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Thus, each dollar of revenue produced by the local mining operation generates an additional \$2 revenue in surrounding service industries. The multiplier for total impact is three.

A comprehensive study (27) on the copper industry's impact on the 1973 Arizona economy shows a very substantial multiplier effect on personal income, business income, and state-local tax income as outlined below and presented on Figure 5-3.

Distribution of Copper Industry Income to the Arizona Economy  
(Millions of Dollars)

Value of Output: \$1,109

	<u>Direct Income</u>	<u>Secondary Income Generated</u>	<u>Apparent Multiplier Effect</u>
Personal Income	\$306	\$831	2.7
Business Income (wholesale and retail, industry, transport, manufacturing, utilities)	300	2,411	7.8
Government Income (State, County, Municipal, and School District revenues)	82	251	3.1
Leakage (to federal taxes, for out-of-state supplies and services, debt service, and profits)	412	--	--

The Mining Association of British Columbia statistics for 1974 indicate that for every person employed directly to the British Columbia mining industry, there were approximately 2.8 workers in other jobs based on the mining industry in the Province. Their figures also indicated that this mining industry employee in British Columbia supported a total of 7.9 workers throughout Canada (18).

DISTRIBUTION OF COPPER INDUSTRY INCOME TO THE ARIZONA ECONOMY  
 1973 ANNUAL AMOUNTS IN MILLIONS OF DOLLARS

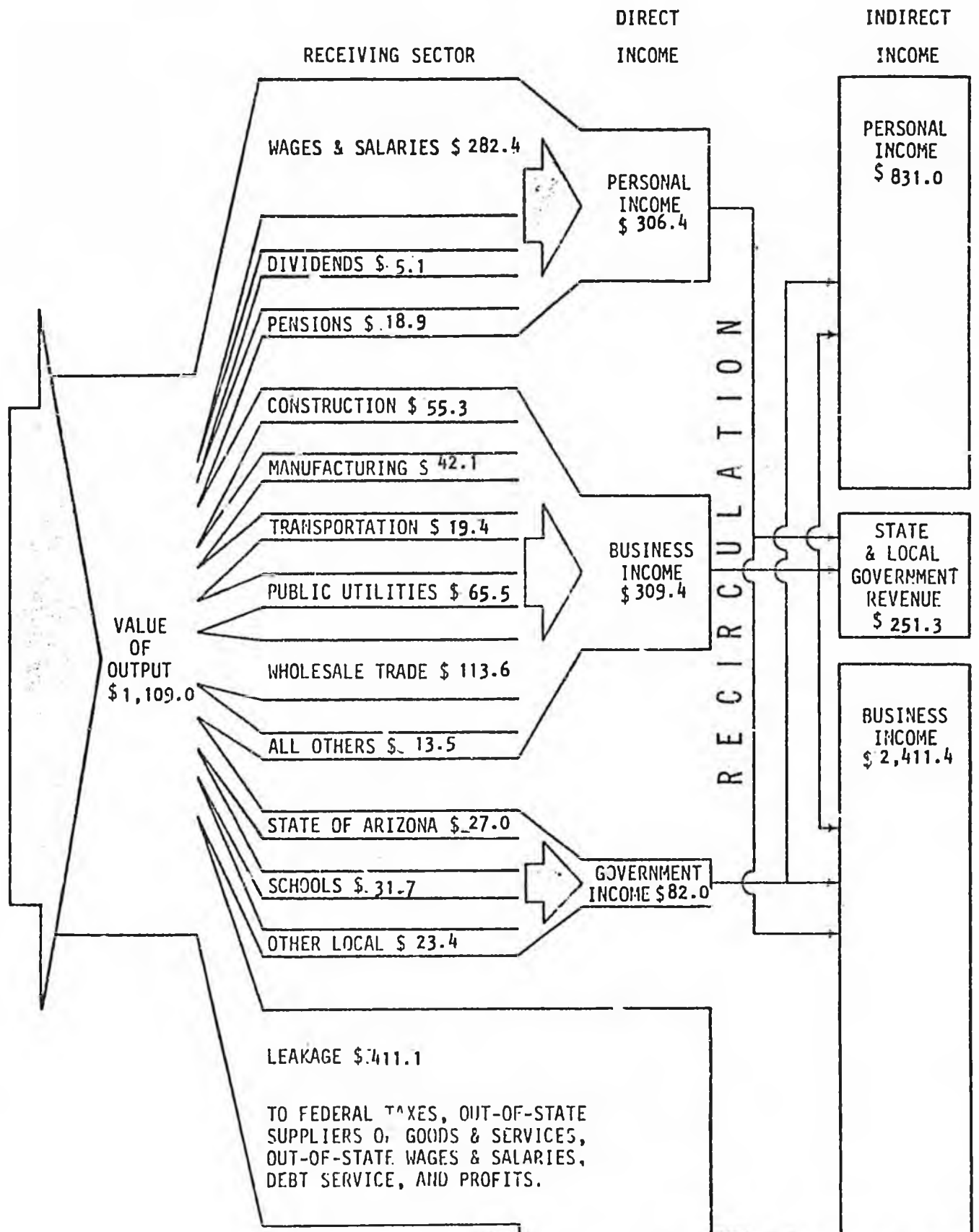


Figure 5-3  
(27)

Certainly the mining industry in British Columbia is now well developed, but much of it still takes place in remote areas, and drawing an analogy with a future mining industry in Alaska may be justified.

#### 5.5 Summary of Multiplier Effects and Impact

Discovery of mineral deposits and establishment of a viable mining operation would provide stable, long-term economic and employment benefits which are compounded substantially by associated industries and services. Employment characteristics indicate a 1:1 ratio between basic employment and supporting business employment. In conjunction, a 1:2 ratio between product value and increased commercial business activity is evident. Together, the basic product and expanded commercial activity could result in a two to three-fold increase in tax revenues over and above that from the initial direct mining operation.

The major impact in Alaska of all aspects of a mining industry stems from its tendency to develop in remote areas rather than existing population centers. It could provide a geographically broad foundation for employment and the development of secondary industry throughout the state.

## 6. THE MINERAL INDUSTRY IN ALASKA

### 6.1 The Past

Mining has played a major role in Alaska's history along with fishing and forestry. Mining was principally responsible for the development of most Alaskan cities including Fairbanks, Nome, Juneau, Ketchikan, and Skagway. Alaska has produced \$765.6 million in gold, of which nearly 94% was contributed prior to statehood in 1959. Copper is another mineral of significant historic impact, with total production valued at \$226.7 million, 99.94% of which came prior to statehood. Approximately 92% of all of Alaska's mineral production was realized prior to 1959.

### 6.2 The Present

There are presently only five operating hard mineral mines of importance in the state, exclusive of stone and construction aggregate: Usibelli's coal mine at Healy; Alaska Gold Corporation's placer gold mines at Hogotza and Nome; Inlet Oil's barite mine near Petersberg; and Goodnews Bay Mining Company's placer platinum mine on the Salmon River. This average of one mine per 117,200 square miles is probably the lowest in the nation as shown in Figure 6-1. In addition to these operations, about 30 small placer gold and tin miners are intermittent producers. Total gold production over the last five years averages 14,350 ounces, or about \$2

AVERAGE HARD MINERAL PRODUCT VALUE & EMPLOYMENT  
WESTERN U. S. MINING STATES  
(Compiled from Bureau of Mines Mineral Yearbook)

State	1970			1971		1972	
	Area Square Mile	\$ Per Square Mile	Average Employment	\$ Per Square Mile	Average Employment	\$ Per Square Mile	Average Employment
Arizona	113,909	10,185	14,320	8,577	14,525	9,550	13,700
California	158,693	4,442	16,350	4,372	15,795	4,335	11,070
Colorado	104,247	2,793	8,525	2,660	8,570	2,820	6,610
Idaho	83,557	1,433	3,770	1,344	3,695	1,271	2,990
Montana	147,138	1,381	5,230	1,202	5,625	1,356	3,855
Nevada	110,540	1,686	4,530	2,395	3,355	1,644	2,715
New Mexico	121,666	3,488	8,255	3,261	7,975	3,447	7,410
Oregon	96,981	702	2,205	803	2,960	789	1,395
Utah	84,916	6,241	8,725	5,261	8,055	5,313	6,405
Washington	68,192	1,333	2,865	1,387	2,695	1,610	1,880
Wyoming	97,914	1,750	4,640	1,871	5,030	2,343	4,860
Total 11 Western States	1,187,573	---	78,415	3,116	78,180	3,236	62,890
Average 11 Western States	107,978	3,326	7,130	---	7,107	---	5,717
Total Arizona, Utah, California & New Mexico	479,184	---	31,300 <sup>(1)</sup>	5,247	46,250	5,523	38,585
Average 4 High States	119,796	6,598 <sup>(1)</sup>	10,433	---	11,562	---	9,646
Total 7 Western States	708,569	---	47,115 <sup>(1)</sup>	1,675	31,930	1,690	24,305
Average Low 7 States	101,224	2,117 <sup>(1)</sup>	5,890	---	4,561	---	3,472
Alaska	586,412	101	1,300	81	1,765	55	850

(1) Grouping average for 1970 was for Arizona, New Mexico, and Utah, and the remainder 8 Western States.

million dollars per year at the present gold price, which amounts to less than 15% of production levels for pre-statehood years. There is presently no significant base metal production (1).

The current mining scene is dominated by the extraction of sand, gravel, and stone (Figure 6-2). Pre-statehood production totals only about 13% of the \$413.6 million total sand and gravel production through 1974. Oil pipeline and affiliated construction are primarily responsible for this sharp rise. The growing significance of coal production is reflected by a similar pattern, with 50% of the 85-year total of \$176.6 million produced during the last 15 years. Of the \$605.9 million attributed to coal, stone, sand, and gravel cumulative production through 1974, approximately 68% has been registered since 1959.

The foregoing points up an important basic trend established in Alaska's hard mineral mining industry. Total mined product values for the period 1959 to 1974 have grown 275% from \$20 million to \$55 million, but the contribution from minerals exclusive of coal, stone, and construction aggregate has simultaneously decreased from 77% in 1959 to about 31% in 1974 (5). The dollar value of those minerals is about \$8.5 million for both 1959 and 1974, reflecting true production decline equivalent to the monetary inflation for the period (Figure -3).

### 6.3 Exploration

This degeneration of the precious and base metal segment of the Alaska mining industry is anomalous in light of growing mineral exploration expenditures. Exploration expenditures being reported by mining companies within the state have steadily increased from about \$1 million in 1959 to \$10 million in 1974

## HARD MINERAL PRODUCTION IN ALASKA

Year	Mining License Tax \$1,000 (1)	Exploration Expense \$1 million (2)	Non-Petroleum Minerals \$1 million (3)	Construction Aggregates \$1 million (3)	Mining \$1 million
1957	109.6	1.140	30.153	10.752	19.401
1958	20.8	1.180	20.892	5.936	14.956
1959	7.3	1.285	20.183	5.642	14,541
1960	33.8	2.100	20.601	6.335	14.267
1961	4.9	1.770	16.957	4.185	12.772
1962	16.0	1.300	22.539	5.355	17.184
1963	30.2	2.645	34.079	22.005	12.074
1964	46.5	1.600	30.601	18.488	12.213
1965	88.1	3.182	47.583	34.367	13.216
1966	66.2	2.645	35.882	21.793	14.089
1967	45.7	NA	39.292	26.248	13.044
1968	57.6	4.510	30.634	20.366	10.268
1969	78.3	4.900	30.547	22.517	8.130
1970	45.0	6.850	59.139	51.106	8.033
1971	16.6	9.000	47.383	37.872	9.511
1972	30.7	6.500	32.231	18.266	14.005
1973	16.0	6.550	47.429	32.654	14.775
1974	28.4	10.000	55.000(P)	37.822(P)	17.178

Adapted from total mineral production value by subtracting oil and gas values.

(1) Alaska Financial Report

(2) Alaska Division of Mines & Minerals Annual Reports

(3) U. S. Bureau of Mines, Minerals Yearbook

(P) Preliminary Figures, subject to revision

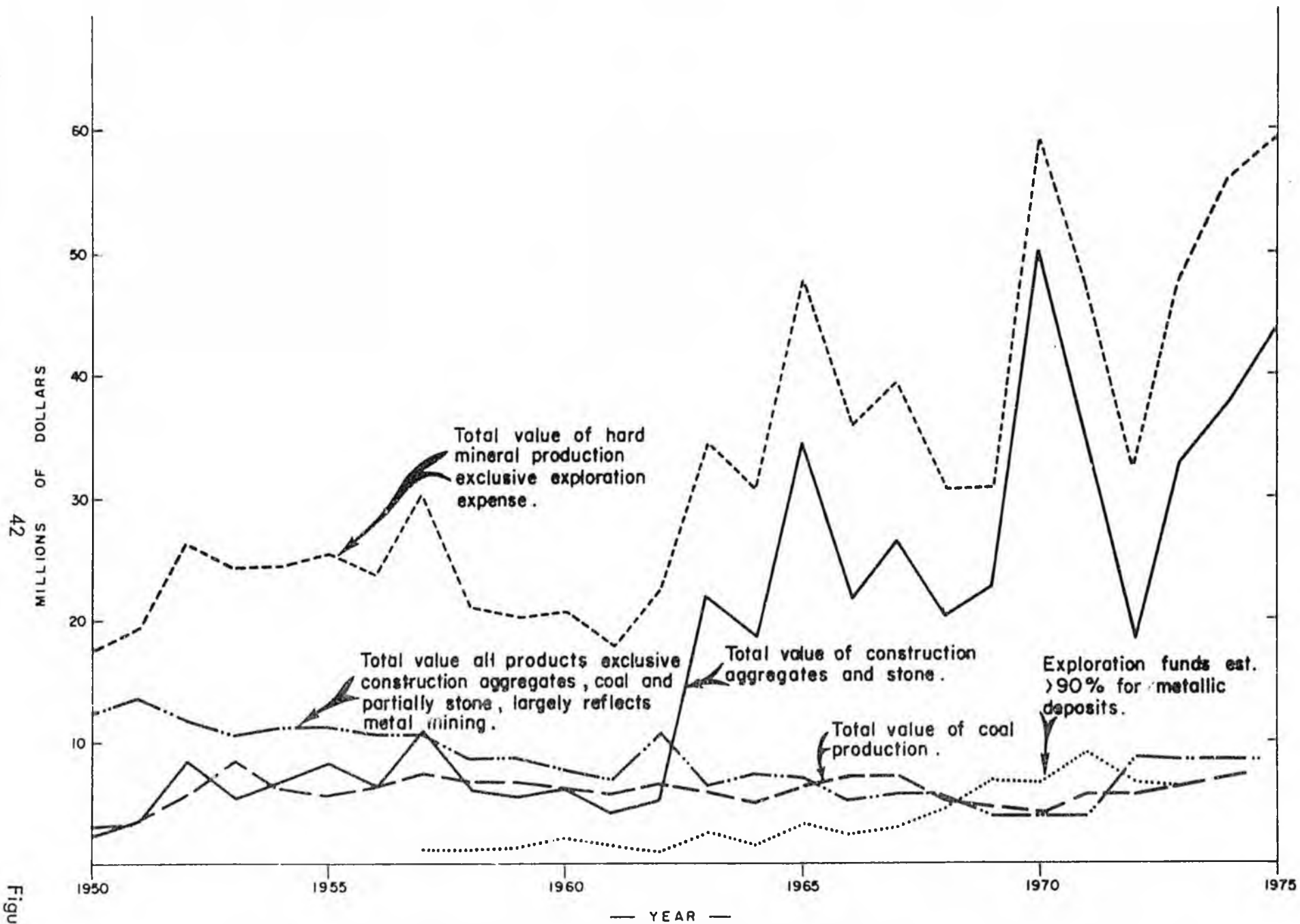


Figure 6-3

## HARD MINERAL PRODUCTION IN ALASKA

DATA: Bracken, 1975; Battge, 1975 & 1973 Annual Report Alaska Div. of Geol. & Geophys. Surveys.

(Figure 6-3), and may reach \$35 million in 1975. Something less than 8% of these amounts totaling more than \$70 million since 1959 have been spent on locating sand, gravel, and coal deposits. In addition, the U. S. Geological Survey and the U. S. Bureau of Mines have expended large untabulated sums for natural resource evaluations in Alaska. These risk dollars have found mineral reserves, but production lead times and the generally adverse economic conditions in Alaska have precluded their development as ore bodies.

#### 6.4 The Future

Alaska has potential and proven mineral resources which could support a significant mining industry within ten years. Potential mining developments include porphyry coppers in the Forty Mile and Alaska Range areas. A uranium discovery in the Healy area precipitated more than 80 square miles of claim staking by major mining companies within the last two years. Low-grade placer gold reserves on the Seward Peninsula are known to far exceed 1 million ounces (1). Significant massive sulfide copper discoveries have been made in southeast Alaska and the central Brooks Range. Marginal deposits exemplified by the Kasna Creek porphyry copper and the Klukwan iron deposit (300 million tons at 15 to 35% Fe) (24) are scattered about the state. Extensive coal deposits in the Healy area are being tested. An interesting asbestos deposit occurs near Eagle. Prospecting continues in the Kennecott area where new, high-grade copper deposits may still be found. The numerous possibilities are perhaps best highlighted by three areas: The Ambler copper district, the Yakobi-Glacier Bay nickel-copper district, and the Beluga coal fields. The metal inventories in the Ambler district exceed 1.5 million tons

each of copper and zinc metal in at least three deposits of comparatively high-grade massive sulfide, with an excellent outlook for additional discoveries. The Yakobi-Glacier Bay area is known to contain relatively low-grade, but extensive nickel-copper reserves near tidewater, conservatively estimated at greater than 500,000 tons each of nickel and copper metal. The Beluga coal fields are undergoing intensive drilling which has outlined accessible, near tidewater reserves likely to exceed a billion tons (19).

Certainly all of these deposits to be viable must overcome present economic barriers imposed by remoteness and/or marginal grade, but the trend toward marginally higher commodity prices, advancing technology and lower grades of production is sure to persist. Therefore, it is fair to assume that some of these deposits will be economic within a decade. Incentives, if provided by the State, could well make these deposits economically competitive at an even earlier date.

## 7. SPECIFIC MODELS OF ALASKAN OPERATIONS

### 7.1 Basis of Study

Owing to a number of factors, Alaskan mineral development has lagged behind the remainder of the country and thus we lack actual operational data to study. The U. S. Bureau of Mines published economic model studies for three hypothetical Alaskan deposits to provide State and Federal Governments with information to aid in appraising Alaska's mineral potential. While we may differ in detail over many of the assumptions and cost parameters used in these models, nevertheless, they provide a convenient framework in which to study the effects of the Severance Tax as well as existing corporate income and Mining License taxes. It is our intention to illustrate the nature of effects rather than the precise impact any given tax would have on a particular operation. The results of our study of each model are presented below. Our estimate of impact of the Severance Tax proposal is summarized on Figure 7-4 following the last model.

### 7.2 Alaskan Asbestos Operation (8)

This model compares a hypothetical Alaskan operation with an identical, currently operating mine in the Yukon. Bottge shows to obtain a 12% discounted cash flow rate of return (DCF-ROR) the Alaskan operator would have to receive about \$356 per ton of fiber product, compared to \$287 per ton in the Yukon, indicating a 25% higher cost in Alaska. The cost of the Mining License Tax was

in Bottge's computation of these figures. In Figure 7-1, we show the impact of the addition of a 5% Severance Tax, which we calculated as both deductible and non-deductible from federal taxable income since this is presently ambiguous.

### 7.3 Kennecott Mine (31)

This model assesses the economic viability of the famous Kennecott deposits as if they were to be developed today. Maloney and Bottge show in their study that such a mine could produce the specified 12% DCF-ROR provided prices were greater than \$0.347 per pound for copper and \$1.04 per ounce for silver. If the mine operator would have to build a new road, the attractiveness of such a deposit would be greatly diminished.

In Figure 7-2 we show the devastating effect a 5% Mineral Severance Tax has on this model.

### 7.4 Alaskan Porphyry Copper Deposit (6)

This model compares the costs of a hypothetical Alaskan copper mine with an identical hypothetical deposit in Arizona. The study concludes that the Alaskan mine operator would have to receive a metal price double that of the Arizona operator to provide the same 12% DCF-ROR, or in other words, that the costs in Alaska are twice those in Arizona. Obviously, charging a higher price is impossible for an internationally marketed commodity such as copper, implying grades must be better in Alaska or that Alaska mines will run only when copper prices are much higher than at present.

Figure 7-3 shows the further deleterious effect of adding a severance tax.

ALASKA ASBESTOS MINE  
Effect of a 5% Severance Tax on Net Income  
for Year 11 of Operations (Thousands of Dollars)

Capital Investment \$ 72,319

Tons ore per year	1,380,000 tons
Tons fiber per year	99,360 tons
Life of mine	20 years
Minimum acceptable DCF-ROI	12%
Annual Sales	
99,360 tons x \$356.65	\$35,437
Operating Costs	
Direct	\$16,826
Transportation	7,857
Depreciation (Year 11)	2,323
Total	<u>\$27,007</u>

	No Severance Tax	5% Severance Tax	
		Deductible From FIT	Non Deductible From FIT
Annual Sales	\$ 35,437	\$ 35,437	\$ 35,437
Operating Costs	27,007	27,007	27,007
Gross Profit	8,430	8,430	8,430
Depletion	4,215	4,215	4,215
Mineral Severance Tax (5%)	--	1,772	1,772
Taxable Income (State)	<u>4,215</u>	<u>2,443</u>	<u>2,443</u>
Corporate Income Tax (State) (9.4% Taxable Income After Net)	371	230	230
Mining License Tax (State) (Tax. Income - \$1,000,000 x 7% +\$4,000 after CIT)	266	--	--
Total State Tax (MST+CIT+MLT)	<u>637</u>	<u>2,002</u>	<u>2,002</u>
Taxable Income (Federal)	3,577	2,213	3,984
Federal Income Tax (48%)	<u>1,717</u>	<u>1,062</u>	<u>1,912</u>
Net Income	<u>1,860</u>	<u>1,150</u>	<u>300</u>
State Tax as % Net Income	34%	174%	667%

**KENNECOTT COPPER MINE**  
Effect of Severance Tax on Net Income (Thousands of Dollars)

Capital Investment \$ 39,662

Tons ore per year 235,000 tons  
Pounds copper per year 57,753,000 pounds  
(96% recovery)  
Ounces silver per year 439,920 ounces  
Life of mine 20 years  
Minimum acceptable DCF-ROI 12%

Annual Sales  
57,753,000 pounds @ 0.347 cents/pound \$ 20,043  
439,920 ounces @ \$1.040/ounces 457  
Total \$ 20,500

Operating Costs  
Direct 6,131  
Smelting, refining, transportation 7,366  
Depreciation 2,072  
Total \$ 15,569

	<u>No Severance Tax</u>	<u>5% Severance Tax</u>	
		<u>Deductible From FIT</u>	<u>Non-Deductible From FIT</u>
Annual Sales	\$ 20,501	\$ 20,501	\$ 20,501
Operating Costs	15,569	15,569	15,569
Gross Profit	4,932	4,932	4,932
Depletion	2,089	2,089	2,089
Mineral Severance Tax (5%)	--	1,025	1,025
Taxable Income (State)	<u>2,843</u>	<u>1,818</u>	<u>1,818</u>
Corporate Income Tax (State) (9.4% Taxable Income after MLT)	251	171	171
Mining License Tax (State) (Tax Income - \$100,000 x 7% + \$4,000 after CIT)	178	--	--
Total State Tax (MST+CIT+MLT)	<u>429</u>	<u>1,196</u>	<u>1,196</u>
Taxable Income (Federal)	2,414	1,647	2,672
Federal Income Tax (48%)	1,159	791	1,283
Net Income	<u>1,255</u>	<u>856</u>	<u>364</u>
State Tax as % Net Income	34%	140%	329%

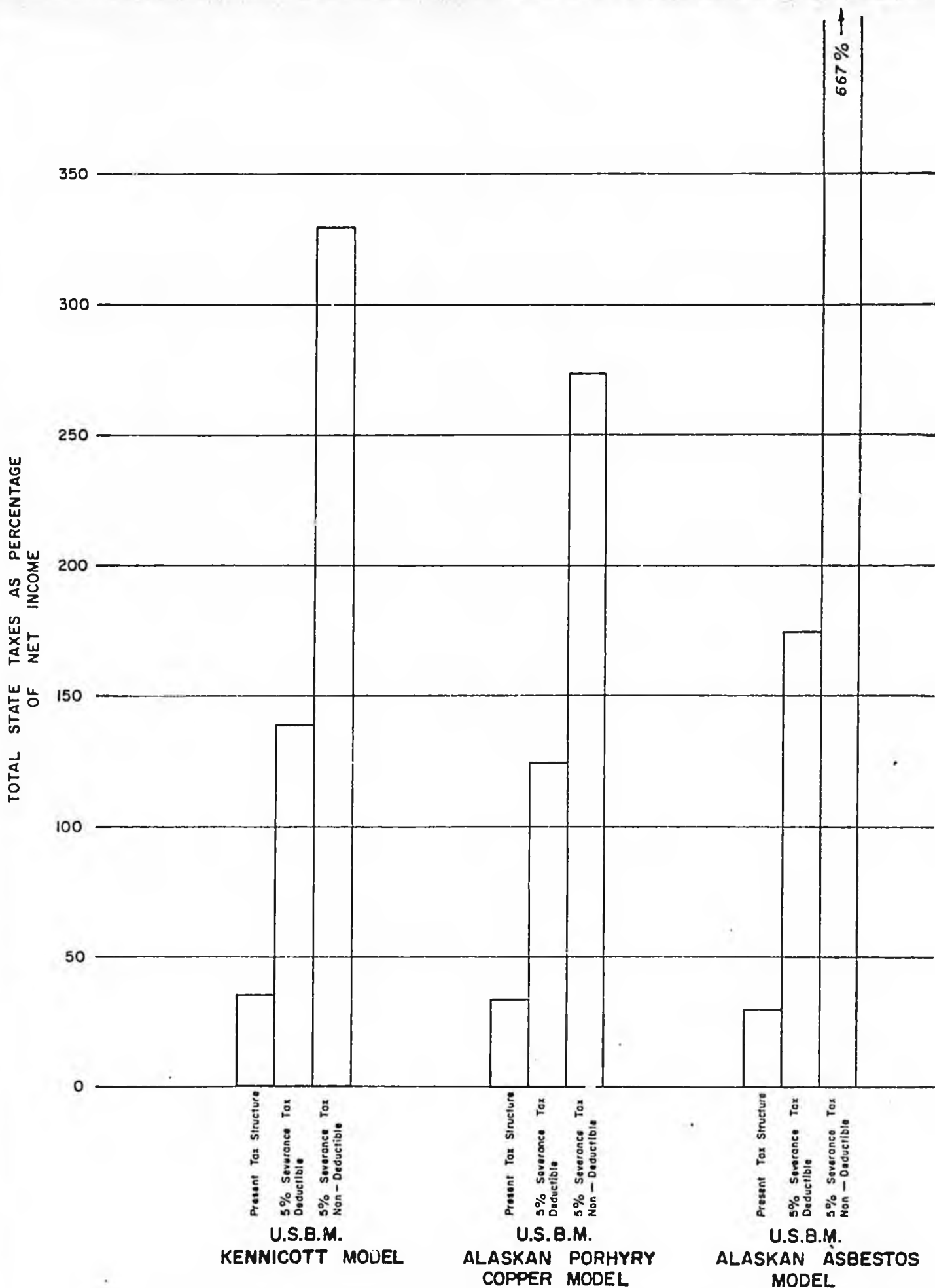
**ALASKA PORPHYRY COPPER DEPOSITS**  
Effect of Severance Tax on Net Income (Thousands of Dollars)

Capital Investment \$346,648

Tons per year (grade 0.50% Cu)	14,280,000 tons	
Pounds copper per year (90% recovery)	128,520,000 pounds	
Life of mine	20 years	
Minimum acceptable DCF-ROI	12%	
<b>Annual Sales</b>		
128,520,000 pounds x \$1.12/pound copper		\$143,936
By-product credit		<u>6,295</u>
Total		\$150,231

<b>Operating Costs</b>		
Direct		59,117
Smelting, refining, transportation		33,446
Depreciation		<u>17,636</u>
Total		\$110,199

	<u>No Severance Tax</u>	<u>5% Severance Tax</u>	
		<u>Deductible from FIT</u>	<u>Non-Deductible from FIT</u>
Annual Sales	150,231	150,231	150,231
Operating Costs	110,199	110,119	110,199
Gross Profit	40,032	40,032	40,032
Depletion	17,518	17,518	17,518
Mineral Severance Tax (5% Sales)	-	<u>7,512</u>	<u>7,512</u>
Taxable Income (State)	<u>22,514</u>	15,002	15,002
Corporate Income Tax (State) (9.4% of Taxable Income after MLT)	1,981	1,410	1,410
Mining License Tax (Tax Income - \$100,000 X 7% + \$4,000 after CIT)	<u>1,434</u>	-	-
Total State Tax	<u>3,415</u>	<u>8,922</u>	<u>8,922</u>
Taxable Income (Federal)	19,099	13,592	21,104
Federal Income Tax (48%)	<u>9,168</u>	<u>6,524</u>	<u>10,130</u>
Net Income	<u>9,931</u>	<u>7,068</u>	<u>3,462</u>
State Tax as % Net Income	34%	126%	258%



**GRAPH SHOWING EFFECTS OF SEVERANCE TAX RELATIVE TO NET PROFIT**

Figure 7-4

### 7.5 Multiplier Effects

Mines such as those modeled by the U. S. Bureau of Mines may be developed in Alaska within the next decade. To be developed, they would have to generate gross income (annual sales) and net income in the range of those shown in the left-hand columns of Figures 7-1 through 7-3. Total revenues from such a group of operations would be sizable, and when multipliers are applied as illustrated in Section 5, the total effect as shown by Figure 7-5 is impressive. It should be noted that in these models the unemployment tax (4.7% of gross employment earnings) payable to the State was not included on State receipts.

Federal taxes paid by such a group of operations would be large, but would not be lost to the state. A comparison of Federal funds flowing out of and into Alaska for 1972 and 1973 follows (38):

	<u>FY 1972</u>	<u>FY 1973</u>
1. Federal Receipts from Alaska	\$279.5 million	\$246.7 million
2. State Receipts from Federal Government	124.7 million	188.9 million
3. Total Federal Expenditures in Alaska (Including 2)	1,016.9 million	1,018.6 million

Although Federal receipts and expenditures in Alaska may not vary in exact proportion, there is some relationship between state population and productivity, and demands on or return of federal funds.

ANNUAL IMPACT OF THREE USBM MODELS (\$000's)

	<u>Primary Amount</u>	<u>Possible Multiplier</u>	<u>Total</u>
Gross Income	\$ 206,169	3	\$ 618,507
Net Profit	13,046	--	--
Federal Tax	12,044	4	48,176
State Tax (Income and Mining License)	4,481	3	13,443

## 8. THE MATTER OF SEVERANCE

### 8.1 Definition and Purpose

Severance tax on minerals can be defined as a tax on minerals that are severed or removed from the ground. Such a tax could be a specific monetary amount for each ton of ore or unit of mineral severed, or it could be a percentage of the monetary value of the ore at the point of severance, or a percentage of the monetary net or gross value of the first saleable product.

On March 21, 1975, Senate Bill 294 was introduced at the request of the Governor. It was entitled "An Act Relating to Alaska Minerals Severance Tax". Based on statements made by the Governor as quoted in newspapers and magazines, and in statements made in letters to interested parties, it can be assumed that the purpose of the proposed Severance Tax was to provide, in part, the revenue needed to offset the growing State deficit, and that the burden of providing some additional revenue was placed on the mining industry of Alaska because it is not paying its way.

The Governor stated in a letter to the Honorable John Huber in regard to the proposed November Mining Tax hearings that their purpose was to jointly develop a rational tax which would be fair to the mining industry and yet provide the State with adequate revenue from its non-renewable resources. This statement implies that the State owns an interest in all mineral resources in Alaska regardless

of legal ownership, and that the State is entitled to a revenue (a royalty or percentage of net profits) therefrom. We accept the right of the State to tax its citizens for the purpose of acquiring the revenue necessary for the services it renders, and we accept the right of the State to be compensated for the taking by others of any mineral interest it owns. However, we believe it is important that the implication that the State has an ownership interest in all the minerals within the State be clarified so that every citizen of Alaska knows that the proposed Severance Tax or similar special tax is solely an exercise of the right of the State to levy taxes. In this particular case, it would be a tax levied against a minority interest to meet the financial needs of the State.

#### 8.2 The Damage Of A Severance Tax

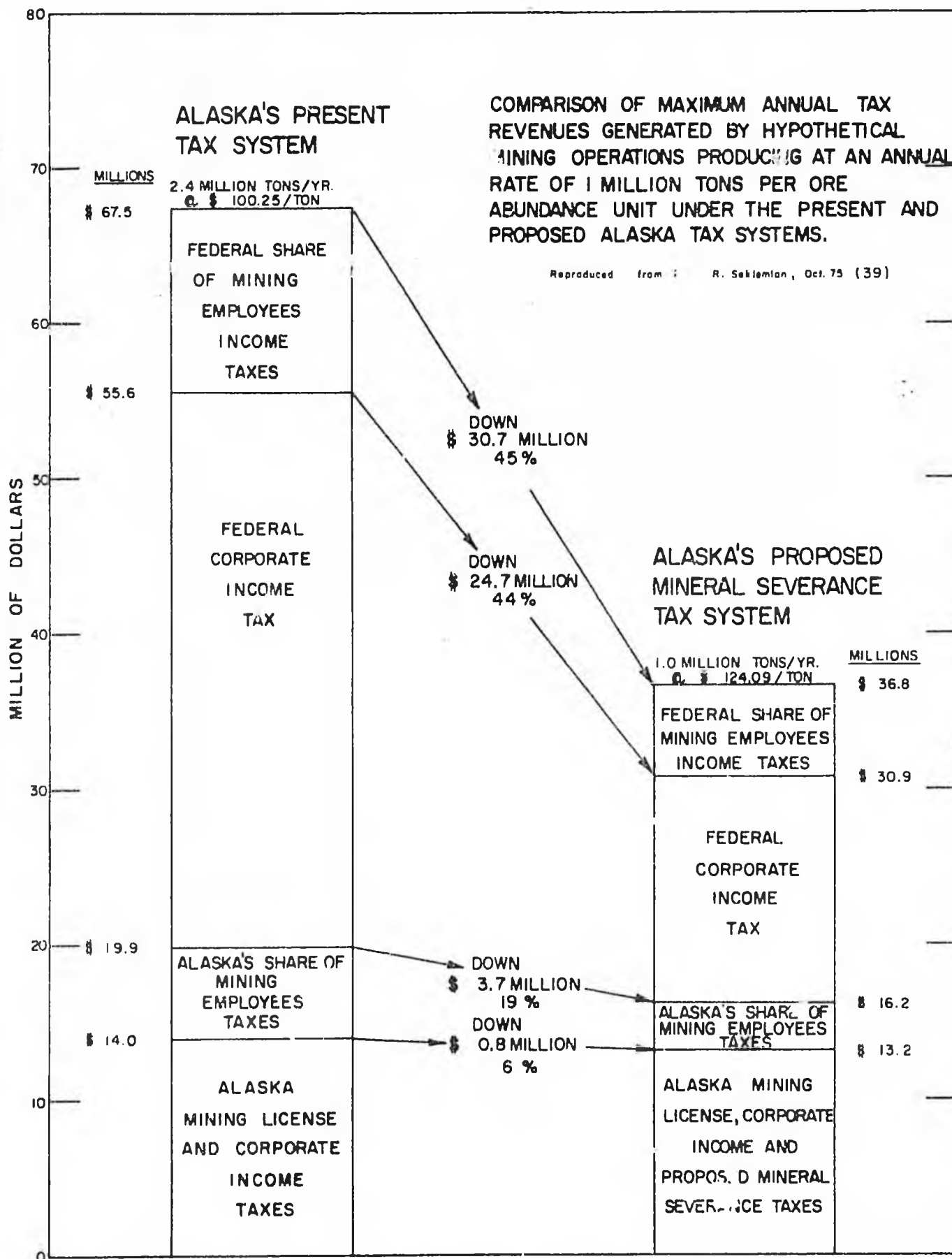
It can be demonstrated that a severance tax would be damaging to the long-range economic development of Alaska. All the minerals covered by Senate Bill 294 except stone, sand and gravel, and perhaps gypsum and coal, which are severed, processed and sold will be marketed outside of Alaska, and thus will have to compete in the arena of world prices. Prices in such markets will be dictated by demand and competition; therefore, any severance tax placed on the mineral reserves in Alaska must be absorbed by the mining operations in one of two ways: (1) reducing other costs to compensate, or (2) limiting, if possible, operations to higher grade ore (increasing the cut-off grade). A severance tax would also have the effect of decreasing new exploration and development.

We must all accept the fact that, based on operating cost trends, there is little hope that mining operators will be able to significantly reduce operating

costs in the near future; therefore, a severance tax will result in a reduction in the ore reserves of the mining industry and the total mineral wealth of the State of Alaska and the U. S. Such a result is anti-conservation and contrary to the Minerals Policy Act of 1970 which states in part:

"The Congress declares that it is the continuing policy of the Federal Government in the national interest to foster and encourage private enterprise in (1) the development of economically sound and stable domestic mining, minerals, metal and minerals reclamation industries, (2) the orderly and economic development of domestic mineral resources, reserves and reclamation of metals and minerals to help assure satisfaction of industrial security and environmental needs..."

We have previously cited the U. S. Bureau of Mines model Alaska operations and the relatively high cost of operating in Alaska. As stated, the U. S. Bureau of Mines estimates the operating cost of mining in Alaska is approximately twice the comparable cost of operations in the conterminous U. S. Such high operating costs have already limited the viable mineral deposits that can be developed, limited the recoverable mineral from such deposits, and added to the risk of such ventures. It is clear from data presented in Figures 7-2 to 7-4 that the Severance Tax can only further limit reserves and increase the risk of exploration and development. In his study of the possible impact of the Severance Tax (Senate Bill 294) on the type of deposits which occur in the Brooks Range, Seklemian found that imposition of such a tax would produce less overall state revenue, as shown on Figure 8-1 (39).



### 8.3 How To Achieve More Tax Revenue

George F. Leaming recently studied the potential impact of changing the severance tax rate in Arizona and found that serious and long-range adverse effects would result (27):

"Proposed increases in severance taxes imposed by the State of Arizona on the state's copper industry, under 1973 conditions, would tend to decrease employment in the industry by 700 persons and annual payrolls by \$11 million for each one percent in the total effective rate. Increases to as much as 6.5 percent as have been proposed by some under expected 1975 conditions could lower copper industry payrolls by more than \$99 million yearly and cut employment in the industry by about 7,600. The increase in severance taxes from 2.0 to 2.5 percent enacted last year have probably already resulted in payrolls that are \$300,000 per month lower than they would have been and caused the loss of more than 300 jobs".

The total work force in Arizona in 1973 was 26,400 persons, thus for each 1% increase in the tax rate, a 2.7% reduction in the work force could be anticipated. Regarding reserves, Leaming points out:

"The short-run impact of potential tax increases on Arizona copper resources would be relatively slight, resulting in the loss of some three million tons of copper contained in about 750 million tons of ore. This would be equivalent to one of the larger copper deposits currently being mined in the state. The longer term effects would be much greater, with higher taxes preventing the economical use of from 33 to 44 million tons of copper contained in low-grade rock. This would reduce Arizona's indicated copper resources by a third".

Alaska should be offering incentives to encourage mineral exploration and development. Much of Alaska is remote and unexplored and has great potential for mineral wealth. The costs of exploration and development are high and the risks are great, and it will be only through incentives rather than tax burdens that the State of Alaska can hope to benefit from this wealth. Minerals in the ground

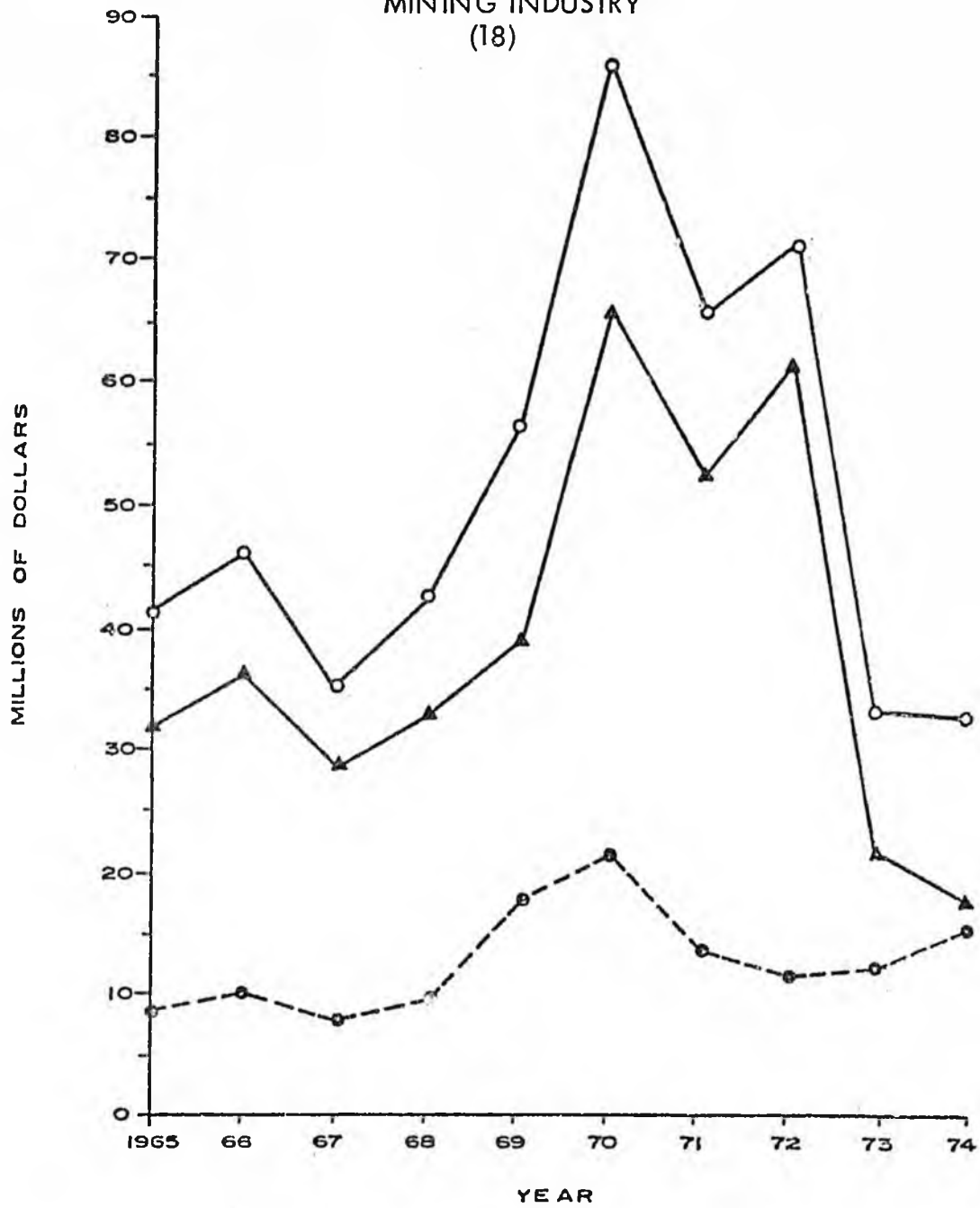
have no value until someone incurs the risk of exploration and development. The wealth is only created when the minerals are mined, processed and sold. If Alaska wants its fair share, it must legislate to create wealth rather than to divide up the wealth it has.

Most of the exploration carried out in Alaska is done by the major mining corporations which have exploration programs all over the U. S. and the world. These corporations allocate their exploration and development budgets to targets and areas which have the best potential for discovery considering the risk involved. Figure 8-2 shows how such budgets were reduced in British Columbia when Bill 31 was introduced in 1972, in spite of the fact that both 1973 and 1974 were good years for the mining industry (See Figure 4-1). The threat posed by the introduction of Senate Bill 294 in Alaska is similar and reduced efforts could be anticipated in 1976 as a result.

# EXPLORATION AND DEVELOPMENT ANNUAL EXPENDITURE

1965-1974

BRITISH COLUMBIA  
MINING INDUSTRY  
(18)



Total Exploration & Development —○—

On property Exploration & Development —△—

Primary Exploration - - -●- - -

Data: Mining Association of British Columbia

Figure 8-2

## 9. REVISION OF THE MINING LICENSE TAX - THE BEST ALTERNATIVE?

### 9.1 Definition and Advantages

At present, Alaska has a tax on hard mineral production -- the Mining License Tax (AS 43-65). It is a tax on net income, defined as the gross income from the property, less such allowable deductions as overhead, operating expenses, development costs, depreciation, taxes, losses and "etc". Excluded for computation of net income are depletion, federal income taxes, and the Mining License Tax itself. Rates vary from 3 to 7% between net incomes of \$40,000 to \$100,000, with all annual net income over \$100,000 being taxed at the flat rate of 7%. Written into this law are two important "incentive" provisions -- the first allows for a 3- $\frac{1}{2}$  year tax exemption for new mining operations, and the second is a depletion allowance similar to that of the Federal Government; that is, it allows a deduction from gross income of an amount equal to a percentage of this gross income less any rents or royalties paid. The rates are 10% for coal, 23% for sulphur, and 15% for many other specified minerals. The depletion allowance is limited to 50% of the pre-depletion net income as in Federal laws. Revenues from the Mining License Tax for 1957 to 1974 are shown on Figure 9-1.

The advantages of the existing Mining License Tax are threefold:

1. It is based on net income
2. It recognizes the high capital costs and risks of new ventures with a 3 $\frac{1}{2}$ -year tax holiday

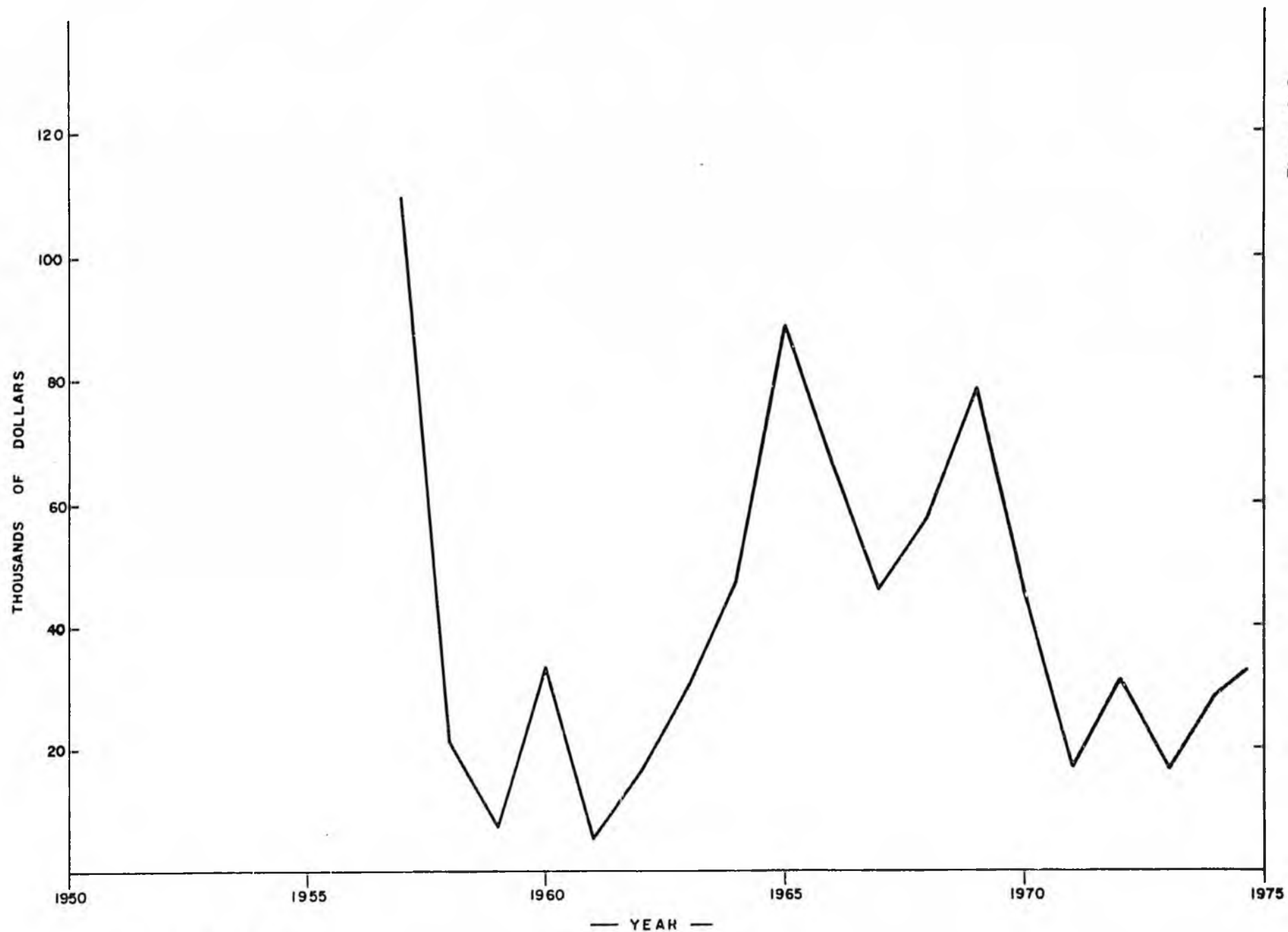


Figure 9-1  
(9)

61

# ALASKA MINING LICENSE TAX REVENUES

DATA : Pracken, 1975 (9)  
(See figure 5-2)

3. It supports reinvestment in exploration for, and development of, new resources through a depletion allowance

Each of these will be discussed briefly.

### 9.2 A Net Income Base

A tax based on net income recognizes that the fortunes of a business go through cycles of high and low, sometimes negative profitability, and seeks to share both the rewards of good times and the burden of bad times. No tax is payable until a profit is made, then the governing body, in this case the State, shares in the profit. It is clear to see that a tax applied on the basis of units of production, rather than profit, would be collected during unprofitable business cycles, and in marginal times could, in fact, change a profitable venture to an unprofitable one, as shown above for the Severance Tax. Using net income as a basis for taxation recognizes operating costs and other expenses required for productive mining as valid and necessary charges in the process of converting resources into products with real value.

### 9.3 Incentives

Incentives are important to establishment of a mining industry. The risks and high costs of exploration, development and even production have been explained. The long lead time from discovery to production, and the exceptionally large capital expenditures required, result in a long payback period for most mining ventures. During such payback periods, the risks of business cycles, changes in laws, and other unknown factors may seriously challenge overall profitability. During such periods, the mining operation supports communities, provides jobs, and pays all

ordinary and most special taxes. It is obviously good policy for a state interested in orderly development of its mineral resources to stimulate projects with long lives through reducing or waiving its special tax during the high risk periods of early production. Everyone is well aware of the fact that you can get moving faster if you let the engine of your car warm up properly before engaging the transmission.

Incentives can take the form of lower taxes or no taxes, or, in light of recent tax increases throughout the states, they can be a promise of stable taxes. Other incentives could be any means of providing less risk through faster payout, such as initial tax-free periods for new mines, the right to take accelerated depreciation, or cost sharing in remote areas on infrastructure such as new roads, town-sites and local utilities. A statement by the Governor that a viable mining industry would be welcomed and supported would be a real incentive. Many other incentives outside of the area of state tax legislation are possible and reasonable.

#### 9.4 Depletion Allowances

Depletion allowances are presently very controversial, for emotional rather than sound economic reasons. The original purpose of depletion allowances was to provide funds for the exploration for, and development of, new reserves to replace those being mined or depleted. It has been said that the mining companies have misused the funds so generated by taking them as profit and not placing them back into development of new resources. This is not the case. Clayton J. Parr, Counsel for The Anaconda Company, in speaking to the Rocky Mountain Mineral Law Institute in 1974 summed up what has indeed happened, as follows (37):

Ideally, individual companies will finance new projects internally out of earnings. Depreciation and the depletion allowance have a direct bearing on the amount of such funds that are available. In most mining companies, such earnings have been insufficient, however, and outside sources of funds have been turned to. In 1961, all capital expenditures by the major firms in the non-ferrous metal mining industry were financed by depreciation and depletion, but by 1970 capital expenditures amounted to 2.5 times depreciation and depletion. Long-term debt of nine major copper companies has increased from \$0.3 billion in 1964 to \$1.7 billion in 1973.

New mine development has been severely influenced by the need for extensive, non-productive improvements dealing with environmental quality, and because present regulations prohibit or add significantly to the cost of new mines, not because the total amount of funds is less. Capital expenditures in the industry are in fact increasing. By recognizing and allowing for depletion, the Mining License Tax and the State of Alaska are providing for a climate of sustained growth in the mineral industry, whether this growth is manifested by increased pollution controls or by new production. Finally, depletion allowances are a special tax benefit received only by the mining industry, but then the Mining License Tax is also a special tax. One is as sound as the other.

#### 9.5 Disadvantages

The present Mining License Tax has certain disadvantages. Mainly, it is an extra tax above what other industries must pay in Alaska. It is not paid in lieu of corporate income tax, property tax, unemployment tax or other state and local tax; it is paid in addition to these already significant taxes, giving a total tax on net income of up to 64% (48% Federal, plus 9.4% State Corporate Income Tax, plus 7% Mining License Tax). The corporate income tax alone is higher than for most mining

states. The rate of special taxation (essentially 7% of net income for large operations) is high, as can be seen by comparison with the tax rates of other mining states presented in Figure 4-6, particularly when one considers the high cost of doing business in Alaska. We have presented in Section 7 evaluations which show that taxes do have an impact on mining operations. It can be inferred that lower special taxes would mean greater development and higher corporate income tax revenue -- the trade off needs to be studied and evaluated. Complete elimination of the Mining License Tax was discussed in 1970 as an incentive for development of the mineral industry. Such action plus additional incentive would certainly stimulate development of a mining industry.

Other disadvantages stem from problems of clarity in the act, the changing emphasis in business which has left some matters uncertain, and other so-called "loop holes". In some areas, the Mining License Tax may involve different usage or interpretation from other state laws and the Federal tax laws. Many minerals are not specifically covered and the type of mining operations to which the tax pertains are not listed. Clarification of all these matters would not significantly effect the levels of tax revenue from a viable mineral industry, but could improve the administration of the law.

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THE LEGISLATURE OF THE STATE OF ALASKA  
FISCAL NOTE  
 Second Session - Ninth Legislature

I. REQUEST

Bill No. House Bill No. 878  
 Title: An Act relating to the Alaska Mining License tax  
 Requested by: House Resources & Finance Committee Date: March 22, 1976  
 Return Date Requested: \_\_\_\_\_  
 Agency: Revenue Program: Audit

II. FISCAL DETAIL

Budget Request Unit(s) Affected: N/A

A. EXPENDITURES: (Thousands of dollars)

OBJECT	FY 76	FY 77	FY 78	FY 79	FY 80	FY 81
100 PERSONAL SERVICES						
200 TRAVEL						
300 CONTRACTUAL						
400 COMMODITIES						
500 EQUIPMENT						
600 LAND & STRUCTURES						
700 GRANTS, GIFTS, ETC.						
TOTAL	None	None	None	None	None	None

B. FUNDING: (Thousands of dollars)

GENERAL FUND	None	None	None	None	None	None
FEDERAL FUNDS						
OTHER						

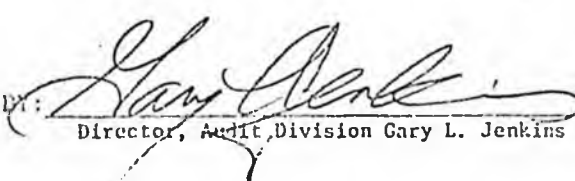
C. POSITIONS: None

PERMANENT/TEMPORARY	/	/	/	/	/	/
MAN MONTHS (P./T.)	/	/	/	/	/	/

III. ANALYSIS (See Fiscal Note Preparation Instructions, Section III)

N/A

IV. ATTACHMENTS See attached memo to R. D. Stevenson dated March 31, 1976.

V. DATE: 3-31-76 PREPARED BY:   
 Director, Audit Division Gary L. Jenkins

Original: Legislative Finance  
 cc: Budget and Management  
 Prime Sponsor (First Legislator Named)

CHAIRMAN:  
NELS A. ANDERSON, JR.

STAFF ASSISTANT:  
GUY VANDOREN

POUCH V  
JUNEAU, ALASKA 99811



VICE CHAIRMAN  
TED SMITH

SECRETARY:  
~~XXXXXXXXXXXXXX~~  
Ruth I. Allington  
PHONE: 465-3715  
465-3781

## House Resource Committee

FRED BROWN

ALVIN OSTERBACK

DICK ELIASON

LEO RHODE

MIKE HERSHBERGER

LESLIE (RED) SWANSON

JAMES HUNTINGTON

April 12, 1976

To: Hugh Malone  
House Finance Committee

From: Guy Van Doren  
Staff Assistant-House Resources Committee

Subject: HB 878 - An Act Relating to the Alaska Mining Tax

The original bill was worked out jointly between the Dept. of Revenue and representatives of the mining industry. The bill makes several modifications to the current Mining License Act, mainly in the area of clarifying who is taxable, what activities are taxable, and how taxable proceeds for purposes of computing the tax are arrived at.

The legislation will not cost the State of Alaska additional dollars for administration nor will it immediately generate additional dollars for the state since there is an extremely small number of mines operating in the State of Alaska.

The Committee Substitute reflects the concerns of the industry in testimony before the Committee, and clarifies the definition of minerals by taking out specific minerals and making the definition cover all minerals not specifically excluded. The Committee also added a definition of "materials" in order that there would be no confusion. The reason the word topsoil was used was because of "rare earth", which is highly valuable. Building materials were included under materials because of the use of rock, slate, sandstone, etc. for construction.

Changes other than those mentioned above are found on Page 2 Sec (d) which allows more than one mining operation by a single company, to be considered one mining business.

Page 3, Line 9. This adds "net operating costs set out in the Internal Revenue Code, as amended" Industry had requested this as an added deduction from gross receipts.

Page 4. Where the word "minerals" appeared in the original bill, the word "materials" was added due to the addition of the material definition section. Presently, the largest amount of tax is derived from the removal of sand and gravel.

Page 10 Sec. B, was added to exclude the casual prospector, as opposed to an actual mining operation or business.

In summary, the bill will make significant strides in clarifying how this tax is applied but does not change the basic mode of taxation and is a good example of cooperation between the Legislature, Administration and the industry.

THE LEGISLATURE OF THE STATE OF ALASKA  
FISCAL NOTE

Second Session - Ninth Legislature

I. REQUEST

Bill No. Committee Substitute for House Bill No. 878

Title: an Act relating to the Alaska Mining License Tax

Requested by: House Finance Committee

Date: April 13, 1976

Return Date Requested: \_\_\_\_\_

Agency: Revenue

Program: Audit

II. FISCAL DETAIL

Budget Request Unit(s) Affected: None

A. EXPENDITURES: (Thousands of dollars)

OBJECT	FY 76	FY 77	FY 78	FY 79	FY 80	FY 81
100 PERSONAL SERVICES						
200 TRAVEL						
300 CONTRACTUAL						
400 COMMODITIES						
500 EQUIPMENT						
600 LAND & STRUCTURES						
700 GRANTS, CLAIMS, ETC.						
TOTAL	None	None	None	None	None	None

B. FUNDING: (Thousands of dollars)

GENERAL FUND						
FEDERAL FUNDS						
OTHER						

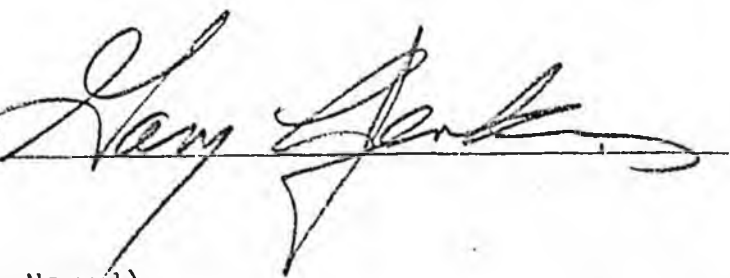
C. POSITIONS: N/A

PERMANENT/TEMPORARY	/	/	/	/	/	/
MAN MONTHS (P./T.)	/	/	/	/	/	/

III. ANALYSIS (See Fiscal Note Preparation Instructions, Section III)

N/A

IV. ATTACHMENTS See memorandum dated April 21, 1976 to R. D. Stevenson

V. DATE: April 21, 1976 PREPARED BY: 

Original: Legislative Finance  
cc: Budget and Management  
Prime Sponsor (First Legislator Named)

## MEMORANDUM

## State of Alaska

TO: R. D. Stevenson  
Special Assistant

DATE: April 21, 1976

FILE NO:

TELEPHONE NO:

FROM: Gary L. Jenkinson  
Director  
Audit Division

SUBJECT: CS for House Bill 878

The Committee Substitute for House Bill 878 made two basic changes to the original bill. First of all, it provided that taxpayers may elect to report all mining operations in the State as one mining business or may treat each separate mine as an individual mining business. The effect of this provision would be to multiply the amount of net proceeds which would be exempt from tax for an individual company. For example, if a company had three mines in the State, they would be able to have up to \$120,000 per year not subject to taxation. That would mean a revenue loss of \$4,200 each year to the State of Alaska for that company. The total revenue loss would depend on how many companies have multiple mining operations in the State.

The reasoning behind allowing \$40,000 in net proceeds to be tax exempt was that there are many small mines in the State who we agreed should be encouraged to pursue marginal mining operations generating a limited amount of income. This amendment is in direct opposition of the principal by allowing multiple exemptions to larger companies.

Second, the Committee Substitute would allow the deduction of a net operating loss as provided for in the Internal Revenue Code. Apparently this provision was added to provide an additional incentive for mining operations to come into the State. It should be remembered that we have already provided an incentive for the mining industry in the form of a 3 1/2 year period beginning at the time of production, during which a company would be tax exempt on a new mine. To provide yet additional incentives such as the net operating loss carryforward is showing very obvious favoritism where none is needed or justified. None of the other licensing laws in the State of Alaska have any tax exempt or other incentive provisions.

I feel the State of Alaska is being more than generous in allowing the 3 1/2 year exemption from taxation and that no additional incentives are needed. The lack of major mining operations in the State is totally unrelated to the lack of incentives in our mining license law.

GLJ:lc

CHAIRMAN:  
NELS A. ANDERSON, JR.

STAFF ASSISTANT:  
GUY VANDOREN

POUCH V  
JUNEAU, ALASKA 99811



VICE CHAIRMAN:  
TED SMITH

SECRETARY:  
~~XXXXXXXXXXXXXXXXXX~~  
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## House Resource Committee

FRED BROWN

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LESLIE (RED) SWANSON

JAMES HUNTINGTON

April 12, 1976

To: Hugh Malone  
House Finance Committee

From: Guy Van Doren  
Staff Assistant-House Resources Committee

Subject: HB 878 - An Act Relating to the Alaska Mining Tax

The original bill was worked out jointly between the Dept. of Revenue and representatives of the mining industry. The bill makes several modifications to the current Mining License Act, mainly in the area of clarifying who is taxable, what activities are taxable, and how taxable proceeds for purposes of computing the tax are arrived at.

The legislation will not cost the State of Alaska additional dollars for administration nor will it immediately generate additional dollars for the state since there is an extremely small number of mines operating in the State of Alaska.

The Committee Substitute reflects the concerns of the industry in testimony before the Committee, and clarifies the definition of minerals by taking out specific minerals and making the definition cover all minerals not specifically excluded. The Committee also added a definition of "materials" in order that there would be no confusion. The reason the word topsoil was used was because of "rare earth", which is highly valuable. Building materials were included under materials because of the use of rock, slate, sandstone, etc. for construction.

Changes other than those mentioned above are found on Page 2 Sec (d) which allows more than one mining operation by a single company, to be considered one mining business.

Page 3, Line 9. This adds "net operating costs set out in the Internal Revenue Code, as amended" Industry had requested this as an added deduction from gross receipts.

Page 4. Where the word "minerals" appeared in the original bill, the word "materials" was added due to the addition of the material definition section. Presently, the largest amount of tax is derived from the removal of sand and gravel.

Page 10 Sec. B, was added to exclude the casual prospector, as opposed to an actual mining operation or business.

In summary, the bill will make significant strides in clarifying how this tax is applied but does not change the basic mode of taxation and is a good example of cooperation between the Legislature, Administration and the industry.

9  
March 18, 1976

The Honorable Mike Bradner  
Speaker of the House  
Alaska State Legislature  
Juneau, Alaska 99811

HB 578

Dear Mr. Speaker:

In accordance with AS 24.30.060(b) and the Uniform Rules of the Alaska State Legislature, I am transmitting a bill relating to the Alaska mining license tax. Last year, when I indicated that SB 294, establishing a mineral severance tax, would be withdrawn, I stated that members of my administration would be meeting with representatives of the mining industry during the remainder of the year to reach a consensus on a better taxing approach for mineral extraction.

After a substantial amount of research and discussion between the Department of Revenue and mining industry people, a consensus of opinion has indicated that the goal of insuring a fair return to the state from mineral resources could be accomplished by strengthening our present mining license tax.

Accordingly, the bill I am introducing today amends the mining license tax in several respects to achieve a more effective taxing system than we presently have in Alaska.

The bill would impose the tax on the net proceeds of a mining business. It would be calculated using the total gross receipts from the business less certain specified direct expenses of mining. The bill also insures that all mining businesses would be subject to the tax regardless of the form of business or the nature of the operation. The bill also clarifies several ambiguous areas of the present law which serve as loopholes for some mining businesses. In addition, the bill expands and strengthens tax penalties.

Sincerely,

Jay S. Hammond  
Governor

COMMITTEE REPORT

4/12/76

HOUSE

Mr. Speaker:

Date \_\_\_\_\_

The Committee on FINANCE has had HB 878

under consideration. A Majority of the members of the Committee

( ) recommends it DO PASS

( ) recommends it DO NOT PASS

( ) recommends it DO PASS WITH ATTACHED AMENDMENT(S)

( ) recommends it BE REPLACED WITH CS FOR \_\_\_\_\_ AND THAT

CS FOR \_\_\_\_\_ DO PASS

( ) "and" recommends it BE REFERRED TO THE \_\_\_\_\_

COMMITTEE

( ) reports it back WITHOUT RECOMMENDATION

( ) "other"

Members signing the Majority report:

\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

Members NOT concurring in the Majority report:

\_\_\_\_\_ recommends:

\_\_\_\_\_ recommends:

\_\_\_\_\_ recommends:

\_\_\_\_\_ recommends:

\_\_\_\_\_ recommends:

\_\_\_\_\_ Chairman

"An Act relating to the Alaska Mining License Tax; and providing for an effective date."

COMMITTEE REPORT

3/19/76

HOUSE

FINANCE

Mr. Speaker:

Date 4-12-76

The Committee on RESOURCES has had HB 878

under consideration. A Majority of the members of the Committee

recommends it DO PASS

recommends it DO NOT PASS

recommends it DO PASS WITH ATTACHED AMENDMENT(S)

recommends it BE REPLACED WITH CS FOR HB 878 AND THAT

CS FOR it DO PASS

"and" recommends it BE REFERRED TO THE \_\_\_\_\_ COMMITTEE

reports it back WITHOUT RECOMMENDATION

"other"

Members signing the Majority report:

Nels C. Anderson J. Hamington  
\_\_\_\_\_  
John B. ... \_\_\_\_\_  
John ... \_\_\_\_\_  
Alvin Osterbach \_\_\_\_\_

Members NOT concurring in the Majority report:

TITUS HERSH BERGER recommends: ~~Do Not Pass~~ No Recommendation  
John B... recommends: No Rec.  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

Nels C. Anderson Chairman

Original sponsor: Rules Committee by  
request of the Governor

Offered: 4/12/76  
Referred: Finance

1 IN THE HOUSE

BY THE RESOURCES COMMITTEE

2 CS FOR HOUSE BILL NO. 878

3 IN THE LEGISLATURE OF THE STATE OF ALASKA

4 NINTH LEGISLATURE - SECOND SESSION

5 A BILL

6 For an Act entitled: "An Act relating to the Alaska mining license tax; and  
7 providing for an effective date."

8 BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF ALASKA:

9 \* Section 1. AS 43.65.010 is repealed and re-enacted to read:

10 Sec. 43.65.010 MINING LICENSE AND TAX. (a) For the privilege of  
11 engaging in the business of mining in the state, a person shall first  
12 apply and obtain a license from the department. The license fee is  
13 \$25, which must accompany the application for a license.

14 (b) There is also levied an annual license tax on each person  
15 engaging in the business of mining in the state computed on the net  
16 proceeds of the taxpayer from the mining business. The license tax  
17 shall be computed according to the following table:

18 If the net proceeds are:	Then the tax is:
19 over \$40,000 but not over \$50,000	3 per cent of the excess over 20 \$40,000
21 over \$50,000 but not over \$100,000	\$300 plus 5 per cent of the 22 excess over \$50,000
23 over \$100,000	\$2,800 plus 7 per cent of the 24 excess over \$100,000

25 (c) Upon application and receipt of an exemption certificate, a  
26 new mining business operation is exempt from the license tax levied by  
27 this chapter for three and one-half years after production from the  
28 mining business operation begins. The tax exemption granted to new  
29 mining business operations does not apply to the business of mining sand

1 and gravel. The Department of Natural Resources shall certify to the  
2 department the date upon which production began from the mining business  
3 operation, and the department shall issue a certificate of exemption to  
4 the applicant after this certification. A person must apply for an  
5 exemption certificate in the first year of production from the mining  
6 business operation in order to qualify for the exemption under this  
7 section.

8 (d) If mining business operations not subject to sec. 10(c) of  
9 this chapter are conducted in two or more places in the state by one  
10 person, those operations may, at the person's option, be considered as  
11 one mining business, and the tax shall be computed upon the net proceeds  
12 of all those mining business operations.

13 \* Sec. 2. AS 43.65 is amended by adding new sections to read:

14 Sec. 43.65.015. NET PROCEEDS. (a) In this chapter, "net pro-  
15 ceeds" means the total gross receipts from the mining business less the  
16 following deductions incurred during the taxable year:

17 (1) all expenses incurred directly in the extraction of  
18 minerals in the state;

19 (2) all expenses incurred in transporting the minerals from  
20 the point of extraction to any further processing plant where only  
21 necessary treatment processes are applied to obtain a commercially  
22 marketable product;

23 (3) all expenses directly related to the production, re-  
24 fining, crushing, screening or other necessary process incurred to make  
25 a commercially marketable product;

26 (4) the actual selling expenses incurred in marketing the  
27 product;

28 (5) all expenses incurred in transporting the marketable  
29 product to a buyer;

1 (6) depreciation of the mining business equipment, works,  
2 plant and facilities used directly in the extraction, transportation and  
3 processing phases of the mining business, in accordance with sec. 167 of  
4 the Internal Revenue Code as amended (26 U.S.C. sec. 167);

5 (7) amortization of exploration and mining development costs  
6 not included in (6) of this subsection;

7 (8) an allowance for depletion on a cost or percentage basis  
8 at the rates set out in secs. 611 - 614 of the Internal Revenue Code as  
9 amended (26 U.S.C. secs. 611 - 614) except that the allowance for  
10 depletion may not exceed 50 per cent of the taxpayer's net proceeds  
11 calculated before the allowance for depletion;

12 (9) net operating losses as set out in the Internal Revenue  
13 Code as amended.

14 (b) If the taxpayer has expenses in the state other than those  
15 specified in (a) of this section, such as general overhead expenses,  
16 relating to the business of mining or to the business of mining and  
17 other business activities, the deductions shall be apportioned in the  
18 ratio which the direct expenses of the mining business in the state  
19 under (a) of this section bear to the total direct expenses of all  
20 business activities of that taxpayer in the state.

21 (c) Except for wages paid during temporary travel out of the state  
22 by an employee who is domiciled in the state, the deductions allowed in  
23 (a) and (b) of this section do not include wages or other payments for  
24 services not performed in the state.

25 (d) If a person is engaged in the business of mining and the only  
26 receipts from the business are royalties, the net proceeds of the  
27 mining business are the royalties received less the depletion allowance  
28 under sec. 15(a)(8) of this chapter.

29 Sec. 43.65.017. GROSS RECEIPTS. (a) In this chapter, "gross

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1 receipts" means all revenue received, including royalties, rental pay-  
2 ments, and all other compensation from the business of mining. Gross  
3 receipts include the actual amount received during the year for the  
4 sale of minerals or materials whether or not the minerals or materials  
5 were actually extracted during that year.

6 (b) If minerals or materials are sold or transferred at a price  
7 other than the true market price, such as when a wholly owned subsidiary  
8 transfers or sells the mineral or material to its parent at a price less  
9 than market value, gross receipts are the true market price or average  
10 market price per ton or other measurable unit of the mineral or material  
11 multiplied by the total units of the mineral or material sold or trans-  
12 ferred during the year.

13 (c) Gross receipts from the business of mining sand and gravel  
14 include

15 (1) receipts from the sale to customers directly from the pit  
16 or mine;

17 (2) receipts from the sale to customers at their place of  
18 business or their business site, including receipts relating to the  
19 delivery of the sand and gravel; and

20 (3) the average market value of sand and gravel from inter-  
21 company transfers of the minerals calculated immediately before the  
22 transfer, including intercompany transfers of sand and gravel to a  
23 ready-mix or concrete plant.

24 \* Sec. 3. AS 43.65.020 is amended to read:

25 Sec. 43.65.020. TAXPAYER'S DUTIES. (a) A person subject to tax  
26 under this chapter shall make a return stating specifically the items of  
27 gross receipts [INCOME] from the business [PROPERTY], including royalty  
28 received and the deductions [AND CREDITS] allowed by this chapter, and  
29 other information for carrying out this chapter which the department

1 [DEPARTMENT OF REVENUE] prescribes. The return shall show the mining  
2 license number and shall be signed by the taxpayer or his authorized  
3 agent, under penalty of perjury. If receivers, trustees, or assigns are  
4 operating the mining [PROPERTY OR] business, they shall make returns for  
5 the person engaged in the mining business [, OR THE RECIPIENT OF ROYALTY  
6 IN CONNECTION WITH MINING PROPERTY]. The tax due on the basis of the  
7 returns shall be collected in the same manner as if collected from the  
8 person of whose business they have custody and control.

9 (b) A return made on the basis of the calender year shall be filed  
10 [MADE] before March 15 [MAY 1] of the next year. A return made on the  
11 basis of a fiscal year shall be filed [MADE] before the 15th [FIRST] day  
12 of the third [FIFTH] month of the next fiscal year.

13 (c) The department [DEPARTMENT OF REVENUE] may grant a reasonable  
14 extension of time for filing returns, under regulations adopted [PRE-  
15 SCRIBED] by it. Except in the case of a taxpayer going abroad, no  
16 extension may be granted [MADE] for more than six months.

17 (d) A [TAXPAYER'S] return shall be filed with [MADE TO] the  
18 department using the same tax year as the person uses in filing his  
19 federal income tax return [DEPARTMENT OF REVENUE AT JUNEAU. A TAXPAYER  
20 SHALL MAKE HIS RETURN EITHER ON A CALENDER YEAR OR FISCAL YEAR BASIS, IN  
21 CONFORMANCE WITH THE BASIS USED IN MAKING HIS RETURN FOR FEDERAL INCOME  
22 TAX PURPOSES].

23 (e) The total amount of tax imposed by this chapter shall be paid  
24 on or before the due date of the tax return required under this section  
25 [THE 30TH DAY OF APRIL OF THE NEXT CALENDER YEAR, OR IF THE RETURN IS  
26 MADE ON THE BASIS OF THE FISCAL YEAR, THEN ON THE LAST DAY OF THE FOURTH  
27 MONTH OF THE NEXT FISCAL YEAR.

28 (f) EVERY PERSON PROSECUTING OR ATTEMPTING TO PROSECUTE OR EN-  
29 GAGING IN THE BUSINESS OF MINING IN THE STATE SHALL COMPLY WITH THE

1 DEPARTMENT'S REGULATIONS AND SHALL KEEP SUCH RECORDS, GIVE SUCH STATE-  
2 MENTS UNDER OATH, AND MAKE SUCH RETURNS AS THE DEPARTMENT OF REVENUE  
3 PRESCRIBES].

4 (g) When the department considers it necessary, it may require a  
5 person, by notice served upon him, to make a return, give statements  
6 under oath, or keep records as it considers sufficient to show whether  
7 or not the person is liable for the [TO] tax under this chapter. If a  
8 person fails to file a return at the time prescribed by law or regula-  
9 tion, or makes, wilfully or otherwise, a false or fraudulent return, the  
10 department shall make the return from its own knowledge and from such  
11 information as it can obtain [THROUGH TESTIMONY OR OTHERWISE]. A  
12 return so made and subscribed by the department is prima facie good and  
13 sufficient for all legal purposes.

14 \* Sec. 4. AS 43.65.030 is amended to read:

15 Sec. 43.65.030. APPLICATION FOR RENEWALS. A person engaged in the  
16 business of mining shall apply [APPLICATION] for a renewal of a mining  
17 license each year [SHALL BE MADE] before the 30th day of the first month  
18 of the person's tax year [MAY 1 OF EACH YEAR].

19 \* Sec. 5. AS 43.65.040 is repealed and re-enacted to read:

20 Sec. 43.65.040. LIMITATION. The department shall review returns  
21 and assess any additional tax due under this chapter within three years  
22 of the due date of the return or the date that the return was filed,  
23 whichever is later. If a return has not been filed the tax ma, be  
24 assessed at any time.

25 \* Sec. 6. AS 43.65.050 is amended to read:

26 Sec. 43.65.050. [VIOLATIONS AND] PENALTIES AND INTEREST. (a) In  
27 case of failure to obtain a license or file a return [REQUIRED BY THIS  
28 CHAPTER] within the time prescribed by this chapter, or to pay the full  
29 amount of the tax due on the return or a deficiency of the tax as

1 determined by the department [LAW OR PRESCRIBED BY THE DEPARTMENT  
2 ACCORDING TO LAW], unless it is shown that the failure is due to reason-  
3 able cause and not due to wilful neglect, five per cent is added for  
4 each 30 days or fraction of 30 days during which the failure continues,  
5 but not exceeding 25 per cent in the aggregate. The amount [50] added  
6 to the tax shall be collected at the same time, in the same manner, and  
7 as a part of the tax. If the tax is paid before discovery of the  
8 neglect, the amount added shall be collected in the same manner as the  
9 tax.

10 [(b) IF PART OF A DEFICIENCY IN THE TAX IS DUE TO NEGLIGENCE OR  
11 INTENTIONAL DISREGARD OF REGULATIONS, BUT WITHOUT INTENT TO DEFRAUD,  
12 FIVE PER CENT OF THE TOTAL AMOUNT OF THE DEFICIENCY, IN ADDITION TO THE  
13 DEFICIENCY, SHALL BE ASSESSED, COLLECTED, AND PAID IN THE SAME MANNER AS  
14 IF IT WERE A DEFICIENCY, EXCEPT THAT (d) OF THIS SECTION IS NOT APPLI-  
15 CABLE.]

16 (c) If part of a deficiency in the tax is due to fraud with  
17 intent to evade the tax, then 50 per cent of the total amount of the  
18 deficiency, in addition to the deficiency, shall be assessed and col-  
19 lected. If this penalty is assessed, then the penalty in (a) of this  
20 section does not apply.

21 (d) When the tax levied by this chapter becomes delinquent, it  
22 bears interest at the rate of eight per cent a year. The tax is delin-  
23 quent if it is not paid on its due date. [INTEREST UPON THE AMOUNT  
24 DETERMINED AS A DEFICIENCY IN THE TAX SHALL BE ASSESSED AT THE SAME TIME  
25 AS THE DEFICIENCY, AND PAID UPON NOTICE AND DEMAND BY THE DEPARTMENT.  
26 THE INTEREST SHALL BE COLLECTED AS A PART OF THE TAX, AT THE RATE OF SIX  
27 PER CENT A YEAR FROM THE TIME PRESCRIBED FOR PAYMENT OF THE TAX TO THE  
28 DATE THE DEFICIENCY IS PAID.]

29 (e) The tax levied or accruing under this chapter and the penalties

1 and interest on the tax are a lien prior, paramount, and superior to all  
2 other liens, mortgages, hypothecations, conveyances, and assignments,  
3 upon all the real and personal property of the person liable for them,  
4 and upon the real and personal property used with the permission of the  
5 owner in carrying on the business of mining. This lien is [SHALL]  
6 not [BE CONSIDERED] exclusive of other civil or criminal remedies pro-  
7 vided by law for the recovery of license taxes.

8 (f) A person who is required under this chapter to pay the [A]  
9 tax, make a return, keep records, or supply information [FOR THE COM-  
10 PUTATION, ASSESSMENT, OR COLLECTION OF THE TAX IMPOSED BY THIS CHAPTER],  
11 who wilfully fails to pay the tax, make the return, keep the records, or  
12 supply the information, at the time required by law or regulations, is,  
13 in addition to other penalties provided by this chapter [LAW], guilty of  
14 a misdemeanor, and upon conviction is punishable by a fine of not more  
15 than \$1,000, or by imprisonment for not more than one year, or by both  
16 [, TOGETHER WITH THE COST OF PROSECUTION].

17 [(g) A PERSON WHO WILFULLY MAKES AND SIGNS A RETURN WHICH HE DOES  
18 NOT BELIEVE TO BE TRUE AND CORRECT AS TO EVERY MATERIAL MATTER IS  
19 GUILTY OF A FELONY, AND UPON CONVICTION IS SUBJECT TO THE PENALTIES  
20 PRESCRIBED FOR PERJURY UNDER THE LAWS OF THE STATE.]

21 (h) In this section "person" includes an officer or employee of a  
22 corporation or a member or employee of a partnership who is under duty  
23 to perform the act in respect to which the violation occurs.

24 (i) A person who wilfully attempts to evade the tax imposed by  
25 this chapter is, in addition to other penalties provided by this chapter,  
26 guilty of a felony and, upon conviction, is punishable by a fine of not  
27 more than \$5,000, or by imprisonment for not more than five years, or  
28 by both.

29 (j) A person who wilfully makes and subscribes a return, statement,

1 or other document required under this chapter which contains or is  
2 verified by a written declaration that it is made under the penalties of  
3 perjury which he does not believe to be true and correct as to every  
4 material matter is, in addition to other penalties provided by this  
5 chapter, guilty of a felony and, upon conviction, is punishable by a  
6 fine of not more than \$5,000, or by imprisonment for not more than three  
7 years, or by both.

8 (k) A person who wilfully or knowingly aids, procures, or counsels  
9 the preparation or presentation in connection with any matter arising  
10 under this chapter of a return, affidavit, claim, or other document,  
11 which is fraudulent or is false as to any material matter is guilty of a  
12 felony whether or not the falsity or fraud is with the knowledge or  
13 consent of the person required to present the return, affidavit, claim,  
14 or document, and, upon conviction, is punishable by a fine of not more  
15 than \$5,000, or by imprisonment for not more than three years, or by  
16 both.

17 (1) A person who wilfully delivers or discloses to the department  
18 under this chapter any list, return, account, statement, or other  
19 document, known by him to be fraudulent or to be false as to any materi-  
20 al matter is, upon conviction, punishable by a fine of not more than  
21 \$1,000, or by imprisonment for not more than one year, or by both.

22 # Sec. 7. AS 43.65.060(4) is amended to read:

23 (4) "new mining business operation [OPERATIONS]" means a  
24 mining operation [OPERATIONS] which began production after January 1,  
25 1953, and which has not acquired the ownership or property of another  
26 mining business which has previously received an exemption certificate  
27 under sec. 10 of this chapter [OR WHICH HAVE NOT BEEN LIABLE TO PAY A  
28 MINING LICENSE TAX UNDER THIS CHAPTER ON NET INCOME SINCE JANUARY 1,  
29 1948];

1 \* Sec. 8. AS 43.65.060 is amended by adding new paragraphs to read:

2 (7) "minerals" means all locatable and leasable minerals  
3 except sand, gravel, oil, gas, building materials and topsoil;

4 (8) "materials" includes sand, gravel, building material and  
5 topsoil;

6 (9) "business of mining"

7 (A) means a business operation for the extraction of  
8 minerals from the earth or water of the state, operated by a person

9 (i) who owns and operates, works, or develops a  
10 mineral property, whether or not that property is currently  
11 producing a marketable product;

12 (ii) who leases a mineral property and operates the  
13 mineral property, whether or not the mineral property is  
14 producing a marketable product;

15 (iii) who leases a mineral property and pays royal-  
16 ties, rents or other payments to the owner of the property;

17 (iv) who has an interest in a lease, concession,  
18 joint venture, or other agreement for the exploration or  
19 development, or extraction of a mineral property if royalties,  
20 rents, or other payments are to be paid for that interest;

21 (B) does not include a prospector who explores for new  
22 mineral deposits, stakes a claim, performs the required assessment  
23 work to keep it in good standing, and holds it for possible devel-  
24 opment by others;

25 (10) "department" means the Department of Revenue.

26 \* Sec. 9. AS 43.65.060(1) - (3) are repealed.

27 \* Sec. 10. This Act is retroactive to January 1, 1976.

28 \* Sec. 11. This Act takes effect immediately in accordance with AS 01.10.  
29 070(c).

Introduced: 3/19/76  
Referred: Resources and  
Finance

BY THE RULES COMMITTEE BY  
REQUEST OF THE GOVERNOR

1 IN THE HOUSE

2 HOUSE BILL NO. 878

3 IN THE LEGISLATURE OF THE STATE OF ALASKA

4 NINTH LEGISLATURE - SECOND SESSION

5 A BILL

6 For an Act entitled: "An Act relating to the Alaska Mining License Tax;  
7 and providing for an effective date."

8 BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF ALASKA:

9 \* Section 1. AS 43.65.010 is repealed and re-enacted to read:

10 Sec. 43.65.010 MINING LICENSE AND TAX. (a) For the privilege  
11 of engaging in the business of mining in the state, a person shall  
12 first apply and obtain a license from the department. The license fee  
13 is \$25.00, which must accompany the application for a license.

14 (b) There is also levied an annual license tax on each person  
15 engaging in the business of mining in the state computed on the net  
16 proceeds of the taxpayer from the mining business. The license tax  
17 shall be computed according to the following table:

18 If the net proceeds are:	Then the tax is:
19 Over \$40,000 but not over	3 per cent of the excess over
20 \$50,000	\$40,000
21 Over \$50,000 but not over	\$300 plus 5 per cent of the
22 \$100,000	excess over \$50,000
23 Over \$100,000	\$2,800 plus 7 per cent of the
24	excess over \$100,000

25 (c) Upon application and receipt of an exemption certificate, a  
26 new mining business operation is exempt from the license tax levied by  
27 this chapter for three and one-half years after production from the  
28 mining business operation begins. The tax exemption granted to new  
29 mining business operations does not apply to the business of mining

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1 sand and gravel. The Department of Natural Resources shall certify to  
2 the department the date upon which production began from the mining  
3 business operation, and the department shall issue a certificate of  
4 exemption to the applicant after this certification. A person must  
5 apply for an exemption certificate in the first year of production  
6 from the mining business operation in order to qualify for the exemption  
7 under this section.

8 (d) If mining business operations are conducted in two or more  
9 places within the state by one person, those operations are considered  
10 as one mining business, and the tax shall be computed upon the net  
11 proceeds of all those mining business operations.

12 \* Sec. 2. AS 43.65 is amended by adding new sections to read:

13 Sec. 43.65.015. NET PROCEEDS. (a) In this charter, "net proceeds"  
14 means the total gross receipts from the mining business less the  
15 following deductions incurred during the taxable year:

16 (1) all expenses incurred directly in the extraction of  
17 minerals in the state;

18 (2) all expenses incurred in transporting the minerals from  
19 the point of extraction to any further processing plant where only  
20 necessary treatment processes are applied to obtain a commercially  
21 marketable product;

22 (3) all expenses directly related to the production, re-  
23 fining, crushing, screening or other necessary process incurred to  
24 make a commercially marketable product;

25 (4) the actual selling expenses incurred in marketing the  
26 product;

27 (5) all expenses incurred in transporting the marketable  
28 product to a buyer;

29 (6) depreciation of the mining business equipment, works,

1 plant and facilities used directly in the extraction, transportation  
2 and processing phases of the mining business, in accordance with sec.  
3 167 of the Internal Revenue Code (26 U.S.C. sec. 167);

4 7) amortization of mining development costs not included  
5 in (6) this subsection;

6 (8) an allowance for depletion on a cost or percentage  
7 basis at the rates set out in secs. 611--614 of the Internal Revenue  
8 Code as amended (26 U.S.C. secs. 611--614) except that the allowance  
9 for depletion may not exceed 50 per cent of the taxpayer's net proceeds  
10 calculated before the allowance for depletion.

11 (b) If the taxpayer has expenses within the state other than  
12 those specified in (a) of this section, such as general overhead  
13 expenses, relating to the business of mining or to the business of  
14 mining and other business activities, the deductions shall be appor-  
15 tioned in the ratio which the direct expenses of the mining business  
16 within the state under (a) of this section bear to the total direct  
17 expenses of all business activities of that taxpayer in the state.

18 (c) Except for wages paid during temporary travel out of the  
19 state by an employee who is domiciled in the state, the deductions  
20 allowed in (a) and (b) of this section do not include wages or other  
21 payments for services not performed in the state.

22 (d) If a person is engaged in the business of mining and the  
23 only receipts from the business are royalties, the net proceeds of the  
24 mining business are the royalties received less the depletion allowance  
25 under sec. 15(a)(8) of this chapter.

26 Sec. 43.65.017. GROSS RECEIPTS. (a) In this chapter, "gross  
27 receipts" means all revenue received, including royalties, rental pay-  
28 ments, and all other compensation from the business of mining. Gross  
29 receipts include the actual amount received during the year for the

1 sale of minerals whether or not the minerals were actually extracted  
2 during that year.

3 (b) If minerals are sold or transferred at a price other than  
4 the true market price, such as when a wholly owned subsidiary transfers  
5 or sells the mineral to its parent at a price less than market value,  
6 gross receipts are the true market price or average market price per  
7 ton or other measurable unit of the mineral multiplied by the total  
8 units of the mineral sold or transferred during the year.

9 (c) Gross receipts from the business of mining sand and gravel  
10 include:

11 (1) receipts from the sale to customers directly from the  
12 pit or mine;

13 (2) receipts from the sale to customers at their place of  
14 business or their business site, including receipts relating to the  
15 delivery of the sand and gravel; and

16 (3) the average market value of sand and gravel from inter-  
17 company transfers of the minerals calculated immediately before the  
18 transfer, including intercompany transfers of sand and gravel to a  
19 ready-mix or concrete plant.

20 \* Sec. 3. AS 43.65.020 is amended to read:

21 Sec. 43.65.020. TAXPAYER'S DUTIES. (a) A person subject to tax  
22 under this chapter shall make a return stating specifically the items  
23 of gross receipts [INCOME] from the business [PROPERTY], including  
24 royalty received and the deductions [AND CREDITS] allowed by this  
25 chapter, and other information for carrying out this chapter which the  
26 department [DEPARTMENT OF REVENUE] prescribes. The return shall show  
27 the mining license number and shall be signed by the taxpayer or his  
28 authorized agent, under penalty of perjury. If receivers, trustees,  
29 or assigns are operating the mining [PROPERTY OR] business, they shall

1 make returns for the person engaged in the mining business [, OR THE  
2 RECIPIENT OF ROYALTY IN CONNECTION WITH MINING PROPERTY]. The tax due  
3 on the basis of the returns shall be collected in the same manner as  
4 if collected from the person of whose business they have custody and  
5 control.

6 (b) A return made on the basis of the calender year shall be  
7 filed [MADE] before March 15 [MAY 1] of the next year. A return made  
8 on the basis of a fiscal year shall be filed [MADE] before the fifteenth  
9 [FIRST] day of the third [FIFTH] month of the next fiscal year.

10 (c) The department [DEPARTMENT OF REVENUE] may grant a reasonable  
11 extension of time for filing returns, under regulations adopted  
12 [PRESCRIBED] by it. Except in the case of a taxpayer going abroad, no  
13 extension may be granted [MADE] for more than six months.

14 (d) A [TAXPAYER'S] return shall be filed with [MADE TO] the  
15 department [DEPARTMENT OF REVENUE AT JUNEAU] using the same tax year  
16 as the person uses in filing his federal income tax return. [A TAX-  
17 PAYER SHALL MAKE HIS RETURN EITHER ON A CALENDER YEAR OR FISCAL YEAR  
18 BASIS, IN CONFORMANCE WITH THE BASIS USED IN MAKING HIS RETURN FOR  
19 FEDERAL INCOME TAX PURPOSES.]

20 (e) The total amount of tax imposed by this chapter shall be  
21 paid on or before the due date of the tax return required under this  
22 section [THE 30TH DAY OF APRIL OF THE NEXT CALENDER YEAR, OR IF THE  
23 RETURN IS MADE ON THE BASIS OF THE FISCAL YEAR, THEN ON THE LAST DAY  
24 OF THE FOURTH MONTH OF THE NEXT FISCAL YEAR].

25 (f) [EVERY PERSON PROSECUTING OR ATTEMPTING TO PROSECUTE OR  
26 ENGAGING IN THE BUSINESS OF MINING IN THE STATE SHALL COMPLY WITH THE  
27 DEPARTMENT'S REGULATIONS AND SHALL KEEP SUCH RECORDS, GIVE SUCH STATE-  
28 MENTS UNDER OATH, AND MAKE SUCH RETURNS AS THE DEPARTMENT OF REVENUE  
29 PRESCRIBES.]

1 (g) When the department considers it necessary, it may require a  
2 person, by notice served upon him, to make a return, give statements  
3 under oath, or keep records as it considers sufficient to show whether  
4 or not the person is liable for the [TO] tax under this chapter. If a  
5 person fails to file a return at the time prescribed by law or regula-  
6 tion, or makes, wilfully or otherwise, a false or fraudulent return,  
7 the department shall make the return from its own knowledge and from  
8 such information as it can obtain [THROUGH TESTIMONY OR OTHERWISE]. A  
9 return so made and subscribed by the department is prima facie good  
10 and sufficient for all legal purposes.

11 \* Sec. 4. AS 43.65.030 is amended to read:

12 Sec. 43.65.030. APPLICATION FOR RENEWALS. A person engaged in  
13 the business of mining shall apply [APPLICATION] for a renewal of a  
14 mining license each year [SHALL BE MADE] before the 30th day of the  
15 first month of the person's tax year [MAY 1 OF EACH YEAR].

16 \* Sec. 5. AS 43.65.040 is repealed and re-enacted to read:

17 Sec. 43.65.040. LIMITATION. The department shall review returns  
18 and assess any additional tax due under this chapter within three  
19 years of the due date of the return or the date that the return was  
20 filed, whichever is later. If a return has not been filed the tax may  
21 be assessed at any time.

22 \* Sec. 6. AS 43.65.050 is amended to read:

23 Sec. 43.65.050. [VIOLATIONS AND] PENALTIES AND INTEREST. (a)  
24 In case of failure to obtain a license or file a return [REQUIRED BY  
25 THIS CHAPTER] within the time prescribed by this chapter [LAW OR  
26 PRESCRIBED BY THE DEPARTMENT ACCORDING TO LAW], or to pay the full  
27 amount of the tax due on the return or a deficiency of the tax as  
28 determined by the department, unless it is shown that the failure is  
29 due to reasonable cause and not due to wilful neglect, five per cent

1 is added for each 30 days or fraction of 30 days during which the  
2 failure continues, but not exceeding 25 per cent in the aggregate.  
3 The amount [50] added to the tax shall be collected at the same time,  
4 in the same manner, and as a part of the tax. If the tax is paid  
5 before discovery of the neglect, the amount added shall be collected  
6 in the same manner as the tax.

7 (b) [IF PART OF A DEFICIENCY IN THE TAX IS DUE TO NEGLIGENCE OR  
8 INTENTIONAL DISREGARD OF REGULATIONS, BUT WITHOUT INTENT TO DEFRAUD,  
9 FIVE PER CENT OF THE TOTAL AMOUNT OF THE DEFICIENCY, IN ADDITION TO  
10 THE DEFICIENCY, SHALL BE ASSESSED, COLLECTED, AND PAID IN THE SAME  
11 MANNER AS IF IT WERE A DEFICIENCY, EXCEPT THAT (d) OF THIS SECTION IS  
12 NOT APPLICABLE.]

13 (c) If part of a deficiency in the tax is due to fraud with  
14 intent to evade the tax, then 50 per cent of the total amount of the  
15 deficiency, in addition to the deficiency, shall be assessed and  
16 collected. If this penalty is assessed, then the penalty in (a) of  
17 this section does not apply.

18 (d) When the tax levied by this chapter becomes delinquent, it  
19 bears interest at the rate of eight per cent a year. The tax is  
20 delinquent if it is not paid on its due date. [INTEREST UPON THE  
21 AMOUNT DETERMINED AS A DEFICIENCY IN THE TAX SHALL BE ASSESSED AT THE  
22 SAME TIME AS THE DEFICIENCY, AND PAID UPON NOTICE AND DEMAND BY THE  
23 DEPARTMENT. THE INTEREST SHALL BE COLLECTED AS A PART OF THE TAX, AT  
24 THE RATE OF SIX PER CENT A YEAR FROM THE TIME PRESCRIBED FOR PAYMENT  
25 OF THE TAX TO THE DATE THE DEFICIENCY IS PAID.]

26 (e) The tax levied or accruing under this chapter and the  
27 penalties and interest on the tax are a lien prior, paramount, and  
28 superior to all other liens, mortgages, hypothecations, conveyances,  
29 and assignments, upon all the real and personal property of the person

1 liable for them, and upon all the real and personal property used with  
2 the permission of the owner in carrying on the business of mining.  
3 This lien is [SHALL] not [BE CONSIDERED] exclusive of other civil or  
4 criminal remedies provided by law for the recovery of license taxes.

5 (f) A person who is required under this chapter to pay the [A]  
6 tax, make a return, keep records, or supply information [FOR THE COM-  
7 PUTATION, ASSESSMENT, OR COLLECTION OF THE TAX IMPOSED BY THIS CHAPTER]  
8 who wilfully fails to pay the tax, make the return, keep the records,  
9 or supply the information, at the time required by law or regulations,  
10 is, in addition to other penalties provided by this chapter [LAW],  
11 guilty of a misdemeanor, and upon conviction is punishable by a fine  
12 of not more than \$1,000, or by imprisonment for not more than one  
13 year, or by both [, TOGETHER WITH THE COST OF PROSECUTION].

14 (g) [A PERSON WHO WILFULLY MAKES AND SIGNS A RETURN WHICH HE DOES  
15 NOT BELIEVE TO BE TRUE AND CORRECT AS TO EVERY MATERIAL MATTER IS  
16 GUILTY OF A FELONY, AND UPON CONVICTION IS SUBJECT TO THE PENALTIES  
17 PRESCRIBED FOR PERJURY UNDER THE LAWS OF THE STATE.]

18 (h) In this section "person" includes an officer or employee  
19 of a corporation or a member or employee of a partnership who is under  
20 duty to perform the act in respect to which the violation occurs.

21 (i) A person who wilfully attempts to evade the tax imposed by  
22 this chapter is, in addition to other penalties provided by this  
23 chapter, guilty of a felony and, upon conviction, shall be fined not  
24 more than \$5,000, or imprisoned for not more than five years, or both.

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18 \* Sec. 7. AS 43.65.060(4) is amended to read:

19 (4) "new mining business operation [OPERATIONS]" means a  
20 mining operation [OPERATIONS] which began production after January 1,  
21 1953, and which has not acquired the ownership or property of another  
22 mining business which has previously received an exemption certificate  
23 under sec. 10 of this chapter [OR WHICH HAVE NOT BEEN LIABLE TO PAY A  
24 MINING LICENSE TAX UNDER THIS CHAPTER ON NET INCOME SINCE JANUARY 1,  
25 1948];

26 \* Sec. 8. AS 43.65.060 is amended by adding new paragraphs to read:

27 (7) "minerals" means asbestos, coal, sulphur, iron ore,  
28 lead, zinc, mercury, tin, chromite, bauxite, copper, gold, silver,  
29 platinum, potash, clay, stone, sand, gravel, and other valuable metals,

1 ores and marketable earth or stone but not including oil and gas;

2 (8) "business of mining" means a business operation for the  
3 extraction of minerals from the earth or water of the state, operated  
4 by a person

5 (A) owning, operating, working or developing a mineral  
6 property, whether or not that property is currently producing a  
7 marketable product;

8 (B) leasing a mineral property and operating the  
9 mineral property, including performing exploratory work whether  
10 or not the mineral property is producing a marketable product;

11 (C) leasing a mineral property and paying royalties,  
12 rents or other payments to the owner of the property;

13 (D) having an interest in a lease, concession, joint  
14 venture, or other agreement for the exploration or development,  
15 or extraction of a mineral property if royalties, rents, or other  
16 payments are to be paid for that interest;

17 (9) "department" means the Department of Revenue.

18 \* Sec. 9. AS 43.65.060(1)--(3) are repealed.

19 \* Sec. 10. This Act is retroactive to January 1, 1976.

20 \* Sec. 11. This Act takes effect immediately in accordance with AS  
21 01.10.070(c).

HB 878

March 18, 1976

The Honorable Mike Bradner  
Speaker of the House  
Alaska State Legislature  
Juneau, Alaska 99811

Dear Mr. Speaker:

In accordance with AS 24.30.060(b) and the Uniform Rules of the Alaska State Legislature, I am transmitting a bill relating to the Alaska mining license tax. Last year, when I indicated that SB 294, establishing a mineral severance tax, would be withdrawn, I stated that members of my administration would be meeting with representatives of the mining industry during the remainder of the year to reach a consensus on a better taxing approach for mineral extraction.

After a substantial amount of research and discussion between the Department of Revenue and mining industry people, a consensus of opinion has indicated that the goal of insuring a fair return to the state from mineral resources could be accomplished by strengthening our present mining license tax.

Accordingly, the bill I am introducing today amends the mining license tax in several respects to achieve a more effective taxing system than we presently have in Alaska.

The bill would impose the tax on the net proceeds of a mining business. It would be calculated using the total gross receipts from the business less certain specified direct expenses of mining. The bill also insures that all mining businesses would be subject to the tax regardless of the form of business or the nature of the operation. The bill also clarifies several ambiguous areas of the present law which serve as loopholes for some mining businesses. In addition, the bill expands and strengthens tax penalties.

Sincerely,

Jay S. Hammond  
Governor

ALASKA STATE LEGISLATURE

NINTH Legislature SECOND Session

HOUSE BILL NO. 878

By RULES COMMITTEE BY REQUEST OF THE GOVERNOR

"An Act relating to the Alaska Mining License Tax; and providing for an effective date."

Alaska Mining License Tax

Introduced in the House ... 3/19, 1976

HISTORY IN THE HOUSE

19 76	Read first time and referred to Committee on Resources and Finance
Mar 19	Reported back with recommendation that
	Read second time and
	Read third time and
	PASS Effective Date
	Yeas Yeas
	Nays Nays
	Absent Absent
	Excused Excused
	Reconsideration
	PASS Effective Date
	Yeas Yeas
	Nays Nays
	Absent Absent
	Excused Excused
	Reported correctly engrossed
	Signed by Speaker
	Sent to Senate

CHIEF CLERK OF THE HOUSE

HISTORY IN THE SENATE

19	Read first time and referred to Committee on
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	Signed by President
	Returned to House

SECRETARY OF THE SENATE

HISTORY IN THE HOUSE

19	Received from Senate
	Reported correctly enrolled
	Sent to Governor
	..... By Governor
	Filed with Lt. Governor
	Chapter No. ....

Introduced: 3/19/76  
Referred: Resources and  
Finance

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BY THE RULES COMMITTEE BY  
REQUEST OF THE GOVERNOR

2 HOUSE BILL NO. 878

3 IN THE LEGISLATURE OF THE STATE OF ALASKA

4 NINTH LEGISLATURE - SECOND SESSION

5 A BILL

6 For an Act entitled: "An Act relating to the Alaska Mining License Tax;  
7 and providing for an effective date."

8 BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF ALASKA:

9 \* Section 1. AS 43.65.010 is repealed and re-enacted to read:

10 Sec. 43.65.010 MINING LICENSE AND TAX. (a) For the privilege  
11 of engaging in the business of mining in the state, a person shall  
12 first apply and obtain a license from the department. The license fee  
13 is \$25.00, which must accompany the application for a license.

14 (b) There is also levied an annual license tax on each person  
15 engaging in the business of mining in the state computed on the net  
16 proceeds of the taxpayer from the mining business. The license tax  
17 shall be computed according to the following table:

18 If the net proceeds are:	Then the tax is:
19 Over \$40,000 but not over	3 per cent of the excess over
20 \$50,000	\$40,000
21 Over \$50,000 but not over	\$300 plus 5 per cent of the
22 \$100,000	excess over \$50,000
23 Over \$100,000	\$2,800 plus 7 per cent of the
24	excess over \$100,000

25 (c) Upon application and receipt of an exemption certificate, a  
26 new mining business operation is exempt from the license tax levied by  
27 this chapter for three and one-half years after production from the  
28 mining business operation begins. The tax exemption granted to new  
29 mining business operations does not apply to the business of mining

1 sand and gravel. The Department of Natural Resources shall certify to  
2 the department the date upon which production began from the mining  
3 business operation, and the department shall issue a certificate of  
4 exemption to the applicant after this certification. A person must  
5 apply for an exemption certificate in the first year of production  
6 from the mining business operation in order to qualify for the exemption  
7 under this section.

8 (d) If mining business operations are conducted in two or more  
9 places within the state by one person, those operations are considered  
10 as one mining business, and the tax shall be computed upon the net  
11 proceeds of all those mining business operations.

12 \* Sec. 2. AS 43.65 is amended by adding new sections to read:

13 Sec. 43.65.015. NET PROCEEDS. (a) In this chapter, "net proceeds"  
14 means the total gross receipts from the mining business less the  
15 following deductions incurred during the taxable year:

16 (1) all expenses incurred directly in the extraction of  
17 minerals in the state;

18 (2) all expenses incurred in transporting the minerals from  
19 the point of extraction to any further processing plant where only  
20 necessary treatment processes are applied to obtain a commercially  
21 marketable product;

22 (3) all expenses directly related to the production, re-  
23 fining, crushing, screening or other necessary process incurred to  
24 make a commercially marketable product;

25 (4) the actual selling expenses incurred in marketing the  
26 product;

27 (5) all expenses incurred in transporting the marketable  
28 product to a buyer;

29 (6) depreciation of the mining business equipment, works,

1 plant and facilities used directly in the extraction, transportation  
2 and processing phases of the mining business, in accordance with sec.  
3 167 of the Internal Revenue Code (26 U.S.C. sec. 167);

4 (7) amortization of mining development costs not included  
5 in (6) of this subsection;

6 (8) an allowance for depletion on a cost or percentage  
7 basis at the rates set out in secs. 611--614 of the Internal Revenue  
8 Code as amended (26 U.S.C. secs. 611--614) except that the allowance  
9 for depletion may not exceed 50 per cent of the taxpayer's net proceeds  
10 calculated before the allowance for depletion.

11 (b) If the taxpayer has expenses within the state other than  
12 those specified in (a) of this section, such as general overhead  
13 expenses, relating to the business of mining or to the business of  
14 mining and other business activities, the deductions shall be appor-  
15 tioned in the ratio which the direct expenses of the mining business  
16 within the state under (a) of this section bear to the total direct  
17 expenses of all business activities of that taxpayer in the state.

18 (c) Except for wages paid during temporary travel out of the  
19 state by an employee who is domiciled in the state, the deductions  
20 allowed in (a) and (b) of this section do not include wages or other  
21 payments for services not performed in the state.

22 (d) If a person is engaged in the business of mining and the  
23 only receipts from the business are royalties, the net proceeds of the  
24 mining business are the royalties received less the depletion allowance  
25 under sec. 15(a)(8) of this chapter.

26 Sec. 43.65.017. GROSS RECEIPTS. (a) In this chapter, "gross  
27 receipts" means all revenue received, including royalties, rental pay-  
28 ments, and all other compensation from the business of mining. Gross  
29 receipts include the actual amount received during the year for the

1 sale of minerals whether or not the minerals were actually extracted  
2 during that year.

3 (b) If minerals are sold or transferred at a price other than  
4 the true market price, such as when a wholly owned subsidiary transfers  
5 or sells the mineral to its parent at a price less than market value,  
6 gross receipts are the true market price or average market price per  
7 ton or other measurable unit of the mineral multiplied by the total  
8 units of the mineral sold or transferred during the year.

9 (c) Gross receipts from the business of mining sand and gravel  
10 include:

11 (1) receipts from the sale to customers directly from the  
12 pit or mine;

13 (2) receipts from the sale to customers at their place of  
14 business or their business site, including receipts relating to the  
15 delivery of the sand and gravel; and

16 (3) the average market value of sand and gravel from inter-  
17 company transfers of the minerals calculated immediately before the  
18 transfer, including intercompany transfers of sand and gravel to a  
19 ready-mix or concrete plant.

20 \* Sec. 3. AS 43.65.020 is amended to read:

21 Sec. 43.65.020. TAXPAYER'S DUTIES. (a) A person subject to tax  
22 under this chapter shall make a return stating specifically the items  
23 of gross receipts [INCOME] from the business [PROPERTY], including  
24 royalty received and the deductions [AND CREDITS] allowed by this  
25 chapter, and other information for carrying out this chapter which the  
26 department [DEPARTMENT OF REVENUE] prescribes. The return shall show  
27 the mining license number and shall be signed by the taxpayer or his  
28 authorized agent, under penalty of perjury. If receivers, trustees,  
29 or assigns are operating the mining [PROPERTY OR] business, they shall

1 make returns for the person engaged in the mining business [, OR THE  
2 RECIPIENT OF ROYALTY IN CONNECTION WITH MINING PROPERTY]. The tax due  
3 on the basis of the returns shall be collected in the same manner as  
4 if collected from the person of whose business they have custody and  
5 control.

6 (b) A return made on the basis of the calender year shall be  
7 filed [MADE] before March 15 [MAY 1] of the next year. A return made  
8 on the basis of a fiscal year shall be filed [MADE] before the fifteenth  
9 [FIRST] day of the third [FIFTH] month of the next fiscal year.

10 (c) The department [DEPARTMENT OF REVENUE] may grant a reasonable  
11 extension of time for filing returns, under regulations adopted  
12 [PRESCRIBED] by it. Except in the case of a taxpayer going abroad, no  
13 extension may be granted [MADE] for more than six months.

14 (d) A [TAXPAYER'S] return shall be filed with [MADE TO] the  
15 department [DEPARTMENT OF REVENUE . . . JUNEAU] using the same tax year  
16 as the person uses in filing his federal income tax return. [A TAX-  
17 PAYER SHALL MAKE HIS RETURN EITHER ON A CALENDER YEAR OR FISCAL YEAR  
18 BASIS, IN CONFORMANCE WITH THE BASIS USED IN MAKING HIS RETURN FOR  
19 FEDERAL INCOME TAX PURPOSES.]

20 (e) The total amount of tax imposed by this chapter shall be  
21 paid on or before the due date of the tax return required under this  
22 section [THE 30TH DAY OF APRIL OF THE NEXT CALENDER YEAR, OR IF THE  
23 RETURN IS MADE ON THE BASIS OF THE FISCAL YEAR, THEN ON THE LAST DAY  
24 OF THE FOURTH MONTH OF THE NEXT FISCAL YEAR].

25 (f) [EVERY PERSON PROSECUTING OR ATTEMPTING TO PROSECUTE OR  
26 ENGAGING IN THE BUSINESS OF MINING IN THE STATE SHALL COMPLY WITH THE  
27 DEPARTMENT'S REGULATIONS AND SHALL KEEP SUCH RECORDS, GIVE SUCH STATE-  
28 MENTS UNDER OATH, AND MAKE SUCH RETURNS AS THE DEPARTMENT OF REVENUE  
29 PRESCRIBES.]

1 (g) When the department considers it necessary, it may require a  
2 person, by notice served upon him, to make a return, give statements  
3 under oath, or keep records as it considers sufficient to show whether  
4 or not the person is liable for the [TO] tax under this chapter. If a  
5 person fails to file a return at the time prescribed by law or regula-  
6 tion, or makes, wilfully or otherwise, a false or fraudulent return,  
7 the department shall make the return from its own knowledge and from  
8 such information as it can obtain [THROUGH TESTIMONY OR OTHERWISE]. A  
9 return so made and subscribed by the department is prima facie good  
10 and sufficient for all legal purposes.

11 \* Sec. 4. AS 43.65.030 is amended to read:

12 Sec. 43.65.030. APPLICATION FOR RENEWALS. A person engaged in  
13 the business of mining shall apply [APPLICATION] for a renewal of a  
14 mining license each year [SHALL BE MADE] before the 30th day of the  
15 first month of the person's tax year [MAY 1 OF EACH YEAR].

16 \* Sec. 5. AS 43.65.040 is repealed and re-enacted to read:

17 Sec. 43.65.040. LIMITATION. The department shall review returns  
18 and assess any additional tax due under this chapter within three  
19 years of the due date of the return or the date that the return was  
20 filed, whichever is later. If a return has not been filed the tax may  
21 be assessed at any time.

22 \* Sec. 6. AS 43.65.050 is amended to read:

23 Sec. 43.65.050. [VIOLATIONS AND] PENALTIES AND INTEREST. (a)  
24 In case of failure to obtain a license or file a return [REQUIRED BY  
25 THIS CHAPTER] within the time prescribed by this chapter [LAW OR  
26 PRESCRIBED BY THE DEPARTMENT ACCORDING TO LAW], or to pay the full  
27 amount of the tax due on the return or a deficiency of the tax as  
28 determined by the department, unless it is shown that the failure is  
29 due to reasonable cause and not due to wilful neglect, five per cent

1 is added for each 30 days or fraction of 30 days during which the  
2 failure continues, but not exceeding 25 per cent in the aggregate.  
3 The amount [SO] added to the tax shall be collected at the same time,  
4 in the same manner, and as a part of the tax. If the tax is paid  
5 before discovery of the neglect, the amount added shall be collected  
6 in the same manner as the tax.

7 (b) [IF PART OF A DEFICIENCY IN THE TAX IS DUE TO NEGLIGENCE OR  
8 INTENTIONAL DISREGARD OF REGULATIONS, BUT WITHOUT INTENT TO DEFRAUD,  
9 FIVE PER CENT OF THE TOTAL AMOUNT OF THE DEFICIENCY, IN ADDITION TO  
10 THE DEFICIENCY, SHALL BE ASSESSED, COLLECTED, AND PAID IN THE SAME  
11 MANNER AS IF IT WERE A DEFICIENCY, EXCEPT THAT (d) OF THIS SECTION IS  
12 NOT APPLICABLE.]

13 (c) If part of a deficiency in the tax is due to fraud with  
14 intent to evade the tax, then 50 per cent of the total amount of the  
15 deficiency, in addition to the deficiency, shall be assessed and  
16 collected. If this penalty is assessed, then the penalty in (a) of  
17 this section does not apply.

18 (d) When the tax levied by this chapter becomes delinquent, it  
19 bears interest at the rate of eight per cent a year. The tax is  
20 delinquent if it is not paid on its due date. [INTEREST UPON THE  
21 AMOUNT DETERMINED AS A DEFICIENCY IN THE TAX SHALL BE ASSESSED AT THE  
22 SAME TIME AS THE DEFICIENCY, AND PAID UPON NOTICE AND DEMAND BY THE  
23 DEPARTMENT. THE INTEREST SHALL BE COLLECTED AS A PART OF THE TAX, AT  
24 THE RATE OF SIX PER CENT A YEAR FROM THE TIME PRESCRIBED FOR PAYMENT  
25 OF THE TAX TO THE DATE THE DEFICIENCY IS PAID.]

26 (e) The tax levied or accruing under this chapter and the  
27 penalties and interest on the tax are a lien prior, paramount, and  
28 superior to all other liens, mortgages, hypothecations, conveyances,  
29 and assignments, upon all the real and personal property of the person

1 liable for them, and upon all the real and personal property used with  
2 the permission of the owner in carrying on the business of mining.  
3 This lien is [SHALL] not [BE CONSIDERED] exclusive of other civil or  
4 criminal remedies provided by law for the recovery of license taxes.

5 (f) A person who is required under this chapter to pay the [A]  
6 tax, make a return, keep records, or supply information [FOR THE COM-  
7 PUTATION, ASSESSMENT, OR COLLECTION OF THE TAX IMPOSED BY THIS CHAPTER],  
8 who wilfully fails to pay the tax, make the return, keep the records,  
9 or supply the information, at the time required by law or regulations,  
10 is, in addition to other penalties provided by this chapter [LAW],  
11 guilty of a misdemeanor, and upon conviction is punishable by a fine  
12 of not more than \$1,000, or by imprisonment for not more than one  
13 year, or by both [, TOGETHER WITH THE COST OF PROSECUTION].

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9 mineral property, whether or not the mineral property is producing  
10 a marketable product;

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12 those specified in (a) of this section, such as general overhead  
13 expenses, relating to the business of mining or to the business of  
14 mining and other business activities, the deductions shall be appor-  
15 tioned in the ratio which the direct expenses of the mining business  
16 within the state under (a) of this section bear to the total direct  
17 expenses of all business activities of that taxpayer in the state.

18 (c) Except for wages paid during temporary travel out of the  
19 state by an employee who is domiciled in the state, the deductions  
20 allowed in (a) and (b) of this section do not include wages or other  
21 payments for services not performed in the state.

22 (d) If a person is engaged in the business of mining and the  
23 only receipts from the business are royalties, the net proceeds of the  
24 mining business are the royalties received less the depletion allowance  
25 under sec. 15(a)(8) of this chapter.

26 Sec. 43.65.017. GROSS RECEIPTS. (a) In this chapter, "gross  
27 receipts" means all revenue received, including royalties, rental pay-  
28 ments, and all other compensation from the business of mining. Gross  
29 receipts include the actual amount received during the year for the

1 sale of minerals whether or not the minerals were actually extracted  
2 during that year.

3 (b) If minerals are sold or transferred at a price other than  
4 the true market price, such as when a wholly owned subsidiary transfers  
5 or sells the mineral to its parent at a price less than market value,  
6 gross receipts are the true market price or average market price per  
7 ton or other measurable unit of the mineral multiplied by the total  
8 units of the mineral sold or transferred during the year.

9 (c) Gross receipts from the business of mining sand and gravel  
10 include:

11 (1) receipts from the sale to customers directly from the  
12 pit or mine;

13 (2) receipts from the sale to customers at their place of  
14 business or their business site, including receipts relating to the  
15 delivery of the sand and gravel; and

16 (3) the average market value of sand and gravel from inter-  
17 company transfers of the minerals calculated immediately before the  
18 transfer, including intercompany transfers of sand and gravel to a  
19 ready-mix or concrete plant.

20 \* Sec. 3. AS 43.65.020 is amended to read:

21 Sec. 43.65.020. TAXPAYER'S DUTIES. (a) A person subject to tax  
22 under this chapter shall make a return stating specifically the items  
23 of gross receipts [INCOME] from the business [PROPERTY], including  
24 royalty received and the deductions [AND CREDITS] allowed by this  
25 chapter, and other information for carrying out this chapter which the  
26 department [DEPARTMENT OF REVENUE] prescribes. The return shall show  
27 the mining license number and shall be signed by the taxpayer or his  
28 authorized agent, under penalty of perjury. If receivers, trustees,  
29 or assigns are operating the mining [PROPERTY OR] business, they shall