/year credit
- 2) Annual Royalty from 1 Coal Mine = \$1,000,000
25% x \$1,000,000 = \$250,000/year credit
- 3) Annual Royalty from 1 Hardrock Mine = \$100,000
25% x \$100,000 = \$25,000/year credit

Fiscal impact from SB 171 credits for royalty:

in thousands

Year 1	<0.5>
2	<0.5>
3	<0.5>
4	<0.5>
5	<0.5>
6	<0.5>
7	<0.5>
8	<0.5>
9	<0.5>
10	<275>
11	<275>
12	<275>
13	<275>
14	<275>
15	<275>

Alaska House of Representatives

Richard Foster
P.O. Box 1630
Nome, Alaska 99762-1630
907-443-5036
Fax 907-443-2162



During Session
State Capitol
Juneau, Alaska 99801-1182
907-465-3789
Fax 907-465-3242

Sponsor Statement

Sponsor's Statement

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

CSHB 498 allows credits of up to 50% of qualified exploration expenditures that can be used to offset state royalty payments and income taxes. There is an additional 10% credit for the use of Alaska Resident labor that meets specific criteria. 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 site specific, 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.

CSHB 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.



ALASKA MINERS ASSOCIATION, INC.

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

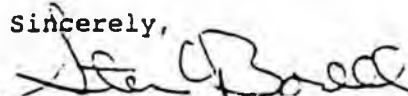
In addition to being an encouragement to invest, CSHB-498 also insures that the state and the rest of the industry will have access to the data generated. This bill requires that the company wishing to receive the incentive credit document the expenditures it has made and provide the State Division of 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



Resource Development Council for Alaska, Inc.

121 West Fireweed Lane, Suite 250, Anchorage, Alaska 99503-2035
Phone 907-276-0700 Fax 276-3887

FOUNDED 1975

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Becky J. Giv

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RDC Testimony on CSHB 498 April 13, 1994:

The Resource Development Council supports CSHB 498: "An act providing for exploration credits for activities involving locatable and leasable minerals and coal deposits."

The Resource Development Council is a non-profit, membership funded organization made up of individuals, business associations, labor unions, Native corporations and local governments. RDC's purpose is to encourage a strong, diversified resource development sector in Alaska and expand the state's economic base.

This bill is important because it encourages investments, ensures that the state and the rest of the industry will have access to the data generated, and allows companies to assign their exploration credit to another company that may become the owner of the project at a later date.

Few mineral deposits are economical and it is not possible to know where these deposits are until they are discovered and evaluated by firms willing to take the very high risk involved. It's important to provide incentives so exploration will be undertaken.

The issue of multiple use is central to the future of mining in Alaska. State lands should be managed for multiple use and not restricted to limited uses in certain areas. Approximately 60% of Alaska is already closed to mineral entry or any other form of development. The lands originally selected by the State were often chosen for resource development and nothing should be done to compromise this objective. With the amount of land already protected in conservation units all around Alaska, it is reasonable and realistic to allow and promote mineral exploration on parcels of land remaining in productive status.

It's important for the State to provide economic incentives for mining activities. Mining is a vital resource activity in Alaska, and the economic driving force for many individuals and communities. The local prospector, mining companies and lending institutions need to be re-assured that the State of Alaska supports mining and minerals development.

Thank you for the opportunity to submit comments on CSHB 498.

**CS FOR SENATE BILL NO. 371(RES)
IN THE LEGISLATURE OF THE STATE OF ALASKA
EIGHTEENTH LEGISLATURE - SECOND SESSION**

BY THE SENATE RESOURCES COMMITTEE

**Offered: 4/14/94
Referred: Finance**

Sponsor(s): SENATE RESOURCES COMMITTEE

A BILL

FOR AN ACT ENTITLED

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

4 **BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF ALASKA:**

5 * **Section 1.** AS 27 is amended by adding a new chapter to read:

6 **CHAPTER 30. EXPLORATION INCENTIVE CREDITS.**

7 **Sec. 27.30.010. EXPLORATION INCENTIVE CREDITS AUTHORIZED.**

8 (a) Unless otherwise provided by law, the commissioner shall grant to a qualified
9 applicant an exploration incentive credit for each of the following activities performed
10 on or for the benefit of land in the state for the purpose of determining the existence,
11 location, extent, or quality of a locatable or leasable mineral or coal deposit, regardless
12 of whether the land is state-owned land:

13 (1) surveying by geophysical or geochemical methods;

14 (2) drilling exploration holes;

1 (3) conducting underground exploration; or
2 (4) performing other exploratory work, including aerial photographs,
3 geological and geophysical logging, and sample analysis, for the purpose of
4 determining the existence, location, extent, or quality of the deposit.

5 (b) An exploration incentive credit granted under (a) of this section may be

6 (1) applied, at the discretion of the qualified applicant and subject to
7 the limit of AS 27.30.020, against

8 (A) taxes payable under AS 43.20 and AS 43.65; and

9 (B) mineral production royalty payments due the state under
10 AS 38.05.135 - 38.05.175; and

11 (2) carried forward to a subsequent tax year or payment period, except
12 as limited by AS 27.30.030.

13 (c) An exploration incentive credit shall be granted under (a) of this section
14 to a qualified applicant if the qualified applicant provides the commissioner satisfactory
15 documentation of exploration activity conducted and of the direct labor costs and other
16 eligible costs incurred to complete the work described in (a) of this section. For
17 purposes of this subsection, "satisfactory documentation of exploration activity"
18 includes, where applicable,

19 (1) a representative skeleton core for each hole cored or a
20 representative set of cuttings for each hole rotary drilled;

21 (2) chemical analytical data and noninterpretive geophysical data;

22 (3) aerial photographs or a topographic or geologic map showing the
23 location of the drill holes, sample locations, or the other exploration activities
24 undertaken; if the locations are shown on a map, the map must have a scale of not less
25 than one inch to the mile showing reference to a recognized coordinate system; and

26 (4) a cost breakdown showing amounts claimed by the applicant as an
27 exploration incentive under this subsection.

28 (d) Data provided to the commissioner under (c)(2) of this section shall be
29 kept confidential for 36 months after receipt by the commissioner.

30 Sec. 27.30.020. LIMIT ON CREDITS. The amount of exploration incentive
31 credits for each parcel or site may not exceed the lesser of

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

5 (2) with reference to activities that qualify for an exploration incentive
6 credit that occur on the parcel or site on which the exploration activity occurred,

7 (A) 60 percent of direct labor costs, including the cost of
8 benefits, incurred by the applicant for employees directly associated with work
9 described in AS 27.30.010(a)(1) - (4) who are residents; and

10 (B) 50 percent of

11 (i) direct labor costs, including the cost of benefits,
12 incurred by the applicant for employees directly associated with work
13 described in AS 27.30.010(a)(1) - (4) who are not residents; and

14 (ii) other eligible costs.

15 Sec. 27.30.030. USE OF CREDIT. An exploration incentive credit

16 (1) must be used within 15 years after it is extended under
17 AS 27.30.010; and

18 (2) may, for the purposes described in AS 27.30.010(b), be assigned
19 by the qualified applicant to the applicant's successor in interest for the site at which
20 the exploration activities occur if the successor in interest is a qualified applicant.

21 Sec. 27.30.040. RELATIONSHIP TO OTHER FUNDS. Amounts due the
22 permanent fund under AS 37.13.010 and the public school trust fund under
23 AS 37.14.150 shall be calculated before the application of a credit extended under
24 AS 27.30.010.

25 Sec. 27.30.050. REGULATIONS. The commissioner may adopt regulations
26 necessary to implement this chapter.

27 Sec. 27.30.090. DEFINITIONS. In this chapter,

28 (1) "geochemical methods" means soil, rock, vegetation, and similar
29 samples collected and their chemical analyses;

30 (2) "geophysical methods" means all geophysical data gathering
31 methods used in minerals exploration, including seismic, gravity, magnetic, and

1 electromagnetic measurements;

2 (3) "other eligible costs" means the costs incurred for activities in direct
3 support of exploration activity conducted for the purpose of determining the existence,
4 location, extent, or quality of a mineral or coal deposit; the term

5 (A) includes the cost of renting or leasing equipment from
6 parties not affiliated with the applicant, the reasonable costs of maintaining and
7 operating equipment, payments to consultants and independent contractors not
8 affiliated with the applicant, and costs of materials and supplies;

9 (B) does not include noncash expenses such as depreciation and
10 reserves, interest or other costs of borrowed funds, return on investment,
11 overhead, insurance or bond premiums, or any other expense that is
12 unreasonable or that the applicant has not incurred to complete work described
13 in AS 27.30.010(a)(1) - (4);

14 (4) "qualified applicant" means

15 (A) a natural person who is at least 18 years of age;

16 (B) a partnership qualified to do business in the state;

17 (C) a corporation qualified to do business in the state;

18 (D) a limited liability company qualified to do business in the
19 state;

20 (E) a legal guardian or trustee of a qualified natural person
21 described in (A) of this paragraph; or

22 (F) any association of persons listed in (A) - (E) of this
23 paragraph;

24 (5) "resident" means a person who establishes residency under
25 AS 01.10.055.

26 * Sec. 2. AS 38.05.135(a) is amended to read:

27 (a) Except as otherwise provided, valuable mineral deposits in land belonging
28 to the state shall be open to exploration, development, and the extraction of minerals.
29 All land, together with tide, submerged, or shoreland, to which the state holds title to
30 or to which the state may become entitled, may be obtained by permit or lease for the
31 purpose of exploration, development, and the extraction of minerals. Except as

1 specifically limited by AS 38.05.135 - 38.05.181, land may be withheld from lease
2 application on a first-come, first-served basis, and offered only on a competitive bid
3 basis when determined by the commissioner to be in the best interests of the state.
4 **When authorized by AS 27.30.010, the commissioner shall allow an exploration**
5 **incentive credit for activities undertaken to determine the existence, location,**
6 **extent, or quality of a locatable or leasable mineral or coal deposit and in [IN]**
7 unproven areas the commissioner may offer additional incentives, including a reduction
8 of royalty to a minimum of five percent in the case of oil and gas, and other terms in
9 and granting permit or lease for exploration and development whenever it appears to
10 be in the best interests of the state to do so.

11 * Sec. 3. AS 38.05.212(b) is amended to read:

12 (b) The production royalty

13 (1) is three percent of net income as determined under AS 43.65; and

14 (2) **is subject to the exploration incentive credit authorized by**

15 **AS 27.30.**

16 * Sec. 4. AS 43.20 is amended by adding a new section to read:

17 Sec. 43.20.044. EXPLORATION INCENTIVE CREDIT. A taxpayer may
18 apply as a credit against the tax levied under this chapter the exploration incentive
19 credit authorized by AS 27.30.

20 * Sec. 5. AS 43.65.020(a) is amended to read:

21 (a) A person subject to tax under this chapter shall make a return stating
22 specifically the items of gross income from the property, including royalty received
23 and the deductions and credits allowed by this chapter **and the exploration incentive**
24 **credit authorized by AS 27.30,** and other information for carrying out this chapter
25 that the department prescribes. The return must show the mining license number and
26 must be signed by the taxpayer or an authorized agent of the taxpayer, under penalty
27 of unsworn falsification. If receivers, trustees, or assigns are operating the property
28 or business, they shall make returns for the person engaged in mining, or the recipient
29 of royalty in connection with mining property. The tax due on the basis of the returns
30 shall be collected in the same manner as if collected from the person of whose
31 business they have custody and control.

1 * Sec. 6. This Act is retroactive to January 1, 1994, and applies to activities that qualify
2 for the exploration incentive credit authorized by AS 27.30 that are undertaken after
3 December 31, 1993.

4 * Sec. 7. This Act takes effect immediately under AS 01.10.070(c).

AMENDMENT

OFFERED IN THE SENATE

TO: CSHB 498 (FIN)

Page 1 Line 10

after the word "state"
insert "before the beginning of development of the mineral or
other deposit"

Page 3 Line 28

add a new (1) to read as follows: "Development has the
meaning given in AS 27.09.060"; renumber remaining definitions.

**SENATE FINANCE
COMMITTEE**

Amendment Number: #3

Bill Number: HB 498

Sponsor: _____ Date: 19 APR 2014

Logged In By: [Signature]

STATE COMMITTEE REPORT

DATE: 4/15/94

FURTHER: Finance

DATE TURNED INTO OFFICE: _____

Resources Committee considered CS FOR HOUSE BILL NO. 498(FIN)

"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."

and recommends:

- replace with _____ CS _____ ()
or adopt previous _____ CS _____ ()
 attaches amendment(s)

- same title
 new title
 technical title change (HB only)

adopts _____ Letter of Intent

further referral to the _____

do pass

do not pass

no recommendation

individual recommendations

NEW FISCAL NOTES

Department	Date	Zero	Fiscal

PREVIOUS FISCAL NOTES

Department	Date	Zero	Fiscal

Appropriation No Fiscal Note

DO PASS:

OTHER RECOMMENDATIONS:

Chair: Signature and Recommendation