

SB

371



ALASKA MINERS ASSOCIATION, INC.

501 W. Northern Lights Blvd., Suite 203, Anchorage, Alaska 99503 FAX: (907) 278-7097 Telephone: (907) 276-0347

April 11, 1994

Honorable Mike Miller
Chairman
Senate Resources Committee
State Capitol
Juneau, AK 99811

RE: SB-371, Exploration Incentives

Dear Senator Miller,

The Alaska Miners Association wishes to go on record in support of the Senate Bill 371 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, SB-371 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.

SB-371 comes at an important time for encouraging 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. SB-371 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

HOUSE COMMITTEE REPORT

3/29/94

B
(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."

RECOMMENDATIONS:

be replaced with CS HB 490, (RES) 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 Revenue

fiscal note(s) _____

zero fiscal note _____

zero fiscal note(s) _____

SIGNING <u>DO PASS</u>	DP	OTHER RECOMMENDATIONS	DNP	NR	AM
<i>Bill Hudson</i> Hudson	✓	<i>David Hubsten</i> Finkelstein		✓	
<i>John Carney</i> Carney	✓				
<i>Robert Green</i> Green	✓				
<i>Adam James</i> James	✓				
<i>John N. Davies</i> Davies	✓				
<i>Car Bunde</i> Bunde	✓				
<i>W.R. Williams</i> Williams	✓				
	(7)			(1)	

W.R. Williams Williams
CHAIRMAN'S SIGNATURE



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SENATE RESOURCES COMMITTEE

State Capitol
Juneau, AK 99801-1182

Senate Bill 371 Mineral Exploration Incentive Credits

SB 371 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 a 1994 recommendation of the Alaska Minerals Commission. Over the past several years there has been a significant decline in mineral exploration investment from the lower 48 states and to a lesser extent, away from Alaska. These dollars are now being invested in other countries such as Mexico, Chile, Indonesia, and Russia. Much of this shift is attributable to the combination of ever-increasing regulatory and political obstacles in the U.S. and proactive foreign mineral exploration and development policies, including elimination of royalties and tax incentives. Alaska's image has fortunately 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 are significant disadvantages.

Alaska is blessed with an abundance of geologically favorable terrain. SB 371 will help to reinforce the distinction between Alaska and the lower 48, address the issue of foreign competition, and encourage further investment in our mining industry. It proposes a meaningful and reasonably attractive economic incentive that will help offset real and perceived problems facing exploration here, sending a clear message that Alaska is a good place to do business.

FISCAL NOTE

STATE OF ALASKA
1994 LEGISLATIVE SESSION

BILL NO. SB 371

Revision Date: _____ Dept. Affected: Revenue
 Title: Mineral Exploration Incentive Credits BRU: Revenue Operations
 Component: Income and Excise Audit
 Sponsor: (S) RES
 Requestor: (S) 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 million
(See Attached)

Prepared by: Larry E. Mevers Phone: 465-2320
 Division: Income and Excise Audit Division Date: April 11, 1994
 Approved by Commissioner: Darrel J. Rexwinkel Date: April 11, 1994
 Agency: Department of Revenue

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SB 371

Mineral Exploration Incentive Credits

April 11, 1994

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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 and applies to activities undertaken after December 31, 1993.

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.

FISCAL NOTE

STATE OF ALASKA

BILL NO. SB371

1994 LEGISLATIVE SESSION

Revision Date: Original Dept Affected: Natural Resources
 Title: *An Act providing for exploration incentive BRU: Resource Development
credits for activities involving locatable and leasable minerals... Component: Mining Development
 Sponsor: Senate Resources Committee
 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)

1002 Federal Receipts						
1003 GF Mater.						
1004 GF						
1005 GF/Program Receipts						
1006 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

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

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SB 371

Fiscal 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
 $25\% \times \$2,000 = \$500.00/\text{year credit}$
- 2) Annual Royalty from 1 Coal Mine = \$1,000,000
 $25\% \times \$1,000,000 = \$250,000/\text{year credit}$
- 3) Annual Royalty from 1 Hardrock Mine = \$100,000
 $25\% \times \$100,000 = \$25,000/\text{year credit}$

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>