

HB

4005

<TARGET><BILL>HB4005</BILL><SUBJECT>HB4005</SUBJECT><COMM>
HFIN29</COMM></TARGET>

Fiscal Note

State of Alaska
2016 Legislative Session

Bill Version:	HB 4005
Fiscal Note Number:	1
(H) Publish Date:	5/27/2016

Identifier: DOR-TAX-5-26-16
 Title: MINING: LICENSE, TAX, FEES; EXPLOR. CREDIT
 Sponsor: RLS BY REQUEST OF THE GOVERNOR
 Requester: Governor

Department: Department of Revenue
 Appropriation: Taxation and Treasury
 Allocation: Tax Division
 OMB Component Number: 2476

Expenditures/Revenues

Note: Amounts do not include inflation unless otherwise noted below. (Thousands of Dollars)

	FY2017	Included in	Out-Year Cost Estimates				
	Appropriation Requested	Governor's FY2017 Request	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022
OPERATING EXPENDITURES	FY 2017	FY 2017					
Personal Services							
Travel							
Services							
Commodities							
Capital Outlay							
Grants & Benefits							
Miscellaneous							
Total Operating	0.0	0.0	0.0	0.0	0.0	0.0	0.0

Fund Source (Operating Only)

None							
Total	0.0	0.0	0.0	0.0	0.0	0.0	0.0

Positions

Full-time							
Part-time							
Temporary							

Change in Revenues			7,000.0	7,200.0	6,400.0	6,600.0	6,000.0
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Estimated SUPPLEMENTAL (FY2016) cost: 50.0 *(separate supplemental appropriation required)*
(discuss reasons and fund source(s) in analysis section)

Estimated CAPITAL (FY2017) cost: 0.0 *(separate capital appropriation required)*
(discuss reasons and fund source(s) in analysis section)

ASSOCIATED REGULATIONS

Does the bill direct, or will the bill result in, regulation changes adopted by your agency? No
 If yes, by what date are the regulations to be adopted, amended or repealed?

Why this fiscal note differs from previous version:

Original bill version, based on language split out from original omnibus special session tax bill HB/SB 4001.

Prepared By:	Ken Alper, Director	Phone:	(907)465-8221
Division:	Tax	Date:	05/26/2016 02:00 PM
Approved By:	Jerry Burnett, Deputy Commissioner	Date:	05/26/16
Agency:	Department of Revenue		

FISCAL NOTE ANALYSIS

STATE OF ALASKA
2016 LEGISLATIVE SESSION

Analysis

Bill Analysis

Alaska levies a Mining License Tax on mining net income and royalties received in connection with mining properties and activities in Alaska. Mining licensees file annual tax returns. The mining license tax dates back to 1913 and the rate structure as it exists today was adopted in 1955. In 1951, the legislature authorized a 3 ½ year exemption for new mining operations.

The primary change in this legislation would be to increase the highest tax rate from 7% to 9% of the amount of net taxable income over \$100,000 and to reduce the exemption from paying tax from 3 ½ years to 2 years after production begins for new mining operations. The tax brackets for income levels below \$100,000 are unchanged. Because of the annual tax structure, the state will not see the impact of the increase until the returns that are filed after the first full year after the effective date. Therefore, this tax change shows no fiscal impact until FY 2018.

Additional revenue is about \$7 million / year.

Implementation Cost

This legislation would require the Department of Revenue to update its Tax Revenue Management System (TRMS) and Revenue Online (ROL) which allows a taxpayer to file a return online. The update would consist of reprogramming both systems, updating the return rules in TRMS and testing both systems thoroughly to verify that they function as expected. We would also need to update the current tax return forms.

The supplemental fiscal note figure of \$50.0 in FY16 is to cover the costs of having our contractor update the two systems. We do not anticipate any continuing costs or additional staff needs. After the implementation of the changes, this legislation would not cause any additional administrative burden on the Tax Division.

Y N
5 6

Failed

29-GH2457A.5
Glover/Nauman
5/28/16

AMENDMENT # 2

OFFERED IN THE HOUSE
TO: HB 4005

BY REPRESENTATIVE WILSON
Gottis

- 1 Page 4, line 1:
- 2 Delete "9"
- 3 Insert "8"

2016 HOUSE FINANCE COMMITTEE VOTE SHEET

4
5/6

Failed

DATE: 6-1-2016

Amendment: #2 HB 4005;

MEMBER

Favor

Oppose

REP. GARA		X
REP. GATTIS	X	
REP. GUTTENBERG		X
REP. KAWASAKI		X
REP. MUNOZ	X	
REP. PRUITT	X	
REP. SADDLER	X	
REP. WILSON	X	
REP. EDGMON		X
REP. THOMPSON		X
REP. NEUMAN		X

YEA

5

NAY

6

**HOUSE OF REPRESENTATIVES
COSPONSOR REQUEST**

TO: CHIEF CLERK

Please add my name as co/cross sponsor
to the following:

HB 4005

Amn #3

~~64~~

29-5H2457 | A.6

Bill or work order number

***Use one slip for each request.**

6/1/16

Date

SADDLER

Member's printed name

Jan Saddle

Member's signature

~~Y
3
N
7~~
~~Y
6
N
5~~

ADOPTED

29-GH2457A.6
Glover/Nauman
5/28/16

AMENDMENT #3

OFFERED IN THE HOUSE
TO: HB 4005

BY REPRESENTATIVE WILSON
Gattis

- 1 Page 3, lines 19 - 23:
- 2 Delete all material.
- 3
- 4 Renumber the following bill sections accordingly.
- 5
- 6 Page 4, lines 13 - 14:
- 7 Delete all material.
- 8
- 9 Reletter the following subsection accordingly.
- 10
- 11 Page 4, line 15:
- 12 Delete "sec. 6"
- 13 Insert "sec. 5"
- 14
- 15 Page 4, line 17:
- 16 Delete "sec. 6"
- 17 Insert "sec. 5"
- 18
- 19 Page 4, line 30:
- 20 Delete "Section 10"
- 21 Insert "Section 9"
- 22
- 23 Page 4, line 31:

- 1 Delete "sec. 11"
- 2 Insert "sec. 10"

2016 HOUSE FINANCE COMMITTEE VOTE SHEET

Y | N
 3 | 7 - *7 - paired*
Rec'd vote

DATE: 6-1-16

Amendment: 3 HB 9005

MEMBER

Favor

Oppose

REP. GARA		X
REP. GATTIS		
REP. GUTTENBERG		X
REP. KAWASAKI		X
REP. MUNOZ	X	
REP. PRUITT		X
REP. SADDLER	X	
REP. WILSON	X	
REP. EDGMON		X
REP. THOMPSON		X
REP. NEUMAN		X

YEA 3 NAY 7

VOTE RECORDED

(RE-VOTE)

2016 HOUSE FINANCE COMMITTEE VOTE SHEET

Y | N
6 | 5

ADOPTED

DATE: 6-1-16

Amendment: #3 HB4005

MEMBER

Favor

Oppose

MEMBER	Favor	Oppose
REP. MUNOZ	X	
REP. PRUITT	X	
REP. SADDLER	X	
REP. WILSON	X	
REP. EDGMON		X
REP. GARA		X
REP. GATTIS	X	
REP. GUTTENBERG		X
REP. KAWASAKI		X
REP. THOMPSON	X	
REP. NEUMAN		X

YEA

6

NAY

5

4/3 | N/8

Failed

29-GH2457\A.1
Martin/Nauman
5/27/16

AMENDMENT #4

Gave

OFFERED IN THE HOUSE

TO: HB 4005

- 1 Page 3, lines 21 - 23:
2 Delete "All new mining operations are exempt from the tax levied by this chapter for
3 **two** [THREE AND ONE-HALF] years after production begins"
4 Insert "A new mining operation with a net income under (c) of this section of
5 (1) not more than \$100,000 is exempt from the tax levied by this
6 chapter for two years after production begins;
7 (2) more than \$100,000 shall pay half of the license tax on mining
8 provided in (c) of this section for two [ALL NEW MINING OPERATIONS ARE
9 EXEMPT FROM THE TAX LEVIED BY THIS CHAPTER FOR THREE AND
10 ONE-HALF] years after production begins"

2016 HOUSE FINANCE COMMITTEE VOTE SHEET

4
3/8

DATE: 6-1-16

Amendment: 4 HB4005

MEMBER

Favor

Oppose

REP. GATTIS		X
REP. GUTTENBERG	X	
REP. KAWASAKI	X	
REP. MUNOZ		X
REP. PRUITT		X
REP. SADDLER		X
REP. WILSON		X
REP. EDGMON		X
REP. GARA	X	
REP. NEUMAN		X
REP. THOMPSON		X

YEA 3 NAY 8

Y | N
3 | 8

FAILED

29-GH2457\A.3
Martin/Nauman
5/27/16

AMENDMENT #5

OFFERED IN THE HOUSE
TO: HB 4005

BY REPRESENTATIVE KAWASAKI

1 Page 3, line 24, through page 4, line 1:

2 Delete all material and insert:

3 **"* Sec. 6.** AS 43.65.010(c) is repealed and reenacted to read:

4 (c) The license tax on mining is imposed on the net income of the taxpayer
5 from the property in the state, computed with allowable depletion, plus royalty
6 received in connection with mining property in the state. The tax rates applicable to
7 the amount of a taxpayer's net income are as follows:

8	over \$100,000 and not over \$250,000	five percent
9	over \$250,000 and not over \$500,000	\$7,500
10		plus seven percent of the excess over \$250,000
11	over \$500,000 and not over \$1,000,000	\$25,000
12		plus nine percent of the excess over \$500,000
13	over \$1,000,000	\$70,000
14		plus 11 percent of the excess over \$1,000,000."

15

16 Page 4, line 15:

17 Delete "amended"

18 Insert "repealed and reenacted"

2016 HOUSE FINANCE COMMITTEE VOTE SHEET

Y N
3 | 8
↓

Failed

DATE: 6-1-2016

Amendment: #5 HB 4005

MEMBER

Favor

Oppose

REP. GUTTENBERG	X	
REP. KAWASAKI	X	
REP. MUNOZ		X
REP. PRUITT		X
REP. SADDLER		X
REP. WILSON		X
REP. EDGMON		X
REP. GARA	X	
REP. GATTIS		X
REP. THOMPSON		X
REP. NEUMAN		X

YEA 3 NAY 8

4 | N

3 | 8

Failed

29-GH2457A.2
Martin/Nauman
5/27/16

AMENDMENT #6

Gave

OFFERED IN THE HOUSE

TO: HB 4005

1 Page 3, line 31, following "\$100,000":

2 Insert "**and not over \$250,000**"

3

4 Page 4, line 1, following "\$100,000":

5 Insert new material to read:

6 over \$250,000 \$6,000 plus

7 11 percent of the excess over \$250,000

2016 HOUSE FINANCE COMMITTEE VOTE SHEET

Y | N
3 | 8

Failed

DATE: 6-1-2016

Amendment: # 6 HB 4005

MEMBER

Favor

Oppose

REP. KAWASAKI	X	
REP. MUNOZ		X
REP. PRUITT		X
REP. SADDLER		X
REP. WILSON		X
REP. EDGMON		X
REP. GARA	X	
REP. GATTIS		X
REP. GUTTENBERG	X	
REP. NEUMAN		X
REP. THOMPSON		X

YEA 3 NAY 8

ADOPTED w/out OBJECTION

29-GH2457\A.4
Martin/Nauman
5/28/16

AMENDMENT # 7

OFFERED IN THE HOUSE
TO: HB 4005

BY REPRESENTATIVE THOMPSON

1 Page 1, line 1, following "credit":

2 Insert "**and royalty payments**"

3

4 Page 3, following line 18:

5 Insert a new bill section to read:

6 "* **Sec. 5.** AS 38.05.150(d) is amended to read:

7 (d) For the privilege of mining or extracting the coal in the land covered by
8 the lease, the lessee

9 (1) shall pay to the state the royalties specified in the lease; the
10 royalties shall be fixed before offering the lease, and shall be effective for a period of
11 not more than 20 years; the royalties shall be not less than five cents a ton of 2,000
12 pounds; [THE ROYALTY PAYMENT IS SUBJECT TO THE EXPLORATION
13 INCENTIVE CREDIT AUTHORIZED BY AS 27.30;]

14 (2) shall also pay an annual rental, payable at the date of the lease and
15 annually thereafter, on the land or coal deposits covered by the lease, at a rate fixed by
16 the commissioner before offering the lease; the annual rental shall be effective for a
17 period of not more than 20 years; the annual rental shall be not less than 25 cents an
18 acre for the first year of the lease, not less than 50 cents an acre for the second year,
19 third year, fourth year and fifth year, and not less than \$1 an acre for each year
20 thereafter during the continuance of the lease; the rental for each year shall be credited
21 against the royalties as they accrue for that year; each lease shall provide that the
22 annual rental payment is subject to adjustment at intervals of **not** [NO] more than 20
23 years and adjustments shall be based on the current rates for properties similarly

1 situated."

2

3 Renumber the following bill sections accordingly.

4

5 Page 4, following line 5:

6 Insert a new bill section to read:

7 "* **Sec. 9.** AS 27.30.080 and AS 38.05.212(b)(2) are repealed."

8

9 Renumber the following bill sections accordingly.

10

11 Page 4, line 10:

12 Delete "and"

13

14 Page 4, line 11, following "Act,":

15 Insert "AS 38.05.150(d), as amended by sec. 5 of this Act, and the repeal of

16 AS 27.30.080 and AS 28.05.212(b)(2) by sec. 9 of this Act,"

17

18 Page 4, line 13:

19 Delete "sec. 5"

20 Insert "sec. 6"

21

22 Page 4, line 14:

23 Delete "sec. 5"

24 Insert "sec. 6"

25

26 Page 4, line 15:

27 Delete "sec. 6"

28 Insert "sec. 7"

29

30 Page 4, line 17:

31 Delete "sec. 6"

1 Insert "sec. 7"

2

3 Page 4, line 30:

4 Delete "Section 10"

5 Insert "Section 12"

6

7 Page 4, line 31:

8 Delete "sec. 11"

9 Insert "sec. 13"

passed
8/3

2016 HOUSE FINANCE COMMITTEE VOTE SHEET

DATE: 6/2/16

Amendment: Report HB 4005 from committee

MEMBER

Favor

Oppose

MEMBER	Favor	Oppose
REP. WILSON		✓
REP. EDGMON	✓	
REP. GARA	✓	
REP. GATTIS		✓
REP. GUTTENBERG	✓	
REP. KAWASAKI		✓
REP. MUNOZ	✓	
REP. PRUITT	✓	
REP. SADDLER	✓	
REP. NEUMAN	✓	
REP. THOMPSON	✓	

11

YEA

8

NAY

3

Title: Mining tax analysis by tax bracket

Preparer: Will Bishop, Economist, 465-8222

Purpose: To show how many Mining License Tax filers fall in each tax bracket and how much taxable income each group earned.

Data Source: MNT Return Info Data Cube in GenTax, variables "Net Tax Income", "Calculated Tax", "Gross Income", "Royalties Received"

Key Assumptions: Mining License Tax returns for tax years 2013 and 2014 accurately reflect taxable mining income. Tax year 2013 is represented by GenTax "filing period" between December 2013 and November 2014, because the GenTax variable represents the end of the tax year. Dates are analogous for tax year 2014.

History:

Disclaimer:

The Department of Revenue is in the process of reviewing and updating the data on which this analysis is based. As a result, future analysis could have different results.

The information contained in this workbook may be privileged, confidential or otherwise protected from disclosure. If you are not the intended recipient, any use, dissemination, disclosure, distribution or copying is strictly prohibited.

Mining License Tax analysis by tax bracket

Excludes royalty-only taxpayers, i.e., those with positive royalties received but zero gross income from mining operations

Tax year 2013

<u>Bracket</u>	<u>Marginal rate</u>	<u>No. taxpayers</u>	<u>Gross income from mining operations</u>	<u>Net taxable income*</u>	<u>Net income as percentage of gross</u>	<u>Total tax liability</u>	<u>Average gross income</u>	<u>Average taxable income</u>	<u>Average tax liability</u>
Under \$0	0%	194	225,708,606	(65,853,227)	-29%	0	1,163,446	(339,450)	0
\$0 to \$40,000	0%	222	10,029,137	934,556	9%	0	45,176	4,210	0
\$40,001 to \$100,000	3% or 5%	20	3,823,854	951,405	25%	29,896	191,193	47,570	1,495
Over \$100,000	7%	15	2,194,531,323	470,191,692	21%	31,128,456	146,302,088	31,346,113	2,075,230

Tax year 2014

<u>Bracket</u>	<u>Marginal rate</u>	<u>No. taxpayers</u>	<u>Gross income from mining operations</u>	<u>Net taxable income*</u>	<u>Net income as percentage of gross</u>	<u>Total tax liability</u>	<u>Average gross income</u>	<u>Average taxable income</u>	<u>Average tax liability</u>
Under \$0	0%	191	181,380,675	(48,850,623)	-27%	0	949,637	(255,762)	0
\$0 to \$40,000	0%	239	9,153,739	888,451	10%	0	38,300	3,717	0
\$40,001 to \$100,000	3% or 5%	19	3,034,126	979,304	32%	32,218	159,691	51,542	1,696
Over \$100,000	7%	10	2,306,213,104	570,733,654	25%	37,822,688	230,621,310	57,073,365	3,782,269

*Net income taxable under the Mining License Tax

Note: the 3% bracket (income \$40,000 to \$50,000) and the 5% bracket (\$50,000 to \$100,000) are combined for this analysis because of confidentiality issues that would arise if each bracket was reported separately.

Taxpayers with negative income (below \$0) are not a separate bracket, but are reported separately in order to distinguish between large money-losing operations and small operations with zero or positive income.



Council of
Alaska Producers

**Comments on HFIN hearing on HB4005
(Mining Taxation), May 27, 2016**

May 27, 2016

Representative Steve Thompson, Co-Chair
Representative Mark Neuman, Co-Chair
House Finance Committee
Alaska State Legislature
State Capitol
Juneau, AK 99801

Dear Representative Thompson and Representative Neuman:

The Council of Alaska Producers (CAP) is writing to provide comments on HB4005, "An Act relating to the mining license tax; relating to the exploration incentive credit; relating to mining license application, renewal, and fees; and providing for an effective date."

CAP is a non-profit trade association formed in 1992 and serves as a spokesperson for the large metal mines and major metal developmental projects in the state. Bringing together mining companies with interest in Alaska, the Council represents and informs members on legislative and regulatory issues, supports and advances the mining industry, educates members, the media, and the general public on mining related issues, and promotes economic opportunity and environmentally sound mining practices.

As businesses that have had to make tough decisions to optimize operations, cutting budgets and positions over the past four years of declining mineral prices, CAP appreciates the depth of the State's fiscal challenge.


CAP's position has been consistent. To achieve fiscal sustainability and a stable investment climate, we support strategic reductions in the cost of government, use of the Permanent Fund earnings, followed by broad based revenue measures to fill the remaining gap.

The goal of Alaska's mineral tax policy should be to attract investment and encourage a robust, responsible mining industry that contributes to Alaska's economic diversity by providing: a) good jobs, b) procurement and contract opportunities for local businesses, c) state and local government revenue, and d) revenue sharing to Alaska Native Corporations.

Investors in Alaska's mining industry look for fiscal stability. Increasing the Alaska Mining License Tax (AMLT) rate, decreasing incentives, and failing to provide clarity on local taxation creates greater uncertainty and deters investment.

Increasing the Mining License Tax

HB4005 proposes to raise the top tax rate for mines from 7% to 9% of net income resulting in a 29% increase in taxes for the large metal mines in Alaska. This amount is significant for the individual mines,



however it is insignificant relative to the fiscal crisis that the Legislature is trying to solve. The fiscal note for this bill indicates that revenue will increase by approximately \$5.6 million per year in FY18 while we are facing a deficit of approximately \$3.5 billion.

The mining industry is facing commodity prices that are at four year lows, rising operational costs, and margins that are continuing to shrink. Mines invest significant capital and exploration money each year in their existing operations in order to extend their life and increasing the tax burden will minimize the money available for these efforts. Increasing the tax rate in HB4005 as proposed will have the effect of shortening the lives of the existing mines as the return on capital and exploration investments will be lessened and investment in the state becomes far less attractive.

When compared to the two largest mining states in the nation, Nevada and Arizona, Alaska already has the highest tax on mining as well as the highest corporate income tax rate. In order for Alaska to be competitive, attract mining dollars and ultimately generate more state revenue, we should be looking at incentives, not increased taxes.

Removing Incentives

The State of Alaska provides only two tax incentives to attract the development of new mines in Alaska and HB4005 proposes to significantly reduce both of them. The first incentive is the exemption from Alaska Mining License Tax for the first 3.5 years of operation and this bill proposes to limit that to two years. It takes a significant amount of exploration, development and construction expenditures to bring a new mine into production, and it can take up to 20 years for cumulative net cash flow to become positive. Having the tax exemption in the first 3.5 years is critical and shortening it to two years may stop a project from going into production.

The second incentive is the Exploration Incentive Credit Program which allows a maximum of \$20 million of pre-operational costs to be deducted from AMLT and the state royalty. HB2005 proposes elimination of the option to apply the mining exploration tax credit to the royalty payment for a new mine on state land. While the maximum exploration credit for a new mine is only \$20 million, it still could make a difference in the first years of production when a new mine is saddled with huge capital costs.

Failure to Provide Clarity on Local Taxation

For some time, a significant source of fiscal uncertainty has been the potential for municipalities to target the mining industry for special severance taxes. The Alaska Minerals Commission has consistently recommended that the Legislature address this.

In 2005, the Commission stated "...the mining industry does expect to pay its fair share of municipal government costs...it should do so by an equitable, broad based tax such as a property tax, not an industry specific tax such as a severance tax."

In 2013, the Commission also stated: "Allowing local governments to impose potentially onerous severance taxes inappropriately shifts control of development decisions away from the state. This precludes the state from fulfilling its mandate to manage state-owned resources in a way that maximizes benefits to all Alaskans."

CAP encourages you to consider amending the bill to protect state sovereignty by reserving the ability to levy mining special taxes to the Legislature. An amendment should:

1. Eliminate the ability for a municipality to levy or collect a tax on metal mines (just as Title 43 does for oil and gas production); and

2. Implement revenue sharing of the Alaska Mining License Tax with the municipality that hosts a metal mine.

Mines and municipalities will still have the ability to enter into payment in-lieu of taxes (PILT) agreements if a broad based tax such as a property tax is not available. Such an amendment should not impact the ability of municipalities to place severance taxes on coal, sand, gravel, rock, dimension stone or any other bulk commodity that they may currently tax.

If the State is going to increase the hurdles for investment in Alaska mining by raising the Alaska Mining License Tax, then it should provide some improved certainty by addressing this longstanding source of economic unpredictability.

In conclusion, CAP sees a growing disconnect between Alaska's potential for mineral development and the reality of declining investments in exploration/expansions. Alaska must compete on a global market for mining investment dollars and HB4005 will only serve to drive those dollars elsewhere.

Given these circumstances, we urge you to look closely at whether this bill helps diversify the economy, encourage investment, and grow the net revenue coming to the state. If it does not, then it must be set aside.

Thank you for the opportunity to provide these comments. Please keep in mind the many communities, hundreds of local businesses, and thousands of Alaska miners and their families who depend on a healthy mining industry.

Sincerely,



Michael Satre
President

cc: Members of the House Finance Committee

Mining License Tax (AS 43.65)

What it Does

- Increases the current top tax rate on net profits greater than \$100,000 / year from 7% to 9%
- Reduces tax holiday for new mines from 3 ½ years to 2 years
- Prevents the mining Exploration Incentive Credits from being used to reduce royalties, limiting to just the tax
- Adds a \$50 annual license fee (miners are exempted from needing a business license, which is also \$50)

How it Differs from Regular Session Bill

- Original bill sought elimination of tax holiday
- EIC / Royalty change made in House Resources

Mining License Tax (AS 43.65)

How Much Does it Raise?

- About \$7 million / year
- About \$25,000 from the license fee

How Does it Impact Alaskans?

- In 2014, only 14 taxpayers had over \$100k in taxable profits, meaning they paid at the top bracket
 - There are only about 5 large mines in the state.
The rest are either placer miners who had a good year, or landowners who collect taxable mining royalties
- The tax increase does not impact “mom and pop” miners at all, other than the \$50 annual license fee

STATE CAPITOL
P.O. Box 110001
Juneau, AK 99811-0001
907-465-3500
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Governor@Alaska.Gov

Governor Bill Walker
STATE OF ALASKA

May 26, 2016

The Honorable Mike Chenault
Speaker of the House
Alaska State Legislature
State Capitol, Room 218
Juneau, AK 99801-1182

Dear Speaker Chenault:

Under the authority of Article III, Section 18, of the Alaska Constitution, I am transmitting a bill relating to exemptions from the mining license tax; the mining license tax rate; and mining license application, renewal, and fees and removing the application of the exploration incentive credit to mining production royalty payments.

The bill would amend the exemption from paying the mining license tax that currently applies to operations for three and one-half years after production begins. The exemption would remain, but for two years.

The bill also would increase the mining license tax rate from seven percent to nine percent for a portion of net income in excess of \$100,000. The new tax rate would apply to the first taxable year (which may be a fiscal year or a calendar year) beginning after the effective date of the bill.

Last the bill would remove the application of the exploration incentive credit to mining production royalty payable under AS 38.05.135 - 38.05.160 and AS 38.05.212 for production from a mining operation.

I urge your prompt and favorable action on this measure.

Sincerely,

A handwritten signature in black ink that reads "Bill Walker".

Bill Walker
Governor

Enclosure

HOUSE BILL NO. 4005



HB 4005

Sectional Analysis Special Session Mining Tax Bill

Section 1: Eliminates the ability to take the mining exploration tax credit against royalty payments

Section 2: Removes references to royalties in the mining exploration tax credit provisions in AS 27.30.030(a)

Section 3: Removes references to royalties in the mining exploration tax credit provisions in AS 27.30.040

Section 4: Removes references to royalties in the mining exploration tax credit provisions in AS 27.30.050.

Section 5: Changes the existing tax holiday for new mining operations from three and one-half years to 2 years.

Section 6: Changes the tax rate on mining income in excess of \$100,000 from 7 percent to 9 percent.

Section 7: Provides for a \$50 annual mining license fee.

Section 8: Provides that changes to the exploration tax credit are applicable to royalty payments after the effective date of section 1. Provides that the two year tax holiday applies to mining operations that begin production after the effective date of section 6. Provides that the new tax rate begins the first tax year after the effective date of section 6.

Section 9: Provides the exploration tax credit accounting in current law applies to a mining operation which began mining production prior to the effective date of this act.

Section 10: Allows for the Department of Revenue to adopt regulations to administer this act.

Section 11: Provides for an immediate effective date for section 10.

Section 12: Provides that the rest of the bill is effective July 1, 2016.