

SB

137

<TARGET><BILL>SB 137</BILL><SUBJECT>SB
137</SUBJECT><COMM>SRES29</COMM></TARGET>

STATE CAPITOL
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Governor Bill Walker
STATE OF ALASKA

January 15, 2016

The Honorable Kevin Meyer
President of the Senate
Alaska State Legislature
State Capitol, Room 111
Juneau, AK 99801-1182

Dear President Meyer:

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; relating to the mining license tax rate; and relating to mining license application, renewal, and fees.

The bill 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 the first taxable year (which may be a fiscal year or a calendar year) beginning after the effective date of the bill. This legislation is expected to generate additional revenue of approximately \$6,000,000 annually.

The bill would also repeal the exemption from paying the mining license tax that currently applies to operations for three and one-half years after production begins. References to the exemption in related statutes also would be repealed. The bill would provide for the exemption to continue to apply to mining operations if production begins before July 1, 2016.

To increase administrative efficiency for the Department of Revenue and state taxpayers, the bill would require the electronic submission of tax returns with an exemption available upon request. The bill would also establish an application fee of \$50 for a mining license application and for each annual renewal.

The bill is an integral component of the New Sustainable Alaska Plan to provide a balanced and sustainable budget for Alaska's long-term fiscal stability.

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



Sectional Analysis, SB 137
Mining License Tax Bill
January 22, 2016

- Sec. 1.** Adds a \$25 or 1% tax penalty for failure to file electronically unless an exemption is received by the taxpayer.
- Sec. 2.** Requires electronic submission of tax returns, license applications, and other documents submitted to the Department of Revenue. This changes the general tax statutes, AS 43.05, and will apply to all tax types administered by the department. Provides a process to request an exemption if a taxpayer does not have the technological capability to do so.
- Sec. 3.** Removes the 3 ½ year exemption for new mining operations until after production begins from the mining tax. Instead, any persons engaged in the business of mining in the state will need to obtain a license and file an annual mining license tax return.
- Sec. 4.** Increases the highest tax rate from 7% to 9% for net taxable income in excess of \$100,000. The other tax rates remain the same. For net income over \$100,000 the tax is \$4,000 plus 9% of the amount in excess of \$100,000.
- Sec. 5.** Conforming language related to the requirement to submit returns or reports electronically. This section deletes the requirement for taxpayers to submit their returns to the department in Juneau.
- Sec. 6.** Establishes a mining license fee of \$50 per year, a license renewal fee of \$50 per year, and changes the due date for applications and renewals from May 1 to January 1.
- Sec. 7.** Conforming language related to the repeal of the 3 ½ year tax exemptions for new mining operations. Repeals AS 27.30.030(b)(2), AS 43.65.010(b), and AS 43.65.060(4).
- Sec. 8.** Applicability language to clarify that the change in Sec. 3 applies to all new mining operations in which production has begun on or after the effective date.
- Sec. 9.** Transition language so that the language repealed in Sec. 7 should be read as it was before the effective date while administering a certain tax credit for a person who began a mining operation before the effective date.
- Sec. 10.** Transitional language allowing for regulations
- Sec. 11.** Section 10 above takes effect immediately.
- Sec. 12.** Effective date of 7/1/16 for the rest of the bill including the tax rate change.

Fiscal Note

State of Alaska
2016 Legislative Session

Bill Version:	SB 137
Fiscal Note Number:	1
(S) Publish Date:	1/19/2016

Identifier: DOR-TAX-01-13-16
 Title: ELCTRNC TAX RETURN;MINING LIC. TAX & FEES
 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 Appropriation Requested	Included in Governor's FY2017 Request	Out-Year Cost Estimates					
			FY 2017	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022
OPERATING EXPENDITURES	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
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	0.0

Fund Source (Operating Only)

None								
Total	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0

Positions

Full-time								
Part-time								
Temporary								

Change in Revenues			5,900.0	6,700.0	6,600.0	6,700.0	5,800.0
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Estimated SUPPLEMENTAL (FY2016) cost: 100.0 *(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:

Not applicable, initial version.

Prepared By: Brandon Spanos
 Division: Tax
 Approved By: Jerry Burnett
 Agency: Deputy Commissioner, DOR

Phone: (907)269-6736
 Date: 01/13/2016 12:00 PM
 Date: 01/13/16

FISCAL NOTE ANALYSIS

STATE OF ALASKA
2016 LEGISLATIVE SESSION

Analysis

Bill Analysis

Alaska levies a mining tax on mining net income and royalties received in connection with mining properties and activities in Alaska. The department collects mining license taxes primarily from businesses engaged in coal and hard rock mining. Mining licensees file annual tax returns. These vary by time of year as mining businesses may file based on their own fiscal year. Payment of tax is due before the first day of the fifth month after the close of the tax year. For calendar year filers, payment is due on April 30.

The mining license tax dates back to 1913 and the legislature has restructured it several times over the years. The original mining license tax was 0.5% of net income from mining of more than \$5,000. There was no tax on net income less than \$5,000. There were numerous changes made between 1915 and 1953 to the tax rates and the tax-free net income base. In 1951, the legislature authorized a 3 ½ year exemption for new mining operations. The rate structure as it exists today was adopted in 1955.

The primary change in this legislation would be to increase the highest tax rate from 7% to 9% of the excess of net taxable income over \$100,000 and to remove the exemption from paying tax for 3 ½ years after production begins for new mining operations. The bill also adds an annual \$50 mining license fee. This parallels the existing cost of a business license in Alaska; mining operators are currently not required to have a business license.

The other major change is to require electronic tax filing. With the implementation of the Tax Revenue Management System, DOR has a much more advanced, integrated tax database with a strong online portal and robust reporting functions. Paper tax filings require a laborious process of scanning and manual data entry, and the department is working to transition away from this system. To this end, each of the several revenue bills being introduced contains language in the general revenue statutes to require electronic submission unless the taxpayer does not have the technological capability to do so.

Revenue Impact

The majority of mining license taxpayers file their returns on a calendar year basis. Nearly all of the taxpayers paying the top rate of tax won't be subject to the tax until FY18. Therefore, we are projecting no change in revenues prior to FY18. Mining commodity prices are falling. Since mining taxes are based on income, the falling prices will effect tax revenues. DOR estimates that increasing the top tier tax rate from 7% to 9% will generate additional revenue of approximately \$5.9 million in FY18.

Implementation Cost

This legislation will 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 including a new account for the proposed license fee, 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 \$100.0 in FY16 is slightly higher than some of the costs we've attached to other excise and business tax legislation; this is because of the added need to program the system to accept and account for the proposed license fee. The supplemental will 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.



THE STATE
of **ALASKA**
GOVERNOR BILL WALKER

Department of Revenue

COMMISSIONER'S OFFICE

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January 20, 2016

The Honorable Cathy Giessel, Chair
Senate Resources Committee
State Capitol Building
Juneau, AK 99801

Dear Senator Giessel:

The Department of Revenue (DOR) respectfully requests that SB 137, "An Act requiring the electronic filing of a tax return or report with the Department of Revenue; establishing a civil penalty for failure to electronically file a return or report; relating to exemptions from the mining license tax; relating to the mining license tax rate; relating to mining license application, renewal, and fees; and providing for an effective date," be scheduled in the Senate Resources Committee at your earliest convenience.

The purpose of this legislation is to increase the mining license tax rate from seven percent to nine percent for a portion of net income in excess of \$100,000. This increase is expected to generate additional revenue of approximately \$6,000,000 annually.

Your favorable consideration of this request is appreciated. If you need any additional information, please contact Jerry Burnett, Deputy Commissioner for the Department of Revenue at 907-465-3669.

Sincerely,

A handwritten signature in black ink, appearing to read "Randall J. Hoffbeck".

Randall J. Hoffbeck, Commissioner

Cc: Darwin Peterson, Legislative Director, Office of the Governor
Jerry Burnett, Deputy Commissioner, Department of Revenue
Ken Alper, Director, Tax Division, Department of Revenue

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**Mining License Tax
SB137**

Mining License Tax Increase

“An Act requiring the electronic filing of a tax return or report with the Department of Revenue; establishing a civil penalty for failure to electronically file a return or report; relating to exemptions from the mining license tax; relating to the mining license tax rate; relating to mining license application, renewal, and fees; and providing for an effective date.”

Mining Tax History

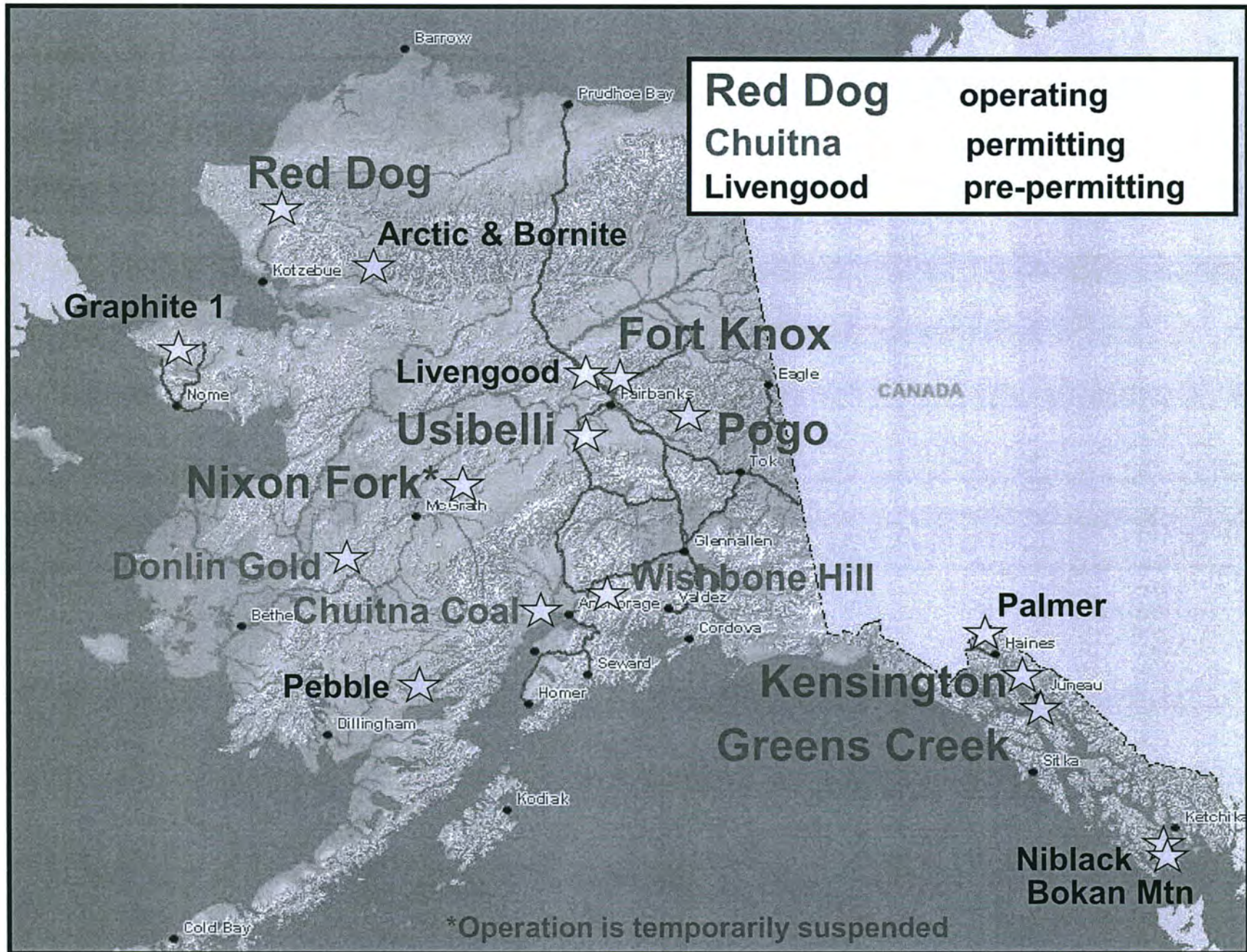
- Began in 1913; restructured several times
 - Original mining license tax was 0.5% tax on mining net income over \$5,000
- Collected on both net income from mining operations and from mining-related royalties
- Primarily from businesses engaged in coal and hard-rock mining

Mining Tax History (Continued)

- Numerous changes between 1915 and 1953 to the tax rates and the tax-free net income base
- In 1951, adopted 3 ½ year exemption for new mining operations
- Current tax structure since 1955:

Mining Net Income	Tax Rate
\$0-\$40,000	No Tax
\$40,001-\$50,000	\$1,200 plus 3% over \$40,000
\$50,001-\$100,000	\$1,500 plus 5% over \$50,000
Over \$100,000	\$4,000 plus 7% over \$100,000

Large mining projects in Alaska



Mines in Alaska

- Alaska has five large hard rock mines and one coal mine
- 200 small placer mines who, combined, have an economic impact that is similar to one large mine

Mining Tax Proposal

- Increases tax rate on highest bracket (net income greater than \$100,000) from 7% to 9%
- Removes 3 ½ year exemption
- Requires electronic filing
 - Provides exemption process
- Adds an application and renewal fee for tax license
 - Substitute for business license; same rate

Relative Mining Tax Rate

- Most other state mining taxes are based on value or tonnage, not net income.
- Examples from other states:
 - Wyoming tax on value varies by resource: 2% on sand and gravel, 7% on surface coal
 - South Dakota: 10% on profits or royalties; \$4 per ounce of gold
 - Wisconsin: 3% to 15% progressive tax on net mining proceeds
 - Colorado: 2.25% of *gross* income exceeding \$19 million

Impacts of Tax Proposal

- For large and profitable mines:
 - Most income falls above \$100,000, so effective tax rate goes up from 7% to 9%
 - In 2014, 13 entities paid at this level
- For small mining operations:
 - Little or no effect from tax rate change
 - However, removing 3 ½ year exemption may deter some future mines

Revenue Impact

- Dept. of Revenue estimates that increasing the mining tax rate will raise an additional \$6 million per year starting in FY 2018
 - Because this is an annual tax, we don't receive revenue until after the first full year after the 7/1/16 effective date
- Dept. of Revenue estimates license fee and renewal fee of \$50 per year will raise an additional \$25,000 per year
- Does not account for any changes in mining activity

Implementation Cost

- Dept. of Revenue must update:
 - Tax Revenue Management System (TRMS)
 - Revenue Online (ROL) which allows a taxpayer to file a return online
 - Tax return forms
- One-time implementation cost of \$100,000 to recreate tax forms and reprogram and test the tax system to accommodate the rate changes
- No additional costs to administer the tax program

Closing the Budget Gap

FY16 Budget	(Millions) \$ 5,200
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FY17 Baseline Revenue (after proposed legislation)

AK Permanent Fund Protection Act (annual draw)	\$ 3,300
Revenue from existing taxes and fees	\$ 850
Earnings on Savings	<u>\$ 135</u>
	\$ 4,285

FY17 Spending Reductions

Continue Cuts	\$ 140
Reform O&G Tax Credits	\$ 400
Net Priority Investments	<u>(\$ 40)</u>
	\$ 500

Closing the Budget Gap (Continued)

<u>New Revenue Components (estimated)</u>	(Millions)
<i>Mining (starting in FY 2018)</i>	\$ 6
Fishing	\$ 18
Tourism	\$ 15
Motor Fuel	\$ 49
Alcohol	\$ 40
Tobacco	\$ 29
Oil and Gas	\$ 100
Income Tax (half in FY17; first full year is FY18)	<u>\$ 200</u>
	\$ 457
Total with reductions and new revenue	\$ 5,242

Sectional Analysis

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