

ALASKA LEGISLATURE SPECIAL COMMITTEE/SUBJECT FILES 8672

3096 SCOMM 142: HOUSE SPECIAL COMMITTEE ON WAYS & MEANS 2005-2006

PUBLIC EMPLOYEES' / TEACHERS' RETIREMENT SYSTEM

INFORMATION BRIEFING

January 25, 2006

Subject: PERS/ TRS Tier Classification Medical Benefits

Date: January 25, 2006

Note: As of December 2005, there are 29,337 PERS/TRS members receiving a retirement and medical benefit. In Addition, there are 24,633 covered dependents for a total of 53,988 members and dependents with medical coverage.

PERS	Tier 1	Tier 2	Tier 3	Total
Active	7,264	8,605	19,276	35,145
Deferred Vested	2,566	2,897	634	6,097
Deferred	1,767	2,974	8,379	13,120
Retired	18,248	2,359	164	20,771
Total	29,845	16,835	28,453	75,133
Medical Benefits	System paid medical benefits for all benefit recipients and their eligible dependents. Eligible after vesting and normal retirement age of 55 or early retirement age 50. Disabilitants, regardless of age, receive medical coverage.	System paid medical benefits for Peace Officer/Firefighters after 25 years or "all others" at 30 years of service. Eligible after vesting and age 60. Under 60 must pay full premium until age 60. Disabilitants, regardless of age, receive medical coverage.	System paid medical benefits for Peace Officer/Firefighters after 25 years or "all others" at 30 years of service. Eligible at age 60 after vesting and 10 years of credited service. Under age 60 must pay full premium until age 60. Less than 10 years of credited service pays full premium for as long as coverage is desired. Disabilitants, regardless of age, receive medical coverage.	

TRS	Tier 1	Tier 2	Total
Active	2,917	7,820	10,737
Deferred Vested	336	289	625
Deferred	558	2,049	2,606
Retired	8,744	235	8,979
Total	12,554	10,393	22,947
Medical Benefits	System paid medical benefits for all benefit recipients and their eligible dependents. Eligible after vesting and normal retirement age of 55 or early retirement age 50 or any age with 20 years of service. Disabilitants, regardless of age, receive medical coverage.	System paid medical benefits for all benefit recipients and their eligible dependents. Eligible after vesting and normal retirement age of 60 or early retirement age 55 or any age with 25 years of service. Disabilitants, regardless of age, receive medical coverage.	

COMMITTEE:
House Special Committee on
Ways & Means
DATE: January 25, 2006

SUBJECT:
HB 374 RETIREMENT BENEFIT LIABILITY
ACCT/AHFC



PLEASE SIGN IN

PLEASE PRINT:
NAME & TITLE

ADDRESS

PHONE

REPRESENTING
(No acronyms unless for a state agency,
please)

DO YOU
WANT TO
TESTIFY ?

Patrick Cole	Pub Cushman Fairbanks	459-6760	Alaska Muni. League	NO
E-mail address:	Patrick.B.Cole@gmail.com			
~~XXXXXXXXXX~~		4408	~~XXXXXXXXXX~~	~~YES~~
E-mail address:				
Tom Boutin			Revenue	NO
E-mail address:				
E-mail address:				
E-mail address:				

COMMITTEE:
House Special Committee on
Ways & Means
DATE: January 20, 2006

SUBJECT: HB 374 RETIREMENT BENEFIT
LIABILITY ACCT/AHFC



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REPRESENTING

(No acronyms unless for a state agency,
 please)

**DO YOU
 WANT TO
 TESTIFY ?**

GARY BADER	DEPT OF REVENUE	465-3702	ARM BOARD	Y
E-mail address:	GARY_BADER@REVENUE.STATE.AK.US			
TOM BOUTIN	Revenue		Revenue	
E-mail address:				
Sam Trivette Retired	7870 Glenside Hwy	789-5116	Retired Public Employee	NO
E-mail address:				
KEVIN BROOKS	ADMIN	- 5671	ADMIN	YES
E-mail address:				
Kevin Ritchie	217 2nd St Juneau	5861325	AK Municipal League	Yes
E-mail address:				

COMMITTEE:

House Special Committee on
Ways & Means

DATE: January 30, 2006

SUBJECT:

HB 374 RETIREMENT BENEFIT LIABILITY
ACCT/AHFC



PLEASE SIGN IN

PLEASE PRINT:**NAME & TITLE****ADDRESS****PHONE****REPRESENTING**

(No acronyms unless for a state agency,
please)

**DO YOU
WANT TO
TESTIFY ?**

Tom Boutin				
E-mail address:				
E-mail address:				
E-mail address:				
E-mail address:				
E-mail address:				

COMMITTEE:
House Special Committee on
Ways & Means
DATE: January 13, 2006

SUBJECT: PERS/TRS Funding



PLEASE SIGN IN

PLEASE PRINT:
NAME & TITLE

ADDRESS

PHONE

REPRESENTING
 (No acronyms unless for a state agency,
 please)

DO YOU
WANT TO
TESTIFY ?

GARY MILLER	20135 COHEN DR	789-3757	~~ALASKA PUBLIC~~ RETIRED PUBLIC EMPLOYEES OF AK	YES
E-mail address:	JUNEAU 99801		G MILLER - JUNEAU AK @ HOTMAIL.COM	
E-mail address:				
E-mail address:				
E-mail address:				
E-mail address:				

SCOMM

142:23

HOUSE COMMITTEE REPORT

Date Referred to Committee: January 17, 2006

FURTHER REFERRALS: State Affairs
Finance

Date of Committee Action: 2/6/06

The HOUSE SPECIAL COMMITTEE ON WAYS AND MEANS considered:

HB 375

HOUSE BILL NO. 375

RETIREMENT BENEFIT LIABILITY ACCT/PF

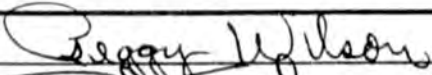
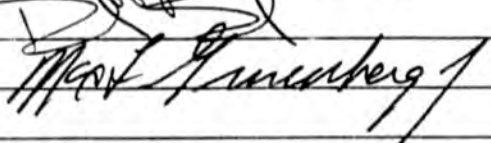
"An Act relating to the retirement benefit liability account and appropriations from that account; relating to deposits of certain income earned on money received as a result of State v. Amerada Hess, et al., 1JU-77-847 Civ. (Superior Court, First Judicial District); and providing for an effective date."

Recommends it be replaced with ☒ HCS or ☐ CS for HB 375 (WFM)
For Senate Bills with new title: ☐ Technical Title ☐ New Title: HCR _____ ☐ Same Title ☐ New Title

☐ attach amendments
☐ add new referral to _____ Committee
☐ Letter of Intent _____ Committee

*List of
Abbrev
for
Depts.:*
ADM
CED
COR
CRT
EED
DEC
DFG
GOV
HSS
LEG
LAW
LWF
MVA
DNR
DPS
REV
DOT
UA

[illegible][illegible]

Signing with recommendations		Printed Last Name	DP	DNP	NR	AM
 	WILSON	✓				
	SAMUELS				X	
	Grunberg	✓				
Chair: Bligh on on	Wierbraach	x				
Chair:						

ALASKA STATE LEGISLATURE

REPRESENTATIVE BRUCE WEYHRAUCH

CHAIR



ALASKA
STATE CAPITOL
JUNEAU, ALASKA 99801-1182

(907) 465-6863
FAX (907) 465-2273

HOUSE SPECIAL COMMITTEE ON WAYS AND MEANS

Sponsor Statement HB 375

"An Act relating to the retirement benefit liability account and appropriations from that account; relating to deposits of certain income earned on money received as a result of State v. Amerada Hess, et al., 1JU-77-847 Civ. (Superior Court, First Judicial District); and providing for an effective date.

There is a \$6 billion unfunded liability in the State of Alaska retirement systems for public employees (PERS), and teachers (TRS).

HB 375 establishes the Retirement Benefit Liability Account in the Department of Revenue.

The source of the funding for the account is earned income from funds in State v. Amerada Hess in the Permanent Fund. Appropriations from those earnings will be made for the public purpose of addressing the PERS and TRS unfunded liability.

Retirement Benefit Liability Acct/PF
Sponsor Statement for House Bill 375
Released: January 19, 2006
Ginny Austerman

HB 375 establishes the Retirement Benefit Liability Account in the Department of Revenue.

Money in the Retirement Benefit Liability Account established by this bill would be used for payment of the employer contributions to past service liabilities of the public employees' retirement system and teachers' retirement system for state and political subdivisions of the state, including regional education attendance areas. Any income that is earned on the money in the account would be appropriated back into the account.

###

http://www.akrepublicans.org/houspwnm/24/spst/houspwnm_hb375.php

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FISCAL NOTE

STATE OF ALASKA
2006 LEGISLATIVE SESSION

Fiscal Note Number: _____

Bill Version: HB 375

() Publish Date: _____

Revision Date/Time (Note if correction): _____

Dept. Affected: Administration

Title: An Act relating to the retirement benefit liability
account...relating to deposits of certain income...

RDU: Centralized Administrative Services

Component: Retirement and Benefits

Sponsor: House Special Committee on Ways and Means

Requester: House Special Committee on Ways and Means

Component No. 64

Expenditures/Revenues

(Thousands of Dollars)

Note: Amounts do not include inflation unless otherwise noted below.

OPERATING EXPENDITURES	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012
Personal Services						
Travel						
Contractual						
Supplies						
Equipment						
Land & Structures						
Grants & Claims						
Miscellaneous						
TOTAL OPERATING	0.0	0.0	0.0	0.0	0.0	0.0

CAPITAL EXPENDITURES						
-----------------------------	--	--	--	--	--	--

CHANGE IN REVENUES ()						
-------------------------------	--	--	--	--	--	--

FUND SOURCE

(Thousands of Dollars)

1002 Federal Receipts						
1003 GF Match						
1004 GF						
1005 GF/Program Receipts						
1037 GF/Mental Health						
Other (Specify Type--Do not abbreviate)						
TOTAL	0.0	0.0	0.0	0.0	0.0	0.0

Estimate of any current year (FY2006) cost: 0.0

Mark this box (X) if funding for this bill is included in the Governor's FY 2007 budget proposal: ☐

POSITIONS

Full-time						
Part-time						
Temporary						

ANALYSIS: (Attach a separate page if necessary)

HB 375 establishes a new account, the Retirement Benefit Liability Account (RBLA), in the Department of Revenue from which appropriations may be made by the legislature for grants to political subdivisions and regional education attendance areas. Appropriations may also be made to the State. The purpose of the appropriations from the RBLA may be for participating employers to pay their past service liabilities to the Public Employees' and Teachers' Retirement systems or for other purposes.

The legislation also directs half of the annual income earned on the money awarded or received from State v. Amerada Hess be deposited into the Retirement Benefit Liability Account.

This bill has no fiscal impact on the Division of Retirement and Benefits.

Prepared by: Melanie Millhorn, Director

Division: Retirement and Benefits

Approved by: Mike Tibbles, Deputy Commissioner

Agency: Department of Administration

Phone: 465-4408

Date/Time: 1/20/06 8:03 AM

Date: 1/20/2006

FISCAL NOTE

STATE OF ALASKA
2006 LEGISLATIVE SESSION

Fiscal Note Number: _____
 Bill Version: HB 374
 () Publish Date: _____

Revision Date/Time (Note if correction): _____ Dept. Affected: Administration
 Title An Act relating to establishment of a retirement RDU Centralized Administrative Services
benefit liability account in the Dept. of Revenue... Component Retirement and Benefits
 Sponsor House Special Committee on Ways and Means
 Requester House Special Committee on Ways and Means Component No. 64

Expenditures/Revenues (Thousands of Dollars)

Note: Amounts do not include inflation unless otherwise noted below.

OPERATING EXPENDITURES	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012
Personal Services						
Travel						
Contractual						
Supplies						
Equipment						
Land & Structures						
Grants & Claims						
Miscellaneous						
TOTAL OPERATING	0.0	0.0	0.0	0.0	0.0	0.0

CAPITAL EXPENDITURES						
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CHANGE IN REVENUES ()						
-------------------------------	--	--	--	--	--	--

FUND SOURCE (Thousands of Dollars)

1002 Federal Receipts						
1003 GF Match						
1004 GF						
1005 GF/Program Receipts						
1037 GF/Mental Health						
Other (Specify Type--Do not abbreviate)						
TOTAL	0.0	0.0	0.0	0.0	0.0	0.0

Estimate of any current year (FY2006) cost: 0.0

Mark this box (X) if funding for this bill is included in the Governor's FY 2007 budget proposal: ☐

POSITIONS

Full-time						
Part-time						
Temporary						

ANALYSIS: (Attach a separate page if necessary)

HB 374 establishes a new account, the Retirement Benefit Liability Account (RBLA), in the Department of Revenue from which appropriations may be made by the legislature for grants to political subdivisions and regional education attendance areas. Appropriations may also be made to the State. The purpose of the appropriations from the RBLA may be for participating employers to pay their past service liabilities to the Public Employees' and Teachers' Retirement systems or for other purposes.

The legislation also directs the annual dividend from the Alaska Housing Finance Corporation be deposited into the Retirement Benefit Liability Account.

This bill has no fiscal impact on the Division of Retirement and Benefits.

Prepared by: Melanie Millhorn, Director Phone 465-4408
 Division Retirement and Benefits Date/Time 1/20/06 8:03 AM
 Approved by: Mike Tibbles, Deputy Commissioner Date 1/20/2006
 Agency Department of Administration

FISCAL NOTE

STATE OF ALASKA
2006 LEGISLATIVE SESSION

Fiscal Note Number: 1
 Bill Version: HB 375
 () Publish Date: 1/19/2006

Revision Date/Time (Note if correction): _____ Dept. Affected: Revenue
 Title An Act relating to establishment of a retirement RDU Taxation and Treasury
 benefit liability acct; relating to Amerada Hess income Component Treasury Division
 Sponsor House Ways and Means
 Requester _____ Component No. _____

Expenditures/Revenues (Thousands of Dollars)

Note: Amounts do not include inflation unless otherwise noted below.

OPERATING EXPENDITURES	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012
Personal Services						
Travel						
Contractual	0.0	0.0	0.0	0.0	0.0	0.0
Supplies						
Equipment						
Land & Structures						
Grants & Claims						
Miscellaneous						
TOTAL OPERATING	0.0	0.0	0.0	0.0	0.0	0.0

CAPITAL EXPENDITURES						
-----------------------------	--	--	--	--	--	--

CHANGE IN REVENUES ()						
-------------------------------	--	--	--	--	--	--

FUND SOURCE (Thousands of Dollars)

1002 Federal Receipts						
1003 GF Match						
1004 GF	0.0	0.0	0.0	0.0	0.0	0.0
1005 GF/Program Receipts						
1037 GF/Mental Health						
Other (Specify Type--Do not abbreviate)						
TOTAL	0.0	0.0	0.0	0.0	0.0	0.0

Estimate of any current year (FY2006) cost: 0.0

Mark this box (X) if funding for this bill is included in the Governor's FY 2007 budget proposal: ☐

POSITIONS

Full-time						
Part-time						
Temporary						

ANALYSIS: (Attach a separate page if necessary)

HB374 creates a new account in the Department of Revenue, Treasury Division, called the retirement benefit liability account. Subject to appropriation, it also directs one half of the income of the Amerada Hess earnings to this new account. APFC estimates the annual earnings at \$27.6 million dollars: 50% of the earnings would be \$13.8 million.

This fiscal note assumes the funds would stay in the retirement benefit liability account for one quarter and would be transferred to each political subdivision, including regional education attendance areas, participating in teachers' retirement system or public employees retirement system. The total amount available for transfer in FY2007 and in subsequent years would be \$13,912,125. In order to avoid administrative costs of processing the transfers, the Department of Revenue would work with _____

Prepared by: Susan M. Taylor, Comptroller Phone 907-465-2352
 Division Treasury Date/Time 1/19/2006, 4:00 pm
 Approved by: Tom Boutin, Deputy Commissioner Date 1/19/2006
 Agency Department of Revenue

FISCAL NOTE

STATE OF ALASKA
2006 LEGISLATIVE SESSION

BILL NO. HB375

ANALYSIS CONTINUATION

the Department of Education and Early Development and Department of Commerce, Community and Economic Development for efficiencies in transferring the funds to the pension system participants according to their normal schedule of payments to political subdivisions, including regional educational attendance areas, participating in the pension systems.

**ESTIMATED CONTRIBUTION SHORTFALL TO PERS AND TRS FUNDS
FY 2006 AND FY 2007**

	A	B	C	D	E	F
1						
2						F = E - D
3		FY 2006	1 FY 2006 Estimated Payroll	2 Expected Contributions	3 Actuarially Required Contributions	FY 2006 Estimated Shortfall
4		POLITICAL SUBDIVISIONS	\$ 358,620,780	\$ 54,475,558	\$ 89,464,421	\$ (34,988,863)
5		SCHOOL DISTRICTS	\$ 781,895,084	\$ 154,299,976	\$ 267,931,858	\$ (113,631,882)
6		STATE OF ALASKA	\$ 770,031,322	\$ 136,830,957	\$ 215,039,301	\$ (78,208,344)
7		UNIVERSITY	\$ 168,783,099	\$ 28,629,598	\$ 45,706,057	\$ (17,076,460)
8		OTHER PUBLIC ORGANIZATIONS	\$ 72,417,369	\$ 11,376,009	\$ 12,952,044	\$ (1,576,035)
9		TOTAL BY ER GROUP	\$ 2,151,747,655	\$ 385,612,098	\$ 631,093,680	\$ (245,481,582)
10						
11		PERS	\$ 1,552,366,466	\$ 259,742,048	\$ 398,234,089	\$ (138,492,040)
12		TRS <i>21%</i>	\$ 599,381,188	\$ 125,870,050	\$ 232,859,592	\$ (106,989,542)
13		TOTAL BY FUND	\$ 2,151,747,655	\$ 385,612,098	\$ 631,093,680	\$ (245,481,582)
14						
15						
16						
17						F = E - D
18		FY 2007	1 FY 2007 Estimated Payroll	2 Expected Contributions	3 Actuarially Required Contributions	FY 2007 Estimated Shortfall
19		POLITICAL SUBDIVISIONS	\$ 369,379,404	\$ 73,339,696	\$ 102,620,395	\$ (29,280,698)
20		SCHOOL DISTRICTS	\$ 802,052,465	\$ 197,708,179	\$ 295,534,006	\$ (97,825,827)
21		STATE OF ALASKA	\$ 793,104,496	\$ 180,585,280	\$ 245,190,674	\$ (64,605,394)
22		UNIVERSITY	\$ 173,588,305	\$ 38,113,661	\$ 49,990,914	\$ (11,877,254)
23		OTHER PUBLIC ORGANIZATIONS	\$ 74,579,127	\$ 13,485,148	\$ 13,938,105	\$ (452,957)
24		TOTAL BY ER GROUP	\$ 2,212,703,797	\$ 503,231,963	\$ 707,274,094	\$ (204,042,131)
25						
26		PERS	\$ 1,598,937,460	\$ 343,652,715	\$ 450,842,519	\$ (107,189,803)
27		TRS <i>26%</i>	\$ 613,766,337	\$ 159,579,248	\$ 256,431,576	\$ (96,852,328)
28		TOTAL BY FUND	\$ 2,212,703,797	\$ 503,231,963	\$ 707,274,094	\$ (204,042,131)
29						
30		NOTES				
31		1- Based on FY 2005 payroll data pulled from CRS and inflated for system average experience FY 2001-2005.				
32		(3.0% PERS and 2.4% TRS)				
33						
34		2- Expected contributions based on Board adopted rates.		FY 2006	FY 2007	
35		[individual ER rates used for PERS]		PERS	16.77%	21.77%
36				TRS	21.00%	26.00%
37						
38		3- Actuarially required rates.		FY 2006	FY 2007	
39		[individual ER rates used for PERS]		PERS	25.63%	28.19%
40				TRS	38.85%	41.78%

SCOMM

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24-LS1456S
Chenoweth/Bullock
3/22/06

CS FOR HOUSE BILL NO. 418()

IN THE LEGISLATURE OF THE STATE OF ALASKA
TWENTY-FOURTH LEGISLATURE - SECOND SESSION

BY

Offered:
Referred:

Sponsor(s): REPRESENTATIVE SEATON

A BILL

FOR AN ACT ENTITLED

1 "An Act relating to mining licenses and to the mining license tax; relating to production
2 royalties on minerals and rents for property involved in mining; and providing for an
3 effective date."

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

5 * Section 1. AS 38.05.150(d) is amended to read:

6 (d) For the privilege of mining or extracting the coal in the land covered by
7 the lease, the lessee shall pay to the state

8 (1) [SHALL PAY TO THE STATE] the royalties specified in the
9 lease; the royalties shall be fixed before offering the lease, and shall be effective for a
10 period of not more than 10 [20] years; the royalties shall be based on the adjusted
11 gross value of coal from the leased area that is sold, disposed, transferred, or
12 consumed by the lessee at a rate not less than

13 (A) five percent for a noncompetitive lease or for a
14 competitive lease in which royalty is a bid variable; or

1 (B) five percent nor more than 12 percent for a competitive
2 lease in which royalty is not a bid variable; and [NOT LESS THAN FIVE
3 CENTS A TON OF 2,000 POUNDS; THE ROYALTY PAYMENT IS
4 SUBJECT TO THE EXPLORATION INCENTIVE CREDIT AUTHORIZED
5 BY AS 27.30;]

6 (2) [SHALL ALSO PAY] an annual rental, payable at the date of the
7 lease and annually thereafter, on the land or coal deposits covered by the lease, at a
8 rate fixed by the commissioner before offering the lease; the annual rental shall be
9 effective for a period of not more than 20 years; the annual rental shall be not less than
10 three dollars for each acre [25 CENTS AN ACRE FOR THE FIRST YEAR OF
11 THE LEASE, NOT LESS THAN 50 CENTS AN ACRE FOR THE SECOND YEAR,
12 THIRD YEAR, FOURTH YEAR AND FIFTH YEAR, AND NOT LESS THAN \$1
13 AN ACRE FOR EACH YEAR THEREAFTER DURING THE CONTINUANCE OF
14 THE LEASE]; the rental for each year shall be credited against the royalties as they
15 accrue for that year; each lease shall provide that the annual rental payment is subject
16 to adjustment at intervals of not [NO] more than 10 [20] years [AND
17 ADJUSTMENTS SHALL BE BASED ON THE CURRENT RATES FOR
18 PROPERTIES SIMILARLY SITUATED].

19 * Sec. 2. AS 38.05.150 is amended by adding new subsections to read:

20 (g) The commissioner shall revise the rental amount established in (d) of this
21 section based on changes in the Consumer Price Index for all urban consumers,
22 Anchorage Metropolitan Area (Semi-Annual Average) compiled by the Bureau of
23 Labor Statistics, United States Department of Labor, as revised, rebased, or replaced
24 by that bureau. The reference base index is the index for January - June 2005, as
25 revised or rebased by that bureau. The rental amount shall be increased or decreased,
26 as appropriate, by an amount equal to the change in the index described in this
27 subsection. The commissioner shall calculate the change in the rental amount each 10
28 years and, if the rental amount must be revised, shall adopt a regulation establishing
29 the revised rental amount. A revised rental amount applies to a rental payment if the
30 regulation establishing the revised rental amount took effect at least 90 days before the
31 date the rental payment is due.

1 (h) For coal sold in a bona fide arm's-length transaction between parties that
2 are not affiliated, the adjusted gross value of the coal is the full consideration received
3 by the lessee minus the reasonable cost paid by the lessee for beneficiation and
4 transportation from the mine mouth to the point of sale. The commissioner may
5 examine and adjust the beneficiation cost and transportation cost claimed by the lessee
6 if the commissioner finds that the costs reported by the lessee are not reasonable.

7 (i) The commissioner shall determine the adjusted gross value of the coal
8 when

9 (1) the coal is sold or disposed of in other than a bona fide arm's-length
10 transaction between parties that are not affiliated;

11 (2) the coal is sold or disposed of under a contract that sets a single
12 price without adjustments based on market additions;

13 (3) the coal is sold or disposed of under a contract that the
14 commissioner finds does not reflect the value of the coal at the time of extraction;

15 (4) the coal is consumed by the lessee;

16 (5) the transportation contract is not an arm's-length transaction
17 between parties that are not affiliated or is not representative of the market value of the
18 transportation; or

19 (6) the method of transportation is not reasonable when compared to
20 existing alternative methods of transportation.

21 (j) The commissioner may examine the books, papers, records, or memoranda
22 of any person to ascertain the correctness of the amount of royalty and rent due from a
23 lessee under this section. The records and the premises where a business is conducted
24 shall be open at all reasonable times for official inspection, and the commissioner may
25 subpoena any person to appear and produce books, records, papers, or memoranda
26 bearing on a liability for royalty or rent due under this section and to give testimony or
27 answer interrogatories under oath. The commissioner may administer oaths to persons
28 who are subpoenaed. A subpoena issued under this section may compel attendance of
29 a witness or production of a document or thing, located either inside or outside the
30 state, to the maximum extent permitted by law.

31 (k) In this section,

(1) "affiliated" means a person who directly, or indirectly through one or more intermediaries, controls, is controlled by, or is under common control with the persons specified;

(2) "beneficiation" means any processing performed before sale that adds value to the coal compared to its value at the point of extraction but does not include the cost of primary crushing, loading, or storing;

(3) "mine mouth" means the tipple, railroad, or other load-out facility where the coal is initially weighed or measured and loaded for transport to a buyer or user;

(4) "point of extraction" means the point where the coal first enters the lessee's coal transport system;

(5) "point of sale" means the first point where the title of the coal is transferred for value or the point of entry into a free marketplace;

(6) "transportation cost" means the actual cost of transportation between the mine mouth and the point of sale.

* Sec. 3. AS 38.05.211(a) is amended to read:

(a) The holder of each mining claim, leasehold location, prospecting site, and mining lease, including a mining lease under AS 38.05.250, shall pay, in advance, rental for the right to continue to hold the mining claim, leasehold location, prospecting site, and mining lease, including a mining lease under AS 38.05.250. Rental is due and payable as follows:

(1) the rental amount for a prospecting site is fixed at \$200 for the two-year term of the site;

(2) annual rental for a mining claim, leasehold location, or mining lease shall be not less than \$3.30 for each acre [BASED ON THE NUMBER OF YEARS SINCE A MINING CLAIM, A LEASEHOLD LOCATION, OR A MINING LEASE'S PREDECESSOR CLAIM OR LEASEHOLD LOCATION WAS FIRST LOCATED; THE ANNUAL RENTAL AMOUNTS FOR A MINING CLAIM, LEASEHOLD LOCATION, OR MINING LEASE ARE AS FOLLOWS:

RENTAL AMOUNT
FOR EACH MINING

CLAIM OR
LEASEHOLD
LOCATION
INCLUDING

NUMBER OF YEARS SINCE FIRST LOCATED	RENTAL AMOUNT PER ACRE FOR MINING LEASES	EACH QUARTER- QUARTER SECTION MTRSC SYSTEM
0 - 5	\$.50	\$ 20
6 - 10	\$1.00	40
11- OR MORE	\$2.50	100;

(3) THE ANNUAL RENTAL IN ANY YEAR FOR EACH QUARTER SECTION CLAIM, LEASEHOLD LOCATION, OR LEASE BASED ON THE MTRSC SYSTEM IS FOUR TIMES THE RENTAL AMOUNT FOR A QUARTER-QUARTER SECTION MINING CLAIM, LEASEHOLD LOCATION, OR LEASE IN THAT YEAR].

* Sec. 4. AS 38.05.211(d) is amended to read:

(d) For a claim, leasehold, location, prospecting site, and mining lease, including a mining lease under AS 38.05.250, first located before January 1, 2007, the [THE] rental amount established under this section shall be revised by the commissioner as provided in this section based on changes in the Consumer Price Index for all urban consumers, Anchorage Metropolitan Area (Semi-Annual Average) compiled by the Bureau of Labor Statistics, United States Department of Labor, as revised, rebased, or replaced by that bureau. The reference base index is the index for January - June 1989, as revised or rebased by that bureau. The rental amount shall be increased or decreased, as appropriate, by an amount equal to the change in the index described in this subsection. The commissioner shall calculate the change in the rental amount each 10 years and, if the rental amount must be revised, shall adopt a regulation establishing the revised rental amount. A revised rental amount applies to a rental payment if the regulation establishing the revised rental amount took effect at least 90 days before the date the rental payment is due.

* Sec. 5. AS 38.05.211 is amended by adding a new subsection to read:

(f) For a claim, leasehold, location, prospecting site, and mining lease, including a mining lease under AS 38.05.250 first located after December 31, 2006, the rental amount established under this section shall be revised by the commissioner as provided in this section based on changes in the Consumer Price Index for all urban consumers, Anchorage Metropolitan Area (Semi-Annual Average) compiled by the Bureau of Labor Statistics, United States Department of Labor, as revised, rebased, or replaced by that bureau. The reference base index is the index for January - June 2005, as revised or rebased by that bureau. The rental amount shall be increased or decreased, as appropriate, by an amount equal to the change in the index described in this subsection rounded to the nearest whole \$5 unit. The commissioner shall calculate the change in the rental amount each 10 years and, if the rental amount must be revised, shall adopt a regulation establishing the revised rental amount. A revised rental amount applies to a rental payment if the regulation establishing the revised rental amount took effect at least 90 days before the date the rental payment is due.

* Sec. 6. AS 38.05.212(b) is repealed and reenacted to read:

(b) The production royalty is

(1) subject to the exploration incentive credit authorized by AS 27.30;

and

(2) three percent of

(A) the net smelter return for mining production that is further processed by a smelter or refinery; or

(B) the gross value at the point of production as determined under AS 38.05.213 for mining production that is not further processed by a smelter or refinery.

* Sec. 7. AS 38.05.212 is amended by adding a new subsection to read:

(d) In this section, "net smelter return" means the value the person engaged in mining receives from the smelter or refinery and may be based on

(1) the spot or current price of the mineral minus deductions for the costs associated with the processing by the smelter or refinery and transportation between the smelter or refinery and the location of the mine; or

(2) another method adopted by the department by regulation.

* Sec. 8. AS 38.05 is amended by adding a new section to read:

Sec. 38.05.213. Gross value at the point of production. (a) The gross value

at the point of production

(1) is the value of a resource immediately after its removal from the mine;

(2) does not include income from the extraction or processing of resources from mine waste or residue of previously processed resources previously subject to tax under AS 43.65.

(b) Except as provided in (c) of this section, the value of a resource immediately after its removal from the mine is the price received by the person engaged in the mining of the resource adjusted for value added after the resource was produced.

(c) The price received by the person engaged in the mining of the resource may be rejected by the department as the gross value at the point of production when the

(1) price received is less than the fair market value;

(2) price received does not reflect the total value received by the seller in the transaction;

(3) parties to the transaction are affiliated; or

(4) price received was not negotiated in an arm's length transaction between the buyer and seller.

(d) If the department rejects the price reported by the person engaged in the mining of the resource, the department shall substitute the fair market value of the resource on the date and at the place of production for purposes of determining the tax liability under this chapter.

(e) The gross value at the point of production shall be calculated using the reasonable costs of transportation if the destination value is used to determine the value at the point of production. The reasonable costs of transportation shall be the actual costs, except when the

(1) parties to the transportation are affiliated;

(2) contract for the transportation is not an arm's length transaction or

1 is not representative of the market value of that transportation;

2 (3) method of transportation is not reasonable in view of existing
3 alternative methods of transportation.

4 (f) If the department finds that the conditions in (e)(1), (2), or (3) of this
5 section are present, the department shall determine the reasonable costs of
6 transportation, using the fair market value of like transportation, the fair market value
7 of equally efficient and available alternative modes of transportation, or another
8 reasonable method. Transportation costs fixed by tariff rates properly on file with the
9 Regulatory Commission of Alaska or another regulatory agency shall be considered
10 prima facie reasonable.

11 (g) In this section,

12 (1) "affiliated" has the meaning given in AS 38.05.150;

13 (2) "destination value" means the value of the resource at the
14 destination where production from the mine is delivered for treatment or processing.

15 * **Sec. 9.** AS 43.65 is amended by adding a new section to read:

16 **Sec. 43.65.003. Mining license.** (a) A person engaged in mining after
17 December 31, 2006, shall apply to the department for a mining license before the later
18 of May 1 of each year or within 30 days following the date on which mining began.

19 (b) The department shall adopt regulations that prescribe the information
20 required to be submitted on a mining license application submitted to the department
21 and a fee for the issuance of the license that represents the reasonable cost of
22 processing the application.

23 * **Sec. 10.** AS 43.65.010(a) is amended to read:

24 (a) A [PERSON PROSECUTING OR ATTEMPTING TO PROSECUTE, OR
25 ENGAGING IN THE BUSINESS OF MINING IN THE STATE SHALL OBTAIN A
26 LICENSE FROM THE DEPARTMENT. ALL] new mining operation may defer the
27 payment of the tax due under [OPERATIONS ARE EXEMPT FROM THE TAX
28 LEVIED BY] this chapter during the first [FOR] three and one-half years after the
29 date production begins. A taxpayer that defers the payment of tax under this
30 subsection shall pay the amount of tax deferred in 10 equal annual installments,
31 without interest, before May 1 of each year beginning with the first calendar year

1 following the date the deferral period ends. The tax deferral [EXEMPTION]
2 granted to a new mining operation [OPERATIONS] does not [EXTEND OR] apply
3 to the mining of sand and gravel.

4 * Sec. 11. AS 43.65.010(b) is amended to read:

5 (b) The Department of Natural Resources shall certify to the department the
6 date [UPON WHICH] production begins, and the department shall issue a certificate
7 of exemption to the producer accordingly.

8 * Sec. 12. AS 43.65.010(c) is amended to read:

9 (c) The license tax on mining is imposed on [AS FOLLOWS: UPON] the net
10 income of the taxpayer from the property in the state, computed with allowable
11 depletion, plus royalty received in connection with mining property in the state. The
12 tax rates applicable to the amount of a taxpayer's net income are as follows:

13 over \$40,000 and not over \$50,000 five [3] percent

14 over \$50,000 and not over \$100,000 seven percent [\$1,500 PLUS

15 5 PERCENT OF THE EXCESS OVER \$50,000]

16 over \$100,000 and not over \$500,000 nine percent

17 over \$500,000 11 percent [\$4,000 PLUS

18 7 PERCENT OF THE EXCESS OVER

19 \$100,000].

20 * Sec. 13. AS 43.65.010(d) is amended to read:

21 (d) If a person conducts [WHERE] mining operations [ARE CONDUCTED]
22 in two or more places, [BY ONE PERSON] the operations are considered a single
23 mining operation and the tax under this chapter is computed upon the aggregate
24 income derived from all the mining operations. The lessor of a mine operated under a
25 lease is considered to be engaged in mining within this chapter, and the royalties
26 received by the lessor are considered to be the net income of the lessor's mining
27 operations. If the lessor receives royalties from more than one mine or mining
28 operation, the tax payable under this chapter by the lessor is computed upon the
29 aggregate royalties received by the lessor from all the mines or mining operations as
30 though they were a single mining operation.

31 * Sec. 14. AS 43.65.010(e) is repealed and reenacted to read:

(e) The allowance for depletion shall be computed and deducted on the cost depletion basis under 26 U.S.C. 612 (Internal Revenue Code).

* Sec. 15. AS 43.65.060 is amended to read:

Sec. 43.65.060. Definitions. In this chapter, unless the context otherwise requires,

(1) "date production begins" means the date on which the initial shipment of products from a mining operation is made;

(2) "gross income from property" means the gross income from mining in the state;

(3) [(2)] "mining" means the extraction or operation to take [AN OPERATION BY WHICH] valuable metals, ores, minerals, asbestos, gypsum, coal, marketable earth, or stone, or any of them [ARE EXTRACTED, MINED, OR TAKEN] from the earth and [; "MINING"] includes the ordinary treatment processes normally applied by a mine owner or operator [OWNERS OR OPERATORS] to obtain the commercially marketable product, but does not include the extraction or production of oil and gas;

(4) [(3)] "net income of the taxpayer [(COMPUTED WITHOUT ALLOWANCES FOR DEPLETION)] from the property" means the gross income from mining [THE PROPERTY], less allowable deductions attributable to the mineral property for [UPON] which [THE] depletion is claimed and the allowable deductions attributable to ordinary treatment processes that [INSOFAR AS THEY] relate to the product of the property, including overhead and operating expenses, development costs properly charged to expense, depreciation, taxes, and losses sustained, [ETC.,] but excluding [ALLOWANCES FOR DEPLETION, AND] deductions for federal income taxes, or for the tax imposed by this chapter;

(5) [(4)] "new mining operation [OPERATIONS]" means the first mining operation on a property that previously has not been subject to mining [MINING OPERATIONS WHICH BEGAN PRODUCTION AFTER JANUARY 1, 1953, OR WHICH HAVE NOT BEEN LIABLE TO PAY A MINING LICENSE TAX UNDER THIS CHAPTER ON NET INCOME SINCE JANUARY 1, 1948];

(6) [(5)] "ordinary treatment processes" includes

1 (A) in the case of coal: cleaning, breaking, sizing, and loading
2 for shipment,

3 (B) in the case of sulphur: pumping to vats, cooling, breaking,
4 and loading for shipment,

5 (C) in the case of iron ore, bauxite, ball and sagger clay, rock
6 asphalt, and minerals that [WHICH] are customarily sold in the form of crude
7 mineral product: sorting, concentrating, and sintering to bring to shipping
8 grade and form, and loading for shipment, and

9 (D) in the case of lead, zinc, copper, gold, silver, platinum
10 metals or fluorspar ores, potash and ores that [WHICH] are not customarily
11 sold in the form of the crude mineral product: crushing, grinding, and
12 beneficiation by concentration (gravity, flotation, amalgamation, electrostatic,
13 or magnetic), cyanidation, leaching, crystallization, precipitation (but
14 excluding electrolytic deposition roasting, thermal or electric smelting or
15 refining), or by substantially equivalent processes or combination of processes
16 used in the separation or extraction of a product from the ore, including the
17 furnacing or quicksilver ore [;

18 (6) "PRODUCTION" MEANS THE DATE ON WHICH THE
19 INITIAL SHIPMENT OF PRODUCTS FROM MINING OPERATIONS IS MADE].

20 * **Sec. 16.** AS 38.05.211(b), 38.05 211(e), and AS 43.65.030 are repealed.

21 * **Sec. 17.** The uncodified law of the State of Alaska is amended by adding a new section to
22 read:

23 APPLICABILITY. (a) AS 38.05.150(d), amended in sec. 1 of this Act, applies to
24 leases entered into or renegotiated after December 31, 2006.

25 (b) AS 38.05.211(a), amended in sec. 3 of this Act, applies to a mining claim,
26 leasehold location, property site, or mining lease first located after December 31, 2006.

27 * **Sec. 18.** This Act takes effect January 1, 2007.

Alaska State Legislature

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REPRESENTATIVE Paul Seaton

District 35

HB 418

Committee Substitute – Summary of Changes

1. **Mining License Tax:** *Applies to all mining activity in the state – minerals, coal and materials (sand, rock, gravel)*
 - All brackets of graduated scale are raised by 2% to be 5%, 7% and 9% of net income.
 - Additional tax bracket is added for income over \$500K to be taxed at 11% of net income
 - 3-year exemption from taxation changed to 3-year deferral with 10-year payback schedule. Equal payments over the 10 years of production following exemption period.
 - Depletion allowance is changed to allow for cost depletion only. Cost depletion allows for a percent of development expenses equal to the percent of total ore body mined during the tax year, to be deducted from the tax base
2. **Coal Production Royalty:** *Applies only to coal mining on state-owned land*
 - Changed to make 5% of adjusted gross income that is currently in regulation the minimum royalty that can be adopted by the Department
3. **Mineral Production Royalty:** *Applies only to mineral mining on state-owned land*
 - Changed to 3% Net Smelter Return (NSR), for products which are smelted. The tax base for the NSR is the realized value of the produced materials minus costs associated with smelting, allowing for the deduction of transportation to the smelter.
 - For non-smelted products, tax is levied on "Gross Value and the Point of Production". This is intended to be the functional equivalent of an NSR for non-smelted products. Gross Value at the Point of Production is the fair market price received for the product less costs incurred after the product's removal from the mine site, which are directly related to the shipping and marketing of the product.
4. **Rents:** *Applies to all mining on state-owned land – rates vary by material*
 - Coal rents changed to be no less than \$3/acre per year (currently in regulation)
 - Mineral rents changed to be no less than \$3.30/acre per year (currently in regulation)
 - Both rental rates are linked to the Anchorage Consumer Index

Changes to Mining Taxes Under Committee Substitute for HB 418

Current (Statue/ Regulation)

Mining License Tax

Taxes on Net Income	
0 - \$40K	0
\$40K - \$50K	3%
\$50K - \$100K	5%
\$100K - Up	7%

Tax Exemption/ Deferral

3 1/2 year tax exemption for new mines
--

Depletion Allowance

% Depletion: % of Gross Income - Allowable deduction	
Coal	10%
Metals/ Misc. Mineras	15%
Sulphur	23%

Coal Royalty

5% of Adjusted Gross Income. Taxable value is price received minus costs of transportation from the mine mouth

Mineral Production Royalty

3% of Net Income as calculated under Mining License Tax

Rents

Coal	\$3/acre per year
Minerals	\$3.30/acre per year
Linked to Anchorage Consumer Index	

CSHB 418

Taxes on Net Income	
0 - \$40K	0
\$40K - \$50K	5%
\$50K - \$100K	7%
\$100K - Up	9%
\$500K - Up (a)	11%

3 year deferral for new mines. Payable over following 10 years of production

Cost Depletion
Depletion allowance is changed to allow for cost depletion only. Cost depletion allows for a percent of development expenses equal to the percent of total ore body mined

5% of Adjusted Gross Income. Taxable value is price received minus costs of transportation from the mine mouth

Net Smelter Return (NSR), for products which are smelted. The tax base for the NSR is the realized value of the produced materials minus costs associated with smelting,

Coal	\$3/acre per year
Linked to Anchorage Consumer Index	
Minerals	\$3.30/acre per year
Linked to Anchorage Consumer Index	

ALASKA STATE LEGISLATURE

Chair
STATE AFFAIRS

Member
RESOURCES

Member
HEALTH, EDUCATION AND SOCIAL SERVICES

Member
WAYS AND MEANS



REPRESENTATIVE PAUL SEATON
House District 35

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Sponsor Statement

"The legislature shall provide for the utilization, development, and conservation of all natural resources belonging to the State, including land and waters, for the maximum benefit of its people." - The Constitution of the State of Alaska

House Bill 418 recognizes our constitutional duty by providing a reasonable share of Alaska's non-renewable resources to benefit all Alaskans. Through the institution of a 3% production tax on all mined products, the bill establishes more parity between the state's resource industries and guarantees a reliable source of revenue to the state.

HB 418 replaces the existing Mining License Tax, AS.09.65.010, and applies the tax on all mined products at the value immediately following their removal from the mine. Since the value of metals is generally determined after the refining process, the tax is applied to the first point of sale after subtracting the costs of processing and transportation. To ensure that the first point of sale reflects an arms-length transaction, significant latitude is given to the Department of Revenue in determining the fair market value of minerals as well as realistic values for transportation and processing.

Alaska's mining industry bears a light tax burden compared to Alaska's other high value resource industries. State revenue generally amounts to about 7/10 of 1% of the mined resource value, while an additional 1% is paid to municipalities. State revenue from oil and gas amounts to about 20% of total production value, while an additional 2% is paid to municipalities. State revenue from fisheries amount to about 2.8% of the total production value, while an additional 2.5% is paid to municipalities.

This disparity is largely the result of the different tax structures. In addition to various local taxes, both oil and fisheries pay the State some sort of severance tax. While rates vary significantly, both are assessed on the gross value of the resource. Mining, on the other hand, makes its largest contribution through a levy on net profits called the Mining License tax.

Originally imposed by the territorial legislature in 1913, the Mining License Tax underwent several transformations until 1955 when the current structure was adopted. The tax is levied on all net income and royalties received in connection with mining



ALASKA STATE LEGISLATURE
REPRESENTATIVE PAUL SEATON
House District 35

tax rate and credit back for reinvestment is necessary to directly stimulate reinvestment. Net tax scenarios, however, create many problems. They are easily subject to accounting manipulation and arms length pricing concerns. This requires comprehensive anti-avoidance measures on behalf of the administrator to ensure a full payment of the appropriate taxes. In addition, the net tax can create an undependable source of revenue and provide little compensation to the people of Alaska.

Gross production taxes eliminate these potential abuses and provide the rights holder with fair and consistent compensation for the resource. Non-negotiable royalties also have a stabilizing impact on business by maximizing investor certainty and make the administration of taxes straight-forward, predictable and easy to calculate.

It is certainly time to revise our mining tax structure to address the changing complexion of the mining industry in Alaska. In the new HB 418 tax structure a threshold value before reporting is required will alleviate the current tax-filing requirement on recreational and very small operators. A higher mineral value threshold before the tax is applied will ensure that marginal and initial operations will not be delayed. And finally, deferment of the tax for the first 3 years of production will aid in capital cost payback but will not deprive the people of Alaska of their constitutionally mandated benefit.



LEGAL SERVICES

DIVISION OF LEGAL AND RESEARCH SERVICES
LEGISLATIVE AFFAIRS AGENCY
STATE OF ALASKA

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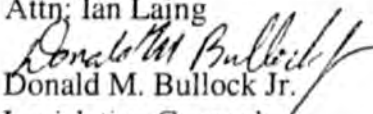
State Capitol
Juneau, Alaska 99801-1182
Deliveries to: 129 6th St., Rm. 329

MEMORANDUM

February 1, 2006

SUBJECT: Sectional analysis for HB 418 (Work Order No. 24-LS1456\Y)

TO: Representative Paul Seaton
Attn: Ian Lajng

FROM: 
Donald M. Bullock Jr.
Legislative Counsel

You have requested a sectional summary of the above-described bill.

As a preliminary matter, note that a sectional summary of a bill should not be considered an authoritative interpretation of the bill and the bill itself is the best statement of its contents. If you would like an interpretation of the bill as it may apply to a particular set of circumstances, please advise.

Section 1. States legislative intent.

Sections 2 and 3. Deletes references to provisions in AS 43.65 that are being repealed.

Section 4. Deletes language referring to the computation of the credit against taxes payable under AS 43.65.

Section 5. Amends AS 38.05.212(b) to state that production royalty is three percent of the gross value at the point of production as determined under AS 43.66.030.

Section 6. Changes the reference to AS 43.65 to refer to the former AS 43.65 relating to public information in a license.

Section 7. Changes the reference to AS 43.65 to refer to the former AS 43.65 and adds a reference to AS 43.66 in a paragraph relating to information the commissioner of revenue may provide to the Department of Natural Resources.

Sections 8, 9, 10, and 11. Delete references to AS 43.65.

Section 12. Adds chapter AS 43.66 to title 43 to provide for the mining production tax.

Sec. 43.66.010. Provides for a mining production tax after December 31, 2006 based on the gross value at the point for production. Provides for annual increases in the rate of tax from 0.6 percent during 2007 to three percent after 2010. Imposes the tax on

the total taxable resources produced by a person engaged in mining. Exempts production that is not subject to taxation, the first \$50,000 of gross value at point of a production for a single taxpayer or an affiliated group of taxpayers.

Sec. 43.66.020. Provides for a deferment of the production tax for the first three years on new production, except for the production of sand, gravel, coal, or rock. Makes the deferred tax payable in 10 equal annual payments starting in the fourth year after the start of production. Exempts the deferred taxes from interest.

Sec. 43.66.030. Defines the gross value at the point of production as the value of a resource immediately after its removal from the mine. Provides for determination of the gross value at the point of production by subtracting value added between the point of production and the point of sale. Authorizes the Department of Revenue to reject the reported price if the department finds the price is less than the fair market value, does not reflect the full consideration received, the price was set in a transaction between affiliated parties, or the price was not negotiated in an arm's-length transaction.

Sec. 43.66.040. Provides for the determination of reasonable transportation costs if the sale of the resource takes place away from the point of production. Allows the department to determine reasonable transportation costs if the actual costs were determined in a transaction in which the parties are affiliated, the transportation costs were not determined in an arm's length transaction, or the method of transportation was not reasonable.

Sec. 43.66.050. Requires that the tax be paid before April 1 of the year following the year of production.

Sec. 43.66.060. Requires that the taxpayer file a statement along with the payment of tax with information required by the department. Lists information that must be included in the information required by the department. Exempts an individual from the statement filing requirement if the total gross value at the point of production during a calendar year is less than \$10,000.

Sec. 43.66.070. Requires affiliated taxpayers to file a single combined statement.

Sec. 43.66.900. Provides definitions for terms used in AS 43.66.

Sections 13 and 14. Delete references to provisions in AS 43.65.

Section 15. Lists sections that are repealed.

Section 16. Provides for filing of final returns and the payment of tax by taxpayers subject to AS 43.65.

Representative Paul Seaton
February 1, 2006
Page 3

Section 17. Lists sections of the bill that take effect January 1, 2007.

Section 18. Makes the bill take effect immediately except for the provisions that are effective January 1, 2007.

If I may be of further assistance, please advise.

DMB:ljw
06-045.ljw

FISCAL NOTE

STATE OF ALASKA
2006 LEGISLATIVE SESSION

Fiscal Note Number: _____

Bill Version: _____

HB418-DNR-CP&L-02-21-06

() Publish Date: _____

Revision Date/Time (Note if correction): _____

Dept. Affected: _____

Natural Resources

Title MINING PROD. & LICENSE TAXES/ROYALTIES

RDU

Resource Development

Component

Claims, Permits and Leases

Sponsor Rep. Seaton

Requester (H) Special Committee W&M

Component No.

2460

Expenditures/Revenues

(Thousands of Dollars)

Note: Amounts do not include inflation unless otherwise noted below.

OPERATING EXPENDITURES	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012
Personal Services						
Travel						
Contractual						
Supplies						
Equipment						
Land & Structures						
Grants & Claims						
Miscellaneous						
TOTAL OPERATING	0.0	0.0	0.0	0.0	0.0	0.0

CAPITAL EXPENDITURES						
----------------------	--	--	--	--	--	--

CHANGE IN REVENUES ()	*** INDETERMINATE ***
------------------------	-----------------------

FUND SOURCE

(Thousands of Dollars)

1002 Federal Receipts						
1003 GF Match						
1004 GF						
1005 GF/Program Receipts						
1037 GF/Mental Health						
Other (Specify Type--Do not abbreviate)						
TOTAL	0.0	0.0	0.0	0.0	0.0	0.0

Estimate of any current year (FY2006) cost: 0.0

Mark this box (X) if funding for this bill is included in the Governor's FY 2007 budget proposal: ☐

POSITIONS

Full-time						
Part-time						
Temporary						

ANALYSIS: (Attach a separate page if necessary)

This legislation eliminates several existing tax credits available to the mining and oil and gas industries, changes the mining production royalty (for mining on state lands) from a net income basis to a "gross value at the point of production" basis, and establishes a new Mining Production Tax. The legislation would simplify auditing of mineral taxes and royalties filings under AS 43.65 and 38.05.212.

Operating Expenses: As proposed the legislation would modify the determination of royalties and auditing of mining operations on state land. This change in methodology would not require an alteration of existing Division of Mining, Land & Water (MLW) staff requirements. Existing mining staff responsible for administering state royalties will be required to change their method of calculating the royalty.

Prepared by: Dick Mylius, Acting Director

Phone 269-8625

Division Mining, Land & Water

Date/Time 2/21/2006

Approved by: Michael Menge, Commissioner

Date 2/21/2006

Agency Natural Resources

FISCAL NOTE

STATE OF ALASKA
2006 LEGISLATIVE SESSION

BILL NO. HB418-DNR-CP&L-02-21-06

ANALYSIS CONTINUATION

*****Revenues.** This legislation will impact revenues received through royalties and taxes received by the state. DNR's fiscal note will only address the royalties issue, as taxes are administered by the Department of Revenue. The repeal of the various credits (through section 2, 3, and 4 of the bill) will have both negative and positive impacts on revenue to the state. The repeal of the credits may be revenue neutral to the state overall. For example, the bill repeals the Mining Business Education Credit (AS 43.65.018), which has been used by industries to get credit when they donate to the University of Alaska. Industries may reduce donations to the University (a loss of revenue to the state), but would pay more in taxes or royalties (an increase). In 2004, mining companies claimed credit for over \$450,000 that they donated to the University of Alaska under this program. However, it is not possible to determine the impact to state revenues from this change.

Changing the calculations of the mining production royalty (for mining on state lands) from a net income basis to a "gross value at the point of production" basis will also likely have an impact on state revenues. However, the DNR-MLW does not currently have qualified staff who are familiar with the concept of determining "gross value at the point of production" to determine a possible effect on future royalty revenues resulting from these changes. In addition, with several new mine projects being developed on state land (such as Pogo) and fluctuating mineral prices, it would be difficult to accurately predict the change in revenue even if DNR had this expertise.

For background, the following is a breakdown of mining royalties collected (coal and production) from calendar years 1999-2005 (in thousands). DNR expects these figures will increase in the next few years with the development of new, large mines such as Pogo on state land.

1998- \$1,947.
1999- \$2,630.
2000- \$1,489.
2001- \$1,190.
2002- \$ 893.
2003- \$1,216.
2004- \$1,336.
2005- \$1,523. (estimated)

MLW does not have qualified staff (tax or royalty) with the expertise to determine a possible effect on future royalty revenues resulting from the changes to the royalty accounting method proposed in this bill. If this bill passes, DNR assumes that existing staff will be trained in the new methodology of calculating royalty revenue.

FISCAL NOTE

STATE OF ALASKA
2006 LEGISLATIVE SESSION

Fiscal Note Number: _____
 Bill Version: HB418-DNR-CP&L-02-21-06
 () Publish Date: _____

Revision Date/Time (Note if correction): _____ Dept. Affected: Natural Resources
 Title MINING PROD. & LICENSE TAXES/ROYALTIES RDU Resource Development
 Component Claims, Permits and Leases
 Sponsor Rep. Seaton
 Requester (H) Special Committee W&M Component No. 2460

Expenditures/Revenues

(Thousands of Dollars)

Note: Amounts do not include inflation unless otherwise noted below.

OPERATING EXPENDITURES	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012
Personal Services						
Travel						
Contractual						
Supplies						
Equipment						
Land & Structures						
Grants & Claims						
Miscellaneous						
TOTAL OPERATING	0.0	0.0	0.0	0.0	0.0	0.0

CAPITAL EXPENDITURES						
----------------------	--	--	--	--	--	--

CHANGE IN REVENUES ()	*** INDETERMINATE ***
------------------------	-----------------------

FUND SOURCE

(Thousands of Dollars)

1002 Federal Receipts						
1003 GF Match						
1004 GF						
1005 GF/Program Receipts						
1037 GF/Mental Health						
Other (Specify Type-Do not abbreviate)						
TOTAL	0.0	0.0	0.0	0.0	0.0	0.0

Estimate of any current year (FY2006) cost: 0.0

Mark this box (X) if funding for this bill is included in the Governor's FY 2007 budget proposal: ☐

POSITIONS

Full-time						
Part-time						
Temporary						

ANALYSIS: (Attach a separate page if necessary)

This legislation eliminates several existing tax credits available to the mining and oil and gas industries, changes the mining production royalty (for mining on state lands) from a net income basis to a "gross value at the point of production" basis, and establishes a new Mining Production Tax. The legislation would simplify auditing of mineral taxes and royalties filings under AS 43.65 and 38.05.212.

Operating Expenses: As proposed the legislation would modify the determination of royalties and auditing of mining operations on state land. This change in methodology would not require an alteration of existing Division of Mining, Land & Water (MLW) staff requirements. Existing mining staff responsible for administering state royalties will be required to change their method of calculating the royalty.

Prepared by: Dick Mylius, Acting Director Phone 269-8625
 Division Mining, Land & Water Date/Time 2/21/2006
 Approved by: Michael Menge, Commissioner Date 2/21/2006
 Agency Natural Resources

FISCAL NOTE

STATE OF ALASKA
2006 LEGISLATIVE SESSION

BILL NO. HB418-DNR-CP&L-02-21-06

ANALYSIS CONTINUATION

*****Revenues.** This legislation will impact revenues received through royalties and taxes received by the state. DNR's fiscal note will only address the royalties issue, as taxes are administered by the Department of Revenue. The repeal of the various credits (through section 2, 3, and 4 of the bill) will have both negative and positive impacts on revenue to the state. The repeal of the credits may be revenue neutral to the state overall. For example, the bill repeals the Mining Business Education Credit (AS 43.65.018), which has been used by industries to get credit when they donate to the University of Alaska. Industries may reduce donations to the University (a loss of revenue to the state), but would pay more in taxes or royalties (an increase). In 2004, mining companies claimed credit for over \$450,000 that they donated to the University of Alaska under this program. However, it is not possible to determine the impact to state revenues from this change.

Changing the calculations of the mining production royalty (for mining on state lands) from a net income basis to a "gross value at the point of production" basis will also likely have an impact on state revenues. However, the DNR-MLW does not currently have qualified staff who are familiar with the concept of determining "gross value at the point of production" to determine a possible effect on future royalty revenues resulting from these changes. In addition, with several new mine projects being developed on state land (such as Pogo) and fluctuating mineral prices, it would be difficult to accurately predict the change in revenue even if DNR had this expertise.

For background, the following is a breakdown of mining royalties collected (coal and production) from calendar years 1999-2005 (in thousands). DNR expects these figures will increase in the next few years with the development of new, large mines such as Pogo on state land.

1998- \$1,947.
1999- \$2,630.
2000- \$1,489.
2001- \$1,190.
2002- \$ 893.
2003- \$1,216.
2004- \$1,336.
2005- \$1,523. (estimated)

MLW does not have qualified staff (tax or royalty) with the expertise to determine a possible effect on future royalty revenues resulting from the changes to the royalty accounting method proposed in this bill. If this bill passes, DNR assumes that existing staff will be trained in the new methodology of calculating royalty revenue.

FISCAL NOTE

STATE OF ALASKA
2006 LEGISLATIVE SESSION

Fiscal Note Number: _____
Bill Version: HB 418
() Publish Date: _____

Revision Date/Time (Note if correction): _____ Dept. Affected: Revenue 04
Title Mining Production & License Taxes/Royalties RDU Taxation and Treasury
Component Tax
Sponsor Representative Seaton
Requester Representative Seaton Component No. 2476

Expenditures/Revenues (Thousands of Dollars)

Note: Amounts do not include inflation unless otherwise noted below.

OPERATING EXPENDITURES	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012
Personal Services	80.5	80.5	80.5	80.5	80.5	80.5
Travel	7.0	7.0	7.0	7.0	7.0	7.0
Contractual	5.0	5.0	5.0	5.0	5.0	5.0
Supplies						
Equipment	8.0					
Land & Structures						
Grants & Claims						
Miscellaneous						
TOTAL OPERATING	100.5	92.5	92.5	92.5	92.5	92.5

CAPITAL EXPENDITURES	0.0	0.0	0.0	0.0	0.0	0.0
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CHANGE IN REVENUES ()	0.0	*	*	*	*	*
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FUND SOURCE (Thousands of Dollars)

1002 Federal Receipts						
1003 GF Match						
1004 GF	100.5	92.5	92.5	92.5	92.5	92.5
1005 GF/Program Receipts						
1037 GF/Mental Health						
Other (Specify Type--Do not abbreviate)						
TOTAL	100.5	92.5	92.5	92.5	92.5	92.5

Estimate of any current year (FY2006) cost: 0.0

Check this box (X) if funding for this bill is included in the Governor's FY 2007 budget proposal: ☐

POSITIONS

Full-time	1	1	1	1	1	1
Part-time						
Temporary						

ANALYSIS: (Attach a separate page if necessary)

Bill Language: HB 418 eliminates the existing Mining License Tax and replaces it with a new Mining Production Tax after December 31, 2006. The Mining License Tax is a tax on the net income of mining operations in the state. The Mining Production Tax is a tax on the gross value of mineral resources at the point of production. The tax rate is 0.6% in 2007, 1.2% in 2008, 1.8% in 2009, 2.4% in 2010, and 3.0% in 2011 and thereafter. The first \$50,000 of gross value produced by a person would be exempt from the mining production tax each calendar year. This bill also contains a provision that changes the production royalty. The analysis in this fiscal note addresses only the changes in the mining tax structure; we did not evaluate the effects of this bill on royalties received by the state as the royalties are collected by the Department of Natural Resources. (cont. on page 2)

Prepared by: Dan Stickel and Johanna Bales Phone 465-3279
Division Tax Division Date/Time _____
Approved by: Jerry Burnett Date _____
Agency Department of Revenue

FISCAL NOTE

STATE OF ALASKA
2006 LEGISLATIVE SESSION

BILL NO. HB 418

ANALYSIS CONTINUATION

Expenses: (1) Personal Services - DOR expects that it will need 1 additional position, 1 Tax Auditor III, to perform audits associated with this new tax type. DOR expects the total cost of this additional position to be \$80,500 each year. (2) Travel - DOR expects it will incur additional travel expenses of \$7,000 each year to conduct mining production tax audits. (3) Contractual - Contractual costs include leasing office space and providing phone service for 1 additional employee each year. (4) Equipment - DOR expects equipment expense of \$8,000 per FTE in the first year for a computer, telephone, cubicle parts, software, and other one-time purchases of office equipment needed to perform the duties of the position.

Revenues: For purposes of our analysis, we assume that tax revenues for a given tax year are realized in the following fiscal year; for example, tax liabilities incurred during the 2007 calendar year would be received by the state in FY 2008 as the stipulates that "the mining production tax shall be paid to the department before April 1 of the year following the calendar year of production." Given that the change in tax system takes effect beginning with the 2007 tax year, the first fiscal year that there would be a revenue impact from this bill would be FY 2008.

To evaluate the net revenue impact of HB 418, we must estimate revenues from both the new mining production tax and the existing mining license tax. Revenues from both mining taxes are influenced by both price and production of minerals. Future minerals prices, and to a lesser extent production, are very difficult to predict, and for this reason the exact revenue impact of HB 418 is indeterminate.

However, to illustrate the potential impact of a change in the mining tax structure we have analyzed two possible price scenarios. Our high price scenario incorporates prices indicated by futures markets for metals, and assumes constant prices beyond the futures market time horizon. Our low price scenario assumes that metals prices will return from current elevated levels to the 10-year average by 2007. Both scenarios base coal prices on forecasts by the U.S. Department of Energy and hold other non-metallic mineral prices constant. We did not adjust for the first \$50,000 in gross value produced by a person in a calendar year that would be exempt from the tax. Also, we did not make any adjustments to account for possible changes in behavior of firms due to the change in tax structure.

Minerals production estimates are derived from a combination of public information available on mining company websites and a joint publication of the Department of Natural Resources and the Department of Commerce, Community and Economic Development titled, "Alaska's Mineral Industry 2004--Special Report 59." For purposes of this analysis, we assume that mineral production will remain constant at 2004 levels, with the Pogo mine starting production in mid-2006 and the Kensington mine starting production in mid-2007. The results of our analysis are summarized in the table below.

Table 1: Revenue Impact of HB 418 Under High Price Scenario					
(amounts in millions)	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012
Mining License Tax Revenues	\$ 20.2	\$ 18.5	\$ 18.8	\$ 30.4	\$ 32.5
Mining Production Tax Revenues	\$ 13.1	\$ 25.2	\$ 41.1	\$ 60.5	\$ 77.3
Revenue Increase from Tax Change	\$ (7.0)	\$ 6.8	\$ 22.3	\$ 30.1	\$ 44.8

Table 2: Revenue Impact of HB 418 Under Low Price Scenario					
(amounts in millions)	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012
Mining License Tax Revenues	\$ 5.1	\$ 5.1	\$ 5.1	\$ 8.4	\$ 8.3
Mining Production Tax Revenues	\$ 8.1	\$ 16.3	\$ 26.1	\$ 37.6	\$ 47.7
Revenue Increase from Tax Change	\$ 3.0	\$ 11.2	\$ 21.0	\$ 29.2	\$ 39.4

**Percent of Resource Production Value Paid to State and Municipalities from the Oil and Gas,
Mining and Fishing Industries, FY 03 - 05 (in \$Million)**

Industry/ Year	Production Value	Revenue to State	Revenue to Muni.	% Value to State	% Value to Muni.	% Value Total
Oil and Gas						
2003	10,942.20	2,060.40	221.78	18.8%	2.0%	20.9%
2004	11,976.10	2,424.38	245.72	20.2%	2.1%	22.3%
2005	15,382.40	3,395.00	221.30	22.1%	1.4%	23.5%
Mining (a)						
2000	1,106.40	8.28	9.12	0.7%	0.8%	1.6%
2001	917.30	6.94	9.76	0.8%	1.1%	1.8%
2002	1,012.80	5.49	9.70	0.5%	1.0%	1.5%
2003	1,006.60	5.30	10.51	0.5%	1.0%	1.6%
2004	1,338.70	8.82	11.00	0.7%	0.8%	1.5%
2005		10.30	N/A			
Fishing						
2003	1,042.60	30.01	24.31	2.9%	2.3%	5.2%
2004	1,127.80	29.46	29.03	2.6%	2.6%	5.2%
2005	1,169.90	29.36	29.10	2.5%	2.5%	5.0%

Notes: (a) Mining production value reported on a calendar year basis; portions of mining revenue are reported on a fiscal year basis, and portions are reported on a calendar year basis. Revenue for oil and gas and fishing industries are reported on a fiscal year basis. Revenue totals are net of tax credits. '05 state revenue figure incomplete.

Sources: Department of Revenue, Tax Division: Revenue Sources Books and Annual Reports; Department of Natural Resources, Division of Geological and Geophysical Surveys: Mineral Industry Reports; DCCED: NPR-A Impact Mitigation Reports; Brett Fried, Economist, Department of Revenue, Tax Division; and Cherie Nienhuis, Economist, Dept. of Revenue.

Table 3: State Revenue Collected through Major Taxes and Fees on the Oil and Gas, Mining, and Fishing Industries, FY 95 - FY 04

Tax or Fee	FY95	FY96	FY97	FY98	FY99	FY00	FY01	FY02	FY03	FY04
Oil and Gas^(a)										
Production Tax	769,800,000	771,700,000	907,000,000	564,400,000	382,697,831	710,678,804	729,183,083	510,983,671	593,413,904	647,055,965
Royalties and Other ^(b)	1,141,193,180	917,336,739	1,087,114,230	783,110,193	516,659,949	1,046,167,643	1,146,104,177	859,759,029	1,240,702,600	1,417,908,700
Corporate Income Tax	433,350,198	276,971,625	325,553,129	222,225,644	164,811,251	586,046,589	342,423,852	244,035,893	168,309,807	302,867,974
Property Tax	57,300,000	56,200,000	53,400,000	51,400,000	48,840,434	45,037,881	45,116,135	49,641,091	48,745,345	47,499,647
Conservation Tax	2,000,000	1,800,000	1,700,000	1,600,000	1,144,868	N/A	N/A	N/A	N/A	N/A
Hazardous Release	22,100,000	13,700,000	12,900,000	11,800,000	11,053,318	9,557,925	9,432,048	9,597,043	9,232,859	9,052,517
TOTALS	2,425,743,378	2,037,708,364	2,387,667,359	1,634,535,837	1,125,529,651	2,397,488,842	2,272,259,295	1,673,016,727	2,060,404,515	2,424,384,803
Mining^(c)										
License Tax	481,907	513,214	407,841	2,037,226	633,143	3,449,882	1,729,156	466,430	396,254	3,224,684
Mineral Production Royalties	6,762	6,208	8,358	9,489	14,214	6,175	1,933	23,447	270,734	162,637
Corporate Income Tax ^(d)	unknown	unknown	195,043	246,792	398,435	75,900	285,815	18,665	32,704	323,706
Mineral Claim Rentals	712,559	929,744	1,115,591	1,170,812	1,982,453	1,975,376	1,736,522	1,908,228	2,129,440	2,657,939
Coal Royalties	1,866,952	1,348,841	1,250,000	1,937,995	2,615,858	1,854,803	1,168,043	860,633	1,064,208	1,239,257
Coal Rentals	172,024	206,515	205,500	331,716	205,983	233,249	198,545	256,927	237,912	236,532
Annual Labor	36,200	62,900	89,500	118,020	90,720	79,907	103,274	124,741	224,519	226,191
State Material Sales	582,155	602,218	732,279	1,112,362	647,898	524,666	1,647,208	1,772,425	885,132	655,674
Miscellaneous Fees	not reported	not reported	not reported	110,304	107,768	75,880	73,741	63,163	65,696	93,103
TOTALS	3,858,559	3,669,640	4,004,112	7,074,716	6,696,472	8,275,838	6,944,237	5,494,659	5,306,599	8,819,723
Fishing										
Fisheries Business	19,584,027	18,357,788	16,044,135	14,736,797	13,181,622	18,620,033	15,864,959	13,137,866	14,258,131	15,248,463
Fishery Resource Landing	3,787,753	3,817,204	5,227,708	656,650	3,470,340	2,174,240	4,106,686	2,653,148	6,927,001	2,502,537
Corporate Income Tax ^(d)	unknown	unknown	2,107,843	1,483,496	1,359,905	1,966,142	3,039,414	2,077,476	1,798,904	3,166,355
Salmon Marketing	4,710,610	4,804,416	3,522,739	2,811,707	2,620,154	3,687,313	2,554,607	1,986,718	1,412,041	1,963,779
Salmon Enhancement	5,689,520	5,235,938	4,189,791	4,186,701	3,903,103	5,142,886	3,643,990	3,701,801	2,422,051	3,033,565
Seafood Marketing	3,859,880	3,777,707	3,099,230	2,878,785	2,656,959	3,514,614	3,156,843	2,698,456	2,989,931	3,294,577
Dive Fishery Management	N/A	N/A	N/A	N/A	N/A	229,078	222,794	192,110	204,738	253,503
TOTALS	37,631,790	35,993,053	34,191,446	26,754,136	27,192,083	35,334,306	32,589,293	26,447,575	30,012,797	29,462,779

Notes: Revenue totals are net of tax credits. (a) FY95-98 Oil and Gas Production, Property, Conservation, and Hazardous Release tax amounts include unrestricted general fund amounts only and are rounded to the nearest \$100,000. (b) "Other" includes rents, bonus bids, federal payments, and oil and gas settlements, as collected by the Department of Natural Resources. (c) Mining license tax and corporate income tax information reported on fiscal year basis; all other mining tax information reported on a calendar year basis. (d) Corporate income tax information for mining and fishing is based on liabilities, not actual payments made in a given year.

Sources: Department of Revenue, Tax Division: Revenue Sources Books and Annual Reports; Department of Natural Resources, Division of Geological and Geophysical Surveys: Mineral Industry Reports; Brett Fried, Economist, Department of Revenue, Tax Division; and Denise Hawes, Economist, Department of Revenue.

Table 3: State Revenue Collected through Major Taxes and Fees on the Oil and Gas, Mining, and Fishing Industries, FY 95 - FY 04

Tax or Fee	FY95	FY96	FY97	FY98	FY99	FY00	FY01	FY02	FY03	FY04
Oil and Gas^(a)										
Production Tax	769,800,000	771,700,000	907,000,000	564,400,000	382,697,831	710,678,804	729,183,083	510,983,671	593,413,904	647,055,965
Royalties and Other ^(b)	1,141,193,180	917,336,739	1,087,114,230	783,110,193	516,659,949	1,046,167,643	1,146,104,177	858,759,029	1,240,702,600	1,417,908,700
Corporate Income Tax	433,350,198	276,971,625	325,553,129	222,225,644	164,811,251	586,046,589	342,423,852	244,035,893	168,309,807	302,867,974
Property Tax	57,300,000	56,200,000	53,400,000	51,400,000	48,840,434	45,037,881	45,116,135	49,641,091	48,745,345	47,499,647
Conservation Tax	2,000,000	1,800,000	1,700,000	1,600,000	1,444,868	N/A	N/A	N/A	N/A	N/A
Hazardous Release	22,100,000	13,700,000	12,900,000	11,800,000	11,075,318	9,557,925	9,432,048	9,597,043	9,232,859	9,052,517
TOTALS	2,425,743,378	2,037,708,364	2,387,667,359	1,634,535,837	1,125,529,651	2,397,488,842	2,272,259,295	1,673,016,727	2,060,404,515	2,424,384,803
Mining^(c)										
License Tax	481,907	513,214	407,841	2,037,226	633,143	3,449,882	1,729,156	466,430	396,254	3,224,684
Mineral Production Royalties	6,762	6,208	8,358	9,489	14,214	6,175	1,933	23,447	270,734	162,637
Corporate Income Tax ^(d)	unknown	unknown	195,043	246,792	398,435	75,900	285,815	18,665	32,704	323,706
Mineral Claim Rentals	712,559	929,744	1,115,591	1,170,812	1,982,453	1,975,376	1,736,522	1,908,228	2,129,440	2,657,939
Coal Royalties	1,866,952	1,348,841	1,250,000	1,937,995	2,615,858	1,854,803	1,168,043	860,633	1,064,208	1,239,257
Coal Rentals	172,024	206,515	205,500	331,716	205,983	233,249	198,545	256,927	237,912	236,532
Annual Labor	36,200	62,900	89,500	118,020	90,720	79,907	103,274	124,741	224,519	226,191
State Material Sales	582,155	602,218	732,279	1,112,362	647,898	524,666	1,647,208	1,772,425	885,132	655,674
Miscellaneous Fees	not reported	not reported	not reported	110,304	107,768	75,880	73,741	63,163	65,696	93,103
TOTALS	3,858,559	3,669,640	4,004,112	7,074,716	6,696,472	8,275,838	6,944,237	5,494,659	5,306,599	8,819,723
Fishing										
Fisheries Business	19,584,027	18,357,788	16,044,135	14,736,797	13,181,622	18,620,033	15,864,959	13,137,866	14,258,131	15,248,463
Fishery Resource Landing	3,787,753	3,817,204	5,227,708	656,650	3,470,340	2,174,240	4,106,686	2,653,148	6,927,001	2,502,537
Corporate Income Tax ^(d)	unknown	unknown	2,107,843	1,483,496	1,359,905	1,966,142	3,039,414	2,077,476	1,798,904	3,166,355
Salmon Marketing	4,710,610	4,804,416	3,522,739	2,811,707	2,620,154	3,687,313	2,554,607	1,986,718	1,412,041	1,963,779
Salmon Enhancement	5,689,520	5,235,938	4,189,791	4,186,701	3,903,103	5,142,886	3,643,990	3,701,801	2,422,051	3,033,565
Seafood Marketing	3,859,880	3,777,707	3,099,230	2,878,785	2,656,959	3,514,614	3,156,843	2,698,456	2,989,931	3,294,577
Dive Fishery Management	N/A	N/A	N/A	N/A	N/A	229,078	222,794	192,110	204,738	253,503
TOTALS	37,631,790	35,993,053	34,191,446	26,754,136	27,192,083	35,334,306	32,589,293	26,447,575	30,012,797	29,462,779

Notes: Revenue totals are net of tax credits. (a) FY95-98 Oil and Gas Production, Property, Conservation, and Hazardous Release tax amounts include unrestricted general fund amounts only and are rounded to the nearest \$100,000. (b) "Other" includes rents, bonus bids, federal payments, and oil and gas settlements, as collected by the Department of Natural Resources. (c) Mining license tax information reported on fiscal year basis; all other mining tax information reported on a calendar year basis. (d) Corporate income tax information for mining and fishing is based on liabilities, not actual payments made in a given year.

Sources: Department of Revenue, Tax Division: Revenue Sources Books and Annual Reports; Department of Natural Resources, Division of Geological and Geophysical Surveys: Mineral Industry Reports; Brett Fried, Economist, Department of Revenue, Tax Division; and Denise Hawes, Economist, Department of Revenue.

Table 4: Revenue to Municipalities from the Oil and Gas, Mining, and Fishing Industries, FY 95 - FY 04

Industry	FY95	FY96	FY97	FY98	FY99	FY00	FY01	FY02	FY03	FY04
Oil and Gas										
Property Tax ^(a)	253,442,593	245,600,000	239,100,000	233,000,000	222,351,529	220,926,762	220,196,879	218,798,614	220,096,442	220,713,351
NPR-A Impact Mitigation Grants	25,538	0	0	0	0	28,000,000	0	1,683,850	1,686,105	25,011,457
TOTALS	253,468,131	245,600,000	239,100,000	233,000,000	222,351,529	248,926,762	220,196,879	220,482,464	221,782,547	245,724,808
Mining										
Property and Severance Tax	unknown	unknown	8,386,000	7,934,000	8,818,819	9,196,500	9,763,220	9,703,208	10,510,048	unknown
Fishing										
Fisheries Business	19,450,019	19,703,440	15,383,362	14,174,301	13,154,456	18,500,923	15,053,391	12,554,821	12,169,077	14,398,192
Fishery Resource Landing	2,896,405	3,320,672	3,051,286	3,111,055	2,426,007	3,104,164	3,242,053	4,570,627	2,949,464	4,358,236
Raw Fish Taxes	11,456,091	10,391,219	11,284,045	9,460,014	10,057,185	15,198,370	9,192,282	7,698,030	9,189,259	10,271,028
TOTALS	33,802,515	33,415,331	29,718,693	26,745,370	25,637,648	36,803,457	27,487,726	24,823,478	24,307,800	29,027,456

Notes: Some information is reported on a fiscal year basis, other information is presented on a calendar year basis. (a) Approximately 90% of the oil and gas property tax is paid to the North Slope Borough.

Sources: Department of Revenue, Tax Division: Annual Reports; Department of Natural Resources, Division of Geological and Geophysical Survey: Mineral Industry Reports; and Department of Commerce, Community and Economic Development: Alaska Taxable Reports, and NPR-A Impact Mitigation Program Report to the Legislature, FY05.

Alaska Department of Revenue
Tax Division

Prepared by Brett Fried
Prepared on January 18, 2004
Produced for Representative Seaton

Draft Proposed Tax on the "Gross Value" of Minerals in Alaska

		Quantity*	Estimated*	Proposed
		2003	Values 2003	Tax @ 3%
Metals				
Gold	(ounces)	528,191	\$191,934,000	\$5,758,020
Silver	(ounces)	18,589,100	\$95,300,000	\$2,859,000
Lead	(tons)	162,479	\$64,279,000	\$1,928,370
Zinc	(tons)	714,769	\$536,348,000	\$16,090,440
Subtotal			\$887,861,000	\$26,635,830
Industrial minerals				
Sand and gravel	(million tons)	11.9	\$64,140,000	\$1,924,200
Rock	(million tons)	0.9	\$10,406,000	\$312,180
Subtotal			\$74,546,000	\$2,236,380
Energy minerals				
Coal	(tons)	1,088,000	\$38,080,000	\$1,142,400
Peat	(cubic yards)	35,000	\$175,000	\$5,250
			\$38,255,000	\$1,147,650
Total			\$1,000,662,000	\$30,019,860

*Quantity and value from the Department of Natural Resources, Division of Geological & Geophysical Surveys. "Special Report 58: Alaska's Mineral Industry 2003." Table 10. pg 25.

Assumptions:

- (1) Assumes production value (quantity x market price) is the same as gross value. That is, Alaska exports raw ore that must be smelted prior to sale. Production value is the value of the final product not the value of the raw ore in Alaska. There were only, approximately, \$67 million of exploration and development expenditures in Alaska in 2003 (DNR, Table 1, pg. 58).
- (2) Assumes that the 2003 production value is representative of future production values. The average production value for the last five years has been close to one billion.
- (3) Assumes mining companies will not change their behavior as a result of the tax.

About The Fraser Institute

The Fraser Institute is an independent Canadian economic and social research and educational organization. It has as its objective the redirection of public attention to the role of competitive markets in providing for the well-being of Canadians. Where markets work, the Institute's interest lies in trying to discover prospects for improvement. Where markets do not work, its interest lies in finding the reasons. Where competitive markets have been replaced by government control, the interest of the Institute lies in documenting objectively the nature of the improvement or deterioration resulting from government intervention. The Fraser Institute is a national, federally chartered non-profit organization financed by the sale of its publications and the contributions of its members, foundations, and other supporters.

Acknowledgements

We would like to thank the hundreds of members of the mining community who have responded to the survey this year and in previous years. You do a service to your industry by providing such valuable information.

We would also like to thank the Prospectors and Developers Association of Canada (PDAC), whose generous support makes this survey possible. We would also like to thank institute Executive Director Michael Walker and Laura Jones for conceptualizing this project eight years ago.

We also owe a special debt of gratitude to Liv Fredricksen, who coordinated the mining survey in previous years. Liv provided invaluable and tireless help to us this year, making it much easier to take over a complicated project.

Survey Research Coordinators Fred McMahon and Will Lymer
Edited and designed by Kristin McCahon

For additional copies of this survey, or for copies of previous years' surveys, please call:
The Fraser Institute, 4th Floor, 1770 Burrard Street, Vancouver, BC V6J 3G7
Phone: (604) 688-0221 or (416) 363-6575 or call toll-free: 1-800-665-3558
Fax: (604) 688-8539 or (416) 601-7322

New for the 2004/05 Edition

Each year, we invite your responses to the survey and its structure and try to make improvements based on those responses while keeping the basic structure of the survey intact for constancy of comparison with previous years. As discussed in the executive summary, we have added a number of jurisdictions this year and a new question on security.

A major change this year was conducting the survey on the web. The web-based survey was quicker to fill out than previous surveys had been, and it was more convenient as well—respondents no longer had to deal with faxing multiple pages or returning the survey to us through the postal system. No doubt in good part because of this, the number of survey respondents increased dramatically in 2004, to 259, by coincidence exactly 100 more than the 159 responses of 2003.

We have also expanded the information in the appendix this year. We provide a complete breakdown for all jurisdictions for each question and possible answer.

All surveys face a difficult trade-off between the amount of information collected in each completed survey and the negative relationship between the length of the survey and number of responses received. At the suggestion of members of the mining community, we shortened this year's survey. The key difference is that we did not ask for a breakdown by jurisdiction of where respondents were spending their exploration dollars, though we did ask for global numbers. Several respondents praised the new survey structure, but a few still complained the survey was "too long." We indicated that the survey could be completed in about 10 minutes, though comments indicated we should have noted a 10 to 15 minute completion range.

We did not repeat the "Comparison of Selected Policy Features in Canadian Jurisdictions" this year, but will revise it every three or four years. In general, such indexes are limited by the fact that written regulations and laws can be less important than how regulators and government officials interpret them, their attitudes and the attitudes of political leaders towards the industry, and the power of various pressure groups.

We have renamed the Investment Attractiveness Index this year, titling it the Composite Policy and Mineral Potential Index. This is a composite index that has been typically weighted about 40 percent by policy and 60 percent by mineral potential. These ratios are determined by a survey question asking respondents to rate the relative importance of each factor. We use the Composite Policy index for the policy component. The question asking about mineral potential under "best practice" policies is used to determine mineral potential.¹

To some extent we are de-emphasizing the importance of the policy/mineral potential index this year, moving it from the executive summary to the body of the report. We believe that the best measure of investment attractiveness is provided by our direct question on "current" mineral potential

¹ The percentage of those who responded with "encourages investment" is normalized to 100 and then combined with the policy index according to the ratios noted above.

Survey Results

Section I: Investment Climate Ratings Methodology

The following section provides an analysis of 12 policy-related factors that contribute to the ability of jurisdictions to attract exploration investment and on two overall questions (figures 2 and 3) on the attractiveness of a jurisdiction under current and under best practices policies. Companies were thus asked to rate jurisdictions on the following factors on a scale of 1 to 5:

- Uncertainty concerning the administration, interpretation, and enforcement of existing regulations
- Environmental regulations
- Regulatory duplication and inconsistencies (including federal/provincial or federal/state and interdepartmental overlap)
- Taxation regime (including personal, corporate, payroll, capital taxes, and the complexity associated with tax compliance)
- Uncertainty concerning native land claims
- Uncertainty concerning which areas will be protected as wilderness or parks
- Infrastructure
- Socioeconomic agreements
- Political stability
- Labour regulation/employment agreements
- Geological database (including quality and scale of maps and ease of access to information)
- Security
- Mineral potential assuming current regulation and land use restrictions
- Mineral potential assuming no regulation or land restrictions (but further assuming industry "best practice" standards)

Scale

- 1 = encourages exploration investment
- 2 = not a deterrent to exploration investment
- 3 = mild deterrent to exploration investment
- 4 = strong deterrent to exploration investment
- 5 = would not pursue exploration investment in this region due to this factor

Figure 1: Policy Potential Index

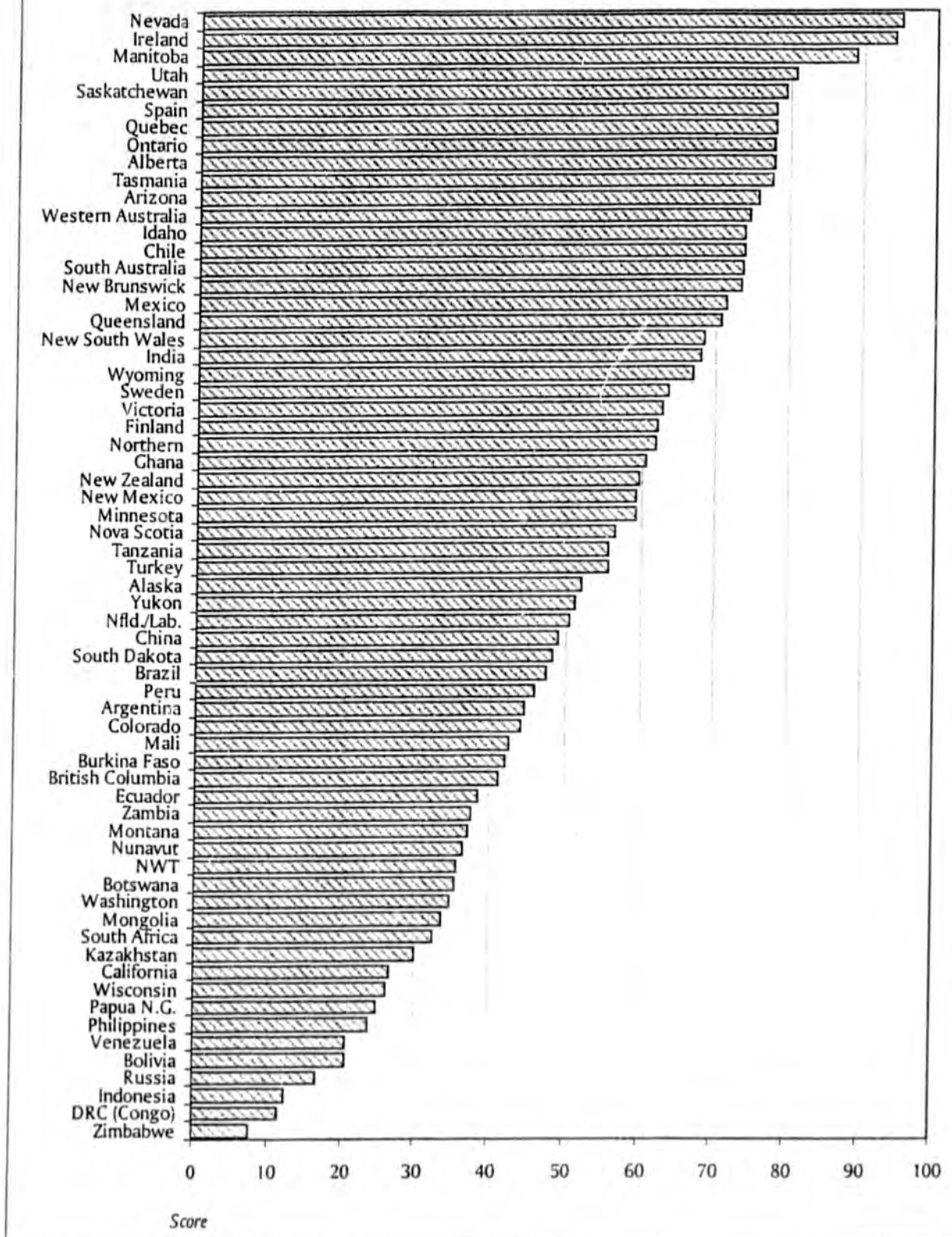
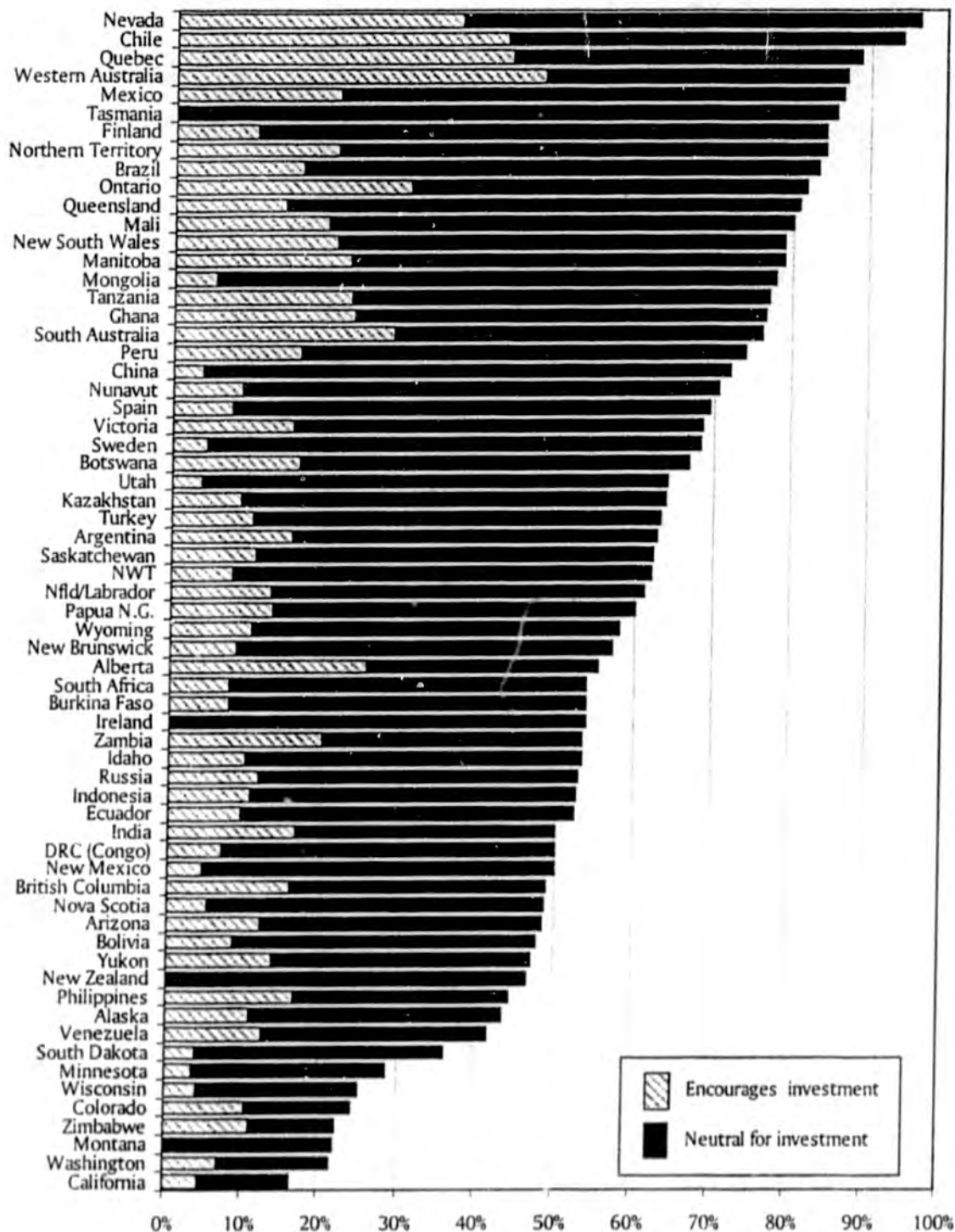


Figure 2: Current Mineral Potential—Assuming Current Regulations/Land Use Restrictions



Percent who consider this factor neutral or an encouragement to invest

Figure 3: Best Practices Mineral Potential—Assuming No Land Use Restrictions in Place and Assuming Industry “Best Practices”

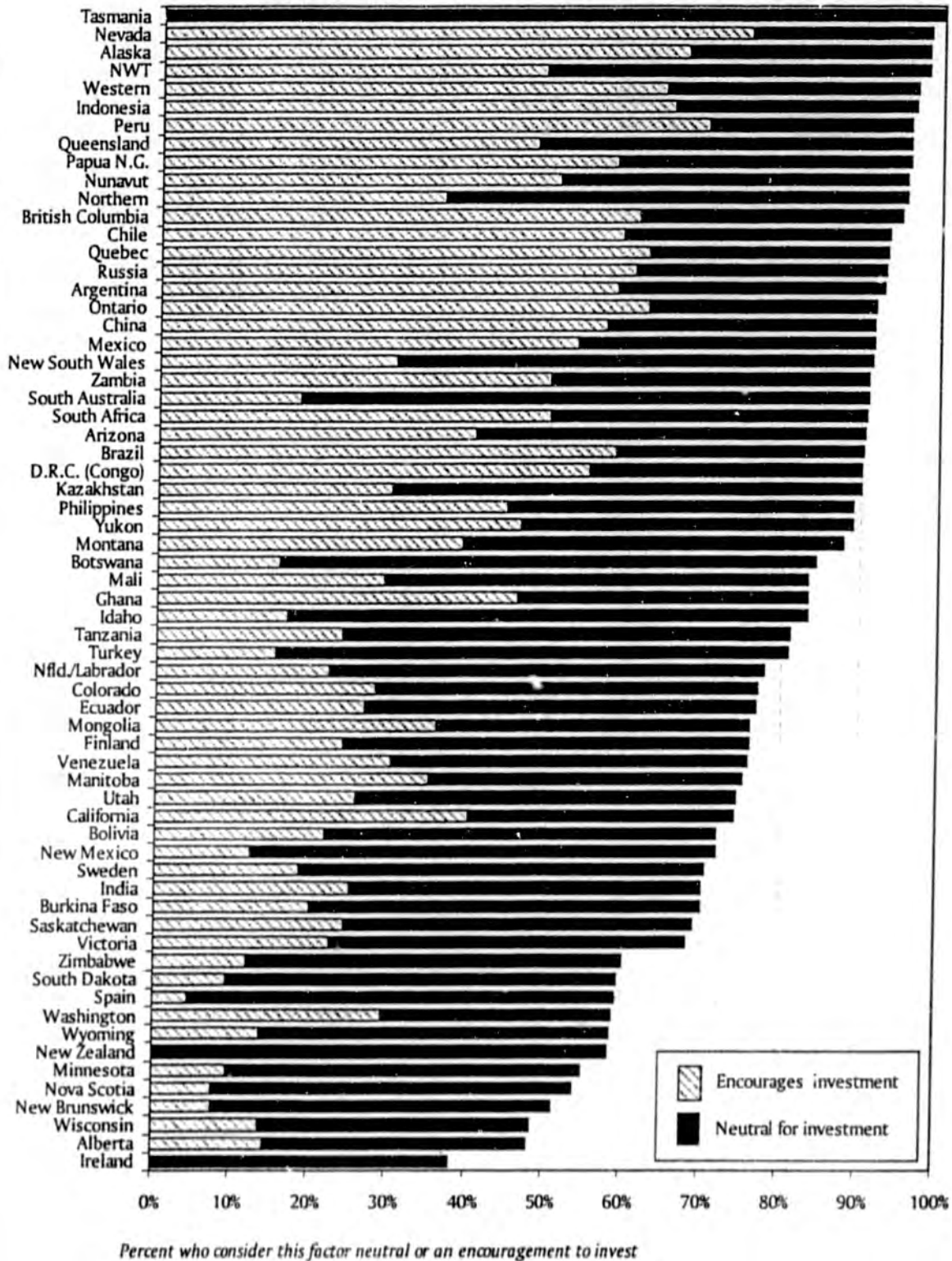


Figure 17: Composite Policy and Mineral Potential

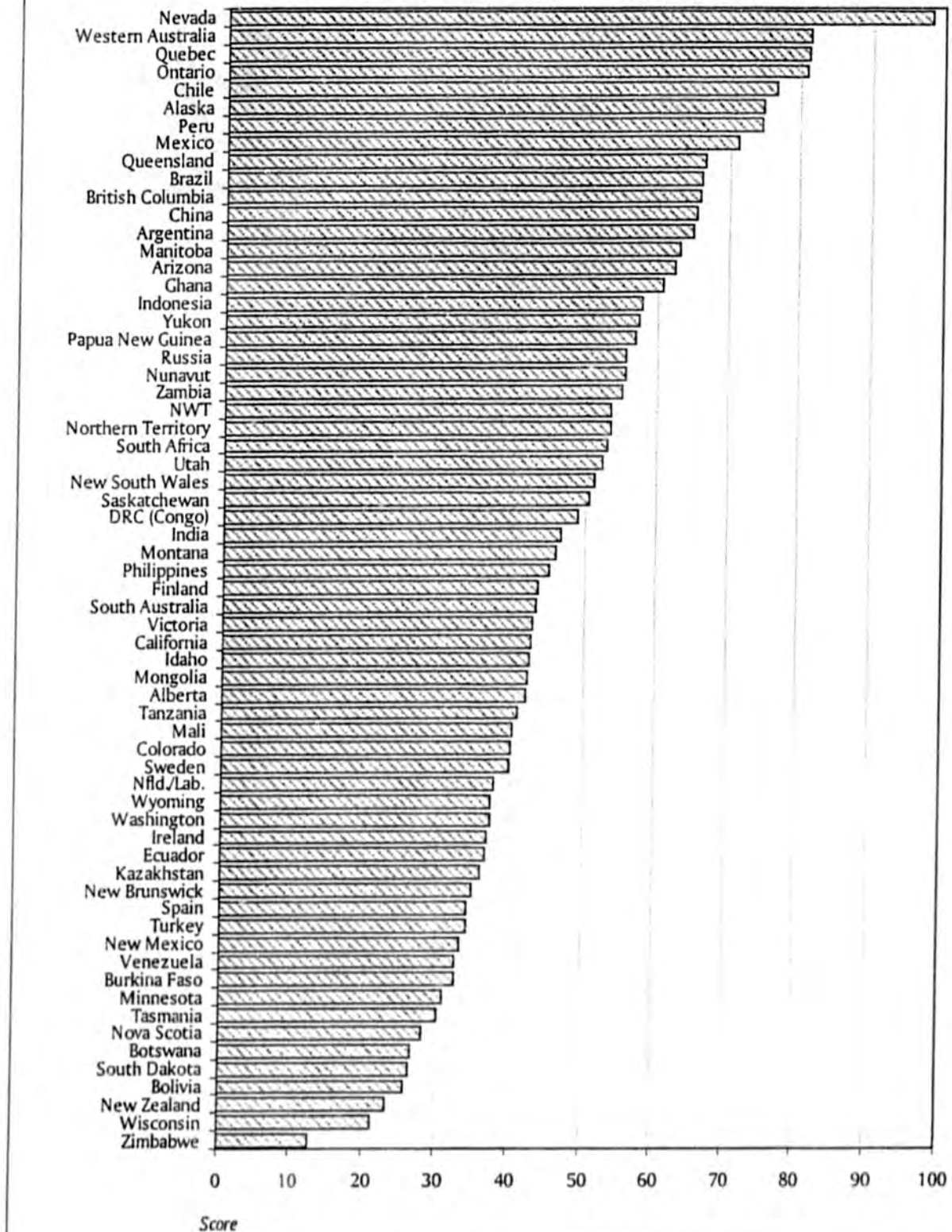


Figure 8: Taxation Regime

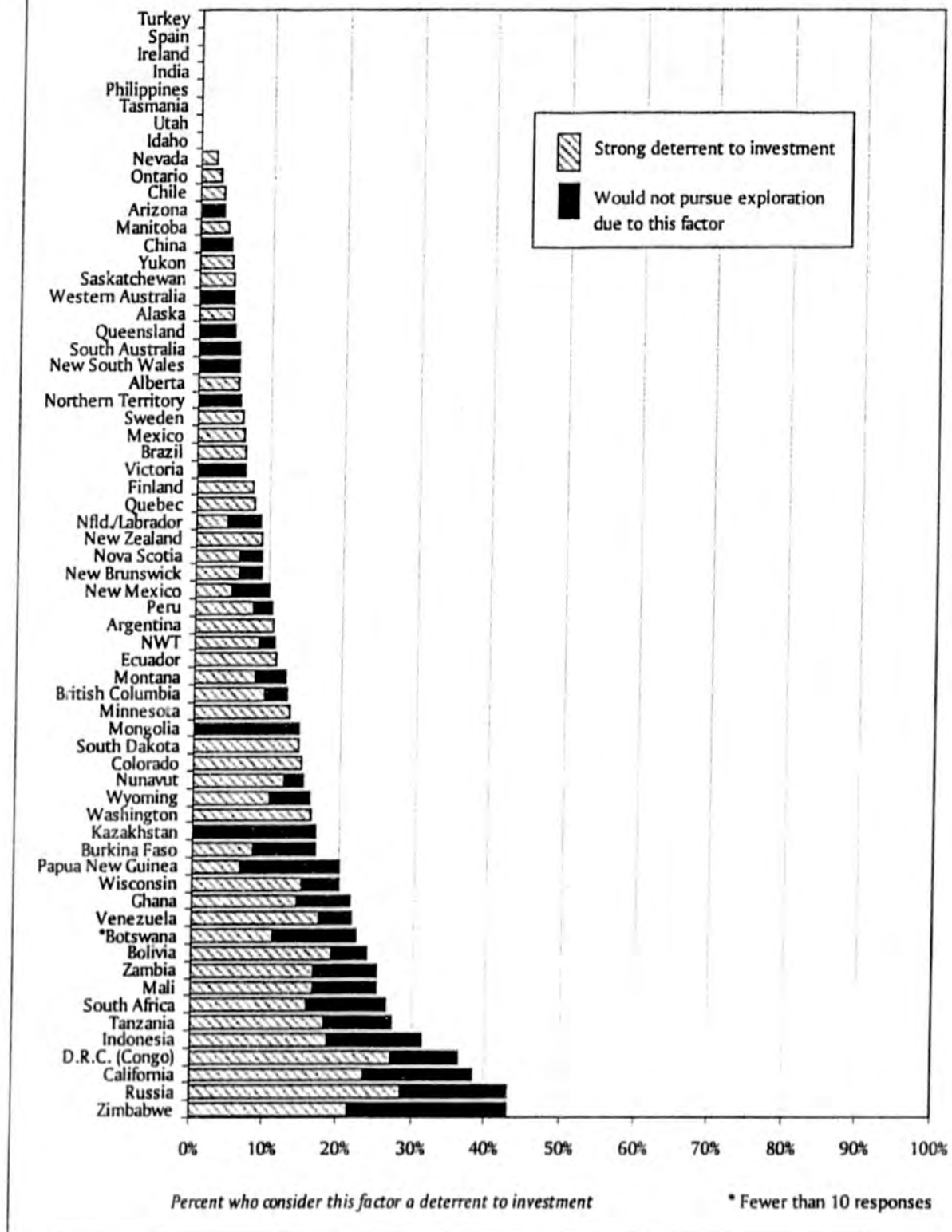


Table A6: Taxation Regime

1: Encourages Investment

2: Not a Deterrent to investment

3: Mild Deterrent

4: Strong Deterrent

5: Would not pursue investment due to this factor

	1	2	3	4	5
Canada					
Alberta	47%	40%	8%	6%	0%
British Columbia	26%	33%	29%	10%	3%
Manitoba	37%	40%	19%	4%	0%
New Brunswick	12%	58%	21%	6%	3%
Nfld./Labrador	15%	43%	33%	4%	4%
Nova Scotia	9%	52%	30%	6%	3%
Nunavut	8%	43%	35%	13%	3%
NWT	9%	35%	46%	9%	2%
Ontario	22%	45%	30%	3%	0%
Quebec	49%	33%	9%	8%	0%
Saskatchewan	16%	44%	35%	5%	0%
Yukon	11%	45%	39%	5%	0%
USA					
Alaska	12%	62%	21%	5%	0%
Arizona	3%	71%	23%	0%	3%
California	3%	41%	18%	24%	15%
Colorado	7%	59%	19%	15%	0%
Idaho	4%	71%	25%	0%	0%
Minnesota	4%	70%	13%	13%	0%
Montana	8%	58%	21%	8%	4%
Nevada	29%	56%	13%	2%	0%
New Mexico	5%	70%	15%	5%	5%
South Dakota	5%	67%	14%	14%	0%
Utah	9%	68%	23%	0%	0%
Washington	4%	56%	24%	16%	0%
Wisconsin	5%	60%	15%	15%	5%
Wyoming	5%	68%	11%	11%	5%
Australia					
New South Wales	17%	61%	17%	0%	6%
Northern Territory	12%	71%	12%	0%	6%
Queensland	10%	65%	20%	0%	5%
South Australia	11%	67%	17%	0%	6%
Tasmania	0%	100%	0%	0%	0%
Victoria	7%	73%	13%	0%	7%
Western Australia	19%	57%	19%	0%	5%

Table A6: Taxation Regime

1: Encourages Investment

2: Not a Deterrent to investment

3: Mild Deterrent

4: Strong Deterrent

5: Would not pursue investment due to this factor

	1	2	3	4	5
Oceania					
Indonesia	6%	44%	19%	19%	13%
New Zealand	27%	36%	27%	9%	0%
Papua New Guinea	13%	47%	20%	7%	13%
Philippines	13%	44%	44%	0%	0%
Africa					
* Botswana	11%	44%	22%	11%	11%
Burkina Faso	8%	50%	25%	8%	8%
DRC. (Congo)	9%	36%	18%	27%	9%
Ghana	14%	57%	7%	14%	7%
Mali	8%	33%	33%	17%	8%
South Africa	5%	16%	53%	16%	11%
Tanzania	9%	55%	9%	18%	9%
Zambia	17%	42%	17%	17%	8%
Zimbabwe	7%	29%	21%	21%	21%
Latin America					
Argentina	14%	54%	21%	11%	0%
Bolivia	14%	43%	19%	19%	5%
Brazil	10%	57%	27%	7%	0%
Chile	25%	53%	19%	3%	0%
Ecuador	11%	61%	17%	11%	0%
Mexico	7%	54%	33%	7%	0%
Peru	8%	61%	21%	8%	3%
Venezuela	13%	39%	26%	17%	4%
Eurasia					
China	4%	52%	39%	0%	4%
Finland	8%	38%	46%	8%	0%
India	20%	50%	30%	0%	0%
Ireland	9%	55%	36%	0%	0%
Kazakhstan	8%	25%	50%	0%	17%
Mongolia	7%	43%	36%	0%	14%
Russia	7%	29%	21%	29%	14%
Spain	18%	45%	36%	0%	0%
Sweden	19%	19%	56%	6%	0%
Turkey	13%	40%	47%	0%	0%

* Fewer than 10 responses

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REPRESENTATIVE Paul Seaton

District 35

MEMORANDUM

During the 2/23/06 Ways and Means hearing of HB 418 some questions were asked regarding the Mining Exploration Incentive Credit, as well as repealed statutes under Section 15 of the bill.

Section 15 repeals the Exploration Incentive Credit for mining, in addition to the Mining License Tax and sections made redundant by its elimination.

AS 43.65.010, 43.65.018, 43.65.020, 43.65.030 and 43.65.060 are all elements of the current Mining License Tax, which HB 418 is meant to replace.

AS 27.30.030(b) pertains to the filing of credits against the Mining License Tax and AS 43.20.044 allows mining companies an Exploration Incentive Credit. Both sections are eliminated in HB 418. Please let me know if you have any further questions.

Sincerely,
Ian Laing, *staff*
Representative Paul Seaton

Top Metal Producers

United States and Worldwide

Copper

United States

Rank	Prod. Vol.
1 Arizona	741,000
2 Utah	n/a
3 New Mexico	87,800
4 Idaho	n/a
5 Missouri	n/a
6 Montana	n/a

Worldwide

Rank	Prod. Vol. (metric tons)
1 Chile	4,900,000
2 United States	1,120,000
3 Indonesia	978,690
4 Peru	831,223
5 Canada	557,565
6 Zambia	330,000

Zinc

United States

Rank	Prod. Vol.
1 Alaska	656,000
2 Missouri	39,100
3 Montana	15,200
4 Tennessee	n/a
5 Idaho	n/a

Worldwide

Rank	Prod. Vol. (metric tons)
1 China	1,650,000
2 Australia	1,480,000
3 Peru	1,250,000
4 Canada	1,000,000
5 United States	738,000

Gold

United States

Rank	Prod. Vol.
1 Nevada	n/a
2 Alaska (a)	16,900
3 Utah	n/a
4 Montana	n/a
5 Colorado	n/a
AZ, CA, ID	n/a

Worldwide

Rank	Prod. Vol. (kilograms)
1 South Africa	375,787
3 Australia	282,000
2 United States	277,000
4 China	202,000
5 Peru	171,551

Silver

United States

Rank	Prod. Vol.
1 Alaska (a)	559,000
2 Nevada	n/a
3 Idaho	n/a
4 Utah	n/a
5 Arizona	n/a

Worldwide

Rank	Prod. Vol. (metric tons)
1 Peru	3,060
2 Mexico	2,700
3 China	2,450
4 Australia	2,237

Lead

United States

Rank	Prod. Vol.
1 Missouri	n/a
2 Alaska	n/a
3 Idaho	n/a
4 Montana	n/a

Worldwide

Rank	Prod. Vol. (metric tons)
1 Australia	694,000
2 China	660,000
3 United States	460,000
4 Peru	307,755

Compiled by the Office of Representative Paul Seaton, Ian Laing, staff

Sources: U.S. Geological Survey, *Minerals Yearbook - 2000, 2003, 2004*; National Mining Association, *Mineral Industry Survey, 2003*.

Notes: Chart is for general informational purposes only. Many production values were not available. All cited regions are considered leading producers, but ranking is approximate and may vary from year to year.

Significant Taxes in Select Jurisdictions

	(5) Rank of Investment Attractiveness	Corporate Income Tax	Royalty / Mining License Tax	Value Added Tax on Imported Equipment	Typical Import Duty	Typical Export Duty	Dividend Withholding Tax	Interest Withholding Tax
Alaska	6	15-35% - Federal rate, increases with taxable income; 1-9.4% - State rate, increases with taxable income, deductible against federal tax	3-7% of net profits; additional 3% of profits applies on state owned land (currently no major payers)	none	Rates vary by product and by country; Not applicable in most instances as equipment is available in US or NAFTA zone	none	30% to non-treaty countries; Treaty countries vary from 5-15%; not deductible for income tax purposes	30% to non-treaty countries; Treaty countries vary from 0-15%; not deductible for income tax purposes
Alaska (Proposed)	n/a	15-35% - Federal rate, increases with taxable income; 1-9.4% - State rate, increases with taxable income, deductible against federal tax	3% of mine mouth value	none	Rates vary by product and by country; Not applicable in most instances as equipment is available in US or NAFTA zone	none	30% to non-treaty countries; Treaty countries vary from 5-15%; not deductible for income tax purposes	30% to non-treaty countries; Treaty countries vary from 0-15%; not deductible for income tax purposes
Argentina	13	35%	Levied locally - rates vary between jurisdictions and may not exceed 3% of mine mouth value;	21% - refundable if attributable to export product.	Mines are technically exempt with the exception of a 1 % control fee.	None	0-35% - only on the excess of the accumulated taxable net income, not deductible for tax purposes.	15.05% (35% on intercompany loans) deductible for tax purposes.
Australia (Western)	2	30%	1.25-7.5% of realized value; rates vary by mineral and with sustained market value. (4)	10% - most refundable within a month	Representative rate of 5%; exemption available only if equipment is not available in the country	None	15% for remittance to a treaty country, otherwise 30% (if fully franked, the rate is effectively 0%)	10% - deductible

	(5) Rank of Investment Attractiveness	Corporate Income Tax	Royalty / Mining License Tax	Value Added Tax on Imported Equipment	Typical Import Duty	Typical Export Duty	Dividend Withholding Tax	Interest Withholding Tax
Boliva	61	25% - capital and exploration and other costs may be deducted	25% of excess profits after deductible allowances; Additional royalty of 1-7% of gross sales - deductible against income tax	13%, tax refund is equal to 13% * 55% of sales	Typically around 5%	None	12.5% - not deductible	12.5% - not deductible
Botswana	59	25%	15% of realized value (c)	n/a	n/a	n/a	n/a	n/a
Brazil	10	33%	3% of gross sales of gold (c)	n/a	n/a	n/a	n/a	n/a
Canada	3 Quebec 4 Ontario 11 British Columbia 14 Manitoba 18 Yukon 21 Nunavut 23 NWT 28 Saskatchewan 39 Alberta 44 Nfld./Lab 50 New Brunswick 58 Nova Scotia	38% less provincial abatement; provincial rates vary from 6-13.69%; combined Federal and Provincial rates vary from 27.6%-36.07%	10-18% of profits in all provinces (8); minimum tax in some provinces established through additional mining taxes (7)- all are creditable against profit taxes	7% Goods and Services Tax - not deductible for income tax purposes	Levels vary, typically 0.5%; rates for NAFTA countries being reduced to zero over time	none	25% to non-treaty countries; 15% or less for most bilateral tax treaty countries	25% to non-treaty countries; 5-15% for most bilateral tax treaty countries (totally exempt in some cases)
Chile	4	15% income coupled with 35% dividend withholding tax. Other rates apply in stabilized industries	Royalty on gross revenue has been recently considered in Chilean Congress	18%, in case of exports, VAT is reimbursed within 30 days of shipment	10% - deductible	None	35% - calculated on the amount remitted, taking the 15% First Category income tax already paid as a credit; not deductible	35% - May be reduced to 4% if the loan is granted by foreign banks. Not deductible for tax purposes

	(5) Rank of Investment Attractiveness	Corporate Income Tax	Royalty / Mining License Tax	Value Added Tax on Imported Equipment	Typical Import Duty	Typical Export Duty	Dividend Withholding Tax	Interest Withholding Tax
China	12	33%	2% gross revenue	none	none	Gold, copper, platinum, cannot be exported; export duties are not set for minerals	none	none
Columbia	n/a	n/a	1-12% of mine mouth value (b)	n/a	n/a	n/a	n/a	n/a
Guyana	n/a	35%; minimum tax = 2% of turnover	5% of gross sales of gold (c)	n/a	n/a	n/a	n/a	n/a
Indonesia	17	30% - Rates have varied with older contracts, ranging from 22-48%. Recent contracts all set at 30%	Rates based on gross ore production; established by contract and vary by mineral - \$225 - \$235/kg of gold ore; \$45-\$55/tonne of copper	10%, resititution of VAT can be applied and takes 6-9 months	none	none	20% - not detuctible	20% - deductible
Ivory Coast	n/a	35%; excess profit tax applies at profit threshold; every company (except in first year) must pay minimum flat tax	2.5-3% of mine mouth value - rates vary by mineral	10% - exemption if possible on a case by case bais. There is no refund on VAT; in case of exports, the VAT carries forward a maximum of 1 year	0.75% exemption is possible on a case by case basis	Export duty only on diamonds, 18% of mercurial value	12%; rate may be less for tax treaty countries; not deductible for computing income tax	18%; rate may be less for tax treaty countries; not deductible for computing income tax

	(5) Rank of Investment Attractiveness	Corporate Income Tax	Royalty / Mining License Tax	Value Added Tax on Imported Equipment	Typical Import Duty	Typical Export Duty	Dividend Withholding Tax	Interest Withholding Tax
Kazakhstan	49	30%; an excess profit tax applies if the IRR on net income is greater than 20% - ranges between 0-30% of profit	Vary by mineral, accounting for 2% of gross revenue; Rates can also vary by contract depending on project economics and feasibility studies	20%; either reimbursed or offset against other taxes	none	none	15% - not deductible	15% - deductible
Mexico	8	35% if profits are reinvested, 5% of such investment may be deferred; mandatory 10% of taxable income is shared among workers	none	15% - reimbursed	Generally around 10%; exemption may be granted where projects are considered export-oriented units by domestic laws	None	7.6925% foreign residents or mexican individuals; not deductible for income tax purposes	15% - if there is a tax treaty with lender's country, the rate is 4.9%. If interest is not grossed up, the tax is not deductible
Papau New Guinea	19	35%; an excess profit tax applies to certain leases when profit threshold is reached	2% NSR on nickle, copper(6); 2% ad valorem tax on limestone; 2% realized FOB on gold; additional 4% production levy on gross sales - deductible for income tax purposes	n/a	n/a	n/a	n/a	n/a
Peru	7	30%; mandatory profit sharing 8% of net profits (1)	1-3% of gross sales (b)	18%; reimbursed in case of exports	12% - not deductible	None	none	1% - deductible for tax purposes

	(5) Rank of Investment Attractiveness	Corporate Income Tax	Royalty / Mining License Tax	Value Added Tax on Imported Equipment	Typical Import Duty	Typical Export Duty	Dividend Withholding Tax	Interest Withholding Tax
Poland	n/a	22%	10% contained metal value for gold; 2% gross sales of coal; 3% ore value based on LME for copper; 3% ore value based on LME for zinc	22%, VAT in case of exports can be returned in 25 days	9% - deductible for tax purposes	None	20% - deductible only in case of polish company when dividends are obtained from polish company	20% - deductible
South Africa	25	30% + STC (2) for all but gold mines. Income tax for gold mines established by formula based on combination of elected options and profitability	Rates determined by contract; 1-8% gross revenue royalty would be established by pending legislation - rates would vary by mineral	14% - refundable within a month in case of exports	None on complete units of plant but duty applies to spares and components	None	12% STC (2) - not deductible	none
Suriname	n/a	35%; 5% credit on reinvested profits	2% gross sales of gold; 2% of net for all other minerals (c)	n/a	n/a	n/a	n/a	n/a
Venezuela	54	30%	1% gross sales of gold; 3% gross sales of other base metals (c)	n/a	n/a	n/a	n/a	n/a
Zambia	22	n/a	2% NSR (6) (b)	n/a	n/a	n/a	n/a	n/a

Chart prepared by the Office of Representative Paul Seaton, Ian Laing; staff

Sources: (a) *Global Mining Taxation Comparative Study* C.S.M., March 2000, James Otto; (b) *Mining and Sustainable Development Series*, International Development Research Center, 2004, Jaime Consiglieri, Joan Kuyek and Rodrigo Pizarro; (c) *Comparative Mining Tax Regimes*, PricewaterhouseCoopers, 1998, Bob Parsons, Partners, Global Energy & Mining Group. (d) *State Taxes and Charges Applicable to Mining in Australia*, Australian Department of Minerals and Energy, 1999, Planning and Finance Division.

Notes: (1) Net profit tax may have been eliminated with recent creation of gross tax. (2) STC = Rate on dividends distributed; secondary tax on companies elected during negotiations; goldmines may choose to be exempt. (4) Most states have a combination of net profits and ad valorem type taxes on minerals; Rates vary by mineral, form and between states. (5) Rank established in *Frasier Institute Annual Survey of Mining Companies*, 2004/2005, Pg. 49: Figure 17. (6) NSR = Net Smelter Return: Typically the Realized Value less the cost of any processing, transportation and marketing. (7) British Columbia - 2% of net calculation; Alberta - 1% of gross; New Brunswick - 2% of net similar to NSR; Nova Scotia - 2% of net (8) Quebec - 12%; Ontario - 10%; British Columbia - 13%; Manitoba - 18%; Yukon - 13%; Nunavut - 13%; NWT - 13%; Saskatchewan - 10%; Alberta - 12%; Nfld./Lab - 16%; New Brunswick - 16%; 15% - Nova Scotia.

**Metal Mines Taxation
Comparison of All Taxes**

	State	Investment Attractiveness Ranking (9)	Severance Tax	Corp. Income Tax	Property Tax	License Tax	Sales & Use Tax	Other Taxes or Fees
1	Alaska	6	Local only; Denali Borough - \$0.05/ yard of gravel, \$0.05/ ton of coal; Kodiak Island Borough - 10.25 mills on gravel and rock	1-9.4%; \$10K - \$90K	Local only - Rates vary by jurisdiction; levied on buildings, equipment and other mining infrastructure	3-7% of net income	None	3% of net proceeds for mines located on state land; additional state claim rental fee for mines located on state land - rate determined by number of years since issuance
1	Alaska (Proposed)	n/a	3% mine mouth value - equivalent to Net Smelter Return for metal mining; local taxes vary by borough (see above)	1-9.4%; \$10K - \$90K	Local only - Rates vary by jurisdiction; levied on buildings, equipment and other mining infrastructure	None	None	3% of mine mouth value for mines located on state land; additional state claim rental fee for mines located on state land - rate determined by number of years since issuance
2	Arizona	15	2.5% of the net severance base (Severance Base = 50% of the difference between the gross value of production and the production costs)	6.968% - flat rate; \$50 minimum	On average, the tax rate is 12.18% of the assessed value of the real and personal property of the company	None	None	6.968% of net proceeds
3	California	36	None	8.84%; \$800 minimum; Tax rate for S-Corp. is 1.5%	Personal and real property are valued annually. They are taxed locally. The ore body is valued and taxed as a part of the property taxes.	None	Personal property is subject to a sales tax	Each mining company pays a pro rata share (between \$100 - \$4,000) for publication of the State Mining and Geology Board Annual Report; a fee of \$5.00/troy oz of gold and \$0.10/troy oz of silver is levied for Abandoned Mine Reclamation.
4	Colorado ¹	42	0% to 2.25% of gross income	4.03% - flat rate	Personal and real property are valued annually. They are taxed locally.	None	Personal property is subject to a sales tax	None
5	Idaho	37	None	7.6% - flat rate; \$20 minimum	Personal and real property are valued annually. They are taxed locally.	1% of the net value of the royalties	With the proper certificates, most of the personal property used in the mining operation is exempt from the sales tax	None
6	Montana ²	31	3% of the annual gross proceeds are subject to tax for property tax purposes. This is an ad valorem tax on the value of production.	6.75% - flat rate; 7% for taxpayers using water's edge combination; \$50 minimum	Personal and real property are valued annually. The property tax is levied at the state and local level.	0% of the first \$250,000 gross value of production; 1.6% of the gross value of production of gold, silver or other platinum-group metal for dore, bullion or matte or other processed concentrate	None	None

	State	Investment Attractiveness Ranking (9)	Severance Tax	Corp. Income Tax	Property Tax	License Tax	Sales & Use Tax	Other Taxes or Fees
7	Nevada	1	2% to 5% of net proceeds	None	The state values real and personal property of a centrally valued property. Other than the state debt service amount, all property taxes are collected locally.	None	Personal property is subject to a sales tax	A state levy of \$0.17/\$100 of assessed value is used for state debt service and is assessed against all real and personal property.
8	New Mexico ³	53	Copper = 0.5% of taxable value; rare earth and other metals = 0.125% of taxable value; gold and silver = 0.20% of taxable value	4.8-7.6%; \$500K - \$1M	Both real and personal property based on an average production value. Maximum mill levies are established in law with voter approved increases allowed.	none	Personal property is subject to a sales tax	.75% excise tax on the gross value received for the severed product, regardless of deductions
10	N. Dakota ⁴	n/a	\$0.375/ton severance tax; \$0.02 lignite research tax	2.6-7%; \$3K - \$30K	The mine is subject to any local real property taxes, the resource in the ground is not.	None	Personal property is not taxed in North Dakota but purchase of machinery and equipment is subject to a sales tax	none
11	S. Dakota ⁵	60	10% of net profits of precious metals; \$4/oz of gold; 4.5% of taxable value (posted field price) of energy minerals	None	2 mills on the dollar maximum for state levy; 1 mill maximum for state highway levy Other property taxes are variable by county	None	Personal property is subject to a sales tax	\$1 - \$4 per oz of gold if London price is \$500/oz or greater; through June 30, 2004, 2% of the first \$50,000,000 of gross yield and 1% of all additional revenue over \$50,000,000
12	Utah ⁷	26	2.6% of the taxable value	5% - flat rate; \$50 minimum for banks	Used for local purposes only, approx 1% of market value	None	Personal property is subject to a sales tax	None
13	Washington ⁸	46	None	None	A maximum of 3.6 mill/\$1,000 of value of real and personal property for state education equalization; Personal property is valued annually. The state prepares valuation schedules but the property is taxed locally.	None	Personal property is subject to a sales tax	None
14	Wyoming	45	2% of gross product of miscellaneous minerals	None	Property taxes are levied on a local basis. The rates range from 6% to 8.4%	None	Personal property is subject to a sales tax	None

Compiled by the Office of Representative Paul Seaton, Ian Laing, staff

Source: 2004 State Tax Handbook; Western Mine Engineering Company website; individual state statutes, agencies and individuals

¹ For mines begun after July 1, 1999 Colorado does not levy a tax on the first \$19,000,000 of gross income. For mines begun before July 1, 1999 the first \$11,000,000 of gross income is exempt. The tax is 2.25% on all gross income above the threshold.

² Under the Resource Indemnity and Groundwater Assessment Act, a 1/2 of 1% tax on the gross value of minerals extracted. This tax is in addition to the gross proceeds tax.

³ The severance tax in New Mexico is levied against the gross value of sales less 50% deduction for expenses. The gross value of sales is calculated separately for each mineral type.

⁴ "Energy minerals," any mineral fuel including, but not limited to, coal, lignite, petroleum, oil, natural gas, uranium, and thorium and any combination of minerals used in the production of energy;

⁵ According to the Oregon Dept of Geology and Mineral Industries website, there are no active commercial metal mines in the state.

⁶ The 4.5% tax on energy minerals is in lieu of all other taxes except sales, use and property taxes from all taxing jurisdictions. Numerous production and reclamation expenses, depreciation, state and local tax deductions and other expenses are allowed before in Utah, the taxable value is 30% of the gross proceeds for all metals except beryllium. For beryllium the taxable value is 20% of gross proceeds. Ore shipped out of state has a taxable value of 80% of gross proceeds.

⁷ Washington levies a business and occupation tax.

⁸ Rank is out of 64 established in Frasier Institute Annual Survey of Mining Companies, 2004/2005, Pg. 49; Figure 17, Selected by mineral industry executives as most significant mining jurisdictions.

House Bill 418

Changes to Mining Industry Taxation in Alaska

Ian Laing, staff to Representative Paul Seaton

Major Industry Taxes

Federal and Local Level

- **Federal**

- Income Tax: 15-35%

- **Municipal**

- Property Tax: Vary by jurisdiction
- Payment in lieu of property taxes in some areas
- Production Tax:
 - Denali Borough – \$0.05/ton of coal/ gravel/ limestone
 - Kodiak Island Borough – Mill levy on all mining/ timber / fish harvest
 - Lake & Penn – 1.5% gross value of minerals/ coal

Major Industry Taxes

State Level

Mining License Tax: Levied on all mining activity in the state. Graduated scale of 3-7% net income

Royalties: Levied on mining activity which occurs on state owned land

- Minerals: 3% of net income (In Statute)
- Coal: 3% adjusted gross income (In Regulation)

Claim Rentals: For mining on state land activity

- Minerals: \$3.30/acre per year
- Coal: \$3.00/acre per year

State Revenue Collected through Major Taxes and Fees on Mining

FY 98-03

	FY98	FY99	FY00	FY01	FY02	FY03	FY04
License Tax	2,037,226	633,143	3,449,882	1,729,156	466,430	396,254	3,224,684
Mineral Production Royalties	9,489	14,214	6,175	1,933	23,447	270,734	162,637
Corporate Income Tax(d)	246,792	398,435	75,900	285,815	18,665	32,704	323,706
Mineral Claim Rentals	1,170,812	1,982,453	1,975,376	1,736,522	1,908,228	2,129,440	2,657,939
Coal Royalties	1,937,995	2,615,858	1,854,803	1,168,043	860,633	1,064,208	1,239,257
Coal Rentals	331,716	205,983	233,249	198,545	256,927	237,912	236,532
Annual Labor	118,020	90,720	79,907	103,274	124,741	224,519	226,191
State Material Sales	1,112,362	647,898	524,666	1,647,208	1,772,425	885,132	655,674
Miscellaneous Fees	110,304	107,768	75,880	73,741	63,163	65,696	93,103
TOTALS	7,074,716	6,696,472	8,275,838	6,944,237	5,494,659	5,306,599	8,819,723

Changes Under HB 418

- **License Tax**
- **Royalties**
- **Rents**

Mining License Tax – Current

- Paid by all parties involved in mining activity including royalty owners
- Deduction of all expenses allowed
- 3 ½ year tax exemption, (excluding rock/sand/gravel)
- Depletion Allowance: Percent of gross deduction
 - 10% Coal, 15% Minerals, 23% Sulphur

\$40K - \$50K.....	3% Net Income
\$50K - \$100K.....	\$1500 + 5% net income
Greater than \$100K.....	\$4000 + 7% net income

Mining License Tax – HB 418

- **Graduated income brackets increased by 2%**
3%, 5%, 7% → 5%, 7%, 9%
- **Additional bracket added for income over \$500K**
Taxed at 11% of net income
- **Cost Depletion replaces Percent Depletion**
Allows for a percent of development expenses equal to the percent of total ore body mined during the tax year to be deducted from the tax base
- **Indirect expenses no longer deductible**
(Insurance, Advertising, Interest, Legal/ Professional Fees, Casualty Losses, Office Supplies/ Expenses, Office Repairs/ Maintenance, Rent, Taxes, Travel Entertainment, Utilities and Telephone, Depreciation of office equip)

Minerals Royalty – Current

- 3% of net income
- As calculated under the Mining License Tax

Minerals Royalty – HB 418

3% Net Smelter Return

- Bases State's share of mineral wealth on mineral value instead of company profitability
- Based on first point of sale - usually smelter receipts
- Allows for deduction of cost associated with smelting, in addition to transportation from the mine site
- Similar to royalty arrangements used by other rights holders in the state

Coal Royalty – Current

- Statute:
 - 5 cents/ ton minimum
 - Has not been changed since it was adopted at statehood
- Regulation: *Applicable rate for new contracts*
 - 5% - 12% of Adjusted Gross Income
 - Allows for deduction of transportation costs from from the point where it is weighed and loaded to the point of sale