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The Tax Division collects mining license taxes primarily from businesses engaged in coal and hard rock mining.

Mining License Tax
AS 43.65

Description
Alaska levies a mining license tax on mining net income and royalties received in connection with mining properties and activities in Alaska. The Tax Division collects mining license taxes primarily from businesses engaged in coal and hard rock mining.

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

Returns
Mining licensees file annual returns based on the mining business' fiscal year. Calendar year returns and payment of tax are due April 30; fiscal year returns and payment are due before the first day of the fifth month after the close of the fiscal year.

Exemptions
Except for sand and gravel operations, new mining operations are exempt from the mining license tax for a period of 3½ years after production begins.

Credits
Education - Taxpayers that make contributions for educational purposes to accredited Alaska universities or colleges may claim a tax credit for 50 percent of the first $100,000 and 100 percent of the next $100,000 of contributions. The maximum credit is $150,000 for each tax year.

Minerals Exploration Incentive - Taxpayers may claim a credit for eligible costs of exploration activities related to determining existence, location, extent, or quality of a locatable mineral or coal deposit. An approved exploration incentive credit may not exceed $20 million and must be applied within 15 tax years after the credit is approved. Application of the credit is limited to the lesser of 50 percent of the person's mining license tax liability related to the mining operation for which eligible mining costs were incurred or 50 percent of the person's total mining license tax liability for all mining operations.

Disposition of Revenue
The division deposits revenue from the mining license tax into the General Fund. Payments received after a tax assessment are deposited into the Constitutional Budget Reserve Fund (CBRF).

History
The mining license tax dates back to 1913 and the legislature restructured it several times over the years. The original mining license tax, enacted in 1913, imposed a 0.5 percent tax on mining net income of more than $5,000. There was no tax on net income less than $5,000.

1915 – The territorial legislature increased the tax rate to 1 percent. The tax-free net income base remained at $5,000.

1927 – The tax-free net income base was increased to $10,000 and a three-tier tax rate structure was adopted with rates ranging from 1 percent to 1.75 percent for net income of more than $1 million.

1935 – The territorial legislature restructured the tax to an eight-tier tax structure with rates ranging from 0.75 percent to 4 percent for net income of more than $1 million. The legislature decreased tax-free net income to $5,000.

1937 – The tax-free net income base was eliminated and all net income was subject to tax. A nine-tier tax structure was adopted with tax rates ranging from 0.75 percent to 8 percent for net income of more than $1 million.

1947 – The mining license tax was restructured by reinstating a tax-free net income base of $1,000 and restructuring the tax rates to a five-tier structure with rates ranging from 4 percent to 8 percent for net income of more than $100,000.

1951 – The legislature authorized a 3½ year exemption for new mining operations. This exemption does not apply to sand and gravel mining operations.

1953 – The tax-free net income base was increased to $10,000 and rates changed to range from 3 percent to 7 percent for net income of more than $100,000.

1955 – The rate structure as it exists today was adopted.

1987 – The Alaska education tax credit program was enacted allowing for a tax credit up to $100,000.

1991 – The Alaska education credit was restructured and the maximum amount was increased to $150,000.

1995 – The legislature authorized the minerals exploration incentive credit. The credit is limited to $20 million and taxpayers may apply the credit against 50 percent of mining license liabilities over a 15-year period.

2002 – The legislature authorized credits of up to 50 percent for contributions of not more than $100,000 and 75 percent of the next $100,000 in contributions made to the Alaska Veterans' Memorial Endowment Fund. The tax credit expired July 1, 2003.

FY 2006 Statistics

Tax Collections (all General Fund)	$18,637,996
Number of Returns	166
Number of Taxpayers	156
Program Cost	$10,373
Staffing (full time equivalent)	0.2

Alaska's Mining License Tax

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Tax Division

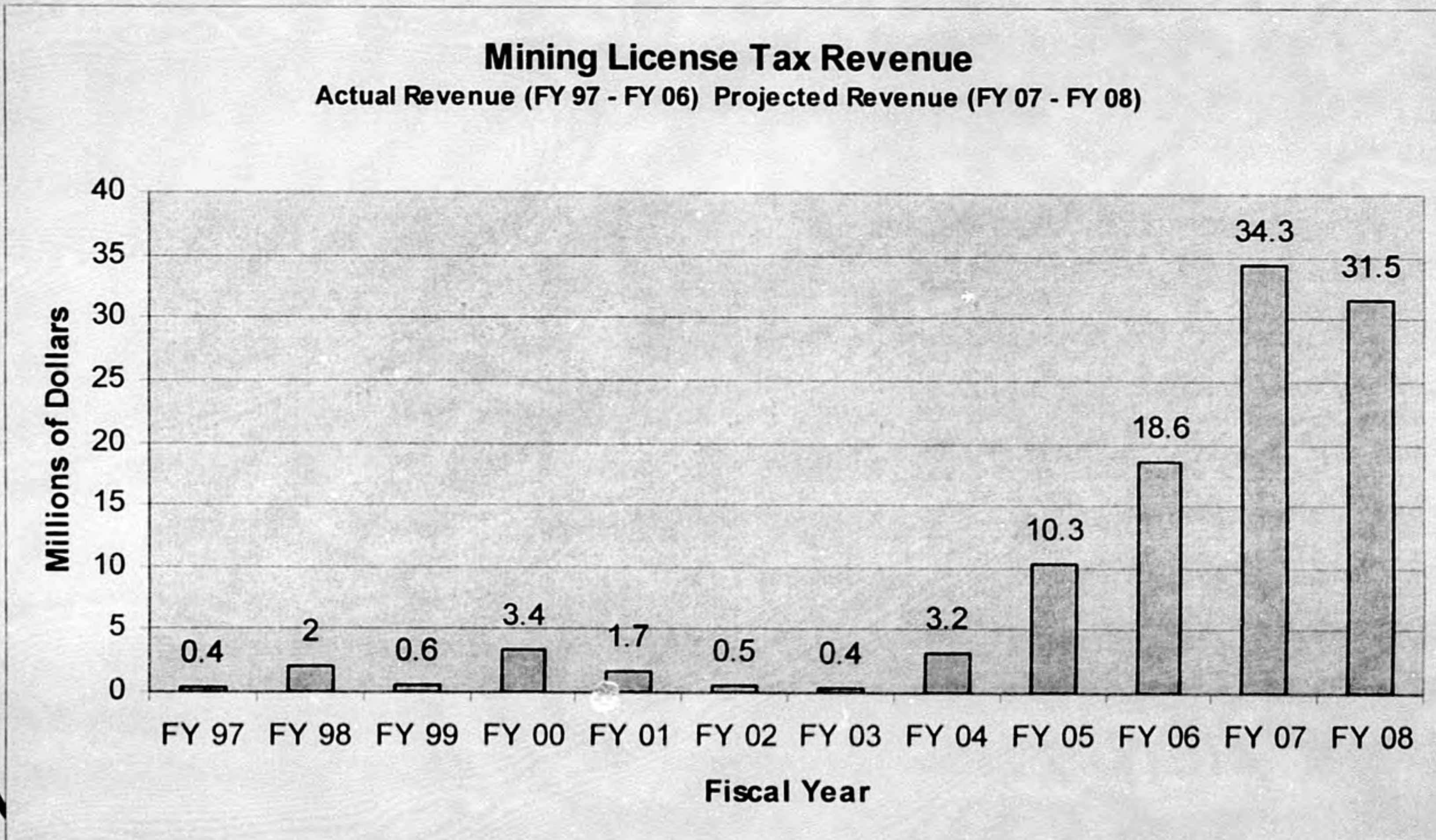
History

- 1913 – Tax imposed at .5% of mining net income greater than $5,000. No tax on income less than $5,000.
- 1915 – Tax rate increased to 1%
- 1927 – Three-tier tax rate ranging from 1% to 1.75% on income greater than $1 million. No tax on income less than $10,000.
- 1935 – Eight-tier tax rate structure ranging from .75% to 4% on income greater than $1 million. No tax on income less than $5,000.
- 1937 – Tax-free net income base eliminated. A nine-tier tax rate structure was adopted with tax rates ranging from .75% to 8% on income greater than $1 million.
- 1947 – Tax-free net income base raised to $1,000 and five-tier tax rate structure ranging fom 4% to 8% on net income more than $100,000.
- 1951 – 3.5 year exemption from mining license tax adopted.
- 1953 – Tax-free net income base increased to $10,000 and rates changed from 3% to 7% on net in come greater than $100,000.
- 1955 – Tax-free net income base increased to $40,000 with rates of 3% to 7% on income greater than $100,000. (Existing tax scheme.)
- Between 1987 and 2002 a series of credits were enacted.
- No change to tax rate structure since 1955.

Current Tax Rate Structure

Net Income	Base Tax	Plus %	Of Excess Over
$0 - $40,000	0	0	0
$40,001 - $50,000	$1,200	3%	$40,000
$50,001 - $100,000	$1,500	5%	$50,000
> $100,000	$4,000	7%	$100,000

Tax Collections



Who Must Hold a Mining License

- A person owning and operating a mining property
- A person owning a mining property and receiving lease or royalty payments based on production
- A person leasing and operating a mining property
- A person possessing a mineral interest in a producing property

A license is required on all state, federal and private lands where minerals are produced.

Who Doesn't Need a Mining License

- A person whose mining activities are restricted to the holding of property for exploration
- A person who holds a mineral interest in undeveloped and non-producing properties
- A person whose sole mining activity consists of extracting sand, gravel, rock or fill from federal, state, or municipal land, if the material is to be used exclusively by that person for public construction projects or for personal use and is not held for resale

Who Must File a Mining License Return

- If you hold a mining license, you must file a return
- A person receiving gross income from more than one licensed mining property must report that income on a single return
- There is an exemption from the mining license tax during the first 3.5 years after initial production

Mining License Tax Calculation

- MLT is an income tax (tax is calculated on net income from the mining property)
- Net income is mining gross income less royalties paid from the property and mining expenses
- Mining gross income –
  - Sale price or value actually received for mined material
  - Royalties received from mining property
  - Production payments received from a lease

Mining License Tax Calculation (Cont.)

- Mining expenses
  - Direct mining expenses – costs incurred that are incident and necessary to the extraction of mined materials including
    - labor
    - maintenance & repair
    - supplies
    - depreciation
    - transportation
    - depletion
  - Indirect mining expenses – costs incurred that are not directly related to the mining business, but support the mining operation
    - advertising, insurance, office expense, rent, legal fees, utilities
    - employee benefits
    - property, sales, severance, & excise taxes

    (indirect expenses are generally those incurred that support more than one business activity conducted by the taxpayer; indirect expenses must be allocated between businesses)

Deductions not allowed

- Exploration costs
- Federal income taxes
- Mining license tax
- Loss on sale of mining equipment or property
- Net operating losses
- Other capital losses

Depletion

Depletion is the term used for depreciation of mineral property used to extract natural resources.

While property is in development stage, all development costs are capitalized and then depleted when the mine begins production. Taxpayer may deduct depletion from mining gross income. Depletion deduction is the greater of percentage depletion or cost depletion

Depletion (cont.)

- Cost Depletion
  - Total development costs are allowed to be deducted over the estimated life of the mine. Once all development costs are deducted (depleted), depletion expense no longer allowed.
- Percentage Depletion
  - Depletion is a percentage of gross income less royalties paid. Depletion is limited to 50% of net income. Depletion deduction continues even after all development costs have been deducted (depleted).

Depletion Example

- Cost Depletion

Development costs = $1,000,000

Expected recoverable units = 2 million ounces

Actual amount mined each year for 10 years = 200,000 ounces

Cost Depletion each year = $100,000 (2,000,000/200,000 x $1,000,000)

Total depletion expense over life of mine = $1,000,000

- 15% Depletion (Gold mine)

Development costs = $1,000,000

Expected mine life = 10 years

Gross income = $10,000,000 each year

Net income = $1,000,000 each year

Allowed % Depletion each year = $500,000

Total depletion expense = $5,000,000 ($500,000/yr X 10 years)

(lesser of 15% of gross income or 50% of net income)

Depletion Example (cont.)

	Gross Income	Net Income Before Depletion	Cost Depletion	% Depletion	Depletion Deduction
Year 1	1,500,000	125,000	100,000	62,500	100,000
Year 2	1,200,000	145,000	100,000	72,500	100,000
Year 3	1,600,000	150,000	100,000	75,000	100,000
Year 4	4,000,000	1,000,000	100,000	500,000	500,000
Year 5	6,500,000	1,750,000	100,000	875,000	875,000
Year 6	10,000,000	2,750,000	100,000	1,375,000	1,375,000
Year 7	11,500,000	2,500,000	100,000	1,250,000	1,250,000
Year 8	4,800,000	1,000,000	100,000	500,000	500,000
Year 9	12,000,000	3,750,000	100,000	1,800,000	1,800,000
Year 10	6,500,000	1,550,000	100,000	775,000	775,000
	59,600,000	14,720,000	1,000,000	7,285,000	7,375,000

Depletion Example (cont.)

	Gross Income	Net Income Before Depletion	Cost Depletion	% Depletion	Depletion Deduction
Year 1	1,500,000	(3,000,000)	100,000	0	0
Year 2	1,200,000	(6,250,000)	100,000	0	0
Year 3	1,600,000	(1,850,000)	100,000	0	0
Year 4	4,000,000	(2,500,000)	100,000	0	0
Year 5	6,500,000	(1,950,000)	100,000	0	0
Year 6	10,000,000	(250,000)	100,000	0	0
Year 7	11,500,000	(40,000)	100,000	0	0
Year 8	4,800,000	150,000	100,000	75,000	100,000
Year 9	12,000,000	3,750,000	100,000	1,800,000	1,800,000
Year 10	6,500,000	1,550,000	100,000	775,000	775,000
	59,600,000	(10,390,000)	1,000,000	2,650,000	2,675,000

Statutory % Depletion Rates

- Coal mines – 10%
- Metal mines (including gold, silver, copper, lead & zinc) – 15%
- Sulphur mines – 23%
- Sand & Gravel - % depletion not allowed

Tax Credits

- Exploration incentive credit – A person may receive a credit for exploration costs incurred up to $20,000,000. Exploration costs include
  - Surveying
  - Drilling exploration holes
  - Conducting underground exploration
  - Sampling
  - Other exploratory work, i.e. aerial photography, sample analysis, & metallurgical testing

Must be applied within 15 tax years of credit approval and may only be used to offset 50% of tax liability.

Tax Credits (cont.)

- Education Credit – A person may take a credit up to $150,000 for contributions made to a public or private nonprofit, two or four-year college or university in Alaska.
  - 50% of the first $100,000 in contributions + 100% of the second $100,000 in contributions
  - Credit can be taken against 100% of tax liability

Summary

- Tax in effect since 1913
- Increase in revenue due to increase in value of minerals
- State shares in the income of a mining property, but not in the loss
- Most companies have losses during the first 3.5 years of production
- Exploration credit allowed since 1995 to help offset the high cost of mining in the state

Questions

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