SCOMM

150:10

25th Alaska State Legislature
House Special Committee on Ways & Means

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Rep. Mike Hawker
Capitol Room 502
465-4949

Vice-Chair:

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Capitol Room 411
465-3777

Members:

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MEMORANDUM

TO: Ways & Means Committee Members

FROM: Representative Mike Hawker
Chair, House Special Committee on Ways & Means

RE: House Bill 156 Materials

DATE: January 28, 2008

Enclosed is an updated packet for HB 156, relating to mining production, license taxes and royalties, which is scheduled for a hearing on January 30th, 2008.

Contents:

- Work Draft version M
  The work draft has not yet been adopted, but contains all the amendments approved at the last hearing on the bill.
- Amendment #1
  Amendment #1 will move all deadlines/effective dates forward one year.
- Revised fiscal notes
- Revised materials from the sponsor's office:
  - Cover Memo
  - Sponsor Statement
  - Power Point Presentation
  - Non-renewable Resource Tax Comparison Chart
  - State Assessor's Review of Alaska and National Mining Taxation
  - Bristol Bay Native Association Testimony
  - Legislative Research Report dated December 21, 2007
  - Three graphs from the Department of Revenue

Alaska State Legislature

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REPRESENTATIVE Paul Seaton

District 35

MEMORANDUM

TO: Representative Hawker, Chair
House Ways and Means Committee

FROM: Representative Seaton

DATE: Monday January 28, 2008

RE: Additional materials for HB 156

Because significant time has passed since the last time we heard HB 156, I wanted to provide the committee with updated information on proposed mining tax changes in Hb156. If committee members want a valuable overview of mining taxes in Alaska and comparative data with other states, I suggest reading the report from the State Assessors office dated October 17, 2007.

Attached please find: updated sponsor statement; handout for a power point presentation comparing existing statue with HB 156; updated non-renewable resource tax comparison chart; report on mining taxes from the State Assessor; resolution of support from the Bristol Bay Native Association; December 2007 Legislative Research Report; graphs from Revenue detailing total impact of HB156.

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REPRESENTATIVE Paul Seaton

District 35

HB 156

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 156 recognizes our constitutional duty by providing a reasonable share of Alaska's non-renewable resources to benefit all Alaskans. The bill makes changes to the existing Mining License Tax, minerals and coal royalties, as well as the rentals for mining activity on state land.

The Mining License Tax is paid by all mining operations in the state and is levied on the net income from those activities. Tax rates are based on a graduated scale that increases with net income, currently topping out at 7%. Mining operations (excluding sand and gravel) are exempt from paying the mining license tax for the first three and a half years of production. HB 156 changes this exemption to a deferral that is payable over the following 10 years of production. Rates are increased by 2% per income bracket with an additional marginal tax bracket for net income over $1 million to be taxed at 11%. Income brackets for the mining license tax have not been updated since 1955. These brackets are increased from $40K to $100K; $50K to $250K; $100K to $500K; with a new bracket for mines with a net income over $1 million. Mines with a net income under $100,000 pay no mining license tax. HB 156 also disallows mining companies from deducting their state corporate net income tax from their mining license net tax, a practice that is not allowed with other industries or with federal net income taxes. The depletion allowance is changed under HB 156 to cost depletion.

HB 156 changes the calculation of the royalty for mineral mining on state land from our current 3% of net income to a 3% Net Smelter Return (NSR) tax. The royalty represents a share of mineral wealth that is paid to the owner of the mineral rights. Most land owners in Alaska, other than the State, negotiate for a NSR royalty between 2% – 5%.

The bill also updates the royalty for coal by setting the 5% of adjusted gross value currently in regulation as the minimum that can be negotiated with the Administration. This is the first change to the statute governing coal royalties since statehood.

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Land claim rental rates are adjusted under HB 156. These annual fees are paid by all operators on a per-acre basis for mining on state land. The minimum rates for coal are updated in statute to reflect regulation: $3/acre. Hard rock and placer claims will be charged $1.65/acre for the first five years and $3.30/acre for every year thereafter.

A significant change in HB 156 from the finial version of Mining Tax legislation from the 24th legislature is to allow the State to accept coal as royalty in kind, similar to how the State accepts oil and gas. The University of Alaska Fairbanks has a coal fired electric plant and could benefit financially by not having to purchase coal.

Alaska's mining industry bears a light tax burden compared to Alaska's other high value resource industries. The State has historically received less than 1% of the mined resource value as tax revenue, while an additional 1% is paid to municipalities primarily as property tax (based on 2005 figures). With the escalation in mineral prices since 2004, this figure has increased to around 6%. The State receives 12.5% royalty on oil and gas on State lands plus an additional 25% of net profits. The oil and gas industry also pays 20 mils in property tax to the state and municipalities. State revenue from fisheries amount to about 2.8% of the total production value while an additional 2.5% is paid in severance and use taxes to municipalities. Additionally, vessels, docks and processing plants pay property tax to municipalities.

HB 156 allows the State a reasonable share of the wealth for its mined resources through many overdue changes to the mining tax structure. It is important that we establish a stable tax structure that is fair to the private sector and provides the people of Alaska with a reasonable benefit from their resources.

Last updated 1/28/2008

HB 156
Mining Taxes
review (v.M)

House Ways and Mean
Wednesday - January 30, 2008

Prepared by the Office of Rep. Seaton

According the Fraser Institute Annual Survey of Mining Companies:

- Industry considers Alaska the second most favorable taxation regime in the world
- Alaska has moved from the 7th most favorable jurisdiction in composite policy and mineral potential in 2005-2006 to the 4th most favorable in 2006-2007

Alaskans favor change …

In your packet there is a 2007 Hellenthal poll that asks:

"Do you favor or oppose increasing taxes on the mining industry"

Favor	51.3 %
Oppose	33.5 %
Don't Know	15.1%

HB 156 – Simplified Comparative Sectional

Sec. 1 Coal Royalty

- Shortens the time a royalty is fixed to 10 years. *(Currently 20)*
- Changes coal royalty to a 5% minimum of the adjusted gross value. Increases the minimum rental amount to $3 an acre for coal, fixed for no more than 20 years. *(Updates statute to reflect regulation)*

Sec. 2 Coal In-kind

- Allows the coal lessee to give the state royalty-in-kind rather than cash to fuel the State coal fired power plant. At least every 10 years the commissioner will update the in kind rental amount to reflect inflation. *(New section)*

Sec. 3 Mining Rentals

- A holder of a mining claim, lease, leasehold location, prospecting site is required to pay:
- -$200 for the two year term of prospecting the site *(Current statute)*
- -Annual rental for a mining claim no less than $3.30 an acre
- *(Current rental is based on a sliding scale of $.5 -$2.5/ acre)*

Sec. 4 Adjustment of Rental Rate for mines before 2009

- Applies the revision of rental rates every 10 years using the January – June 1989 base consumer price index only to a claim, leasehold, location, prospecting site, or mining lease first located before the effective date of HB 156 (January 1, 2009).

Sec. 5 Adjustment of Rental Rate for mines after 2009

- Applies the revision of rental rates every 10 years using the January – June 2005 base consumer price index for a claim, leasehold, location, prospecting site, or mining lease first located after the effective date of HB 156 (January 1, 2009). The rental amount shall be increased or decreased to the nearest $5 unit. *(Currently the base index is from 1989 and it does not specify whole $5 amounts)*

Sec. 6 Net Smelter Return Production Royalty

- Exploration incentive tax credits can be applied to the royalty. *(Current statute)*
- Repeals the current production royalty and re-establishes it as a 3% Net Smelter Return (NSR) or 3% of the gross value of the mineral at the point of production if the mineral is not further processed by a smelter or refinery. *(Current royalty is 3% of net income for mines on State land)*

Sec. 7 Definitions

- Defines "affiliated" and "destination value"
- Defines "net smelter return" as the value that the mining company receives from the sale of their ore after it has been smelted or refined. That value could be based on:
- -the current price of the mineral minus what was spent processing the mineral and transporting it between the refinery and the mine
- -OR however the department sees fit to determine it in regulation.
- *(New definition)*

Sec. 8 Gross Value at Point of Production

- Establishes "Gross Value at Pont of Production" as the value of the mineral immediately after it is removed from the mine excluding income received from extraction or processing mine waste previously taxed.
- The value of the mineral immediately after it is removed from the mine is what the mining company receives after they have added value to the resources thought production unless:
- the Department feels like the price the company received is less than the fair market value
- the price received does not reflect the total value received by the mining company in the transaction
- the buyer and seller are affiliated
- the price received was not negotiated in an arms length transaction

Sec. 8 Gross Value at Point of Production continued...

- If the Department thinks the price the company received is not adequate they shall substitute the fair market value of the resource.
- In order to determine the Gross Value at Point of Production the cost of transportation is deducted.
- The cost of transportation = the actual cost unless:
- 1. parties are affiliated
- 2. the transportation contract is not the result of an arms length transaction or is not representative of fair market value
- 3. an unreasonable method of transportation was used
- If the Department determines that the transportation costs used to calculate the gross value at point of production are not representative of fair market value they will determine the reasonable cost of transportation
- Definitions of affiliated and destination value. *(New section)*

Sec. 9 Application for Mining License

- The application period for a mining license tax is before May 1 or 30 days after mining begins, whichever is later. *(Currently the application for renewal of mining license is due before May of each year)*
- The Department adopts regulations on what needs to be submitted on the application and the application fee.

Sec. 10 Mining License Tax Deferral

- A mining company can defer their mining license tax payments for their first 3 ½ years of production. However, they are required to pay the amount deferred (without interest) in equal payments over the next 10 years. Sand and gravel do not have the option to defer mining license taxes. *(Currently mining companies, excluding sand and gravel, have an exemption for the first 31/2 years)*

Sec. 11 Certification

- DNR certifies the date production begins at the mine. *(No substantive changes)*

Sec. 12 Mining License Tax Rates
(current)

Net Income	Tax
0 - $40K	0
$40K - $50K	$1,200 + 3% > 40K < 50K
$50K - $100K	$1,500 + 5% > 50K < 100K
$100K - Up	$4,000 + 7% > 100K

Sec. 12 Mining License Tax Rates
(proposed HB 156)

Net Income	Tax
0 - $100K	0
$100K - $250K	5% of amt > 100K < 250K
$250K - $500K	$7,500 + 7% of amt > 250K < 500K
$500K - $1m	$25,000 + 9% of amt > 500K < 1m
>$1m	$70,000 + 11% of amt > $1m

Sec. 13 Taxing Multiple Mines

- If one company has more than one mining operation, taxes are based on aggregate income. If an organization leases a mine to a company, the organization will pay taxes on the royalties received as if it were the mining company. *(Updates language to confirm with current drafting style, no substantive changes)*

Sec. 14 Depletion

- Deletes existing depletion statute and allows mining companies to only calculate depletion using the cost depletion method. *(Current statue allows a company in any given year to choose between percent and cost depletion.)*

Sec. 15 Definitions

- Definitions:
- "date production begins" – when a mining company first ships their product *(new definition)*
- "gross income from property" – gross income from mining in the state
- "mining" – the extraction of minerals (lists minerals) taken from the earth and treated by the mine to produce a marketable product. Does not include oil and gas.
- "net income of the taxpayer" – [gross income from mining] – MINUS- [allowable deductions for depletion and treatment (for example, overheard, operating expenses, development costs, deprecation, taxes, and losses)]. Does not include deductions for federal income taxes, state corporate income taxes, or mining license taxes. *(current statute allows the deduction of state corporate income taxes)*
- "new mining operation" – first operation on property that has never been mined before.
- "ordinary treatment process" – defines the how the minerals of hard metal and sulphur ores, among others are traditionally processed.

Sec. 16 Repeals

- Repeals the grandfathering of mines before August 1989 (AS. 28.05.211(e); repeals the reference to the application date for renewing mining licenses because it is covered in Sec. 9 of this act (AS. 43.65.030). *(Statute is no longer relevant)*

- **Sec. 17 Applicability**
- applies this legislation to all leases entered into are renegotiated after December 31, 2008.

- **Sec. 18 Effective Date**
- This legislation takes effect January 1, 2009.

Non-renewable Resource Tax Comparison Chart

Prepared by the office of Rep. Seaton

Current Mining (Statute/ Regulation)

Taxes

Mining License Tax Rates on Net Income (AS.43.65.010(c))

0 - $40K	0
$40K - $50K	$1,200 + 3% > 40K < 50K
$50K - $100K	$1,500 + 5% > 50K < 100K
$100K - Up	$4,000 + 7% > 100K

Tax Exemption/ Deferral (AS.43.65.010(a))

3 1/2 year tax exemption for new mines

Depletion Allowance (AS.43.65.010(e))

Choice between Percent Depletion OR Cost Depletion

% depletion deduction against gross income:
Coal 10%; Metals/masc. minerals 15%; Sulphur 23%

State Corporate Income Tax (AS.43.65.060)

State income tax deductible from Mining License Tax

Royalty

(AS.38.05.150(d)) COAL: 5% of Adjusted Gross Value. Taxable value is price received minus costs of transportation from the mine mouth. Fixed for no more than 20 yrs.

(AS.38.05.212(b)) METAL MINES: 3% of Net Income as calculated under Mining License Tax

Currently no provisions for royalty-in-kind

Rents

(AS.38.05.150(d)) Coal $3/acre per year

Linked to Anchorage CPI

(AS.38.05.211(a)) Minerals sliding scale: $0.5-2.5/acre

Linked to Anchorage CPI (1989 base yr)

HB 156 - Proposed Mining Tax Changes

Mining License Tax Rates on Net Income (Sec. 12)

0 - $100K	0
$100K - $250K	5% of amt > 100K < 250K
$250K - $500K	$7,500 + 7% of amt > 250K < 500K
$500K - $1m	$25,000 + 9% of amt > 500K < 1m
>$1m	$70,000 + 11% of amt > $1m

(Sec. 10)

3 1/2 year deferral for new mines. Payable over following 10 years of production

(Sec. 14)

Cost Depletion Only

Changed to allow for cost depletion only.

(Sec. 15)

State Income Tax NOT deductible from Mining License Tax

(Sec. 1) COAL: 5% minimum of Adjusted Gross Value. Taxable value is price received minus costs of trans. from the mine mouth. Fixed for no more than 10 yrs.

(Sec. 6) METAL MINES: 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

(Sec. 2) Allows the State to accept coal royalty in kind

(Sec. 1) Coal $3/acre per year

Linked to Anchorage CPI

(Sec. 3) Minerals $1.65/acre first 5 yrs; $3.30/acre yr

Linked to Anchorage CPI (2005 base yr)

Current Oil and Gas Taxes - ACES

Tax Rates on modified Net Income (see reverse)

General flat rate on net production tax value	25.0%
Progressive tax @ 0.4%/$10 above $30/bbl net	
Floor (minimum tax rate):	
4% gross when ANSwc >$25; 3% = $20--$25; 2% = $17.50--$20; 1% = $15 --$17.50; 0% = <$15	

Limited exemption for small producers (producing up to 50,000 BTU equivalent barrels per year)

No Depletion Allowance when calculating State taxes

State Income Tax NOT deductible from Petroleum Profits Tax (PPT)

OIL & GAS: minimum 12.5 - 20% of Gross Value at Point of Production. Tax on Private Royalty: oil 5% Gross Value at Pt. of Production, gas 1.67% of Gross Value at Pt. of Production

State accepts royalty-in-kind or in-value for oil & gas

Oil & Gas

First 4 years, $1-2.50 / acre per year. Every year thereafter $3/ acre per year. Changed by statute.

Updated 1/26/08 6:30pm

STATE OF ALASKA
DEPARTMENT OF
COMMERCE
COMMUNITY AND
ECONOMIC DEVELOPMENT
Division of Community & Regional Affairs

Sarah Palin, Governor
Emil Notti, Commissioner
Tara Jollie, Director

MEMORANDUM

DATE: October 17, 2007

TO: Mike Black, Deputy Commissioner

THRU: Steve Van Sant, State Assessor

FROM: Ron Brown, Assistant State Assessor

RE: Review of Alaska and National Mining Taxation

Attached is a copy of the information collected in regards to mining taxation in Alaska and other States. The primary source of data for this report came from InfoMine USA, which contained data on 31 of the 50 states including Alaska.

There are three major taxes applicable to mines in the State of Alaska, these are;

- Corporate Income Tax
- Royalties
- Mining License Tax

The most significant issue noted in the review is that unlike other states, the Alaskan tax structure is almost solely based upon the calculation of net income in its treatment of mines. Due to this dependence on net income the significance of this single calculation cannot be overstated. However, due to allowed deductions for Mineral Incentive Credits, other taxes, percentage based depletion allowances and other issues, the net income calculation may be a questionable measure.

Currently, HB 156 is pending in the legislature. This bill appears to address several of the issues mentioned in this report and is a good source of additional information and comment.

Analysis of Mining Taxation of All 50 States

ANALYSIS OF STATE MINING TAXATATION

Data was obtained on Mining Taxation from 31 of the 50 states from InfoMine USA, Inc. A basic review of the tax structure across the country is provided below. A presentation of the individual programs for each state is available in excel format.

Income Tax:
23 of the states levy an income tax with an average tax rate of 6.32% and a median rate of 6.6%. Alaska levies a progressive income tax of between 1% and 9.4%. The actual rate depends upon the net income of the corporation's Alaskan operations. All taxes paid in the State of Alaska are deductible for income tax purposes.

Six of the remaining states levy a tax that is very similar to the income tax, but is sufficiently different that it should not be included in this category. Only two states (Washington and Wyoming) do not levy any type of tax that is based primarily on income.

Alaska Corporate Rate Schedule (AS 43.20.011)

Alaska Taxable Income			Tax	Marginal Rate*
$ 0	-	$10,000	$0	1%
$10,000	-	$20,000	$100	2%
$20,000	-	$30,000	$300	3%
$30,000	-	$40,000	$600	4%
$40,000	-	$50,000	$1,000	5%
$50,000	-	$60,000	$1,500	6%
$60,000	-	$70,000	$2,100	7%
$70,000	-	$80,000	$2,800	8%
$80,000	-	$90,000	$3,600	9%
$90,000	or	More	$4,500	9.4%

* The marginal rate is the rate applied to income above the minimum income level set by the schedule. For example, a corporation with an income of $15,000 would pay $100, plus 2% of the $5,000 of income over $10,000 ($100) for a total tax bill of $200.

Sales Tax:
27 of the states levy a sales tax with an average tax rate of 6.16% and a median rate of 6.0%. Alaska does not levy a state sales tax, however some local municipalities can levy sales taxes. The actual rate depends upon the physical location of the mining operation. Local sales tax rates in Alaska vary from 1% to 7% in areas where a sales tax is levied.

Three of the four remaining states levy a tax that is very similar to the sales tax, but is sufficiently different that it should not be included in this category. Only one state, Oregon, does not levy a tax that is based upon sales.

It should be noted that sales taxes would only apply to assets purchased by and for the mine from inside a borough/city that levies a sales tax. Sales of the ore, ore concentrate or refined products from the mine will *typically* not be sold from the mine and therefore would not pay a sales tax. However, locally utilized materials gravel, sand etc., could be subject to such a tax.

Property Tax:
27 of the states levy a state property tax. The remaining four states, including Alaska, have property taxes but they are administered on the local level. The actual rate depends upon the physical location of the mining operation and the means of valuation (fractional versus full value) so any comparison of tax rates would be highly questionable. Property tax rates for local governments in Alaska vary from 0.5% in Whittier to 1.9% for the North Slope Borough.

Resources in Place:
The value of natural resources in place (reserves) is not part of the valuation for property tax purposes in Alaska. This is also the case for nine of the remaining 27 states where information is available. However there are a wide range of ad valorem valuation methodologies across the country such as income analysis, valuation by gross product or operating status. Under some of these valuation methods, at least some of the value for mineral reserves would be incorporated in the final value. The reports on 10 of the 27 states did not contain references to the inclusion of values for resources in place.

Royalties:
Royalties for the extraction of State Owned minerals is addressed only in Alaska. Alaska has a royalty structure based upon 3% of net income, except for coal which is 5% to 12% of gross value depending upon the lease type. Three other states have information related to the income or property tax implications of royalties paid to private entities.

Mining License Tax:

Alaska has a Mining License Tax that is based upon Net Income. The tax is progressive from 0% to 7% depending upon the level of Net Income. All new mining operations are exempt from the mining license tax for the first 3-1/2 years.

Alaska Mining License Tax Rates

Net Income	Tax
$0 - $40,000	$0
$40,001 - $50,000	3% of net income
$50,001 - $100,000	$1,500 + 5% of net income over $50,000
$100,001 and more	$4,000 + 7% of net income over $100,000

Severance Tax:
Alaska levies no severance tax on the State level. Two municipal governments do levy severance taxes; Denali Borough (Coal and Gravel) and Kodiak Island Borough which

taxes the gross production value of severed natural resources at the borough-wide mill levy.

Fourteen of the other 30 States with available data levy various severance taxes that range from a dollar rate per ton to a percentage of "Gross Value", "Sale Price", "Production Value" or some other method. These values are defined in the particular tax law and are not standardized terms.

Minerals Exploration Incentive Credits:
The State of Alaska offers a maximum $20 million dollar credit for the expenses of exploration activities for mineral resources. These tax credits can be applied against future corporate income taxes, Mining License Taxes or state royalty payments.
The expenses applicable to these credits include; geochemical and geophysical surveys, exploration drilling, underground exploration, surface trenching and bulk sampling, aerial photographs, logging, sample analysis, metallurgical work etc. Qualifying expenses must be approved by DNR.

The expenses, once approved, can be expended over a 15 year period. However, the credits are limited to a maximum of 50% of the income, license or royalty taxes/payments in a given year. Since the maximum marginal tax rate for the corporate income tax is 9.4%, this could allow a tax free status for almost $213 million dollars of net income and/or a reduction in royalties to the State of up to 20 million dollars.

Commonalities:
There are very few commonalities between the tax policies of mining operations across the country. Each State has approached the taxation of mines differently due to the myriad of differences in the type and scale of mines present within the states and due to the general tax structure used throughout each economy.

Basis of Valuation:
However, it was noted that the Alaskan tax structure has one major commonality. There are three major taxes that mines are subject to on the state level; income taxes, royalties and the Mining License Tax. All three of these taxes, with the exception of coal royalties, are based upon the net income of the mine. Royalties paid to the state and the Mining License Taxes are deductible when calculating net income. Net income also allows a depletion allowance in making this calculation.

Note that by inflating expenses and/or exporting revenue, the tax impacts for all three categories could be drastically minimized. This is not to say or allege that such practices occur or that there is evidence of such. It is only meant to point out that the entire basis of all three tax modes are based upon the result of one accounting calculation.

With the exception of Oregon, the other states utilize tax policies that are based upon values other than net income, or have taxes based upon more than one valuation. For example, Georgia's Corporate "Corporate Net Worth Tax" is based upon a percentage of the net worth of the corporation. Montana's "Metal Mines License Tax" is based upon a

percentage of the gross value of mine production. Wisconsin's "Net Proceeds Occupation Tax on Mining of Metallic Minerals" is based upon the net proceeds of the mine.

Treatment of the Ore Value:
As well, with the combination of the major taxes applicable to mines in Alaska, it is difficult to see where the actual value of the ore extracted is exposed to any substantial type of taxation by or payment made to the State. No State property tax is levied and the local property tax is precluded from placing any value on "resources in place". No State sales tax is levied on the sales of ore/ore concentrates or refined products.

The "Minerals Exploration Credit Program" is applicable to any royalties, income or Mining License taxes charged by the State. This program can "write-off" taxes or royalties by up to 20 million dollars over a 15 year period.

The corporate income tax allows the application of a "depletion allowance" as proscribed by the State tax code. This allowance, by the percentage method, allows a producer to reduce Gross Income by 10% for coal mines, and a 15% reduction to Gross Income for metals mines.

The Mining License Tax allows for an exclusion of the tax for the first 3 ½ years of a new mining operation. This raises the question as to what constitutes a "new mining operation". Is an extension into a new vein of a pre-existing mine a "new mining operation"?

Again, since the royalties, income and Mining License taxes are based upon net income, any costs associated with obtaining the mineral rights are expensed from the income statement prior to the calculation of net income. Indeed it would appear that using the current percentage depletion allowance, the cost of these resources is being expensed at far above the actual cost.

Just as an example, let's imagine a mine that is operating at breakeven. Since net income is zero, there would be no income tax, no mining license tax and no royalty payment to the State for the ore processed by the mine. Yet, at the same time, the mine has extracted a considerable amount of State-owned, non-renewable resources.

Summation:
Looking at the current taxation/royalty structure, the intent appears to have been to attract large-scale mining and exploration to develop Alaskan resource deposits. Given the relatively low prices for gold, silver, zinc and lead at the time, it appears that an "incentive-based" structure was written to promote the development of these resources and the requisite infrastructure to profitably extract them.

In the past three years there has been a tremendous increase in the value of precious and base metal prices. The prices of such commodities have double, tripled and in some cases

more than quadrupled during this time. It would appear that the need for such an "incentive-based" structure does not apply to the current market situation.

As well, as is supported by the attached information, there would appear to be a significant difference in treatment between the mining industry and petroleum industries. Since the petroleum industry has become a huge component of the Alaskan economy and the primary source of governmental revenue, the treatment of this industry has been revisited and reviewed, multiple times over the years.

Conversely, the taxation and royalty treatment of the mining industry has changed very little since Statehood. This has created a situation where the public demands upon two industries, both engaged in the for-profit extraction of non-renewable, public resources are treated in substantially different manners.

Pending Legislation:
Currently, the legislature is considering HB 156 which addresses many of the issues raised in this report. Currently the bill is in the House Ways and Means Committee. Notable changes in this proposed legislation are:

- increases in tax rates and income levels
- changes the Mining License Tax exemption to a deferral
- removes the deduction of the Mining License Tax from the State Corporate Income Tax
- uses the Net Smelter Return rather than net income for setting royalties
- mandates Cost Depletion rather than Percentage Depletion for calculating net income
- increases in mineral lease rents

While the bill does not address all of the issues presented in this report, it does address many of them. Copies of the bill, sponsor statement, available data and testimony in the past hearings on HB 156 are provided.

Mining Tax Laws Across the United States
Source: InfoMine USA

Notes
* L = Local, S = State, B = Both, N = None

STATE	INCOME	INCOME RATES	PROPERTY	PROP L/S/B*	RESERVES	ROYALTIES	SEVERANCE	SEVERANCE RATES	Sig. Other Tax	STATE
ALABAMA	Y	6.5%	YES	B	?	NO	Coal, Iron & Other	Various	No	ALABAMA
ALASKA	Y	1% to 9.4% (Prog)	YES	L	No	YES	Local Only	Denali and Kodiak Only	Mining License Tax	ALASKA
ARIZONA	Y	6.968%	YES	B	Yes	NO	Metals	% of Prod. Value	No	ARIZONA
ARKANSAS	Y	1% TO 6.5% (Prog) plus 3% surcharge	YES	B	If actively mined.	YES	Various	Various	No	ARKANSAS
CALIFORNIA	Y	8.84% with AMT	YES	B	Yes	NO	No	N/A	Numerous Fees	CALIFORNIA
COLORADO	Y	4.63%	YES	B	?	NO	Various	Various	No	COLORADO
GEORGIA	Y	6.00%	YES	B	?	NO	No	N/A	Corporate Net Worth	GEORGIA
IDAHO	Y	7.60%	YES	B	?	YES	No	N/A	Mining License Tax	IDAHO
ILLINOIS	Y	4.80%	YES	B	Yes	NO	No	N/A	Personal Prop. Tax	ILLINOIS
INDIANA	Y	8.50%	YES	B	Yes	NO	No	N/A	No	INDIANA
KENTUCKY	Y	4% TO 6% (Prog) with AMT	YES	B	?	NO	Various	% of Gross Value	No	KENTUCKY
MAINE	Y	3.5% to 8.93% (Prog)	YES	B	No	NO	No	N/A	Mining Excise Tax	MAINE
MICHIGAN	Y	See Single Business Tax	YES	B	?	NO	No	N/A	Single Bus & Low Grd Ore	MICHIGAN
MINNESOTA	Y	See Occupation Tax	YES	B	Iron Ore	NO	Yes	Taconite	Several	MINNESOTA
MISSOURI	Y	6.25%	YES	B	?	NO	No	N/A	Corp. Franchise Tax	MISSOURI
MONTANA	Y	6.75%	YES	B	No	NO	Various	Various	Coal Gross & Metal Mines	MONTANA
NEVADA	N	See Proceeds of Minerals Tax	YES	B	No	YES	No	N/A	Proceeeds of Minerals	NEVADA
NEW MEXICO	Y	4.8% TO 7.6%	YES	B	No	NO	Yes	Various	Gross Rec. & Resource Excise	NEW MEXICO
NORTH CAROLINA	Y	6.90%	YES	B	Yes	NO	No	N/A	Franchise & Piped Nat Gas	NORTH CAROLINA
NORTH DAKOTA	Y	2.6% TO 7.0% (Prog)	YES	B	Yes	NO	Coal	$0.395 per ton	Coal Conv. Facility Tax	NORTH DAKOTA
OREGON	Y	6.60%	YES	B	No	NO	No	N/A	No	OREGON
PENNSYLVANIA	Y	9.99%	YES	B	?	NO	No	N/A	Cap. Stock & Franchise Tax	PENNSYLVANIA
SOUTH CAROLINA	Y	5.00%	YES	B	No	NO	No	N/A	Corp. License Tax	SOUTH CAROLINA
SOUTH DAKOTA	N	See Severance Taxes	YES	L	Yes	NO	Various	Various	Conservation Tax	SOUTH DAKOTA
TENNESSEE	Y	See Excise & Franchise Tax	YES	B	No	NO	Various	Various	Corp Excise & Corp Franch	TENNESSEE
UTAH	Y	See Corp Franchise Tax	YES	B	No	NO	Various	% of Proceeds	Corp Franchise Tax	UTAH
VIRGINIA	Y	6.00%	YES	L	?	NO	No	N/A	Reclamation Tax	VIRGINIA
WASHINGTON	N	N/A	YES	B	Yes	NO	No	N/A	Business & Occup. Tax	WASHINGTON
WEST VIRGINIA	Y	8.75%	YES	L	?	NO	Various	% of Gross Value	Business Franchise Tax	WEST VIRGINIA
WISCONSIN	Y	7.90%	YES	B	Yes	NO	No	N/A	Occ. Tax and Net Proc. Metal	WISCONSIN
WYOMING	N	N/A	YES	L	No	NO	Various	Various		WYOMING

Alaskan Mining Taxation Analysis and Data

MINING COMPANY TAXATION IN ALASKA

INCOME TAXES	1% to 9.4% Progressive Rates
EXPLORATION INCENTIVE CREDIT	Allows up to $20 Million in credits for each mine developed.
SALES TAXES	0% to 7% depending upon location, sales of mine products are usually not taxable.
PROPERTY TAXES	Subject to same property taxes as are other properties in the same Borough/City. Ore Reserves are not assessable.
ROYALTIES	3% of Net Income, except coal which is more, 5% to 12% of Gross Value.
MINING LICENSE TAX	0% to 7% of Net Income Progressive Rates

Table 24. Revenues paid to the state of Alaska and municipalities by Alaska's mineral Industry, 1999 - 2006

ITEM	2000	2001	2002	2003	2004	SOURCE DATA 2005	2006
State mineral rents and royalties[a]							
State claim rentals	$1,975,376	$1,736,522	$1,908,228	$2,129,440	$2,657,939	$3,308,752	$3,460,803
Production royalties	$6,175	$1,933	$23,447	$270,734	$162,637	$124,338	$171,220
Annual labor	$79,907	$103,274	$124,741	$224,519	$226,191	$332,439	$155,007
Subtotal	**$2,061,458**	**$1,841,729**	**$2,056,416**	**$2,624,693**	**$3,046,767**	$3,765,529	**$3,787,030**
State coal rents and royalties							
Rents	$233,249	$198,545	$256,927	$237,912	$236,532	$257,112	$337,764
Royalties	$1,482,803	$1,168,043	$860,633	$1,064,208	$1,239,257	$1,476,250	$1,473,948
Bonus	$372,000	$0	$0	$0	$0	$129,880	$10
Offshore Prospecting Permits	$0	$0	$0	$0	$0	$0	$0
Subtotal	**$2,088,052**	**$1,366,588**	**$1,117,560**	**$1,302,120**	**$1,475,789**	$1,863,242	**$1,811,722**
State material Sales							
Mental Health	$33,928	$118,545	$151,993	$134,512	$76,267	$129,409	$89,634
Division of Land	$449,343	$1,515,769	$1,595,708	$542,311	$467,360	$944,905	$1,582,769
SPCO	$41,395	$12,894	$24,725	$208,309	$112,047	$46,877	$118,904
Subtotal	**$524,666**	**$1,647,208**	**$1,772,426**	**$885,132**	**$655,674**	$1,121,191	**$1,791,307**
State mining miscellaneous fees							
Filing fees	$5,400	$3,000	$3,000	$4,700	$1,300	$8,465	$965
Penalty fees	$0	$0	$450	$0	$26,110	$20,280	$46,249
Explore incentive app filing fee	$0	$0	$0	$0	$0	$0	$0
Bond pool payment	$50,100	$53,866	$45,208	$44,878	$35,426	$32,331	$36,721
Surface coal mining app fee	$1,830	$3,700	$2,530	$1,005	$3,116	$3,150	$10,897
APMA mining fees	$18,550	$13,175	$11,975	$15,113	$14,550	$17,131	$17,475
Subtotal	**$75,880**	**$73,741**	**$63,163**	**$65,696**	**$80,502**	$81,357	**$112,307**
Total Rents, Royalties & Fees	**$4,750,056**	**$4,929,266**	**$5,009,565**	**$4,877,641**	**$5,258,732**	$6,831,319	**$7,502,366**
State corporate income tax[b]	**$285,815**	**$50,266**	**-$221,936**	**$406,064**	**$2,104,144**	$23,641,883	**$71,299,684**
Mining License Tax[c,e]	**$1,857,134**	**$466,430**	**$351,387**	**$3,224,684**	**$10,317,238**	$18,637,996	**$79,141,526**
State Total	**$6,893,005**	**$5,445,962**	**$5,139,016**	**$8,508,389**	**$17,680,114**	$49,111,198	**$157,943,576**
Payments to Municipalities	**$9,196,500**	**$9,763,220**	**$9,703,208**	**$10,510,048**	**$10,999,663**	$11,975,892	**$14,388,329**
TOTAL	**$16,089,505**	**$15,209,182**	**$14,842,224**	**$19,018,437**	**$28,679,777**	$61,087,090	**$172,331,905**

Notes:

[a]Includes upland lease and offshore lease rentals.

[b]Preliminary data for 2006.

►only subchapter C corporations pay income tax.

►this report may not reflect 100% of the returns received in a year.

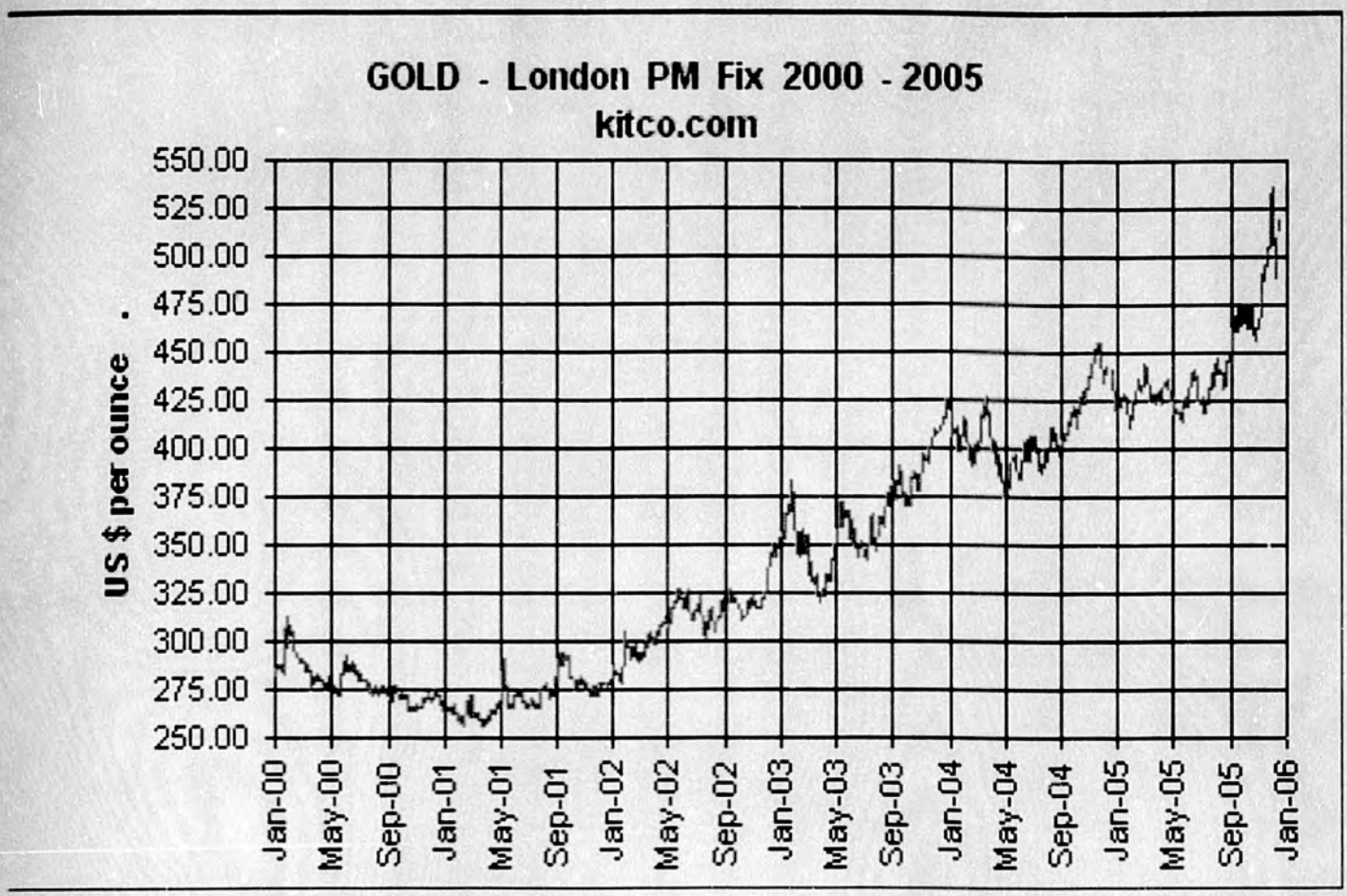
►data from 2001 through 2006 has been updated to reflect revenue to the state for the succeeding fiscal year; ex.: FY 07 receipts are shown in calendar year 2006.

►In FY2003 (calendar year 2002) more refunds were given than revenues received by the state.

[c]Includes metals, coal and material.

[d]Mining license tax has been adjusted to reflect actual receipts for the succeeding fiscal year for the period 2001 to 2006; see note for income tax above.

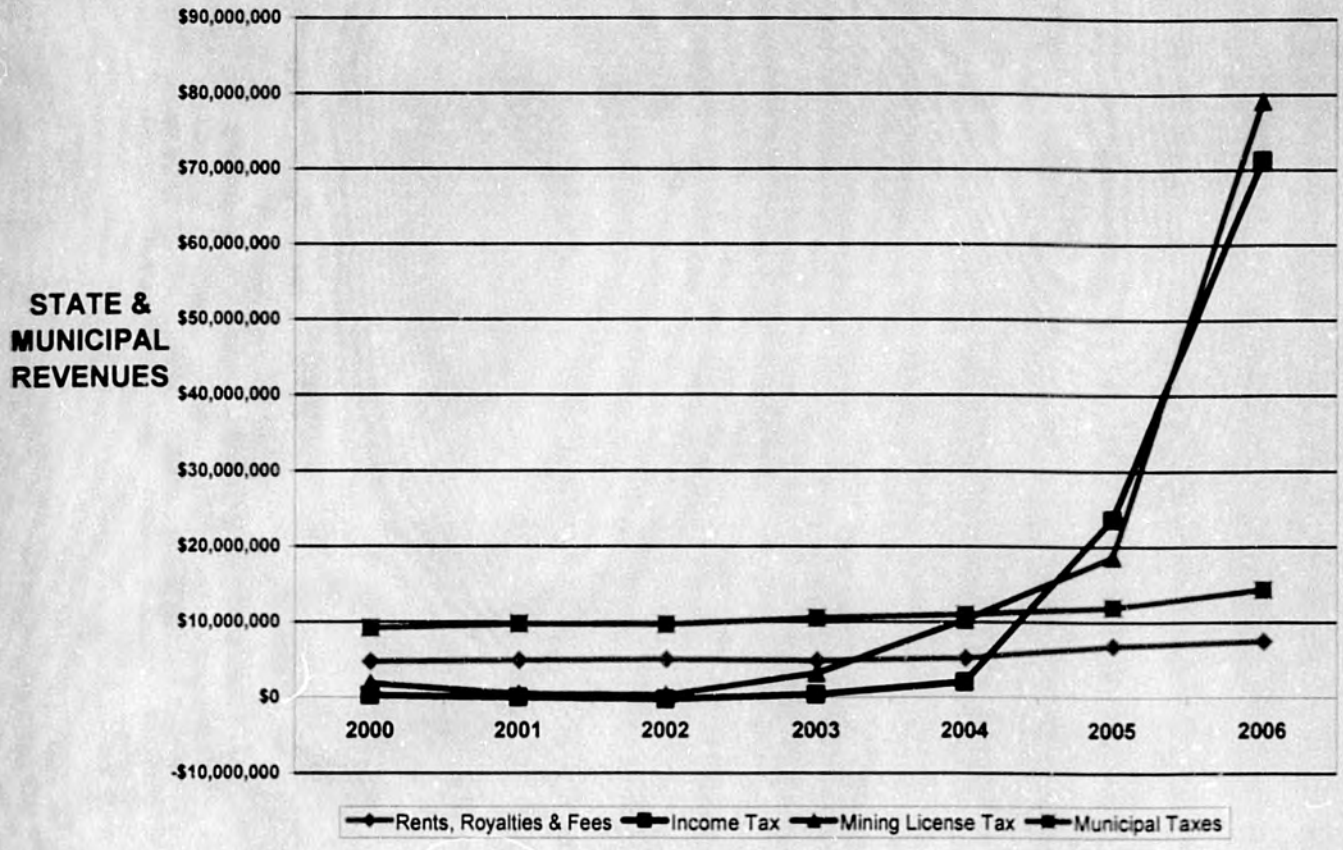
[e]data does not match earlier reports.


GOLD - London PM Fix 2000 - 2005
kitco.com
US $ per ounce
550.00
525.00
500.00
475.00
450.00
425.00
400.00
375.00
350.00
325.00
300.00
275.00
250.00
Jan-00
May-00
Sep-00
Jan-01
May-01
Sep-01
Jan-02
May-02
Sep-02
Jan-03
May-03
Sep-03
Jan-04
May-04
Sep-04
Jan-05
May-05
Sep-05
Jan-06


5 Year Zinc Spot
2.500
2.000
1.500
1.000
0.500
0.000
USD / lb
www.kitco.com
Oct02
Apr03
Oct03
Mar04
Sep04
Mar05
Sep05
Mar06
Aug06
Feb07
Aug07

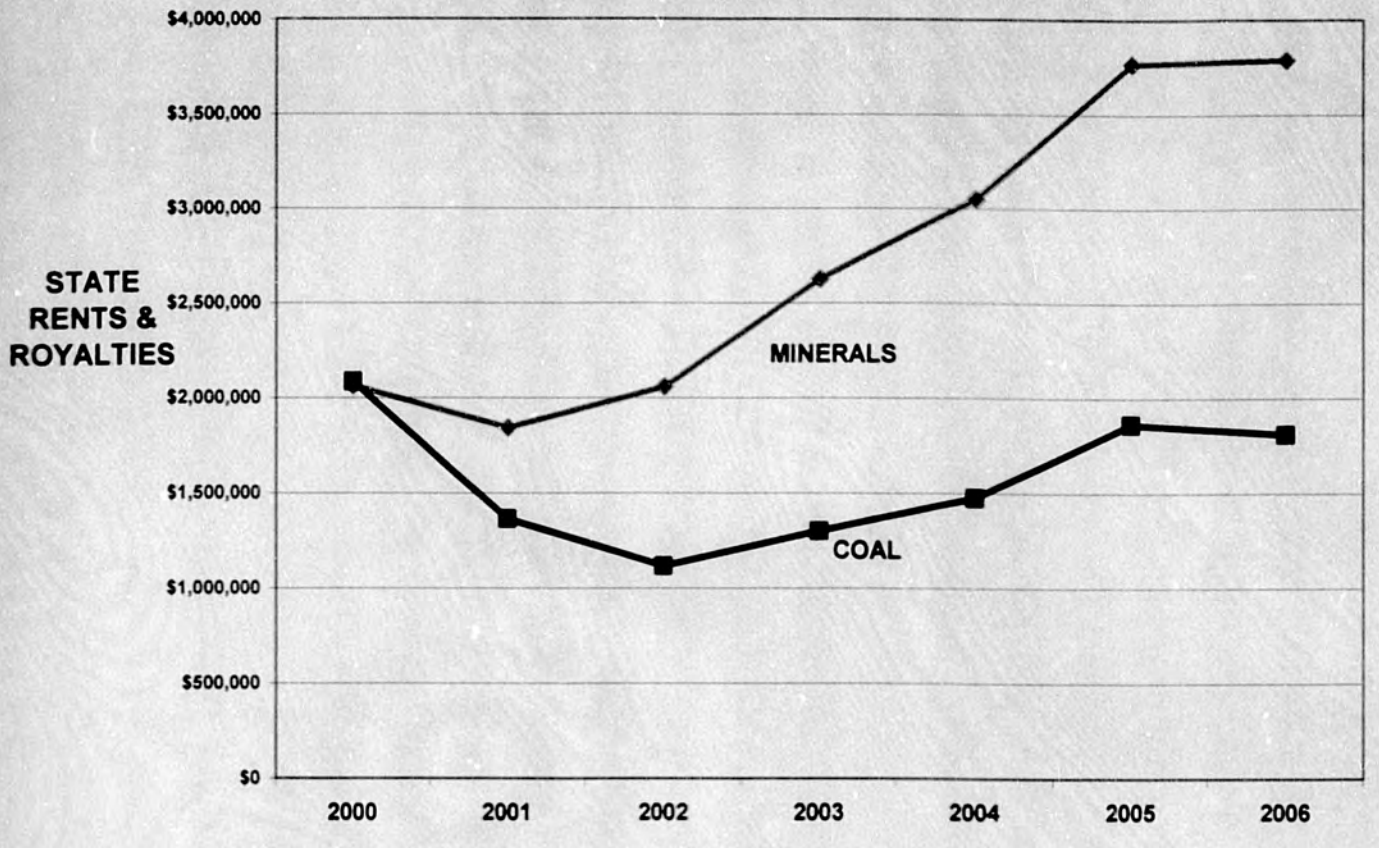
TOTAL STATE & MUNICIPAL REVENUES 2000 TO 2006

Source: Office of Economic Development



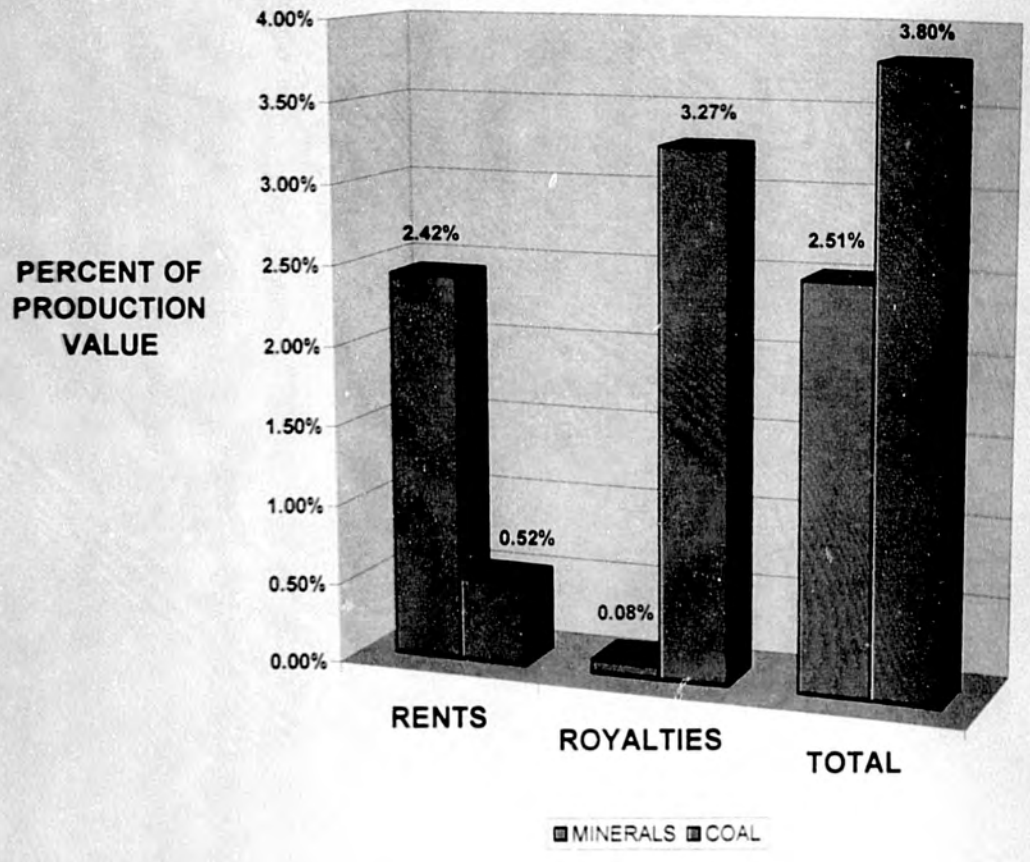
TOTAL STATE RENT & ROYALTY REVENUES BY RESOURCE TYPE

Source: Office of Economic Development



RENTS & ROYALTIES AS A PERCENT OF PRODUCTION VALUE 2005

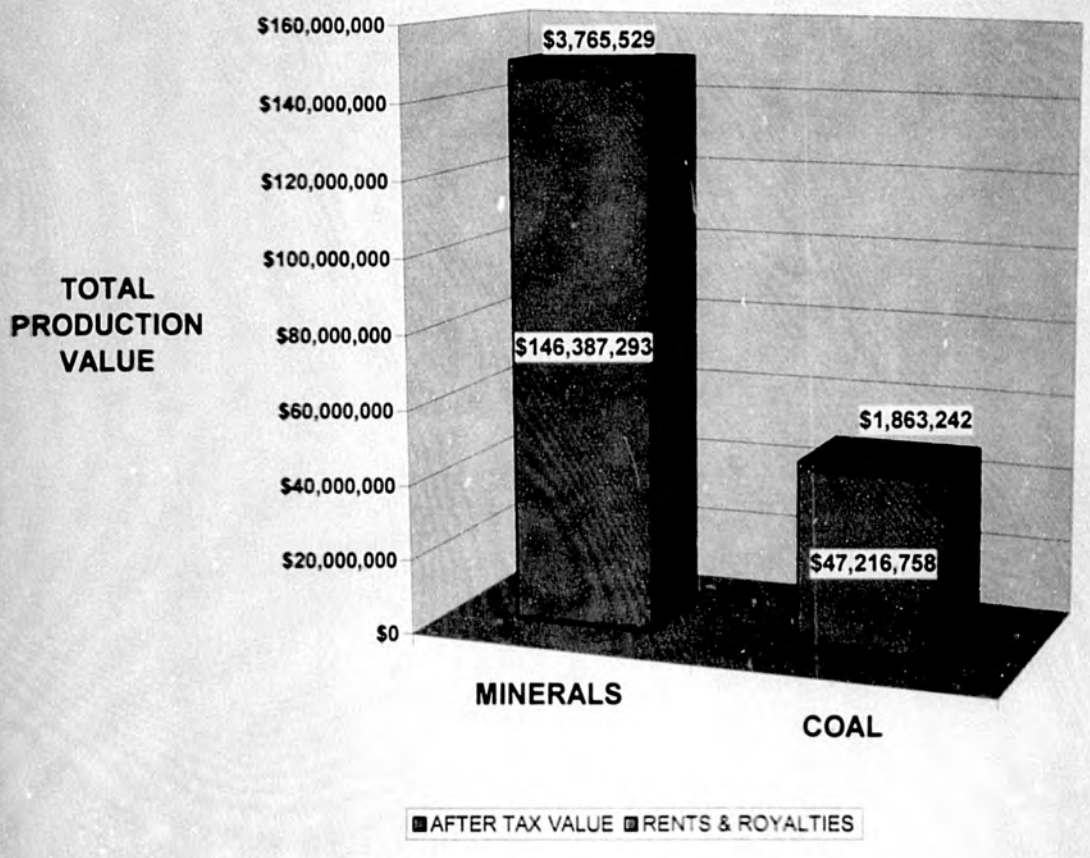
Source: Alaska's Mineral Industry 2005 - Special Report 60 & Office of Econ. Development



This graphic compares the percentage of estimated production value for coal and minerals that is paid to the State of Alaska as either Rents or Royaties. This applies only to the Fort Knox mine and an apportioned value for all placer mines for the mineral data.

RENTS, ROYALTIES AND AFTER TAX VALUE 2005

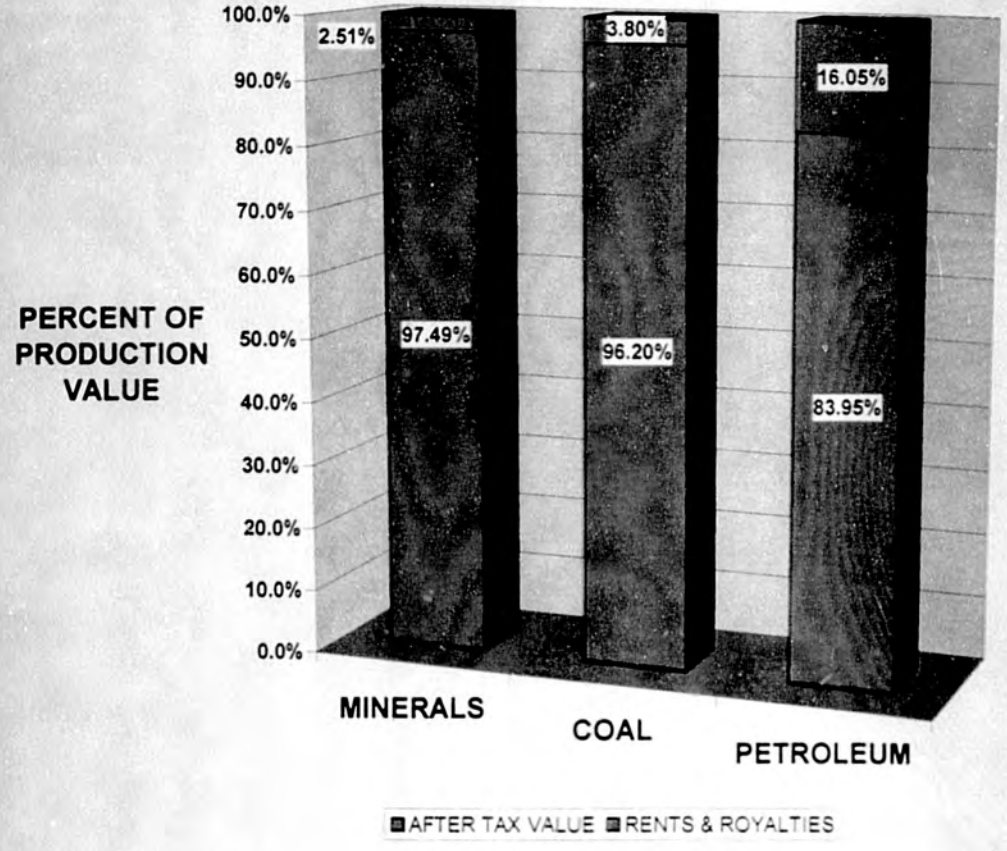
Source: Alaska's Mineral Industry 2005 - Special Report 60 & Office of Econ. Development



This graphic compares the estimated production value of coal and minerals that is retained by the State of Alaska as either Rents or Royaties and that portion retained by the producer. This applies only to the Fort Knox mine and an apportioned value of all placer mines for the mineral data.

RENTS & ROYALTIES AS A PERCENT OF PRODUCTION VALUE 2005

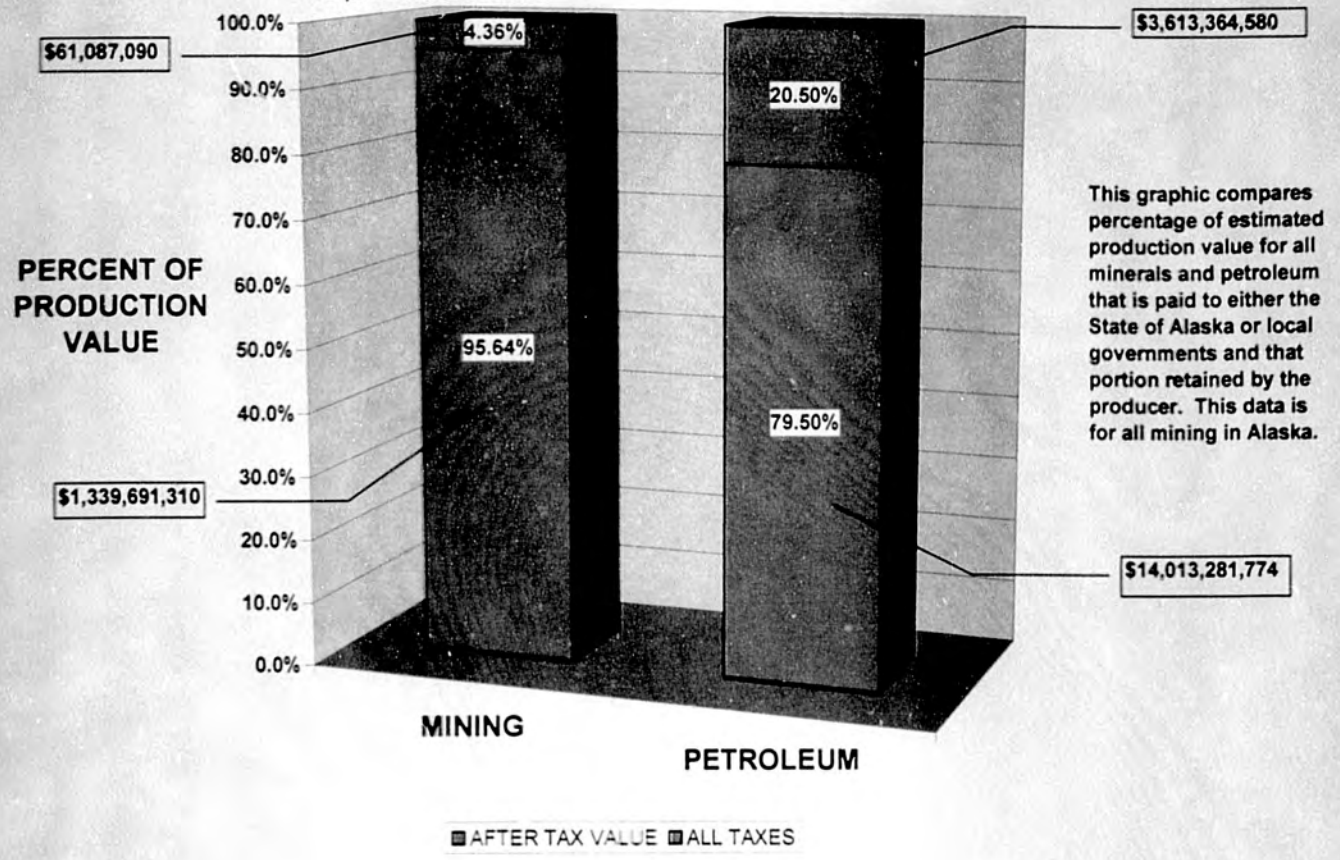
Source: Alaska's Mineral Industry 2005 - Special Report 60, Office of Econ. Development & Dept. of Revenue Estimates



This graphic compares the percentage of estimated production value for coal, minerals and petroleum that is paid to the State of Alaska as either Rents or Royaties and that portion retained by the producer. This applies only to the Fort Knox mine and apportioned value for all placer mines for the minerals data.

TOTAL TAXES AS A PERCENT OF PRODUCTION VALUE 2005

Source: Alaska's Mineral Industry 2005 - Special Report 60, Office of Econ. Development & Dept. of Revenue Estimates



This graphic compares percentage of estimated production value for all minerals and petroleum that is paid to either the State of Alaska or local governments and that portion retained by the producer. This data is for all mining in Alaska.

BRISTOL BAY NATIVE ASSOCIATION
P.O. BOX 310
DILLINGHAM, ALASKA 99576
PHONE (907) 842-5257



Tribal Councils Served by BBNA:
Aleknagik
Chignik Bay
Chignik Lagoon
Chignik Lake
Clarks Point
Curyung
Egegik
Ekuk
Ekwok
Igiugig
Iliamna
Ivanof Bay
Kanatak
King Salmon
Koliganek
Levelock
Manokotak
Naknek
New Stuyahok
Newhalen
Nondalton
Pedro Bay
Perryville
Pilot Point
Port Heiden
Portage Creek
South Naknek
Togiak
Twin Hills
Ugashik

December 14, 2007

State of Alaska
Alaska Department of Natural Resources
Commissioner Tom Irwin
P.O. Box 111000
Juneau, Alaska 99811

Dear Commissioner Irwin:

Please find attached BBNA's Resolution 2008-03 calling for Equitable taxation for the mining industry. BBNA, the regional non-profit for the Bristol Bay Region, represents 31 tribes.

This Resolution represents a formal statement of considered opinion, intent, and resolve of the Association and its tribes. We have taken this action out of concern for our social, economic, and cultural well being. We communicate this resolution to inform you of our position and to earnestly solicit your assistance in our efforts.

Sincerely,

BRISTOL BAY NATIVE ASSOCIATION

Ralph Andersen

Ralph Andersen
Chief Executive Officer

Enclosure:

Cc: Senator Lyman Hoffman
Senator Gary Stevens
Representative Bryce Edgmon
Representative Gabrielle LeDoux

BRISTOL BAY NATIVE ASSOCIATION
P.O. BOX 310
DILLINGHAM, ALASKA 99576
(907) 842-5257
By the Executive Committee

Resolution 2008 – 03

A RESOLUTION CALLING FOR EQUITABLE TAXATION OF THE MINING INDUSTRY

WHEREAS: Increased world prices for metals and other commodities has led to renewed growth of the mining industry in Alaska; and

WHEREAS: The modern mining industry in Alaska is no longer dominated by placer mining but by large industrial scale operations owned by large international corporations; and

WHEREAS: The state's mining industry does not pay state taxes or royalties comparable to what the oil industry pays; and

WHEREAS: Allowing mining on publicly owned lands without capturing a fair share of revenues for the government, as owner, is tantamount to giving away public resources to enrich a few; and

WHEREAS: Alaska's state mining laws date to territorial days and are based on federal laws dating to the 19th Century and are badly in need of revision to meet the needs of modern Alaska.

NOW THEREFORE BE IT RESOLVED by the Bristol Bay Native Association Board of Directors that it urges the Alaska State Legislature to modernize the Alaska mining laws, including the taxation and royalty structure, and ensure that the mining industry pays a fair share of taxes and royalties as compared to other industries.

Fred J. Angasan
President

CERTIFICATION:

I, the undersigned Recording Secretary of the Bristol Bay Native Association do hereby certify that the foregoing resolution was duly passed the majority vote of the Bristol Bay Native Association board at a duly called and noticed meeting this 24th day of October, 2007, and that a quorum was present.

Robert Heyano
Secretary

LEGISLATIVE RESEARCH REPORT

DECEMBER 21, 2007

REPORT NUMBER 08.080

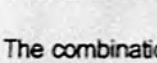
MINERAL EXTRACTION IN ALASKA, GOVERNMENT REVENUE AND RESOURCE VALUE, 2001 - 2006

PREPARED FOR REPRESENTATIVE PAUL SEATON

BY DANIEL LESH, LEGISLATIVE ANALYST

You asked for data comparing the government revenue collected from the mining industry and the value of all minerals extracted during recent years in Alaska.

Within Alaska's mining industry tax structure, which has remained constant since 1989, three major factors influence the government revenue collected from the mining industry: the amount of minerals extracted, the market value of each mineral, and the mining industry's operating costs. Data for the first two factors are readily available from reports produced by the Department of Natural Resources; however, data on mining industry operating costs are not available.[1] Mining industry operating costs influence receipts from the mining license tax, mineral production royalty, and corporate income tax, because these are levied on the *net* income of mining companies. These net income-based government revenue sources represent a growing proportion of total receipts from the mining industry, as can be seen in the following pie charts depicting this proportion over the last six years:



[2]

The combination of a *net* income-based tax structure and the absence of operating cost data makes it difficult to reach meaningful conclusions regarding causal relationships between recent increases in total value of resources extracted by the mining industry in Alaska and recent increases in government revenue on those resources. This relationship is further complicated by mineral exploration incentive tax credits, which can be carried forward for 15 years. Nevertheless, Figure 1 and Figure 2 (below) present the available data on government revenue and extracted resource value for the Alaska mining industry during the years 2001 - 2006.[3]

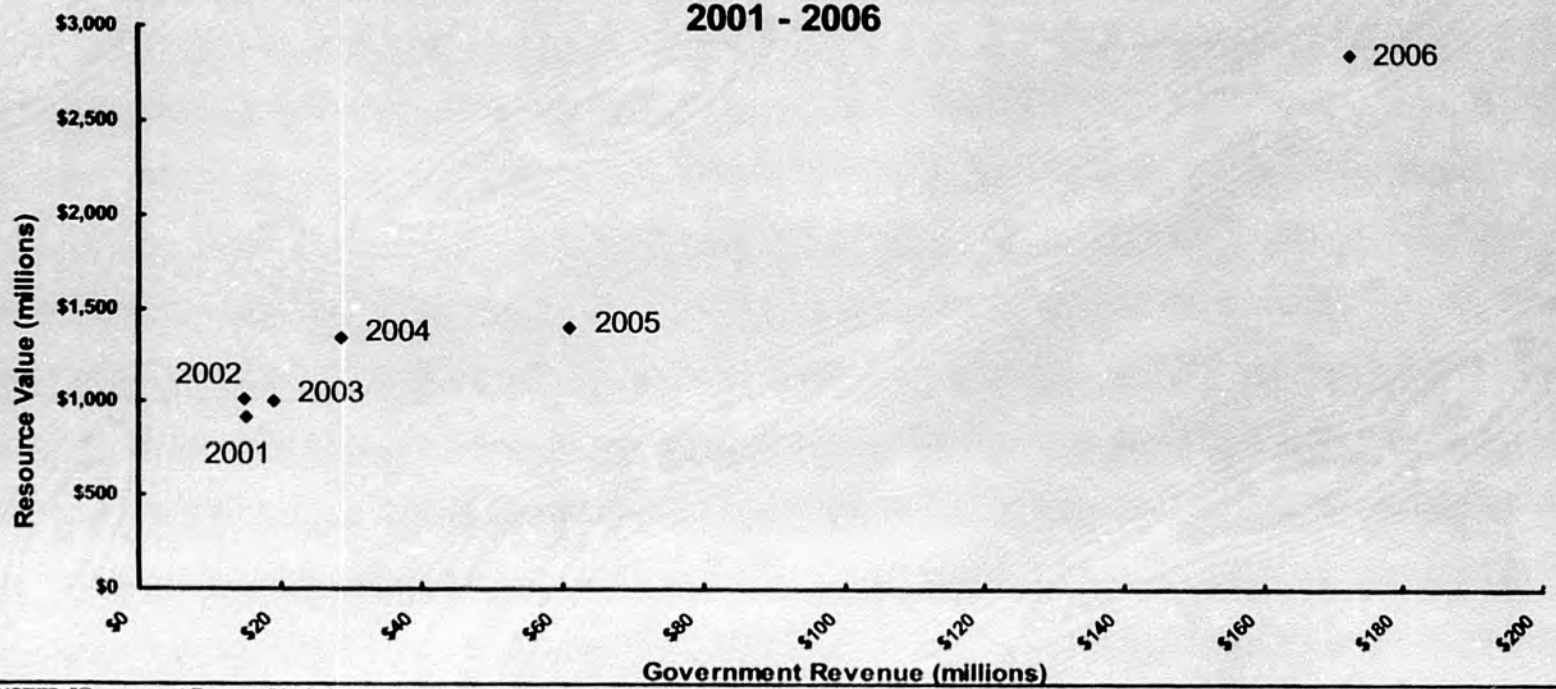
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[1] According to Rich Hughes, development specialist, Department of Commerce, Community, and Economic Development, (907) 451-2738, the operating costs for some mining companies could be determined from publicly available information, but such an effort would be time consuming with no guarantee of useful information.

[2] Pie charts reflect the percentage of total government revenue from the mining industry that result from taxes or royalties based on *net* profits (corporate income taxes, mining license taxes, and production royalties). For the years depicted, 2001 – 2006, these data are 3%, 1%, 21%, 44%, 69%, and 87%.

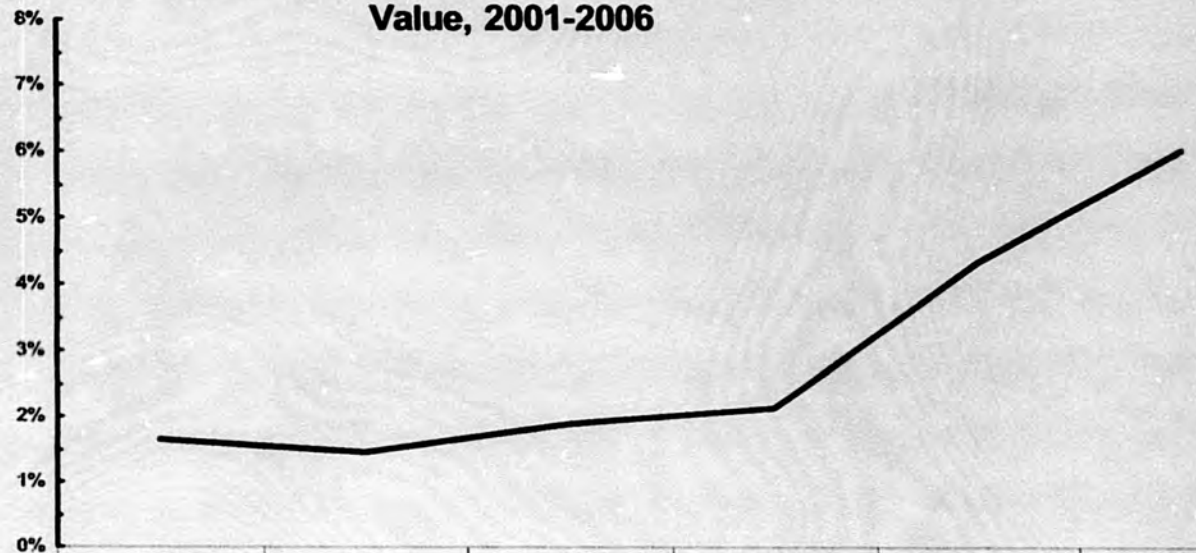
[3] We include, as Attachments A and B, the tables from which we derived data for the figures in this report.

Figure 1: Mineral Extraction in Alaska, Government Revenue and Resource Value, 2001 - 2006



NOTES: "Government Revenue" includes state and municipal taxes, fees, and royalties collected from the mining industry. All revenue data are reported on a calendar year basis except municipal, corporate income, and mining license taxes, which are reported on a fiscal year basis and combined with calendar year data as follows: CY01 + FY02. "Resource Value" is calculated from average mineral prices and estimates of total minerals extracted, as determined by questionnaires and phone interviews conducted by the Division of Geological and Geophysical Surveys (DGGS), Department of Natural Resources (DNR). Rich Hughes, Development Specialist, Department of Commerce, Community, and Economic Development, (907) 451-2738, estimates that these resource value data are generally accurate, except for about 10% - 35+% underreporting for peat, sand, gravel, and placer gold. In 2006, as reported, these minerals represented about 4.4% of the total resource value. The mining industry tax structure remained constant during this period. We do not place a trend line on these data because the relationship between resource value and government revenue is influenced by mining industry operating costs (due to a net income-based tax structure). These costs would need to be factored into to any extrapolation from these data. **SOURCES:** "Alaska's Mineral Industry 2006--Special Report 61" and "Alaska's Mineral Industry 2003--Special Report 58," DGGS, DNR

Figure 2: Mineral Extraction in Alaska, Government Revenue as a Percentage of Resource Value, 2001-2006



	2001	2002	2003	2004	2005	2006
Government Revenue	$15,209,182	$14,842,224	$19,018,437	$28,679,777	$61,087,090	$172,331,905
Resource Value	$919,308,000	$1,012,809,000	$1,000,662,000	$1,338,666,982	$1,401,608,000	$2,858,233,467
Percentage	1.65%	1.47%	1.90%	2.14%	4.36%	6.03%

NOTES: "Government Revenue" includes state and municipal taxes, fees, and royalties collected from the mining industry. All revenue data are reported on a calendar year basis except municipal, corporate income, and mining license taxes, which are reported on a fiscal year basis and combined with calendar year data as follows: CY01 + FY02. "Resource Value" is calculated from average mineral prices and estimates of total minerals extracted, as determined by questionnaires and phone interviews conducted by the Division of Geological and Geophysical Surveys (DGGS), Department of Natural Resources (DNR). Rich Hughes, Development Specialist, Department of Commerce, Community, and Economic Development, (907) 451-2738, estimates that these resource value data are generally accurate, except for about 10% - 35+% underreporting for peat, sand, gravel, and placer gold. In 2006, as reported, these minerals represented about 4.4% of the total resource value. The mining industry tax structure remained constant during this period. **SOURCES:** "Alaska's Mineral Industry 2006--Special Report 61" and "Alaska's Mineral Industry 2003--Special Report 58," DGGS, DNR.

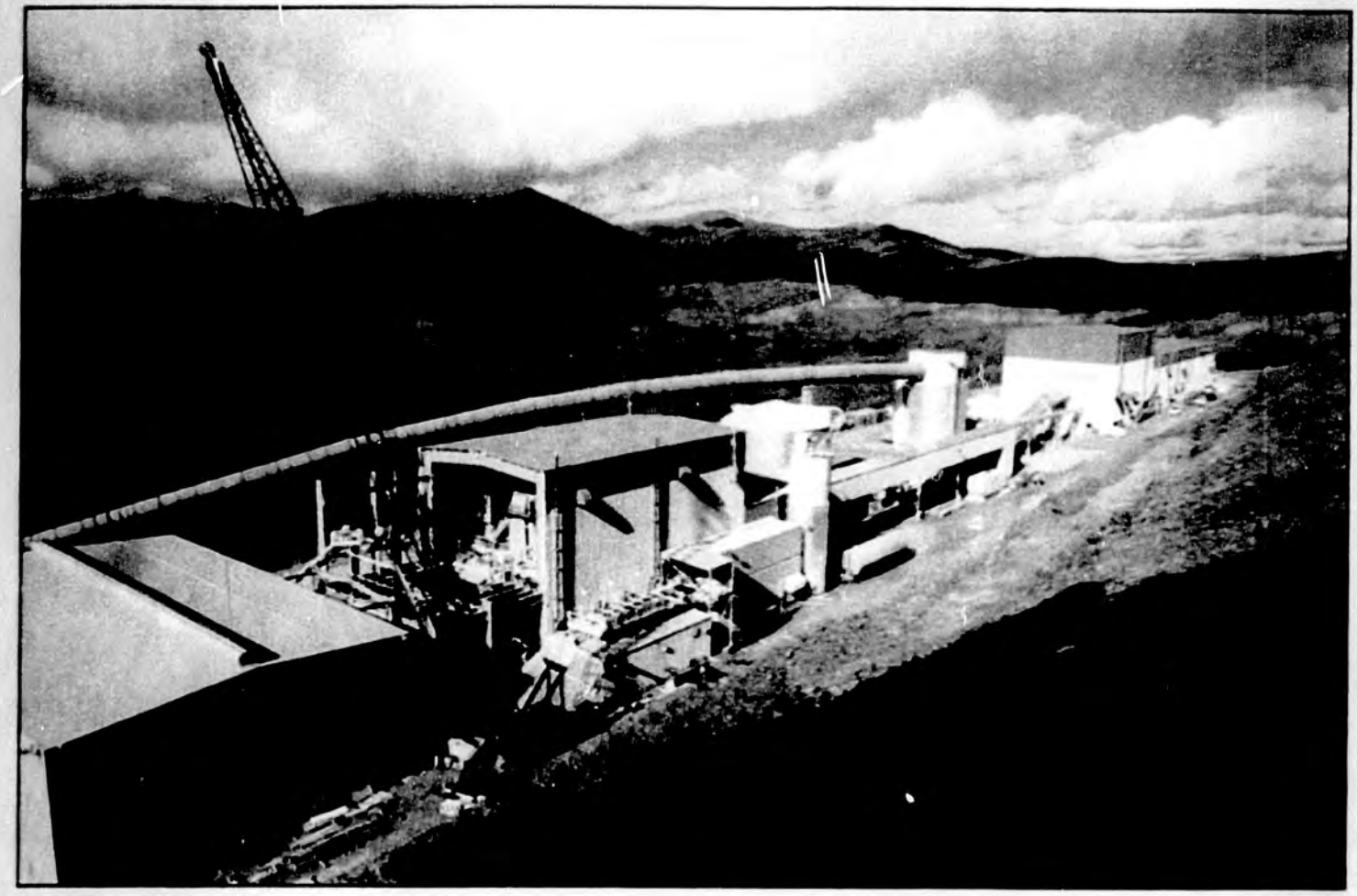
I hope you find this information to be useful. Please do not hesitate to contact us if you have questions or need additional information.

Attachment A

Tables 10 and 27, "Alaska's Mineral Industry 2006—Special Report 61," Division of Geological and Geophysical Survey, Department of Natural Resources, in cooperation with the Office of Economic Development, Department of Commerce, Community, and Economic Development and the Division of Mining, Land, and Water, Department of Natural Resources

Alaska's Mineral Industry 2006

Special Report 61



View of the Pogo Mine mill facilities. The covered conveyor system feeds ore from the mine to the conventional SAG and ball mill grinding circuit, gravity circuit, and then to flotation and cyanidation processes. After cyanide detoxification, the tailings are filtered and then either drystacked or used as paste backfill in the mine workings. Photo provided by Teck Cominco Inc.

Division of Geological & Geophysical Surveys
in cooperation with
Office of Economic Development and
Division of Mining, Land & Water

Table 10. *Estimated mineral production in Alaska, 2004–2006*[a]

Metals	Quantity 2004	2005	2006	Estimated Values[b] 2004	2005	2006
Gold (ounces)[c]	456,508	427,031	570,129	$192,343,315	$189,918,000	$344,049,779
Silver (ounces)	16,947,270	11,670,000	16,489,394	113,056,930	85,382,000	190,415,907
Copper (tons)[d]	0	0	0	0	0	0
Lead (tons)	150,796	131,366	157,128	120,636,822	115,230,000	183,629,254
Zinc (tons)	680,015	684,462	673,967	651,432,200	862,108,000	2,002,971,414
Subtotal				**$1,077,469,267**	**$1,252,638,000**	**$2,721,066,354**
Industrial Minerals						
Jade and soapstone (tons)[e]	0	0	0	0	0	0
Sand and gravel (million tons)	19.6	16.6	9.3	101,507,347	76,537,000	63,351,089
Rock (million tons)	7.3	2.8	2.4	106,207,814	22,547,000	23,846,024
Subtotal				**$207,715,161**	**$99,084,000**	**$87,197,113**
Coal (tons)	1,450,000	1,402,174	1,397,500	50,750,000	49,076,000	48,912,500
Peat (cubic yards)	208,032	62,532	66,500	2,732,554	810,000	1,057,500
Subtotal				**$53,482,554**	**$49,886,000**	**$49,970,000**
TOTAL				**$1,338,666,982**	**$1,401,608,000**	**$2,858,233,467**

[a]Production data from DGGS questionnaire, phone interviews with mine and quarry operators, ADOT&PF, and municipalities, Regional corporations, and federal land management agencies.

[b]Values for selected metal production was based on average prices for each year; (unless other values were provided by the operator); for 2006—gold $603.46/ounce, silver $11.55/ounce, lead $0.58/lb, zinc $1.47/lb.

[c]2006 lode production 509,747 ounces; placer production 60,382 ounces.

[d]Greens Creek has historically been credited with a small copper concentrate production; no credit was experienced for 2004–2006 production.

[e]Jade and soapstone credit has been dropped.

Table 27. *Revenues paid to the State of Alaska and municipalities by Alaska's mineral industry, 2001–2006*

	2001	2002	2003	2004	2005	2006
State mineral rents and royalties[a]						
State claim rentals	$ 1,736,522	$ 1,908,228	$ 2,129,440	$ 2,657,939	$ 3,308,752	$ 3,460,803
Production royalties	1,933	23,447	270,734	162,637	124,338	171,220
Annual labor	103,274	124,741	224,519	226,191	332,439	155,007
Subtotal	**$ 1,841,729**	**$ 2,056,416**	**$ 2,624,693**	**$ 3,046,767**	**$ 3,765,529**	**$ 3,787,030**
State coal rents and royalties						
Rents	198,545	256,927	237,912	236,532	257,112	337,764
Royalties	1,168,043	860,633	1,064,208	1,239,257	1,476,250	1,473,948
Bonus	0	0	0	0	129,880	10
Offshore Prospecting Permits	0	0	0	0	0	0
Subtotal	**$ 1,366,588**	**$ 1,117,560**	**$ 1,302,120**	**$ 1,475,789**	**$ 1,863,242**	**$ 1,811,722**
State material Sales						
Mental Health	118,545	151,993	134,512	76,267	129,409	89,634
Division of Land	1,515,769	1,595,708	542,311	467,360	944,905	1,582,769
SPCO	12,894	24,725	208,309	112,047	46,877	118,904
Subtotal	**$ 1,647,208**	**$ 1,772,426**	**$ 885,132**	**$ 655,674**	**$ 1,121,191**	**$ 1,791,307**
State mining miscellaneous fees						
Filing fees	3,000	3,000	4,700	1,300	8,465	965
Penalty fees	0	450	0	26,110	20,280	46,249
Explore incentive app filing fee	0	0	0	0	0	0
Bond pool payment	53,866	45,208	44,878	35,426	32,331	36,721
Surface coal mining app fee	3,700	2,530	1,005	3,116	3,150	10,897
APMA mining fees	13,175	11,975	15,113	14,550	17,131	17,475
Subtotal	**$ 73,741**	**$ 63,163**	**$ 65,696**	**$ 80,502**	**$ 81,357**	**$ 112,307**
State corporate income tax[b]	50,266	(221,936)	406,064	2,104,144	23,641,883	71,299,684
Mining License Tax[c-f]	466,430	351,387	3,224,684	10,317,238	18,637,996	79,141,526
State Total	**$ 5,445,962**	**$ 5,139,016**	**$ 8,508,389**	**$ 17,680,114**	**$ 49,111,198**	**$157,943,576**
Payments to Municipalities	**$ 9,763,220**	**$ 9,703,208**	**$10,510,048**	**$10,999,663**	**$ 11,975,892**	**$ 14,388,329**
TOTAL	**$15,209,182**	**$14,842,224**	**$19,018,437**	**$28,679,777**	**$61,087,090**	**$172,331,905**

[a]Includes upland lease and offshore lease rentals.

[b]Preliminary data for 2006.

- only subchapter C corporations pay income tax.
- this report may not reflect 100% of the returns received in a year.
- data from 2001 through 2006 has been updated to reflect revenue to the state for the succeeding fiscal year; for example, FY07 receipts are shown in calendar year 2006.

In FY03 (calendar year 2002) more refunds were given than revenues received by the state.

[c]Includes metals, coal and material.

[d]Mining license tax has been adjusted to reflect actual receipts for the succeeding fiscal year for the period 2001 to 2006; see note for income tax above.

[e]Data does not match earlier reports.

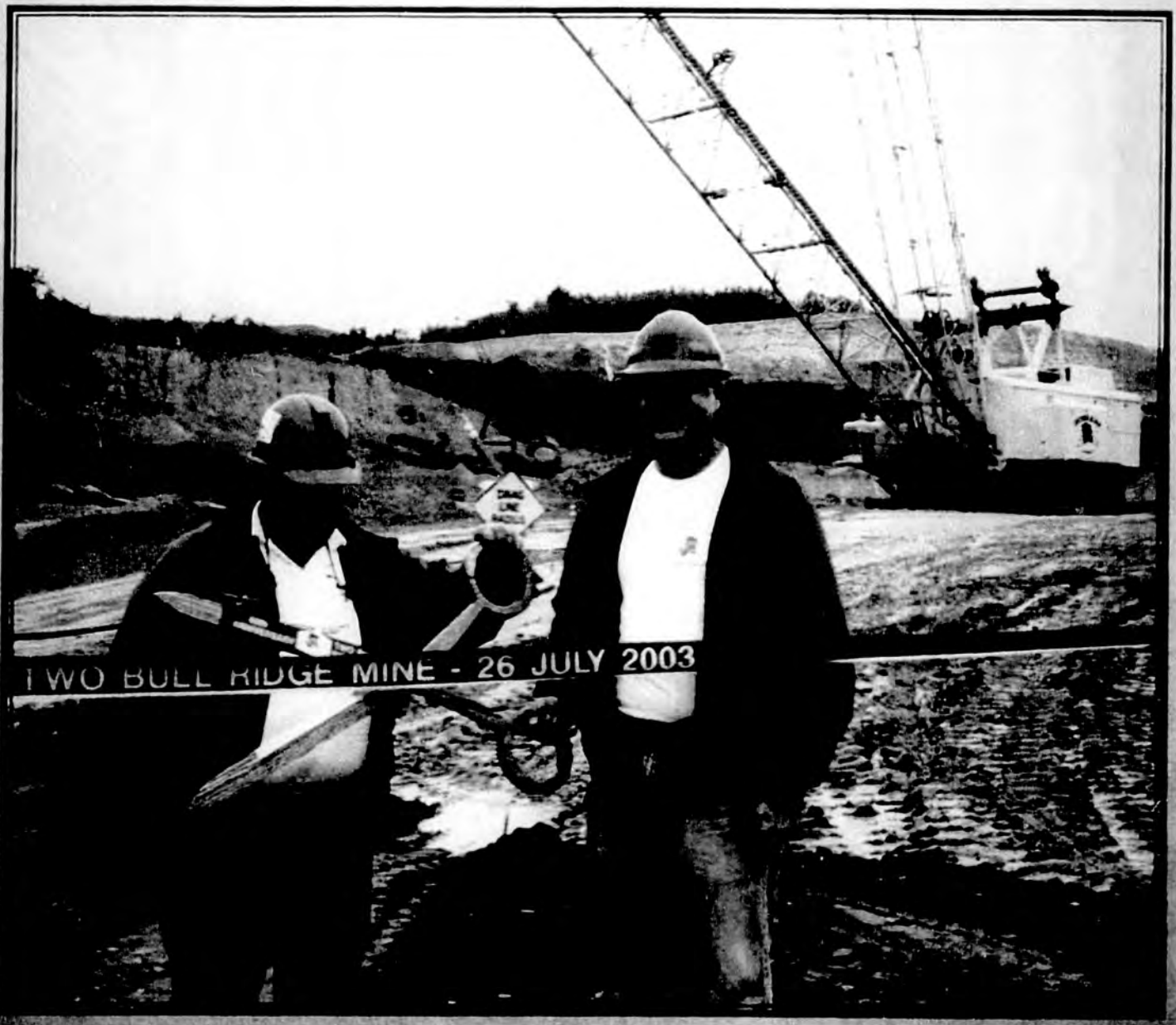
[f]2006 numbers are preliminary and are subject to revision.

Attachment B

Table 10, "Alaska's Mineral Industry 2003—Special Report 58," Division of Geological and Geophysical Survey, Department of Natural Resources, in cooperation with the Office of Economic Development, Department of Commerce, Community, and Economic Development and the Division of Mining, Land, and Water, Department of Natural Resources

Special Report 58

Alaska's Mineral Industry 2003



...Usibelli, on left, and Joe Usibelli, Jr., on right, cutting the ribbon at the grand opening of the Two Bull Ridge coal mine near Healy on ... 26, 2003. Opening of the mine coincided with the celebration of 60 years of coal mining by Usibelli Coal Mine Inc. in the Healy area. The Two Bull Ridge Mine is projected to produce coal for at least 20 years at current rates of extraction. Photo by Chris Arend, provided by Usibelli Coal Mine Inc.

...ON OF GEOLOGICAL & GEOPHYSICAL SURVEYS
...operation with
...Economic Development
...of Mining, Land & Water

Table 10. *Estimated mineral production in Alaska, 2001–2003*[a]

	Quantity			Estimated values[b]		
Metals	**2001**	**2002**	**2003**	**2001**	**2002**	**2003**
Gold (ounces)	550,644	562,094	528,191[c]	$149,246,000	$174,283,000	$ 191,934,000
Silver (ounces)	16,798,000	17,858,183	18,589,100	73,408,000	82,326,000	95,300,000
Copper (tons)	1,400	1,600	0[d]	1,988,000	2,272,000	0
Lead (tons)	127,385	146,462	162,479	56,049,000	61,514,000	64,279,000
Zinc (tons)	634,883	718,106	714,769	507,907,000	502,674,000	536,348,000
Subtotal				**$788,598,000**	**$823,069,000**	**$887,861,000**
Industrial minerals						
Jade and soapstone (tons)	2.0	2.0	0[e]	$ 25,000	$ 25,000	$ 0
Sand and gravel (million tons)	10.4	22.4	11.9	55,221,000	120,698,000	64,140,000
Rock (million tons)	3.1	3.2	0.9	27,176,000	31,442,000	10,406,000
Subtotal				**$82,422,000**	**$152,165,000**	**$74,546,000**
Energy minerals						
Coal (tons)	1,537,000	1,158,000	1,088,000	$ 48,108,000	$ 37,400,000	$ 38,080,000
Peat (cubic yards)	36,000	35,000	35,000[f]	180,000	175,000	175,000
Subtotal				**$ 48,288,000**	**$ 37,575,000**	**$ 38,255,000**
TOTAL				**$919,308,000**	**$1,012,809,000**	**$1,000,662,000**

[a]Production data from DGGS questionnaires, phone interviews with mine and quarry operators, Alaska Department of Transportation and Public Facilities, and federal land management agencies.

[b]Values for selected metal production based on average prices for each year; for 2003—gold ($363.58/ounce unless other value provided by operator); silver ($4.88/ounce); copper ($0.81/lb); zinc ($0.38/lb); lead ($0.23/lb). All other values provided by mine operators. Values rounded to nearest $1,000.

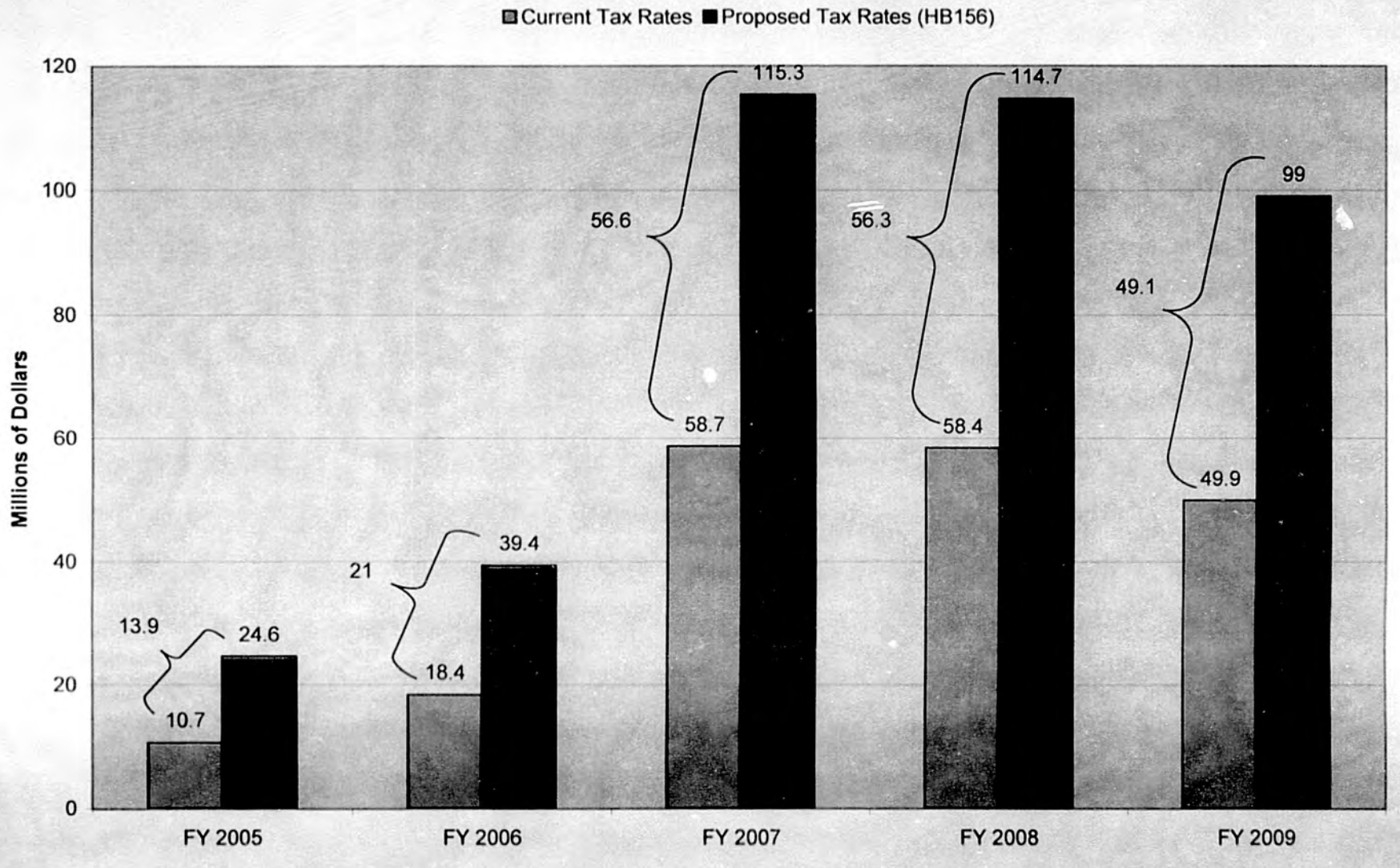
[c]Hardrock gold 504,591 ounces, placer gold 23,600 ounces.

[d]Greens Creek has historically been credited with a small copper concentrate production; no credit was experienced for 2003 production.

[e]Jade and soapstone credit has been dropped.

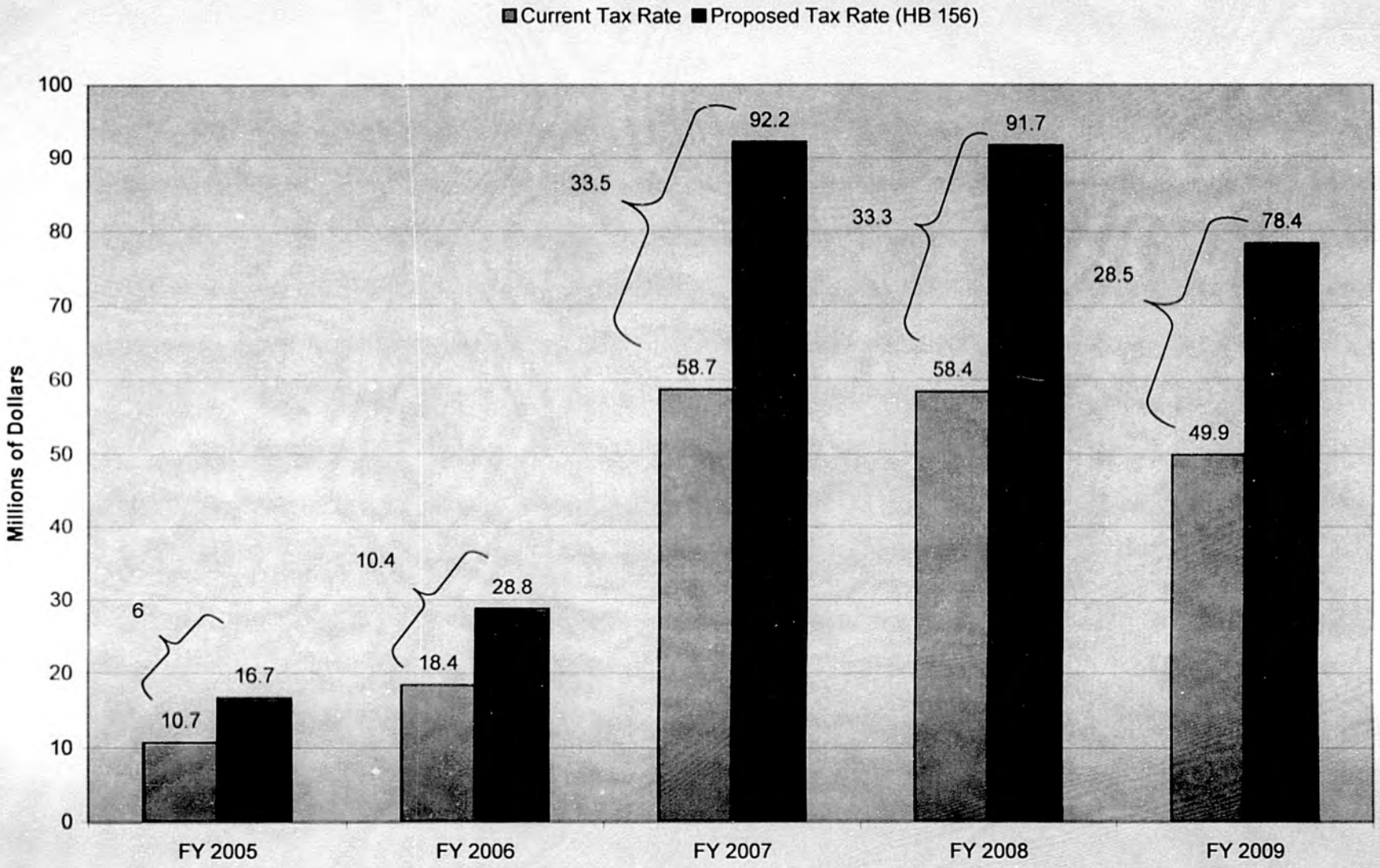
[f]Projected only; no reports from producers.

Mining License Tax Revenues - Total Effect of HB 156



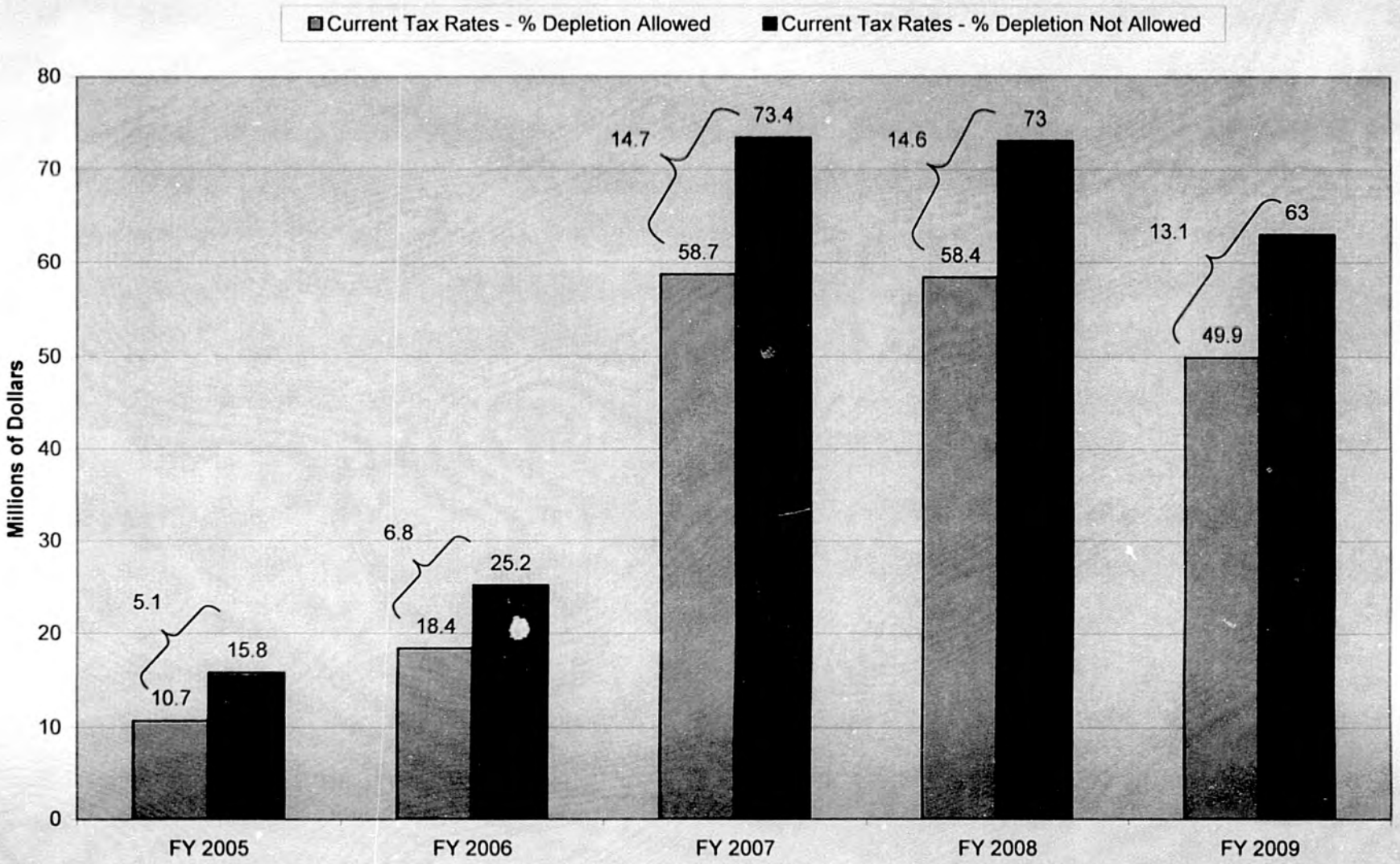
Prepared by: Johanna Bales
Alaska Department of Revenue

Mining License Tax Revenues - Effect of Tax Rate Change
% Depletion Allowed



Prepared by: Johanna Bales
Alaska Department of Revenue

Mining License Tax Revenues - Effect of % Depletion



25th Alaska State Legislature
House Special Committee on Ways & Means

Chair:

Rep. Mike Hawker
Capitol Room 502
465-4949

Vice-Chair:

Rep. Anna Fairclough
Capitol Room 411
465-3777

Members:

Rep. Bob Roses
Capitol Room 416
465-4939

Rep. Paul Seaton
Capitol Room 102
465-2689

Rep. Peggy Wilson
Capitol Room 403
465-3824

Rep. Sharon Cissna
Capitol Room 420
465-3875

Rep. Max Gruenberg
Capitol Room 110
465-4940

Committee Aide:

Juli Lucky
465-6587 direct
465-4979 fax

AGENDA

January 30, 2008
3:30 pm – 5:00 pm

HB 156: Mining Production and License Taxes/Royalties
Representative Paul Seaton, Prime Sponsor

Available for Questions:

Johanna Bales, Deputy Director, Tax Division, Department of Revenue

Marcia Davis, Deputy Commissioner, Department of Revenue

REPRESENTATIVE PAUL SEATON

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ALASKA STATE LEGISLATURE
House District 35

HB 156
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 156 recognizes our constitutional duty by providing a reasonable share of Alaska's non-renewable resources to benefit all Alaskans. The bill makes changes to the existing Mining License Tax, minerals and coal royalties, as well as the rentals for mining activity on state land.

The Mining License Tax is paid by all mining operations in the state and is levied on the net income from those activities. Tax rates are based on a graduated scale that increases with net income, currently topping out at 7%. Mining operations (excluding sand and gravel) are exempt from paying the mining license tax for the first three and a half years of production. HB 156 changes this exemption to a deferral that is payable over the following 10 years of production. Rates on the graduated scale are also raised by 2% with an additional bracket for income over $500,000 to be taxed at 11%. This bill also exempts miners with net income under $40,000 from the current duty to file tax forms.

The depletion allowance is also changed under HB 156 to allow only for cost depletion. This lets a mine deduct all development expenses over the life of the mine, but eliminates the deduction of a flat percent of gross income under the current law.

HB 156 changes the calculation of the royalty for mineral mining on state land from our current 3% of net income to a 3% Net Smelter Return (NSR) tax. The royalty represents a share of mineral wealth that is paid to the owner of the mineral rights. Most land owners in Alaska, other than the State, negotiate for a NSR royalty between 2% – 5%.

http://www.RepPaulSeaton.com
Email: Rep_Paul_Seaton@legis.state.ak.us

The bill also updates the royalty for coal by setting the 5% of adjusted gross income currently in regulation as the minimum that can be negotiated with the Administration. This is the first change to the statute governing coal royalties since statehood.

Land claim rental rates are also adjusted under HB 156, for the first time since statehood. These annual fees are paid by all operators on a per-acre basis for mining on state land. The minimum rates are updated in statute to reflect the $3/acre for coal and $3.30/acre for minerals currently in regulation. Rates are also tied to the Anchorage Consumer Price Index to allow for rental rates to increase with inflation.

The only change in HB 156 from the finial version of last year's Mining Tax legislation is to allow the State to accept coal as royalty in kind, similar to how the State accepts oil. The University of Alaska Fairbanks has a coal fired electric plant and would benefit from not having to purchase coal for a fraction of what the State receives in coal royalties.

Alaska's mining industry bears a light tax burden compared to Alaska's other high value resource industries. The State receives less than 1% of the mined resource value as tax revenue, while an additional 1% is paid to municipalities primarily as property tax (based on 2005 figures). The State receives 12.5% royalty on oil and gas on State lands plus an additional 22.5% of net profits. The oil and gas industry also pays 20 mils in property tax to the state and municipalities. State revenue from fisheries amount to about 2.8% of the total production value while an additional 2.5% is paid in severance and use taxes to municipalities. Additionally, vessels, docks and processing plants pay property tax to municipalities.

HB 156 allows the State a reasonable share of the wealth for its mined resources through many long-overdue changes to the mining tax structure. It is important that we establish a stable tax structure that is fair to the private sector and provides the people of Alaska with a reasonable benefit from their resources.

FISCAL NOTE

STATE OF ALASKA
2007 LEGISLATIVE SESSION

Fiscal Note Number: HB156-DOR-TAX-3-14-07
Bill Version: HB 156
() Publish Date: 3/14/2007

Revision Date/Time (Note if correction):
Dept. Affected: Revenue 04
Title: Mining Prod. & License Taxes/Royalties
RDU: Taxation and Treasury
Component: Taxation and Treasury
Sponsor: Seaton
Requester: House Ways and Means
Component No.: 2476

Expenditures/Revenues (Thousands of Dollars)

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

OPERATING EXPENDITURES	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013
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 (FY2007) cost: 0.0
Check this box (X) if funding for this bill is included in the Governor's FY 2008 budget proposal:

POSITIONS

Full-time						
Part-time						
Temporary						

ANALYSIS: *(Attach a separate page if necessary)*

This bill will replace the current 3-tier tax rate structure which has a top tax rate of 7% of mining net income with a 4-tier tax rate structure which has a top tax rate of 11% of mining net income. This bill will also repeal the deduction allowed for percentage depletion and the current 3.5 year exemption from the tax. The 3.5 year exemption will be replaced with a 10 year deferral of the tax liability incurred during the first 3.5 years of production. This bill will not create additional duties for the Department. Therefore, there is no expected increase in operating costs incurred by the Department of Revenue, Tax Division as a result of this legislation.

Prepared by: Johanna Bales/Nels Tomlinson
Phone (907) 269-6628
Division: Tax
Date/Time 3/14/2007 4:10 p.m.
Approved by: Jerry Burnett
Date 3/14/2007
Agency: Dept. of Revenue

ANALYSIS CONTINUATION

Mining license tax revenue:

This bill takes effect January 1, 2008. Tax on net income earned in calendar year 2007 is required to be remitted to the state before May 1 each year. Therefore, changes to this bill would have no effect on tax payments made in FY 2008. This bill contains three major changes to the mining license tax. The effect on revenue from each change is addressed below.

Change the existing tax rate structure. This bill would change the existing tax rate structure from a 3-tier graduated tax to a 4-tier tax with rates that are not graduated.

Current Tax 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

Proposed Tax Structure

Net Income	Tax
$0 - $40,000	No tax due
$40,001 - $50,000	5% of entire net income
$50,001 - $100,000	7% of entire net income
$100,001 - $500,000	9% of entire net income
>$500,000	11% of entire net income

We expect that tax revenues may increase approximately $7 to $10 million each year as a result of proposed changes to the tax rate structure.

Repeal percentage depletion statutes. Currently, mining companies are allowed to calculate their depletion deduction using the greater of cost depletion or percentage depletion. This bill would eliminate percentage depletion and allow mining companies to use only cost depletion when calculating their depletion expense. In fiscal years 2005 and 2006, the use of percentage depletion saved the mining industry approximately $3 million in tax liability each year as opposed to using cost depletion only. Without knowing future net income of mining operations, it is impossible to determine the effect on future revenue as a result of this change.

Repeal the 3.5 year exemption from mining license tax. Currently, income earned during the first 3.5 years of production is exempt from the mining license tax. This bill would repeal the exemption and instead allow any tax liability incurred during the first 3.5 years of production to be deferred over 10 years. A review of historical tax records of various mining properties indicates that most mining operations incurred losses during the first 3.5 years of production. As such, we do not see any additional mining license tax income generated as a result of this proposed change.

Total estimated revenues may increase between $10 and $13 million each year as a result of changes to the mining license tax as proposed by this bill.

FISCAL NOTE

STATE OF ALASKA
2007 LEGISLATIVE SESSION

Fiscal Note Number: HB156-COM-OED-03-15-07
Bill Version: HB 156
() Publish Date:

Revision Date/Time (Note if correction):
Dept. Affected: Commerce
Title: Mining Prod & License Taxes/Royalties
RDU: Comm Assist & Ec Dev (405)
Component: Office of Economic Development
Sponsor: Seaton, Doll
Requester: House Ways & Means
Component No.: 2743

Expenditures/Revenues (Thousands of Dollars)

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

OPERATING EXPENDITURES	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013
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 (FY2007) cost: 0.0
Mark this box (X) if funding for this bill is included in the Governor's FY 2008 budget proposal:

POSITIONS

Full-time						
Part-time						
Temporary						

ANALYSIS: *(Attach a separate page if necessary)*

This legislation relates to mining licenses, the mining license tax, and to production royalties on minerals and rents for property involved in mining. It would not have a fiscal impact upon the operations of the office.

Prepared by: Bill Allen, Development Manager — Phone 907.451.2738
Division: Office of Economic Development — Date/Time 3/15/07 12:12 PM
Approved by: Emil Notti, Commissioner — Date 3/15/2007
Agency: Commerce, Community, and Economic Development

(Revised 9/18/2006 OMB)

FISCAL NOTE

STATE OF ALASKA
2007 LEGISLATIVE SESSION

Fiscal Note Number: HB156-DNR-CPL-03-15-07
Bill Version: HB156
() 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: House W&M
Component No.: 2460

Expenditures/Revenues (Thousands of Dollars)

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

OPERATING EXPENDITURES	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013
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 (FY2007) cost: 0.0
Mark this box (X) if funding for this bill is included in the Governor's FY 2008 budget proposal:

POSITIONS

Full-time						
Part-time						
Temporary						

ANALYSIS: *(Attach a separate page if necessary)*

State mining claim rental revenue is expected to stay the same or increase; state mining claims presently total 3.3 million acres. It is estimated that a significant number of mining claims will be dropped due to the proposed increase in rental fees. If no claims are dropped, the additional revenue would be a maximum of $7.5 million annually. If half of the claims are dropped, revenue could increase by $3.7 million. Current 2006 revenue from mining claims on state land is 3.4 million.

Coal mining rent and royalty revenue is not materially affected by the proposed changes.

Mining royalties from mines on State land would increase but the amount of the increase is difficult to estimate as there are numerous variables that impact royalties, including mineral prices and amount of production. It is possible that the royalties could increase by $3.5 million in 2008 if all mining operations continue at current levels and the proposed tax changes do not result in a reduction in mining operations.

Prepared by: Dick Mylius, Acting Director — Phone 269-8600
Division: Mining, Land & Water — Date/Time 3/15/2007
Approved by: Tom Irwin, Commissioner — Date 3/15/2007
Agency: Natural Resources

LEGAL SERVICES

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

(907) 465-3867 or 465-2450
FAX (907) 465-2029
Mail Stop 3101

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

MEMORANDUM March 7, 2007

SUBJECT: Sectional Summary of HB 156

TO: Representative Paul Seaton
Attn: Katie Shows

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. Amends AS 38.05.150(d) by shortening to 10 years the period during which a coal royalty shall be effective; changing the amount of royalty to 5 percent of the adjusted gross value of coal sold, disposed, transferred, or consumed by a lessee in a noncompetitive lease or a competitive lease in which royalty is a bid variable; and increasing the minimum amount of annual rental.

Section 2. Adds new subsections to AS 28.05.150 to allow the commissioner of natural resources to require the lessee to pay royalty-in-kind as necessary to fuel a coal-fired power plant owned by the state or an agency of the state, and requires the commissioner to calculate changes in the rental amount for a coal lease based on the Consumer Price Index.

Section 3. Amends AS 38.05.211(a) by increasing the minimum rent for a mining claim, leasehold location, or mining lease.

Section 4. Amends AS 38.05.211(d) to apply only to a claim, leasehold location, prospecting site, and mining lease first located before January 1, 2008.

Section 5. Adds a new subsection to AS 38.05.211 that is applicable to a claim, leasehold location, prospecting site, and mining lease first located after December 31, 2007; requires the commissioner of natural resources to revise the rental amount based on changes in the Consumer Price Index; requires the commissioner to increase or decrease the rental amount rounded to the nearest whole $5 unit; requires the commissioner to

calculate a change in the rental amount each 10 years and to establish revised rental amounts by regulation; provides that 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.

Section 6. Repeals and reenacts AS 38.05.212(b) to change the basis for the calculation of the production royalty to three percent of the net smelter return or the gross value at the point of production, depending on whether the mining production is processed by a smelter or refinery.

Section 7. Adds a new section to AS 38.05.212 to define "net smelter return."

Section 8. Adds a new section, AS 38.05.213, that defines the gross value at the point of production; describes when the value of a resource immediately after extraction is the price received by the person engaged in mining the resource (adjusted for value added) and when the department may reject that basis for determining value; directs the substitution of fair market value for the price reported by the person if the department rejects the reported price; uses the reasonable cost of transportation to determine the gross value at the point of production and provides for an alternate determination of the reasonable cost when the actual cost is rejected; defines "affiliated" and "destination value" as those terms are used in the section.

Section 9. Adds a new section to AS 43.65 that requires a person engaged in mining to apply for a mining license and directs the Department of Revenue to adopt regulations prescribing the information to be provided by the applicant and the fee for the license.

Section 10. Amends AS 43.65.010(a) to change the exemption of the mining tax during the first three and one-half years to a deferral; requires the deferred tax to be paid during the ten-year period following the end of the period in which the tax is deferred.

Section 11. Amends AS 43.65.010(b) by simplifying the language.

Section 12. Amends AS 43.65.010(c) by increasing the tax rates and adding an additional bracket applicable to net income over $500,000.

Section 13. Amends AS 43.65.010(d) to conform the language to the current drafting style.

Section 14. Repeals and reenacts AS 43.65.010(e) to use cost depletion.

Section 15. Amends AS 43.65.060 to add a definition for "date production begins," amend the definitions of "mining," "net income of the taxpayer from the property," and "new mining operation," and delete the definition of "production."

Section 16. Repeals AS 38.05.211(b) and AS 38.05.211(e) that relate to annual rental.

Repeals AS 43.65.030 that relates to the application for the renewal of a mining license.

Section 17. Provides that AS 38.05.150(d) in sec. 1 of the bill applies to leases entered into or renegotiated after December 31, 2007.

Section 18. Makes the Act effective January 1, 2008. The effective date will require a two-thirds vote in each house.

DMB:med
07-161.med

HB 156 – Simplified Comparative Sectional

Please note, mining taxes have not been updated since 1955, some of the changes are updating drafting language to modern standards.

Sec. 1 Coal Royalty
Shortens the time a royalty is fixed to 10 years. *(Currently 20)*

Changes coal royalty to 5-12% of the adjusted gross value. Increases the minimum rental amount to $3 an acre for coal, fixed for no more than 20 years. *(Updates statute to reflect regulation)*

Sec 2 Coal In-kind
Allows the coal lessee to give the state royalty-in-kind rather than cash to fuel the State coal fired power plant. At least every 10 years the commissioner will update the in kind rental amount to reflect inflation. *(New section)*

Sec. 3 Mining Rentals
A holder of a mining claim, lease, leasehold location, prospecting site is required to pay:

-$200 for the two year term of prospecting the site *(Current statute)*
-Annual rental for a mining claim no less than $3.30 an acre
(Current rental is based on a sliding scale of $.5 -$2.5/ acre)

Sec. 4 Adjustment of Rental Rate for mines before 2008
Applies the revision of rental rates every 10 years using the January – June 1989 base consumer price index only to a claim, leasehold, location, prospecting site, or mining lease first located before the effective date of HB 156 (January 1, 2008).

Sec. 5 Adjustment of Rental Rate for mines after 2008
Applies the revision of rental rates every 10 years using the January – June 2005 base consumer price index for a claim, leasehold, location, prospecting site, or mining lease first located after the effective date of HB 156 (January 1, 2008). The rental amount shall be increased or decreased to the nearest $5 unit. *(Currently the base index is from 1989 and it does not specify whole $5 amounts)*

Sec. 6 Net Smelter Return Production Royalty
Exploration incentive tax credits can be applied to the royalty. *(Current statute)*

Repeals the current production royalty and re-establishes it as a 3% Net Smelter Return (NSR) or 3% of the gross value of the mineral at the point of production if the mineral is not further processed by a smelter or refinery. *(Current royalty is 3% of net income for mines on State land)*

Sec. 7 Definitions
Defines "affiliated" and "destination value"

Defines "net smelter return" as the value that the mining company receives from the sale of their ore after it has been smelted or refined. That value could be based on:

-the current price of the mineral minus what was spent processing the mineral and transporting it between the refinery and the mine
-OR however the department sees fit to determine it in regulation.
(New definition)

Sec. 8 Gross Value at Point of Production
Establishes "Gross Value at Pont of Production" as the value of the mineral immediately after it is removed from the mine excluding income received from extraction or processing mine waste previously taxed.

The value of the mineral immediately after it is removed from the mine is what the mining company receives after they have added value to the resources thought production unless:

1. the Department feels like the price the company received is less than the fair market value
2. the price received does not reflect the total value received by the mining company in the transaction
3. the buyer and seller are affiliated
4. the price received was not negotiated in an arms length transaction

If the Department thinks the price the company received is not adequate they shall substitute the fair market value of the resource.
In order to determine the Gross Value at Point of Production the cost of transportation is deducted.

The cost of transportation = the actual cost unless:

1. parties are affiliated
2. the transportation contract is not the result of an arms length transaction or is not representative of fair market value
3. an unreasonable method of transportation was used

If the Department determines that the transportation costs used to calculate the gross value at point of production are not representative of fair market value they will determine the reasonable cost of transportation

Definitions of affiliated and destination value. *(New section)*

Sec. 9 Application for Mining License
The application period for a mining license tax is before May 1 or 30 days after mining begins, whichever is later. *(Currently the application for renewal of mining license is due before May of each year)*

The Department adopts regulations on what needs to be submitted on the application and the application fee.

Sec. 10 Mining License Tax Deferral
A mining company can defer their mining license tax payments for their first 3 ½ years of production. However, they are required to pay the amount deferred (without interest) in equal payments over the next 10 years. Sand and gravel do not have the option to defer mining license taxes. *(Currently mining companies, excluding sand and gravel, have an exemption for the first 31/2 years)*

Sec. 11 Certification
DNR certifies the date production begins at the mine. *(No substantive changes)*

Sec. 12 Mining License Tax Rates
The mining license tax is based on the company's net income minus allowable depletion plus royalty received in connection with mining property in the state of Alaska.

TAX RATES

$0 – < 40,000	0% (do not have to file because pay no tax)
>40,000 - <50,000	5%
>50,000 - <100,000	7%
>100,000- <500,000	9%
<500,000	11%

Operations with a net income under $40,000 pay no mining license tax *(Same as current statute)*

CURRENT TAX RATES

$0 – < 40,000	*0% (are required to file even though pay no tax)*
>40,000 - <50,000	*3%*
>50,000 - <100,000	*$1,500 plus 5% of the excess over $50,000*
>100,000	*$4,000 plus 7% of excess over $100,000*

Sec. 13 Taxing Multiple Mines
If one company has more than one mining operation, taxes are based on aggregate income. If an organization leases a mine to a company, the organization will pay taxes on the royalties received as if it were the mining company. *(Updates language to confirm with current drafting style, no substantive changes)*

Sec. 1 4 Depletion
Deletes existing depletion statute and allows mining companies to only calculate depletion using the cost depletion method. *(Current statue allows a company in any given year to choose between percent and cost depletion.)*

Sec. 15 Definitions
Definitions:
"date production begins" – when a mining company first ships their product *(new definition)*

"gross income from property" – gross income from mining in the state
"mining" – the extraction of minerals (lists minerals) taken from the earth and treated by the mine to produce a marketable product. Does not include oil and gas.

"net income of the taxpayer" – [gross income from mining] – MINUS- [allowable deductions for depletion and treatment (for example, overheard, operating expenses, development costs, deprecation, taxes, and losses)]. Does not include deductions for federal income taxes, state corporate income taxes, or mining license taxes. *(current statute allows the deduction of state corporate income taxes)*

"new mining operation" – first operation on property that has never been mined before.

"ordinary treatment process" – defines the how the minerals of hard metal and sulphur ores, among others are traditionally processed.

Sec. 16 Repeals
Repeals the grandfathering of mines before August 1989 (AS. 28.05.211(e); repeals the reference to the application date for renewing mining licenses because it is covered in Sec. 9 of this act (AS. 43.65.030). *(Statute is no longer relevant)*

Sec. 17 Applicability
applies this legislation to all leases entered into are renegotiated after December 31, 2007.

Sec. 18 Effective Date
This legislation takes effect January 1, 2008.

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PUBLICATIONS

Annual Survey of Mining Companies 2005/2006
Publication Date: March 2006
Publication Format: Survey

Author(s):
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Executive Summary: Since 1997, The Fraser Institute has conducted an annual survey of metal mining and exploration companies to assess how mineral endowments and public policy factors such as taxation and regulation affect exploration investment. Survey results represent the opinions of executives and exploration managers in mining and mining consulting companies operating around the world. The survey now covers 64 jurisdictions around the world, on every continent except Antarctica, including sub-national jurisdictions in Canada, Australia, and the United States.

While geologic and economic evaluations are always requirements for exploration, in today's globally competitive economy where mining companies may be examining properties located on different continents, a region's policy climate has taken on increased importance in attracting and winning investment. The Policy Potential Index serves as a report card to governments on how attractive their policies are from the point of view of an exploration manager.

The Policy Potential Index is a composite index that measures the effects on exploration of government policies including uncertainty concerning the administration, interpretation, and enforcement of existing regulations; environmental regulations; regulatory duplication and inconsistencies; taxation; uncertainty concerning native land claims and protected areas; infrastructure; socioeconomic agreements; political stability; labour issues; geological database; and security.

The Policy Potential Index in based on ranks and normalized to maximum score of 100. A jurisdiction that ranks first in every category would have a score of 100; one that scored last in every category would have a score of 0. Since no nation scored first in all categories or last in all, the highest score is 93.1 (Nevada), while the lowest score is 2.4 (Zimbabwe).

This is the sixth straight year Nevada is rated as having the best mineral policies. The other top-10 policy jurisdictions are Alberta, Manitoba, Chile, Quebec, Mexico, Saskatchewan, Arizona, Ontario, and Utah. For the most part, last year's top 10 jurisdictions were either in this year's top 10 or nearly so. Chile had been in second place the year before last and then fallen to 14th spot last year, perhaps due to the controversy over mining royalties in that nation. Chile has rejoined the top 10 in the 4th spot.

Zimbabwe continues to set new records. Its last place score of 7.6 last year was the lowest score recorded in the last four years. This year Zimbabwe's score fell to 2.4, the lowest in the survey's history. Other bottom scorers were Papua New Guinea, DRC Congo, Venezuela, the Philippines, Indonesia,

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Figure 17: Composite Policy and Mineral Potential

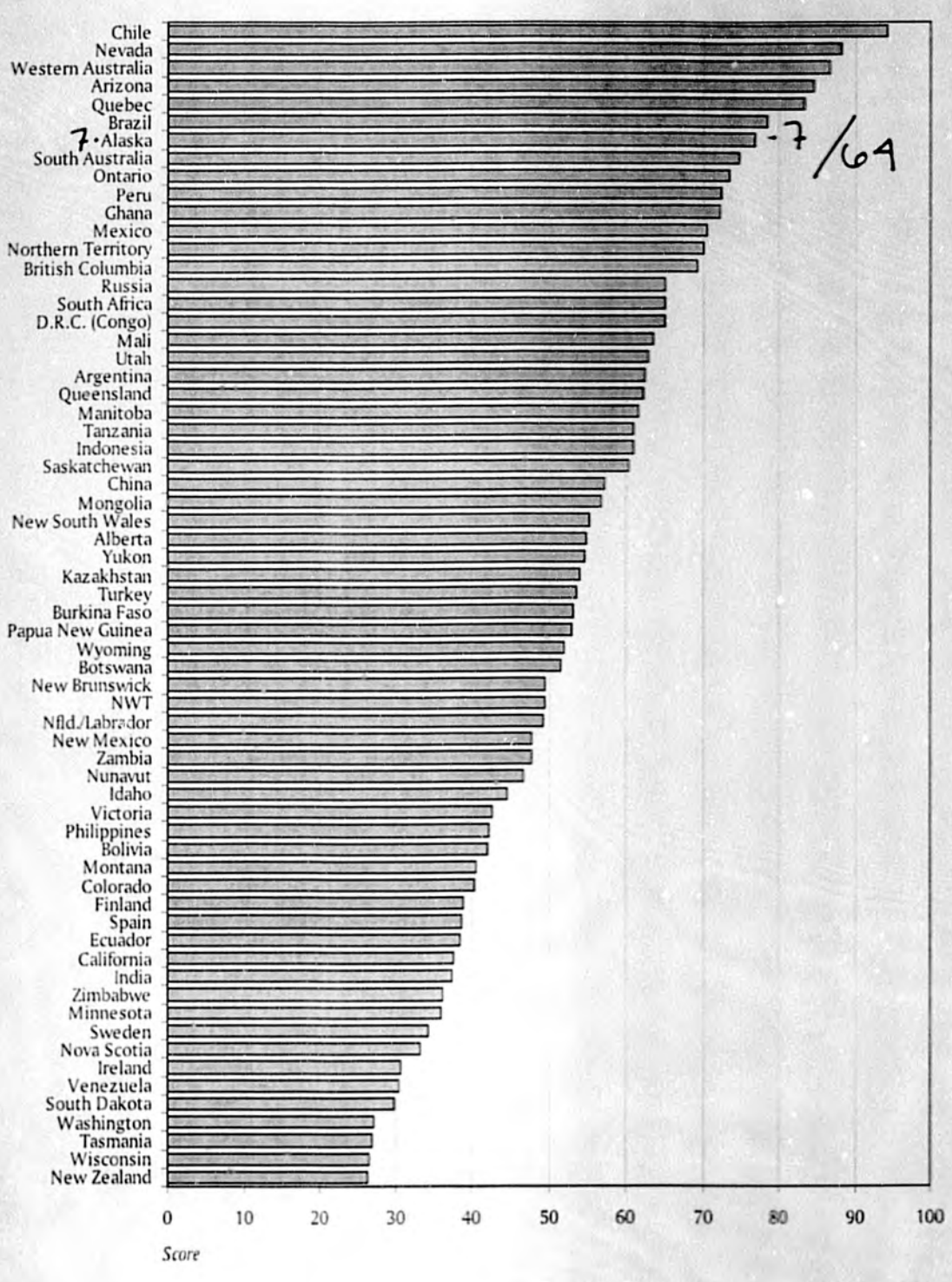
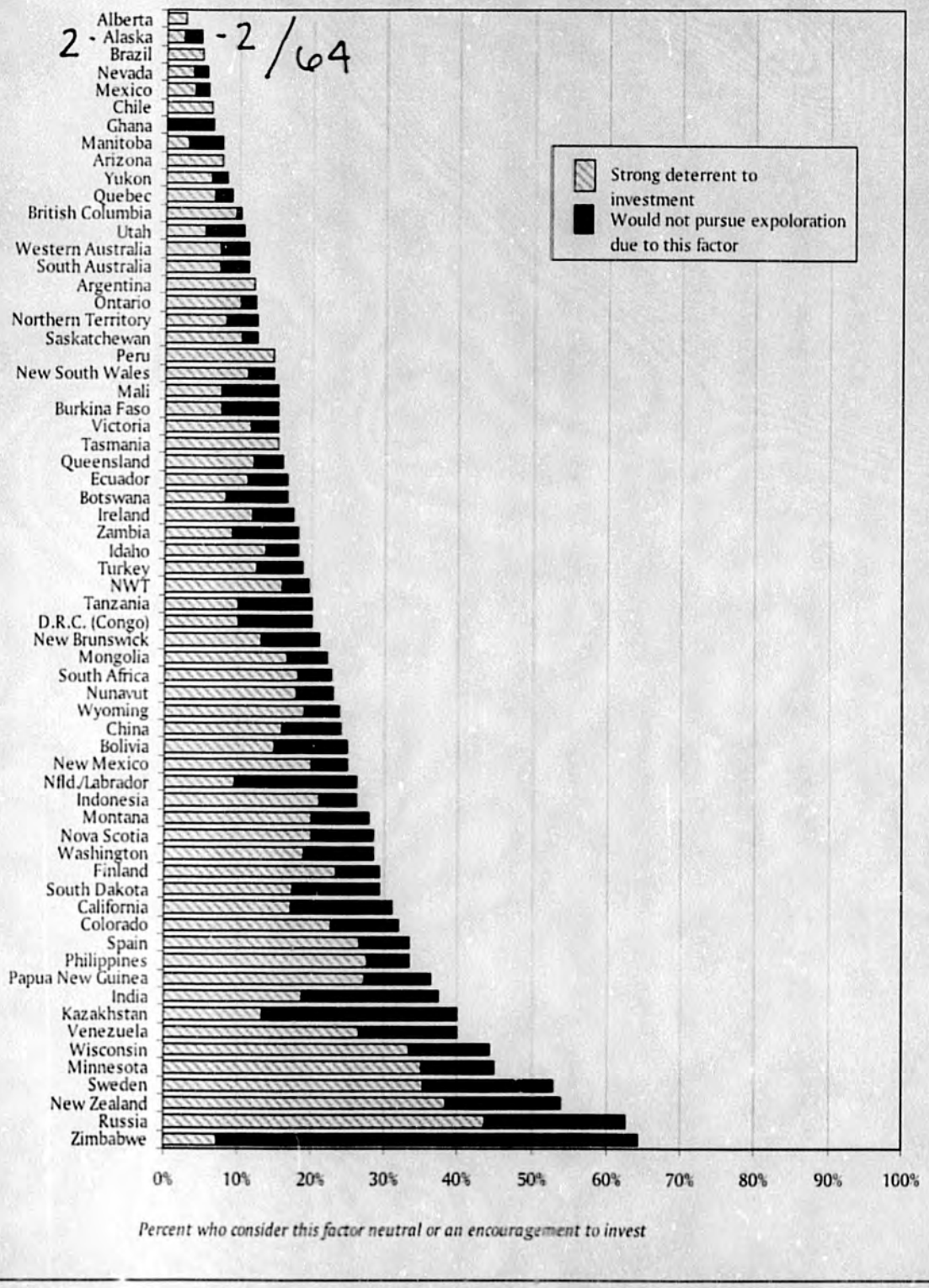


Figure 8: Taxation Regime



Metal Mines Taxation
Comparison of All Taxes (U.S. States)

	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% Net Smelter Return on state land; 2-5% NSR on non-state land; 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	5-11% of net income	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	4.63% - 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

	State	Investment Attractiveness Ranking (9)	Severance Tax	Corp. Income Tax	Property Tax	License Tax	Sales & Use Tax	Other Taxes or Fees
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
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 June30, 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

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

[7] 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.

[8] Washington levies a business and occupation tax.

9. 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.

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 (Current)	6	15-35% - Federal rate, increases with taxable income; 1-9.4% - State rate, increases with taxable income, deductible against federal tax	Mining license tax 3-7% of net profits; royalty on state land 3% of profits; royalty on non-state land 2-5% NSR	none	N/A (Rates vary by product and by country; Not applicable in most instances as equipement is availible 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	Mining license tax 5-11% of net profits; royalty on state land 3% NSR; royalty on non-state land 2-5% NSR	none	N/A (Rates vary by product and by country; Not applicable in most instances as equipement is availible 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 availible only if equipment is not availible 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 - duductible 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 coutries 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 Catetory 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 contrcats 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 threshhold; 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 concract 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 threshhold 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 Affrica	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

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) *Comparaitive Mining Tax Regimes*, PricewaterhouseCoopers, 1998, Bob Parsons, Partners, Global Energy & Mining Group. (d) *State Taxes and Charges Applicable to Mining in Australia*, Austrailian 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 after immediate operating expnses; 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.

Non-renewable Resource Tax Comparison Chart

Prepared by the office of Rep. Seaton

Current Mining (Statute/ Regulation)	HB 156 - Proposed Mining Tax Changes	Current Oil and Gas Taxes
Taxes		
Mining License Tax Rates on Net Income	**Mining License Tax Rates on Net Income**	**Tax Rates on modified Net Income (see reverse)**
0 - $40K: 0	0 - $40K: 0	General flat rate on net production tax value: 22.5%
$40K - $50K: 3%	$40K - $50K: 5%	Progressive tax @ 2.5%/$10 above $40/bbl
$50K - $100K: 5%	$50K - $100K: 7%	Floor (minimum tax rate):
$100K - Up: 7%	$100K - $500K: 9%	4% gross when ANSwc >$25; 3% = $20--$25; 2% = $17.50--$20; 1% = $15 --$17.50; 0% = <$15
	$500K - Up: 11%	
Tax Exemption/ Deferral		
3 1/2 year tax exemption for new mines	3 1/2 year deferral for new mines. Payable over following 10 years of production	Limited exemption for small producers (producing up to 50,000 BTU equivalent barrels per year)
Depletion Allowance		
Choice between Percent Depletion OR Cost Depletion	Cost Depletion Only	No Depletion Allowance when calculating State taxes
% depletion deduction against gross income, Coal 10%; Metals/masc. minerals 15%; Sulphur 23%	Changed to allow for cost depletion only. Cost depletion allows for a % of development expenses equal to the % of total ore body mined during the tax year, to be deducted from mining license tax	
State Corporate Income Tax		
State income tax deductible from Mining License Tax	State Income Tax NOT deductible from Mining License Tax	State Income Tax NOT deductible from Petroleum Profits Tax (PPT)
Royalty		
COAL: 5% of Adjusted Gross Income. Taxable value is price received minus costs of transportation from the mine mouth	COAL: 5% of Adjusted Gross Income. Taxable value is price received minus costs of transportation from the mine mouth	OIL & GAS: minimum 12.5 - 20% of Gross Value at Point of Production. Tax on Private Royalty: oil 5% Gross Value at Pt. Of Production, gas 1.67% of Gross Value at Pt. Of Production
METAL MINES: 3% of Net Income as calculated under Mining License Tax	METAL MINES: 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	
Rents		
Coal: $3/acre per year	Coal: $3/acre per year	Oil & Gas
	Linked to Anchorage Consumer Index	First 4 years, $1-2.50 / acre per year. Every year thereafter $3/ acre per year
Minerals: sliding scale: $0.5-2.5/acre	Minerals: $3.30/acre per year	
Linked to Anchorage Consumer Index (1889 base yr)	Linked to Anchorage Consumer Index (2005 base yr)	

Expenditures Disallowed under PPT

e) For purposes of this section, lease expenditures do not include

(1) depreciation, depletion, or amortization;

(2) oil or gas royalty payments, production payments,lease profit shares, or other payments or distributions of a share of oil or gas production, profit, or revenue;

(3) taxes based on or measured by net income;

(4) interest or other financing charges or costs of raising equity or debt capital;

(5) acquisition costs for a lease or property or exploration license;

(6) costs arising from fraud, wilful misconduct, or gross negligence;

(7) fines or penalties imposed by law;

(8) costs of arbitration, litigation, or other dispute resolution activities that involve the state or concern the rights or obligations among owners of interests in, or rights to production from, one or more leases or properties or a unit;

(9) costs incurred in organizing a partnership, joint venture, or other business entity or arrangement;

(10) amounts paid to indemnify the state; the exclusion provided by this paragraph does not apply to the costs of obtaining insurance or a surety bond from a third-party insurer or surety;

(11) surcharges levied under AS 43.55.201 or 43.55.300;

(12) for a transaction that is an internal transfer or is otherwise not an arm's length transaction, expenditures incurred that are in excess of fair market value;

(13) an expenditure incurred to purchase an interest in any corporation, partnership, limited liability company, business trust, or any other business entity, whether or not the transaction is treated as an asset sale for federal income tax purposes;

(14) a tax levied under AS 43.55.011;

(15) the portion of costs incurred for dismantlement, removal, surrender, or abandonment of a facility, pipeline, well pad, platform, or other structure, or for the restoration of a lease, field, unit, area, body of water, or right-of-way in conjunction with dismantlement, removal, surrender, or abandonment, that is attributable to production of oil or gas occurring before April 1, 2006; the portion is calculated as a ratio of the amount of oil and gas production, in barrels of oil equivalent, associated with the facility, pipeline, well pad, platform, other structure,lease, field, unit, area, body of water, or right-of-way occurring before April 1, 2006, to the total amount of oil and gas production, in barrels of oil equivalent, associated with that facility, pipeline, well pad, platform, other structure, lease, field, unit, area, body of water, or right-of-way through the end of the calendar month before commencement of the dismantlement, removal, surrender, or abandonment; a cost is not excluded under this paragraph if the dismantlement, removal, surrender, or abandonment for which the cost is incurred is undertaken for the purpose of replacing, renovating, or improving the facility, pipeline, well pad, platform, or other structure; for the purposes of this paragraph, "barrel of oil equivalent" means

(A) in the case of oil, one barrel;

(B) in the case of gas, 6,000 cubic feet;

(16) costs incurred for containment, control, cleanup, or removal in connection with any unpermitted release of oil or a hazardous substance and any liability for damages imposed on the producer or explorer for that unpermitted release; this paragraph does not apply to the cost of developing and maintaining an oil discharge prevention and contingency plan under AS 46.04.030;

(17) costs incurred to satisfy a work commitment under an exploration license under AS 38.05.132;

(18) that portion of expenditures, that would otherwise be qualified capital expenditures as defined in AS 43.55.023(k), incurred during a calendar year that are less than the product of $0.30 multiplied by the total taxable production from each lease or property, in BTU equivalent barrels, during that calendar year, except that, when a portion of a calendar year is subject to this provision, the expenditures and volumes shall be prorated within that calendar year.

Fortymile Miner's Association
PO Box 70
Chicken, AK 99732

Re: HB-157 March 15, 2007

Dear Representative Mike Hawker,
The mining industry is not unlike the fishing or tourism industries in that all three industries are composed of every size entity from small individual businesses to global, corporate companies with financial pursuits ranging from supplemental income for Alaska residents to earnings for global stockholders.

The Fortymile Miner's Association (FMA), representing the 2nd oldest Mining District in the State, is almost entirely composed of small "Mom & Pop" mining operations, mostly Alaska residents, which generally supplement other income. Almost all of the represented operations earn annual profits of less than $100,000. Most of the operations pay State rentals on varying sizes of claim blocks, State recording fees and assessments associated with the claims, State royalties on production, State permit & license fees, State reclamation bonding fees, possibly State mining license taxes, possibly State corporate taxes, possibly State unemployment and workers compensation fees and in some cases State leases or campsite fees. Most of the operations are endeavors that last for decades and many are multi-generational businesses. For most operators, their mining business is their largest single lifetime investment. HB-156 would seriously impact all of these operations.

I am going to present a hypothetical scenario to illustrate the magnitude of the increased costs that HB-156 would impose. On the higher end of the spectrum in the Fortymile, a hypothetical operation on a 20 claim block producing $500,000 annually and earning a $100,000 profit would pay over $17,000 to the State before paying any corporate or federal income tax. With the passage of HB-156, the same operator would pay almost $27,000 before corporate or federal income taxes, a 45% increase. Clearly, most businesses cannot absorb such an increase. For the operations that are smaller than the above example, it gets tougher yet. The proposed rental increase is 500%, which will all but stop new staking by small firms and probably start a mass exodus from existing claims.

In closing, FMA recommends that HB-156 be terminated. Passage of the Bill would not only hurt the smaller operators in the industry, but also send a message to the global mining community that the State does not provide a stable environment in which to conduct capital intensive business pursuits.

Respectfully,
Mike Busby, VP FMA

cc Alaska Miner's Association

Rep. Mike Hawker

From: walt@swiftcreekmine.com
Sent: Friday, March 16, 2007 1:59 PM
To: Rep. Mike Hawker
Subject: HB-156

Sir,
I am concerned with the proposed tax and fee increases in HB-156. I believe it will have a detrimental impact on the small miner in Alaska and urge you to kill this measure. A 500 percent increase is not fair or reasonable.

According to the Alaska constitution,"*It is the policy of the State to encourage the settlement of its land and the development of its resources by making them available for maximum use consistent with the public interest.*" By increasing the fees by such a high percentage you are restricting land use by pricing mining claims out of reach of many of the citizens. Only the big out of state companies (read that as Pebble) will be unaffected by the increase.

If the state needs more money why not offer similar tax and fee increases for all fish taken from Alaska waters as the bulk of the money from the fishing industry goes out of state. Spend some time in Bristol bay during the fishing season and you'll find the majority of the people in the fishing industry are from up from Seattle. And who owns the canneries? It's not Alaskans!

The large mines can afford an increase while the individual miner can not. The small miners are Alaskans and they are the ones this bill will hurt. I live and work in Anchorage but someday hope to earn a living on the claims I hold. If I can afford to hang on to them.

Thanks for your time;

Walter Larson
16200 Black Bear Dr
Anchorage, AK 99516

ALASKA STATEWIDE PUBLIC OPINION RESEARCH SURVEY

February 12th to 20th, 2007

Sample size = 402; margin of error ± 4.89%

HELLENTHAL AND ASSOCIATES
2200 Vanderbilt Circle
Anchorage, Alaska 99508
(907) 276-1001 or
277-2315 (fax)
hellenthal@gci.net (e-mail)

Introduction and Methodology

This report presents an analysis of a survey of Alaskan statewide registered voters. The survey measured properties of Alaskan voters' demographics, behaviors and attitudes concerning the proposed Pebble Mine project.

Research typically involves estimating the characteristics of a designated population. Because of the costs of conducting a census of all items in a population and the adequacy of sample results, sample statistics were used to make statistical inferences concerning population parameters.

Four hundred and two (402) Alaskan registered voters were interviewed between February 12th and 20th, 2007. Interviewing was conducted by telephone on a random digit basis. That is, random numbers were computer generated for the last two digits of the suffix of each workable telephone prefix in Alaska. All Alaskan voters who are accessible by telephone had an equal chance of being interviewed.

This survey is a true random digit survey. Other research firms promote "supervoter" surveys. These surveys are not true surveys of voters or supervoters. Their sample does not include unlisted or underlisted registered voters and, therefore, cannot be generalized to voters or supervoters. They only are surveys of registered voters whose telephone numbers can be determined from a telephone directory. They save the researcher money, to the detriment of their clients' desire for accuracy.

Margin of error

At a 95% confidence level, the empirical proportions reported in the general population survey can be projected, within plus or minus 4.89%, to the entire Alaskan registered voter population. This means one can be 95% sure that the frequencies reported in the general population survey are within 4.89% of the true Alaskan registered voter population proportions.

The areas of Alaska surveyed for the general population survey were as follows:

THE FOLLOWING VARIABLE IS CALCULATED USING THE TELEPHONE PREFIX

AREAS OF ALASKA	FREQUENCY	PERCENT	MARGIN OF ERROR
Southeast	52	12.9%	± 13.6 %
Valdez-Kenai-Matsu	76	18.9%	± 11.2 %
Anchorage	164	40.8%	± 7.6 %
Greater Fairbanks	52	12.9%	± 13.6 %
Rural/Bush	58	14.4%	± 12.9 %
TOTALS	402	100.0%	± 4.89%

Margin of error

At a 95% confidence level, the empirical proportions reported in the general population survey can be projected, within plus or minus 4.89%, to the entire Alaskan registered voter population. This means one can be 95% sure that the frequencies reported in the general population survey are within 4.89% of the true Alaskan registered voter population proportions.

The questionnaire with results is as follows:

ALASKA STATEWIDE PUBLIC OPINION RESEARCH SURVEY

February 12th to 20th, 2007

Sample size = 402; margin of error ± 4.89%

Hello, I am _____ from Hellenthal and Associates. We are conducting an area-wide public opinion research survey. Your telephone number was randomly selected. The questions I need to ask will take only a few minutes. All of your responses will be completely confidential. (PAUSE AND PROCEED)

S1. Is this telephone number _____? (IF NO, TERMINATE WITH, "I'm sorry, I dialed the wrong number.")
S2. Am I talking to you at a place where you live?
S3. Are you registered to vote in the State of Alaska?
IF YES, THEN PROCEED TO QUESTION #1
IF NO, THEN ASK...
Is there anyone home who is registered to vote in the State of Alaska?
IF YES THEN ASK...
May I speak with them?
IF NO, THEN ASK...
When will someone be home who is registered to vote?

THE FOLLOWING VARIABLE IS CALCULATED USING THE TELEPHONE PREFIX

AREAS OF ALASKA	FREQUENCY	PERCENT	MARGIN OF ERROR
Southeast	52	12.9%	± 13.6%
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Rural/Bush	58	14.4%	± 12.9%
TOTALS	402	100.0%	± 4.89%

1. I am going to read to you a list of names of organizations and public figures. Please tell me whether your feelings toward each of them are very positive, somewhat positive, somewhat negative, or very negative -- or if you don't know who he/she/it is. Are your feelings toward _____ (FILL IN ORGANIZATIONS & PUBLIC FIGURES) very positive, somewhat positive, somewhat negative, or very negative -- or don't you know who it/he/she is?

(IF POSITIVE OR NEGATIVE SAY, "Is that very positive/very negative or just somewhat positive/negative?")

(IF THEY ONLY RECOGNIZE NAME OR ARE TRULY UNABLE TO GIVE A POSITIVE OR NEGATIVE RECORD A "2" OR "NEUTRAL")

ORGS/FIGURES	4 VERY POSITIVE	3 SOMEWHAT POSITIVE	2 NEUTRAL	1 SOMEWHAT NEGATIVE	0 VERY NEGATIVE	WHO?	MEAN
Alaska Miners Association	12.7%	23.6%	36.7%	5.8%	1.8%	19.4%	2.491
Trout Unlimited	7.1%	18.3%	24.8%	3.5%	1.2%	45.1%	2.484
Renewable Resources Coalition	5.8%	12.5%	31.1%	3.7%	0.7%	46.2%	2.352
The Bristol Bay Alliance	3.2%	9.8%	31.1%	1.8%	2.3%	51.8%	2.202
Rio Tinto	1.2%	1.0%	19.9%	2.3%	1.9%	73.6%	1.895
Northern Dynasty	2.7%	9.7%	31.6%	11.7%	10.2%	34.1%	1.744
Pebble Mine	5.4%	16.1%	30.9%	16.3%	24.4%	7.0%	1.590
Alaska Legislature	6.8%	38.0%	31.4%	17.3%	6.5%	0.0%	2.211
Sarah Palin	38.0%	35.0%	19.9%	5.0%	2.1%	0.0%	3.018
Ted Stevens	22.0%	33.5%	13.1%	19.1%	12.4%	0.0%	2.336
Lisa Murkowski	14.8%	38.4%	18.4%	19.3%	9.0%	0.0%	2.308
Don Young	16.4%	31.2%	17.5%	14.1%	19.4%	1.4%	2.114

(ROTATE ORDER)

2. Have you heard of the proposed Pebble Gold Mine Project?

HEARD OF PEBBLE MINE	FREQUENCY	PERCENT
Yes	364	90.6%
No	38	9.4%

3. The proposed Pebble Mine would develop a gold and copper deposit at the headwaters of the Bristol Bay watershed near Lake Iliamna (ILL-EE-AM-NAH). The Pebble Mine is potentially one of the largest deposits of gold and copper in North America. Do you strongly favor, somewhat favor, somewhat oppose, or strongly oppose opening Pebble Mine Project to gold and copper mining?

PEBBLE MINE #1	FREQUENCY	PERCENT
4. Strongly favor	62	15.4%
3. Somewhat favor	101	25.1%
2. Neutral	42	10.3%
1. Somewhat oppose	77	19.1%
0. Strongly oppose	121	30.1%
	(Mean = 1.766)	

4. The Bristol Bay watershed is the source of the world's greatest wild salmon fishery generating more than $300 million dollars annually. A bill is now before the state legislature to protect this valuable natural resource and to prohibit the draining and destruction of salmon spawning streams for industrial purposes. Do you strongly favor, somewhat favor, somewhat oppose, or strongly oppose protecting Bristol Bay salmon spawning areas in this manner?

PROTECTING WATERSHED	FREQUENCY	PERCENT
4. Strongly favor	253	63.0%
3. Somewhat favor	81	20.2%
2. Neutral	23	5.6%
1. Somewhat oppose	20	5.0%
0. Strongly oppose	25	6.2%
	(Mean = 3.289)	

5. Another proposal before the legislature would establish a game refuge in the watersheds that make up the headwaters of Bristol Bay. It would be named after the late Governor Jay Hammond and is supported by his widow Bella Hammond. Do you strongly favor, somewhat favor, somewhat oppose, or strongly oppose the creation of such a game refuge?

GAME REFUGE	FREQUENCY	PERCENT
4. Strongly favor	156	38.7%
3. Somewhat favor	113	28.2%
2. Neutral	41	10.1%
1. Somewhat oppose	51	12.6%
0. Strongly oppose	41	10.3%
	(Mean = 2.724)	

10. Would you strongly favor, somewhat favor, somewhat oppose, or strongly oppose a statewide ballot initiative that would require large mines to pay 10% of their gross profit to the state? What about _____ (FILL IN 15%, 20%, 25%)?

TAX RATES	4 STRONGLY FAVOR	3 SOMEWHAT FAVOR	2 NEUTRAL	1 SOMEWHAT OPPOSE	0 VERY OPPOSE	MEAN
10%	45.4%	24.5%	9.8%	6.8%	13.6%	2.81
15%	38.0%	18.9%	11.2%	12.9%	19.0%	2.44
20%	36.8%	11.3%	12.9%	14.1%	24.8%	2.21
25%	38.0%	9.0%	12.7%	12.0%	28.3%	2.17

11. Would you strongly favor, somewhat favor, somewhat oppose, or strongly oppose 50% of the gross profit paid to the state by large mines going directly to the Permanent Fund?

50% PROFIT TO P.F.	FREQUENCY	PERCENT
4. Strongly favor	172	42.8%
3. Somewhat favor	64	16.0%
2. Neutral	36	9.0%
1. Somewhat oppose	44	11.0%
0. Strongly oppose	85	21.3%
	(Mean = 2.480)	

12. Do you feel that the creation of one of the world's largest open pit mines at the headwaters of the Bristol Bay watershed is a very positive, somewhat positive, somewhat negative, or very negative development for Alaska?

WORLD'S LARGEST OPEN PIT MINE	FREQUENCY	PERCENT
4. Very positive	31	7.7%
3. Somewhat positive	62	15.5%
2. Neutral	31	7.6%
1. Somewhat negative	80	19.8%
0. Very negative	198	49.4%
	(Mean = 1.124)	

13. Do you support a statewide ballot initiative to strengthen Alaska's clean water laws and enhance the safety of its earthen dams?

BALLOT INITIATIVE	FREQUENCY	PERCENT
Yes	326	81.2%
No	76	18.8%

14. If you had to choose between fish, wildlife and native habitat **or** gold and copper -- which natural resource would you choose -- would it be fish, wildlife and native habitat **or** gold and copper?

FISH OR GOLD	FREQUENCY	PERCENT
Fish, wildlife & native habitat	353	87.9%
Gold and copper	49	12.1%
Don't know		0.0%

15. How would you rank the following Alaskan activities and natural resources as to their importance in promoting Alaska's heritage and legacy? Would you say _____ (FILL IN ACTIVITIES AND NATURAL RESOURCES) is very important, somewhat important, somewhat unimportant, or very unimportant in promoting Alaska's heritage and legacy?

ORGS/INDIVIDUALS	4 VERY IM-PORTANT	3 SOMEWHAT IM-PORTANT	2 NEUTRAL	1 SOMEWHAT UNIM-PORTANT	0 VERY UNIM-PORTANT	MEAN
Commercial Fishing	62.9%	31.1%	1.2%	2.7%	2.0%	3.50
Recreational Fishing	59.5%	31.3%	2.1%	4.1%	3.0%	3.40
Tourism	60.5%	29.2%	2.1%	4.5%	3.6%	3.39
Hunting	53.4%	36.6%	3.4%	4.1%	2.5%	3.34
Oil Development	41.0%	37.8%	5.0%	9.9%	6.3%	2.97
Mining	18.4%	47.7%	5.1%	15.5%	13.4%	2.42

(ROTATE ORDER)

16. Please let me ask again, the proposed Pebble Mine would develop a gold and copper deposit at the headwaters of the Bristol Bay watershed near Lake Iliamna (ILL-EE-AM-NAH). The Pebble Mine is potentially one of the largest deposits of gold and copper in North America. Do you strongly favor, somewhat favor, somewhat oppose, or strongly oppose opening Pebble Mine Project to gold and copper mining?

PEBBLE MINE #2	FREQUENCY	PERCENT
4. Strongly favor	40	9.9%
3. Somewhat favor	88	21.9%
2. Neutral	20	5.0%
1. Somewhat oppose	70	17.5%
0. Strongly oppose	184	45.8%

(Mean = 1.327)

The last few questions are being collected purely for statistical purposes.

17. When it comes to politics, do you consider yourself to be very liberal, somewhat liberal, somewhat conservative or very conservative?

IDEOLOGY OF RESPONDENT	FREQUENCY	PERCENT
1. Very liberal	26	6.5%
2. Somewhat liberal	133	33.0%
3. Moderate	43	10.6%
4. Somewhat conservative	153	38.1%
5. Very conservative	47	11.8%

(Mean = 3.157)

18. Are you, or any person presently living in your household, a member of a labor union?

LABOR UNION HOUSEHOLD	FREQUENCY	PERCENT
Yes	109	27.1%
No	293	72.9%

19. How many total years of education have you completed? (FORMAL ATTENDANCE IN SCHOOL -- FIRST GRADE = 1; EIGHTH GRADE = 8; HIGH SCHOOL = 12; TRADE SCHOOL = 13; ASSOCIATE DEGREE - AA or AS = 14; COLLEGE GRADUATE - BA, AB, BS = 16; MASTERS DEGREE - MA, MS, MEng, MEd, MSW, MBA = 18; PROFESSIONAL OR DOCTORATE DEGREE - MD, DDS, DVM, LLB, JD, EdD, LAWYER, DOCTOR, PhD = 20)

EDUCATION	FREQUENCY	PERCENT
High school or less	84	20.8%
1-2 years College	108	26.9%
3-4 years College	109	27.1%
Post College	101	25.2%

(All Adult Mean = 15.022 years)

20. How many years and months have you lived in Alaska?

ALASKA RESIDENCY	FREQUENCY	PERCENT
1993 to 2007	93	23.2%
1982 to 1992	66	16.4%
1973 to 1981	97	24.0%
Before 1973	146	36.4%

(All Adult Mean = 27.618 years)
(All Adult Median = 17.928 years)

21. In what year were you born? (COMPUTED TO AGE BY SUBTRACTING FROM 2007)

AGE OF RESPONDENT	FREQUENCY	PERCENT
18 to 30	50	12.4%
31 to 40	70	17.5%
41 to 50	129	32.0%
51 to 60	93	23.2%
61 or older	59	14.8%
(Mean = 47.140 years)		
(Median = 47.020 years)		

22. Are you married or single?

MARITAL STATUS	FREQUENCY	PERCENT
Married	260	64.7%
Single	142	35.3%

23. Which one of the following groups best describes you? (CHOOSE ONLY ONE)

ETHNICITY	FREQUENCY	PERCENT
White	322	80.2%
Alaska Native	49	12.2%
Black or African American	10	2.6%
American Indian	8	2.0%
Native Hawaiian or Other Pacific Islander	6	1.6%
Hispanic or Latino	4	0.9%
Asian	2	0.5%

24. GENDER **(USUALLY DO NOT NEED TO ASK)**.....

GENDER	FREQUENCY	PERCENT
Male	201	50.0%
Female	201	50.0%

THE FOLLOWING VARIABLES ARE CALCULATED USING THE MARITAL AND GENDER VARIABLES

MARITAL BY GENDER	FREQUENCY	PERCENT
Married Males	130	32.3%
Married Females	130	32.3%
Single Males	71	17.7%
Single Females	71	17.7%

THIS COMPLETES THE SURVEY, THANK YOU FOR HELPING US -- GOODBYE

Rep. Mike Hawker

From: walt@swiftcreekmine.com
Sent: Friday, March 16, 2007 1:59 PM
To: Rep. Mike Hawker
Subject: HB-156

Sir,
I am concerned with the proposed tax and fee increases in HB-156. I believe it will have a detrimental impact on the small miner in Alaska and urge you to kill this measure. A 500 percent increase is not fair or reasonable.

According to the Alaska constitution,"*It is the policy of the State to encourage the settlement of its land and the development of its resources by making them available for maximum use consistent with the public interest.*" By increasing the fees by such a high percentage you are restricting land use by pricing mining claims out of reach of many of the citizens. Only the big out of state companies (read that as Pebble) will be unaffected by the increase.

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The large mines can afford an increase while the individual miner can not. The small miners are Alaskans and they are the ones this bill will hurt. I live and work in Anchorage but someday hope to earn a living on the claims I hold. If I can afford to hang on to them.

Thanks for your time;

Walter Larson
16200 Black Bear Dr
Anchorage, AK 99516

HB 156 - Proposed Changes to Mining License Tax Rates

Prepared by: J. Bales
AK Dept. of Revenue

Net Income	Mining License Tax Current Rates	Proposed Rates
$ 30,000	$0.00	$0.00
$ 50,000	$1,500.00	$0.00
$ 99,000	$3,950.00	$0.00
$ 100,000	$4,000.00	$0.00
$ 250,000	$14,500.00	$7,500.00
$ 280,000	$16,600.00	$9,600.00
$ 5,000,000	$347,000.00	$510,000.00
$ 8,000,000	$557,000.00	$840,000.00
$ 10,000,000	$697,000.00	$1,060,000.00
$ 50,000,000	$3,497,000.00	$5,460,000.00

Current Tax 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

Proposed Tax Structure - HB 156

Net Income	Base Tax	Plus%	Of Excess Over
$0 - 100,000	$0	$0	$0
$100,001 - $250,000	$0	5%	$100,000
$250,001 - $500,000	$7,500	7%	$250,000
$500,000 - $1,000,000	$25,000	9%	$500,000
>$1,000,000	$70,000	11%	$1,000,000

AMENDMENT#1

OFFERED IN THE HOUSE BY REPRESENTATIVE SEATON

TO: HB 156

Page 2, lines 8-9, following "lease;":

Delete "the annual rental shall be effective for a period of not more than 20 years;"

Insert "[THE ANNUAL RENTAL SHALL BE EFFECTIVE FOR A PERIOD OF NOT MORE THAN 20 YEARS;]"

Page 6, line 8, following "determining the"

Delete "tax"

Insert "production royalty"

Page 7, line 24, following "of"

Delete "exemption"

Insert "**deferral** [EXEMPTION]"

AMENDMENT#2

OFFERED IN THE HOUSE BY REPRESENTATIVE SEATON

TO: HB 156

Page 3, line 9, following "shall be"

Delete "**not less than $3.30 for each acre**"

Insert "**not less than $1.65 for each acre during the first five years of a lease and not less than $3.30 for each acre after the first five years of a lease"**

Page 7, line 25 through page 8, line 4:

Delete all material and insert:

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

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

over $100,000 and not over $250,000 ..... 5 percent

over $250,000 and not over $500,000 ..... $7,500
plus 7 percent of the excess over $250,000

over $500,000 and not over $1,000,000 ..... $25,000
plus 9 percent of the excess over $500,000

over $1,000,000 ..... $70,000
plus 11 percent of the excess over $1,000,000."

Page 9, line 9, following "federal":

Insert "**or state**"

REPRESENTATIVE PAUL SEATON

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ALASKA STATE LEGISLATURE

House District 35

HB 156
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 156 recognizes our constitutional duty by providing a reasonable share of Alaska's non-renewable resources to benefit all Alaskans. The bill makes changes to the existing Mining License Tax, minerals and coal royalties, as well as the rentals for mining activity on state land.

The Mining License Tax is paid by all mining operations in the state and is levied on the net income from those activities. Tax rates are based on a graduated scale that increases with net income, currently topping out at 7%. Mining operations (excluding sand and gravel) are exempt from paying the mining license tax for the first three and a half years of production. HB 156 changes this exemption to a deferral that is payable over the following 10 years of production. Rates are increased by 2% per income bracket with an additional marginal tax bracket for net income over $1 million to be taxed at 11%. Income brackets for the mining license tax have not been updated since 1955. These brackets are increased from $40K to $100K; $50K to $250K; $100K to $500K; with a new bracket for mines with a net income over $1 million. Mines with a net income under $100,000 pay no mining license tax. HB 156 also disallows mining companies from deducting their state corporate net income tax from their mining license net tax, a practice that is not allowed with other industries or with federal net income taxes. The depletion allowance is changed under HB 156 to cost depletion.

HB 156 changes the calculation of the royalty for mineral mining on state land from our current 3% of net income to a 3% Net Smelter Return (NSR) tax. The royalty represents a share of mineral wealth that is paid to the owner of the mineral rights. Most land owners in Alaska, other than the State, negotiate for a NSR royalty between 2% – 5%.

The bill also updates the royalty for coal by setting the 5% of adjusted gross value currently in regulation as the minimum that can be negotiated with the Administration. This is the first change to the statute governing coal royalties since statehood.

http://www.RepPaulSeaton.com
Email: Rep_Paul_Seaton@legis.state.ak.us

Revised
3/21/2007

ALASKA STATE LEGISLATURE

REPRESENTATIVE PAUL SEATON

House District 35

Land claim rental rates are adjusted under HB 156. These annual fees are paid by all operators on a per-acre basis for mining on state land. The minimum rates for coal are updated in statute to reflect regulation: $3/acre. Hard rock and placer claims will be charged $1.65/acre for the first five years and $3.30/acre for every year thereafter.

A significant change in HB 156 from the finial version of Mining Tax legislation from the 24th legislature is to allow the State to accept coal as royalty in kind, similar to how the State accepts oil and gas. The University of Alaska Fairbanks has a coal fired electric plant and could benefit financially by not having to purchase coal.

Alaska's mining industry bears a light tax burden compared to Alaska's other high value resource industries. The State has historically received less than 1% of the mined resource value as tax revenue, while an additional 1% is paid to municipalities primarily as property tax (based on 2005 figures). The State receives 12.5% royalty on oil and gas on State lands plus an additional 22.5% of net profits. The oil and gas industry also pays 20 mils in property tax to the state and municipalities. State revenue from fisheries amount to about 2.8% of the total production value while an additional 2.5% is paid in severance and use taxes to municipalities. Additionally, vessels, docks and processing plants pay property tax to municipalities.

HB 156 allows the State a reasonable share of the wealth for its mined resources through many overdue changes to the mining tax structure. It is important that we establish a stable tax structure that is fair to the private sector and provides the people of Alaska with a reasonable benefit from their resources.

Non-renewable Resource Tax Comparison Chart

Prepared by the office of Rep. Seaton

Current Mining (Statute/ Regulation)

Taxes

Mining License Tax Rates on Net Income (AS.43.65.010(c))

0 - $40K	0
$40K - $50K	1.2K + 3% > 40K < 50K
$50K - $100K	1.5K + 5% > 50K < 100K
$100K - Up	4K + 7% > 100K

Tax Exemption/ Deferral (AS.43.65.010(a))

3 1/2 year tax exemption for new mines

Depletion Allowance (AS.43.65.010(e))

Choice between Percent Depletion OR Cost Depletion

% depletion deduction against gross income:
Coal 10%; Metals/masc. minerals 15%; Sulphur 23%

State Corporate Income Tax (AS.43.65.060)

State income tax deductible from Mining License Tax

Royalty

(AS.38.05.150(d)) COAL: 5% of Adjusted Gross Value. Taxable value is price received minus costs of transportation from the mine mouth. Fixed for no more than 20 yrs.

(AS.38.05.212(b)) METAL MINES: 3% of Net Income as calculated under Mining License Tax

Currently no provisions for royalty-in-kind

Rents

(AS.38.05.150(d)) Coal $3/acre per year

Linked to Anchorage CPI

(AS.38.05.211(a)) Minerals sliding scale: $0.5-2.5/acre

Linked to Anchorage CPI (1989 base yr)

HB 156 - Proposed Mining Tax Changes

Mining License Tax Rates on Net Income (Sec. 12)

0 - $100K	0
$100K - $250K	5K + 5% of amt > 100K < 250K
$250K - $500K	12.5K + 7% of amt > 250K < 500K
$500K - $1m	30K + 9% of amt > 500K < 1m
>$1m	75K + 11% of amt > 1m

(Sec. 10)

3 1/2 year deferral for new mines. Payable over following 10 years of production

(Sec. 14)

Cost Depletion Only

Changed to allow for cost depletion only.

(Sec. 15)

State Income Tax NOT deductible from Mining License Tax

(Sec. 1) COAL: 5% of Adjusted Gross Value. Taxable value is price received minus costs of transportation from the mine mouth. Fixed for no more than 10 yrs.

(Sec. 6) METAL MINES: 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

(Sec. 2) Allows the State to accept coal royalty in kind

(Sec. 1) Coal $3/acre per year

Linked to Anchorage CPI

(Sec. 3) Minerals $1.65/acre first 5 yrs; $3.30/acre yr

Linked to Anchorage CPI (2005 base yr)

Current Oil and Gas Taxes

Tax Rates on modified Net Income (see reverse)

General flat rate on net production tax value 22.5%

Progressive tax @ 2.5%/$10 above $40/bbl

Floor (minimum tax rate):

4% gross when ANSwc >$25; 3% = $20--$25; 2% = $17.50--$20; 1% = $15 --$17.50; 0% = <$15

Limited exemption for small producers (producing up to 50,000 BTU equivalent barrels per year)

No Depletion Allowance when calculating State taxes

State Income Tax NOT deductible from Petroleum Profits Tax (PPT)

OIL & GAS: minimum 12.5 - 20% of Gross Value at Point of Production. Tax on Private Royalty: oil 5% Gross Value at Pt. of Production, gas 1.67% of Gross Value at Pt. of Production

State accepts royalty-in-kind or in-value for oil & gas

Oil & Gas

First 4 years, $1-2.50 / acre per year. Every year thereafter $3/ acre per year. Changed by statute.

Updated 3/22/2007 11:26 am

Expenditures Disallowed under PPT

e) For purposes of this section, lease expenditures do not include

(1) depreciation, depletion, or amortization;

(2) oil or gas royalty payments, production payments,lease profit shares, or other payments or distributions of a share of oil or gas production, profit, or revenue;

(3) taxes based on or measured by net income;

(4) interest or other financing charges or costs of raising equity or debt capital;

(5) acquisition costs for a lease or property or exploration license;

(6) costs arising from fraud, wilful misconduct, or gross negligence;

(7) fines or penalties imposed by law;

(8) costs of arbitration, litigation, or other dispute resolution activities that involve the state or concern the rights or obligations among owners of interests in, or rights to production from, one or more leases or properties or a unit;

(9) costs incurred in organizing a partnership, joint venture, or other business entity or arrangement;

(10) amounts paid to indemnify the state; the exclusion provided by this paragraph does not apply to the costs of obtaining insurance or a surety bond from a third-party insurer or surety;

(11) surcharges levied under AS 43.55.201 or 43.55.300;

(12) for a transaction that is an internal transfer or is otherwise not an arm's length transaction, expenditures incurred that are in excess of fair market value;

(13) an expenditure incurred to purchase an interest in any corporation, partnership, limited liability company, business trust, or any other business entity, whether or not the transaction is treated as an asset sale for federal income tax purposes;

(14) a tax levied under AS 43.55.011;

(15) the portion of costs incurred for dismantlement, removal, surrender, or abandonment of a facility, pipeline, well pad, platform, or other structure, or for the restoration of a lease, field, unit, area, body of water, or right-of-way in conjunction with dismantlement, removal, surrender, or abandonment, that is attributable to production of oil or gas occurring before April 1, 2006; the portion is calculated as a ratio of the amount of oil and gas production, in barrels of oil equivalent, associated with the facility, pipeline, well pad, platform, other structure,lease, field, unit, area, body of water, or right-of-way occurring before April 1, 2006, to the total amount of oil and gas production, in barrels of oil equivalent, associated with that facility, pipeline, well pad, platform, other structure, lease, field, unit, area, body of water, or right-of-way through the end of the calendar month before commencement of the dismantlement, removal, surrender, or a cost is not excluded under this paragraph if the dismantlement, removal, surrender, or abandonment for which the cost is incurred is undertaken for the purpose of replacing, renovating, or improving the facility, pipeline, well pad, platform, or other structure; for the purposes of this paragraph, "barrel of oil equivalent" means

(A) in the case of oil, one barrel;

(B) in the case of gas, 6,000 cubic feet;

(16) costs incurred for containment, control, cleanup, or removal in connection with any unpermitted release of oil or a hazardous substance and any liability for damages imposed on the producer or explorer for that unpermitted release; this paragraph does not apply to the cost of developing and maintaining an oil discharge prevention and contingency plan under AS 46.04.030;

(17) costs incurred to satisfy a work commitment under an exploration license under AS 38.05.132;

(18) that portion of expenditures, that would otherwise be qualified capital expenditures as defined in AS 43.55.023(k), incurred during a calendar year that are less than the product of $0.30 multiplied by the total taxable production from each lease or property, in BTU equivalent barrels, during that calendar year, except that, when a portion of a calendar year is subject to this provision, the expenditures and volumes shall be prorated within that calendar year.

March 15, 2007

I am Roger C. Burggraf and reside at 830 Sheep Creek Rd, Fairbanks AK 99709

I AM OPPOSED TO HB 156!

It is a seriously flawed bill obviously proposed by someone who does not understand the mining industries contribution to the state and the people of Alaska.

Essentially if HB 156 were to be enacted it would put the mining industry in Alaska out of business and would discourage investment in Alaska in areas that need development and jobs.

Such mines as Fort Knox, Pogo, and Usibelli Coal Mine would have never got off the ground.

There has been a concerted effort in this legislature to enact legislation to stop **mine** development on state lands. The legislature should be supporting the industry which creates revenues for both the state and local communities and jobs for rural residents in poverty stricken areas. **Before an operating large mine can go into production, millions of dollars must be spent on exploration, permitting, and construction of mining facilities.** Developing a mine is a lengthy and costly process. It requires a lot of up front capital to be spent on a project which may or may not become a mine. In the meantime the industry is spending dollars on trying to locate a viable deposit and providing jobs.

The way to create a viable and healthy industry is support it and not kill the goose who lays the golden egg.

If you look at other industries in Alaska and analyze what taxes they pay you will find industries that supposedly generate higher revenues which pay less tax. Much of this revenue goes out of state and only peripherally benefits a few Alaskans. The present tax law I feel is well balanced and the Mining License Tax taxes all mines regardless of whether they are on Federal lands, State lands, and private lands. The seven percent (7%) net profits tax is reasonable.

In addition a three percent (3%) Net Profits Production Royalty is to be placed on mines developed on state lands. Mining claim holders must pay claim rentals on state lands and claim maintenance fees on Federal lands.

Mining companies in addition to the mining license tax must also pay Alaska Corporate Income Tax at nine percent (9%).

Usibelli
Greens Creek
Red Dog
Ft Knox
Coeur
mines

Most small miners are marginally profitable and many can be related to a subsistence type of income in small communities ~~which do not generate a lot of revenue but provides jobs to locals~~ however they do provide jobs to locals.

There are only five large mines ~~in Alaska which are~~ operating in Alaska today. They are the mines that are generating the bulk of the mining revenues in the State of Alaska.

Proposed large mines must go thru a costly permitting process today and face one lawsuit after another by environmental groups funded by outside interest to prevent the development of our resources in Alaska. The Kensington Mine near Juneau and Rock Creek Mine in Nome are recent examples.

are facing opposed to the

If the State wants more revenue from mines on state, federal, or private lands they should encourage the development of large mines on those lands.

Alaska has a progressive tax standard for mining which means when a miner is successful the state shares in that success.

During the past period of low metal prices the Fort Knox mine was having a hard time keeping open. No revenues were being received to pay down the huge capital expenditure it had to make to construct and operate the mine. Still they operated, paid property taxes, paid their creditors, and their workers. Now with higher global metal prices they are able to pay down their capital expenditures. A company should be allowed to make a profit when times are good. The state benefits also.

The mining industry averages about a five percent (5%) return on investment – much below other major industries in Alaska. With the low rate of return a net profits tax is the only type of tax that can be paid on a sustainable basis. The mining industry must be able to operate in a stable regulatory climate and have a stable tax basis for it to continue to invest in Alaska.

The present taxation system is well thought out and has allowed large mining companies to invest billions of dollars in Alaska. We hope you will not tamper with it and that HB 156 will be relegated to the circular waste basket file.

From: Busbys/Chicken Gold Camp [mailto:chickengold@starband.net]
Sent: Tuesday, March 20, 2007 11:31 PM
To: Rep. Mike Hawker
Subject: HB-156

Representative Hawker,

I would like to comment on the revisions to HB-156. Current rental rates are $.66/acre so Representative Seaton's revised change is still a 150% increase. I know that $1.65/acre or $3.30/acre does not sound like much, but in order to locate a prospective resource larger enough to justify the expense of bringing the prospect into production, it requires rentals of large acreages over long periods of time. All of the mining industry will be impacted dramatically by these increases, but small mines will feel it the most. Representative Seaton had stated that the original amount ($3.30/acre) was no increase but rather only putting into Statute what is currently charged (from Seaton's email to me: "The rental fees are basically not increased over current regulation rent charges but bring our statutes into line with the existing rate"). If that was Representative Seaton's intent, then this Bill should not include any increase in the revision, but should merely make the correction to his "mistake" and charge the current $.66/acre years one through 5 and $1.375/acre for years 5 through 10.

The revised increase to the mining license tax is definitely an improvement over the original proposal and would certainly give some relief to the small miner. I would suggest that the proposed elimination of the percentage method for calculating depletion allowance be dropped. The end result to the State is essentially no different, but complications of accounting for the "cost" method make filing much more arduous for the miner, especially smaller, lower capitalized entities.

Regards,
Mike Busby, VP Fortymile Miner's Assn.

From: Jim Chumbley [mailto:chumbley@gci.net]
Sent: Tuesday, March 20, 2007 7:54 AM
To: Rep. Mike Hawker
Subject: HB156

Dear Representative Hawker,
I am writing in support of HB156. Alaska is a resource rich state, and our past and our future lies with resource extraction. However, since these resources belong to the people of Alaska, fair compensation is essential. While discouraging development is not the goal, mining taxation has remained unchanged for over 50 years. The nature of the industry as changed much in that time frame, and the state and industry needs to recognize this. HB 156 is a fair bill at this time, providing more income to the state while still encouraging extraction.
Thanks for listening,
Jim Chumbley

ARM
ALASKANS FOR RESPONSIBLE MINING
810 N Street #203 Anchorage, AK 99501 P 907-277-0005 F 907-277-0990

March 20, 2007

Alaska State Representative Mike Hawker
Chair, Ways and Means Committee

RE: HB 15

Dear Chair Hawker and Representative Members:

This letter is submitted to strongly support HB 156. First, I wish to commend Representative Seaton for sponsoring this bill and taking on this important issue. Since 1955, the mining industry has been extracting Alaska's precious mineral resources and making significant profits, especially in recent years with coal, minerals, and metals at all-time highs, without paying a fair price for those resources. This is grossly unfair to Alaska and the citizens of Alaska who should be receiving the 'maximum benefit' for the development and production of those resources under Article VIII of the Alaska Constitution. As Governor Wally Hickel and the Late Governor Jay Hammond long argued, it is time for the mining industry to start paying its fair share.

Under Alaska's current mining laws, mining claimants or lessees are required to pay rents and royalties. The royalty rate is 3% of net income which is essentially a royalty on profits. Fifty percent of mineral royalties in Alaska are required to be paid into the Alaska Permanent Fund, which provides a financial benefit to all Alaskans. The reality, however, is that the net income royalty structure allows mining companies to claim significant deductions from their income such that there is rarely a 'profit' against which to levy the royalty.

Because the State of Alaska is realizing very little, if any, royalty return on mining allowed in the State, its royalty system is broken and must be revised. It is time to structure the royalty system to better compensate Alaskans for the valuable resources extracted from state lands. Article VIII of the Alaska Constitution requires that "[t]he 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 to the State, including land and waters, for the maximum benefit of its people." Alaska Const. art. VIII Section 2. The current Alaska mining royalty structure, however, does not provide adequate returns to the State for allowing the mining of its valuable resources, and therefore does not achieve the maximum benefit for Alaskans.

Most states and private owners of the mineral estate realize a fair return from mining by requiring a net smelter royalty, which is a royalty on the value of the mineral after it has been refined or smeltered, but without deducting the costs of development, production, and environmental liability. A net smelter royalty provides greater revenue predictability because it is primarily a function of

physical sales volume and of price. These factors are much less variable than those used to determine net income.

Net income royalties require the calculation of a 'profit' on mining and processing activities, which allows for the deduction of costs associated with mining and relevant deductions. The costs of administering and monitoring the royalty calculation are what have led other states and private owners of mineral estate to reject that system in favor of net smelter royalties-the royalties are far less complicated to calculate, there is less room for mining companies to manipulate the cost data, and they provide more fair compensation.

In fact, Alaska and Nevada are the only states that have a net income royalty system, as show by the following table:

STATE	ROYALTY
Alaska	3% of net income as determined under section 43.65 (AS 38.05.212)
Arizona	2% of gross value of produced minerals paid monthly based on the previous month (AZ Rev. Stat. 27-234(B), (I))
California	Not <10% gross value, less approved charges, 20% if no lease (CA Public Res. Code § 6895)
Colorado	Royalty assessed case by case – usually 4-7% gross*
Idaho	2 ½ - 10% (rent deducted) (ID Code 47-704); During location activities 5% of gross value (IDAPA 20.03.05.016)
Kansas	Not <12.5% of produced minerals (KS State Statute Ann. 19-110, 32-850, 75-52, 136)
Louisiana	12.5% of all minerals produced or saved; if on behalf of the school board = 16-2/3% (LA Rev. Stat. 30:127)
Minnesota	$0.11-$0.18 per ton (MN Stat. § 93.20)
Mississippi	18.75% of minerals (MS Code Ann. § 29-7-3)
Montana	Not <5% of returns or full market value of the recovered metalliferous minerals or gems (MT Code Ann. § 77-3-106)
Nebraska	Not <5% of production (NE Rev. Stat. 72-308)
Nevada	Up to 5% net proceeds (Nev. Rev. § Stat. 321-300)
New Mexico	Not <2% gross returns from all ores or materials mined and extracted from the land; 5% if Atomic Energy Comm. determines that the mineral is particularly essential to production of fissionable materials (NM Stat. Ann. § 19-8-22
New York	Not <2% of market value of all minerals (NY Pub. Lands Law 82)
Oklahoma	Not <5% of gross receipts from sale of minerals produced; if not sold, 5% of

	market value (OK Stat Stat. Tit. 645, § 455)
Oregon	5% gross value for metallic minerals and uranium (rent deducted) (OAR 141-071-0600, 0610)
South Dakota	Not <2% of gross returns from sale of ores and mineral products, less reasonable transportation, smelting, reduction, or other customary charges, as allowed (SD Codified Laws § 5-7-55)
Texas	Not <6.25% of value of minerals produced under lease (TX Nat. Res. Code Ann. § 53.018)
Utah	Fissionable metals 8% gross; non-fissionable metals 4% gross; gemstones/fossils 10% gross (rent deducted) (UAC R652-20-1000(2)(b))
Vermont	2% of market value of all mineral products (determination made when products are first in marketable form) (VT Sat. Ann. Tit. 29, § 302)
Washington	5% of gross receipts (WAC 332-16-035)
Wyoming	5-10% /depending on sales value per ton: To $50 = 5%, $50-$100 = 7%, $100-$150 = 9% >$150 = 10%.

*Source; GAO Report: Mineral Royalties: Royalties in the Western States and in Major Mineral-Producing Countries (March 1993).

The proposed changes in HB 156 would be the first statutory changes to the tax and royalty rate structure since 1955 and would increase the current graduated scale from 3-7% to 5-9% of net income and add an additional bracket for income over $500,000 to be taxed at 11%. HB 156 would also change the current 3 1/2 year exemption from taxes on production to a 3 1/2 year deferral that would be payable in equal installments over the 10 years following the end of the deferral period. This exemption has never been used before as many mines already operate with no net profit during that time period. A change would also be made to alter the calculation of the royalty for mineral mining on state land from a 3% of net profits to 3% of Net Smelter Return (NSR) royalty.

HB 156 would amend AS 38.05.150(d) to change the royalty rate on coal from less than $.05/Short ton (2,000 pounds) to (a) not less than 5% of the gross value for a noncompetitive lease or for a competitive lease in which royalty is a bid variable or (b) not less than 5% or more than 12% for a competitive lease in which royalty is not a bid variable. Under current DNR regulations, coal leases in existence before June 1982 must be adjusted, when royalty agreements are renewed after June 1982, to include a royalty of 5% of the 'adjusted gross value" sold. 'Adjusted gross value' allows for transportation costs to be deducted. Transportation costs from Alaska are high because of the distance. As a result, this deduction is clearly not a maximum benefit to Alaska. Additionally, under current DNR regulations, royalty may be taken in-kind where the commissioner determines it is in the best interests of the State to do so. 11 AAC 85.230(a). This bill would codify the regulation, leaving it unclear whether DNR would continue to be required to do a "best interest finding".

Furthermore, Section 17 would make the new law only applicable to coal leases entered into or renegotiated after December 2007. This section would exclude the Chuitna Coal Project from the coal royalty provisions in this Act. The Chuitna Coal Project is anticipated to contain 1 billion metric

tons of recoverable coal. Again, these kinds of exclusions do not provide the "maximum benefit to the State" and Alaskans, as mandated by the Alaska Constitution.

Alaskans for Responsible Mining supports revisions to the current mining rent and royalty structure that require mining companies to pay fair market value for the minerals they extract, i.e., a net smelter royalty of at least 5%. We believe this is a good first step, a marked improvement over the current program.

Thank you for your consideration of these comments and this important bill.

Best regards,

Vanessa Salinas
Campaign Director
vanessa@reformakmines.org

25-LS0548\M
Bullock
3/23/07

CS FOR HOUSE BILL NO. 156(W&M)

IN THE LEGISLATURE OF THE STATE OF ALASKA

TWENTY-FIFTH LEGISLATURE - FIRST SESSION

BY THE HOUSE SPECIAL COMMITTEE ON WAYS AND MEANS

Offered:
Referred:

Sponsor(s): REPRESENTATIVES SEATON, Doll

A BILL

FOR AN ACT ENTITLED

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

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

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

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

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

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

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

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

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

(g) Notwithstanding the requirement in (d)(1) of this section, the commissioner may require the lessee to pay royalty-in-kind rather than value as necessary to fuel a coal-fired power plant owned by the state or an agency of the state.

(h) If the commissioner establishes an amount to be paid as rent by a regulation adopted under this section, at least every 10 years, the commissioner shall calculate a change in the rental amount based on the change 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 and adopt a regulation establishing a new rental amount based on the calculation.

*** 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 $1.65 for each acre during the first five years of a lease and not less than $3.30 for each acre after the first five years of a lease** [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:

NUMBER OF YEARS SINCE FIRST LOCATED	RENTAL AMOUNT PER ACRE FOR MINING LEASES	RENTAL AMOUNT FOR EACH MINING CLAIM OR LEASEHOLD LOCATION INCLUDING 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, 2008, 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, 2007, 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 production royalty 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 is not representative of the market value of that transportation;

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

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

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

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

Sec. 43.65.003. Mining license. (a) A person engaged in mining after December 31, 2007, shall apply to the department for a mining license before the later of May 1 of each year or within 30 days following the date on which mining began.

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

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

(a) A [PERSON PROSECUTING OR ATTEMPTING TO PROSECUTE, OR ENGAGING IN THE BUSINESS OF MINING IN THE STATE SHALL OBTAIN A LICENSE FROM THE DEPARTMENT. ALL] new mining **operation may defer the payment of the tax due under** [OPERATIONS ARE EXEMPT FROM THE TAX LEVIED BY] this chapter **during the first** [FOR] three and one-half years after **the date** production begins. **A taxpayer that defers the payment of tax under this subsection shall pay the amount of tax deferred in 10 equal annual installments, without interest, before May 1 of each year beginning with the first calendar year following the date the deferral period ends.** The tax **deferral** [EXEMPTION] granted to **a** new mining **operation** [OPERATIONS] does not [EXTEND OR] apply to the mining of sand and gravel.

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

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

*** Sec. 12.** AS 43.65.010(c) is repealed and reenacted to read:

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

over $100,000 and not over $250,000 ..... 5 percent
over $250,000 and not over $500,000 ..... $7,500
plus 7 percent of the excess over $250,000
over $500,000 and not over $1,000,000 ..... $25,000
plus 9 percent of the excess over $500,000
over $1,000,000 ..... $70,000
plus 11 percent of the excess over $1,000,000.

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

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

*** 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 **or state** 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

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

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

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

(D) in the case of lead, zinc, copper, gold, silver, platinum metals or fluorspar ores, potash and ores **that** [WHICH] are not customarily sold in the form of the crude mineral product: crushing, grinding, and beneficiation by concentration (gravity, flotation, amalgamation, electrostatic,

or magnetic), cyanidation, leaching, crystallization, precipitation (but excluding electrolytic deposition roasting, thermal or electric smelting or refining), or by substantially equivalent processes or combination of processes used in the separation or extraction of a product from the ore, including the furnacing or quicksilver ore [;

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

*** Sec. 16.** AS 38.05.211(b), 38.05.211(e); and AS 43.65.030 are repealed.

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

APPLICABILITY. AS 38.05.150(d), as amended by sec. 1 of this Act, applies to leases entered into or renegotiated after December 31, 2007.

*** Sec. 18.** This Act takes effect January 1, 2008.