

AK LEGISLATURE SPECIAL COMMITTEE FILES SCOMM 150 3253₂₇

Analysis of Mining Taxation of All 50 States

ANALYSIS OF STATE MINING TAXATION

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 1/2 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	Proceeds 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:

^aIncludes upland lease and offshore lease rentals.^bPreliminary data for 2006.

▶ only subchapter C corporations pay income tax.

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

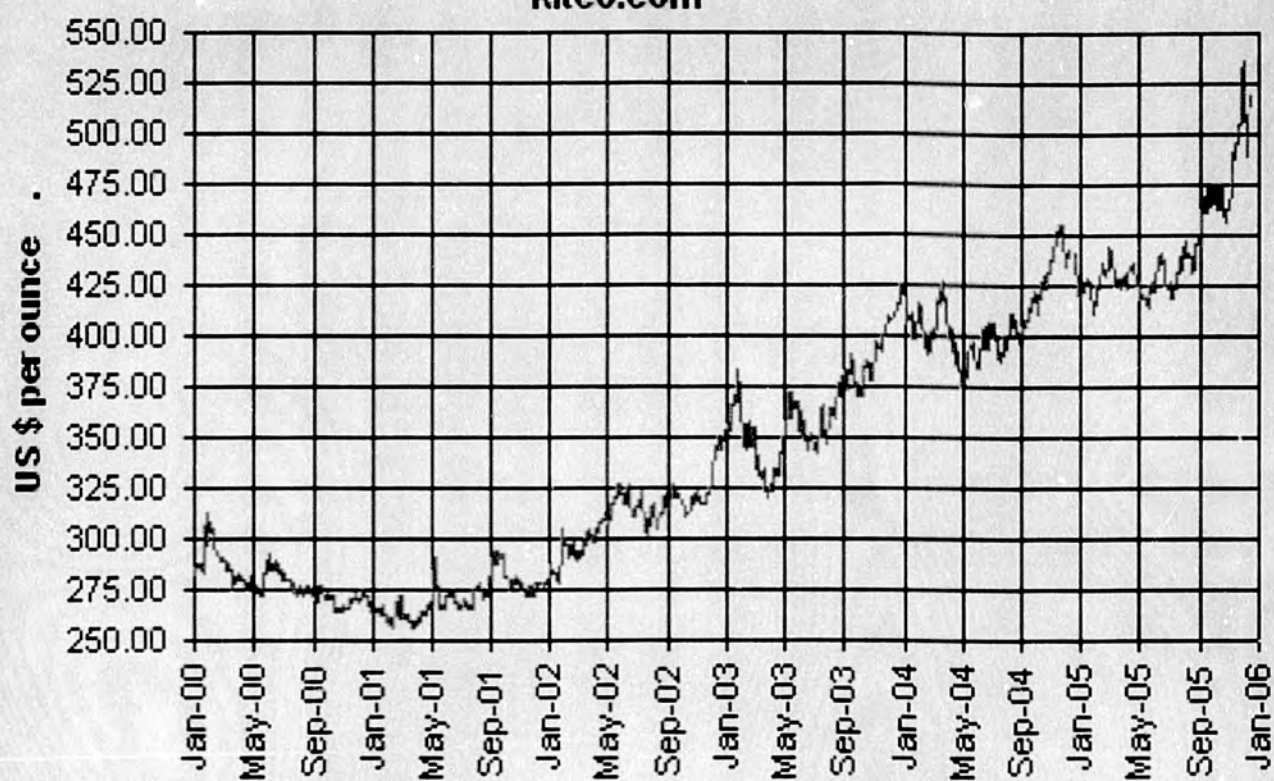
▶ data from 2001 through 2006 has been updated to reflect revenue to the state for the succeeding fiscal year; ex.: FY 07 receipts are shown in calendar year 2006.

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

^cIncludes metals, coal and material.^dMining 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.^edata does not match earlier reports.

GOLD - London PM Fix 2000 - 2005

kitco.com



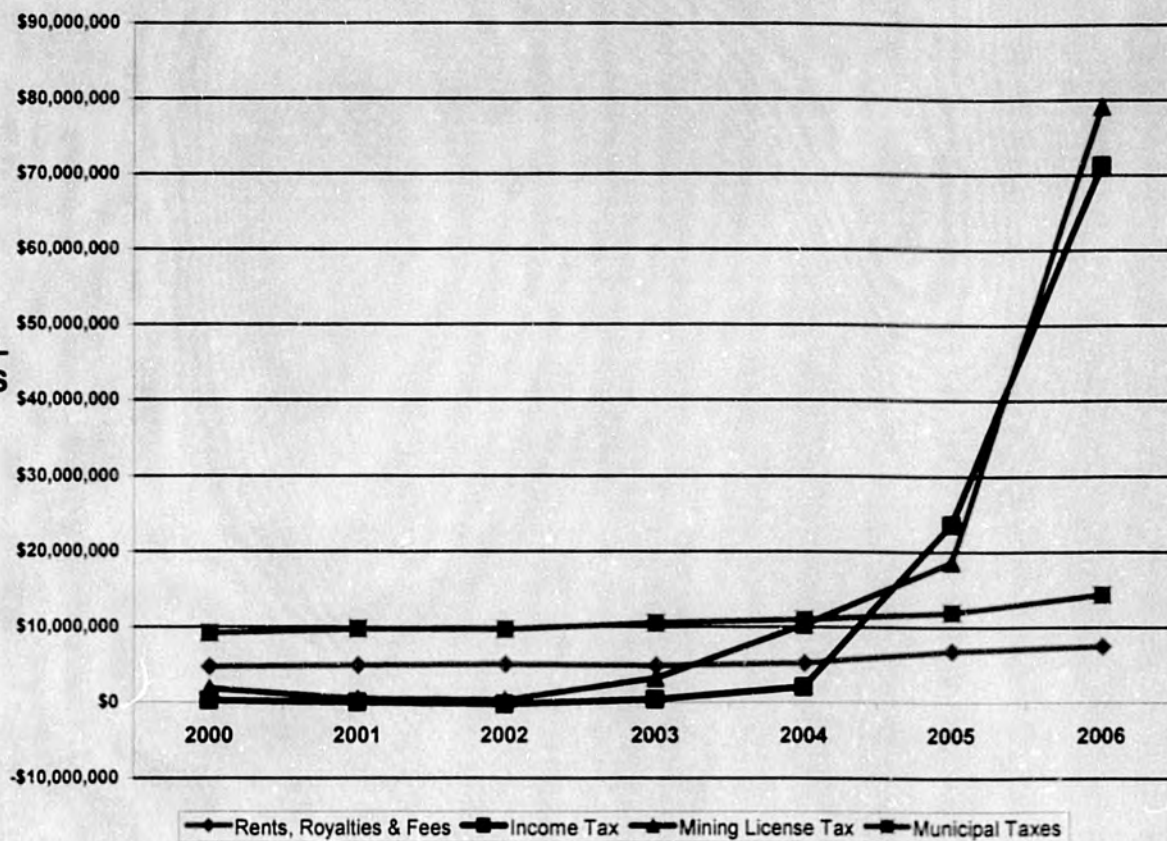
5 Year Zinc Spot



TOTAL STATE & MUNICIPAL REVENUES 2000 TO 2006

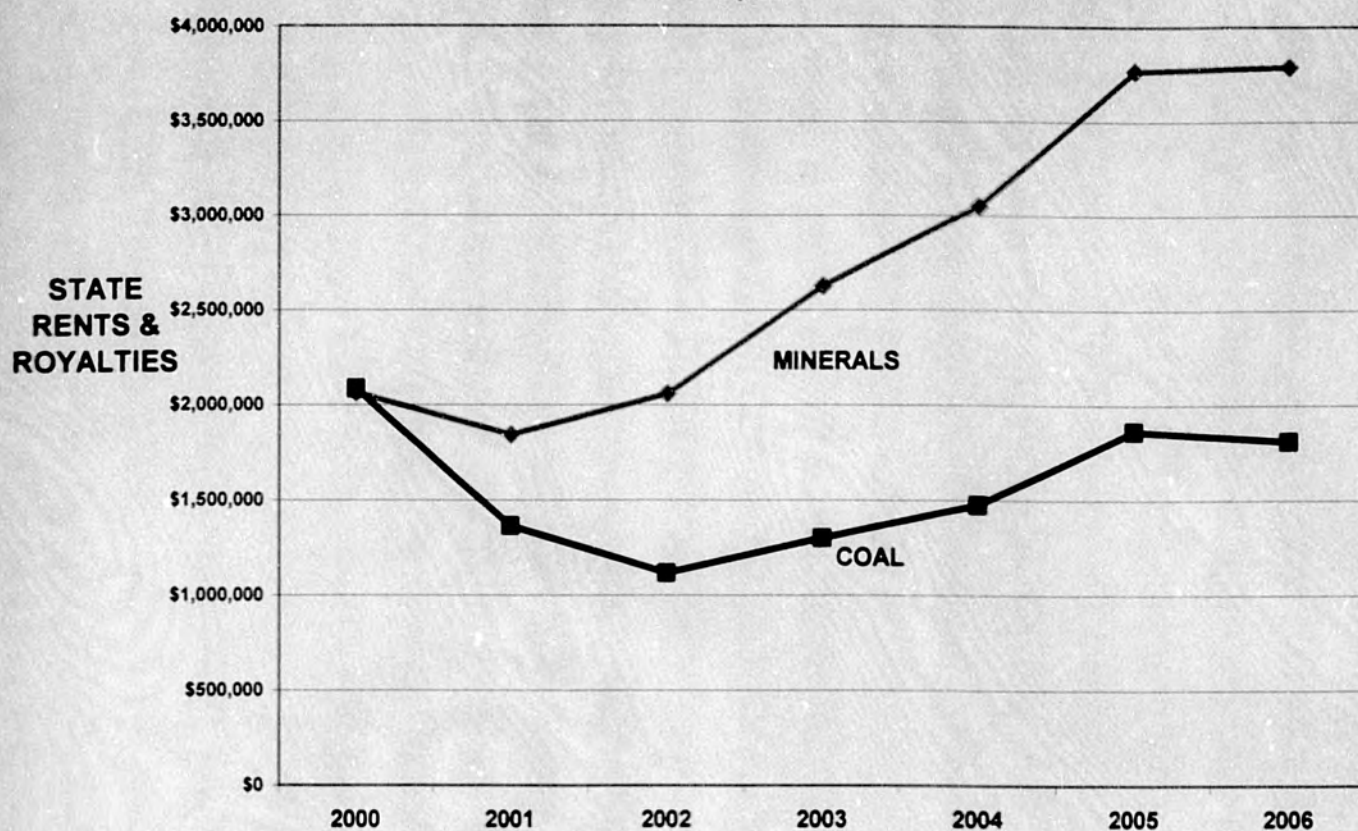
Source: Office of Economic Development

STATE &
MUNICIPAL
REVENUES



TOTAL STATE RENT & ROYALTY REVENUES BY RESOURCE TYPE

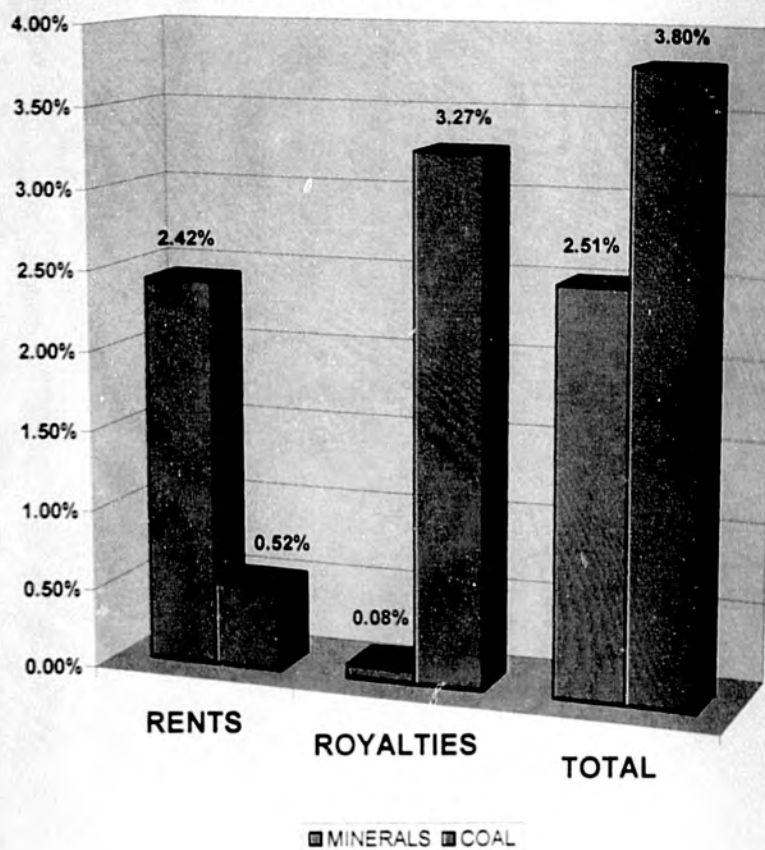
Source: Office of Economic Development



RENTS & ROYALTIES AS A PERCENT OF PRODUCTION VALUE 2005

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

PERCENT OF
PRODUCTION
VALUE

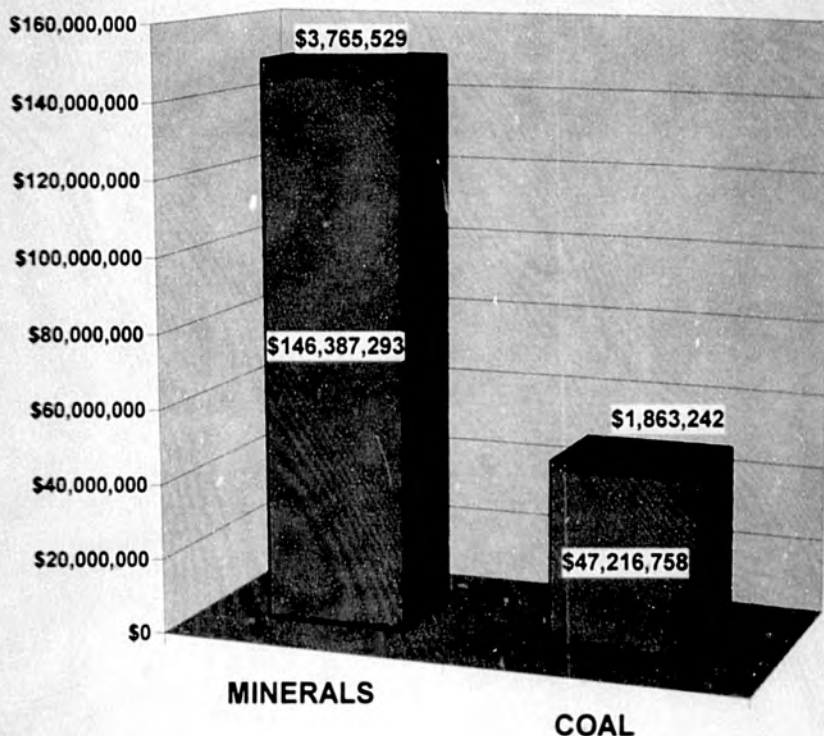


This graphic compares the percentage of estimated production value for coal and minerals that is paid to the State of Alaska as either Rents or Royalties. This applies only to the Fort Knox mine and an apportioned value for all placer mines for the mineral data.

RENTS, ROYALTIES AND AFTER TAX VALUE 2005

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

TOTAL
PRODUCTION
VALUE

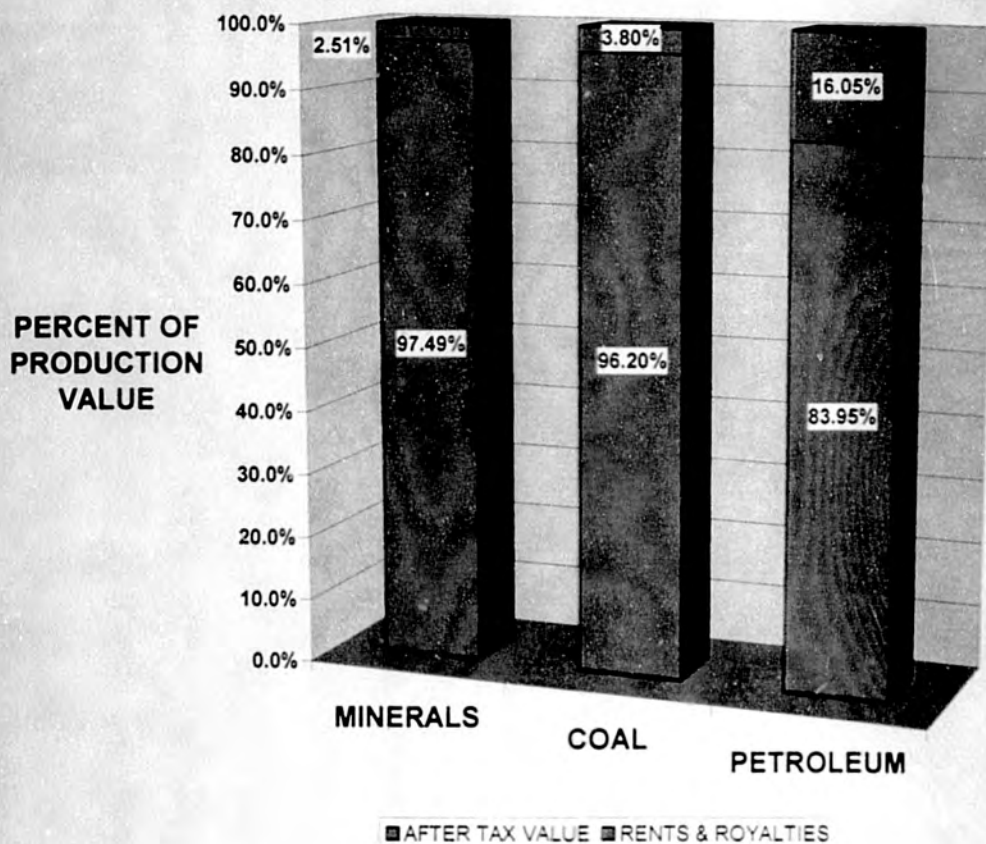


This graphic compares the estimated production value of coal and minerals that is retained by the State of Alaska as either Rents or Royalties and that portion retained by the producer. This applies only to the Fort Knox mine and an apportioned value of all placer mines for the mineral data.

■ AFTER TAX VALUE ■ RENTS & ROYALTIES

RENTS & ROYALTIES AS A PERCENT OF PRODUCTION VALUE 2005

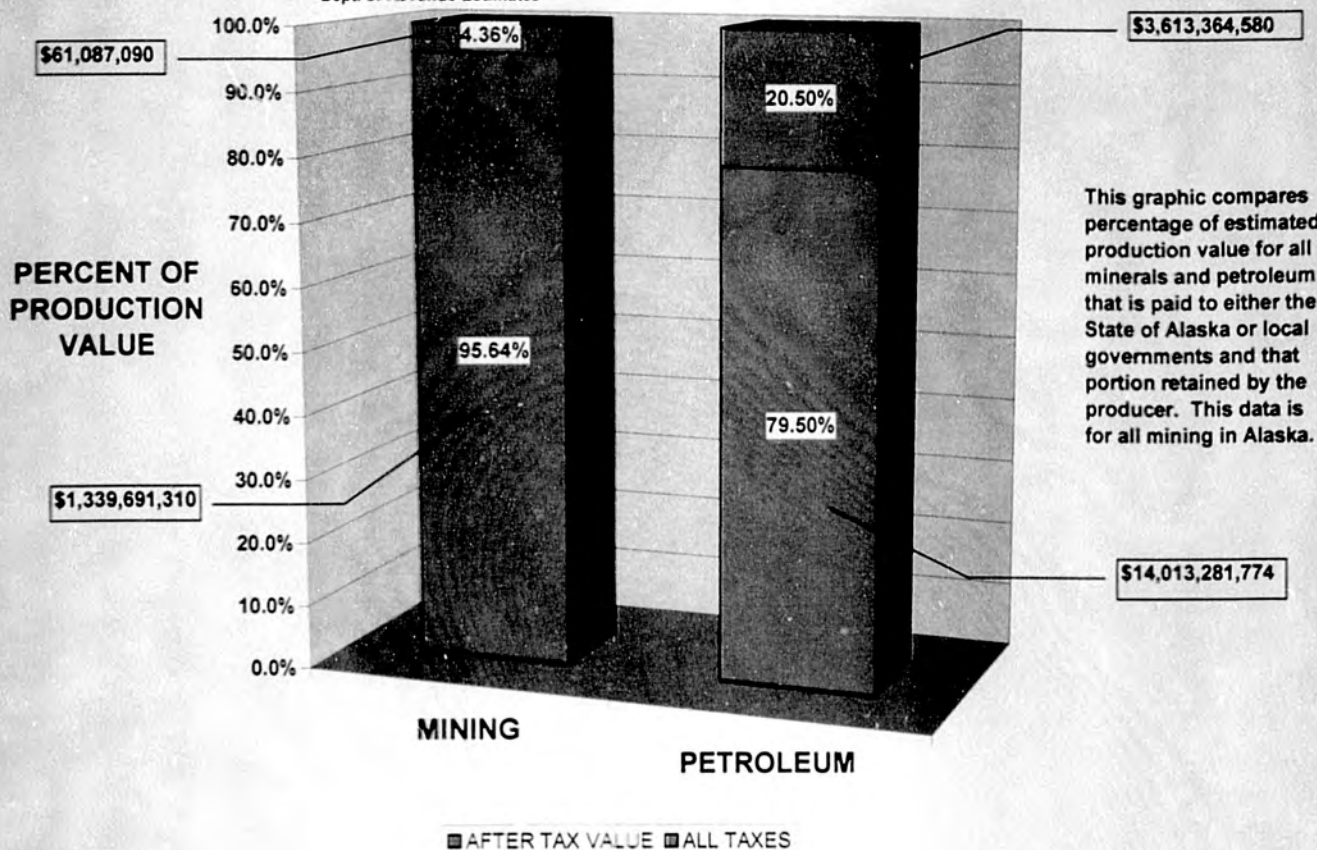
Source: Alaska's Mineral Industry 2005 - Special Report 60, Office of Econ. Development & Dept. of Revenue Estimates



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 Royalties 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



BRISTOL BAY NATIVE ASSOCIATION

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

Tribal Councils
Served by BBNA:

Aiikmagik

Chignik Bay

Chignik Lagoon

Chignik Lake

Clarks Point

Curyung

Egegik

Elik

Ekwik

Igigig

Iliamna

Ivanof Bay

Kanatak

King Salmon

Kotchanok

Kotiganek

Levelock

Mamcikotak

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

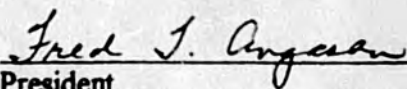
WHEREAS: The modern mining industry in Alaska is no longer dominated by placer mining but by large industrial scale operations owned by large international corporations; and

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

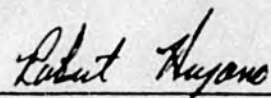
WHEREAS: Alaska's state mining laws date to territorial days and are based on federal laws dating to the 19th Century and are badly in need of revision to meet the needs of modern Alaska.

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.


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.


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:



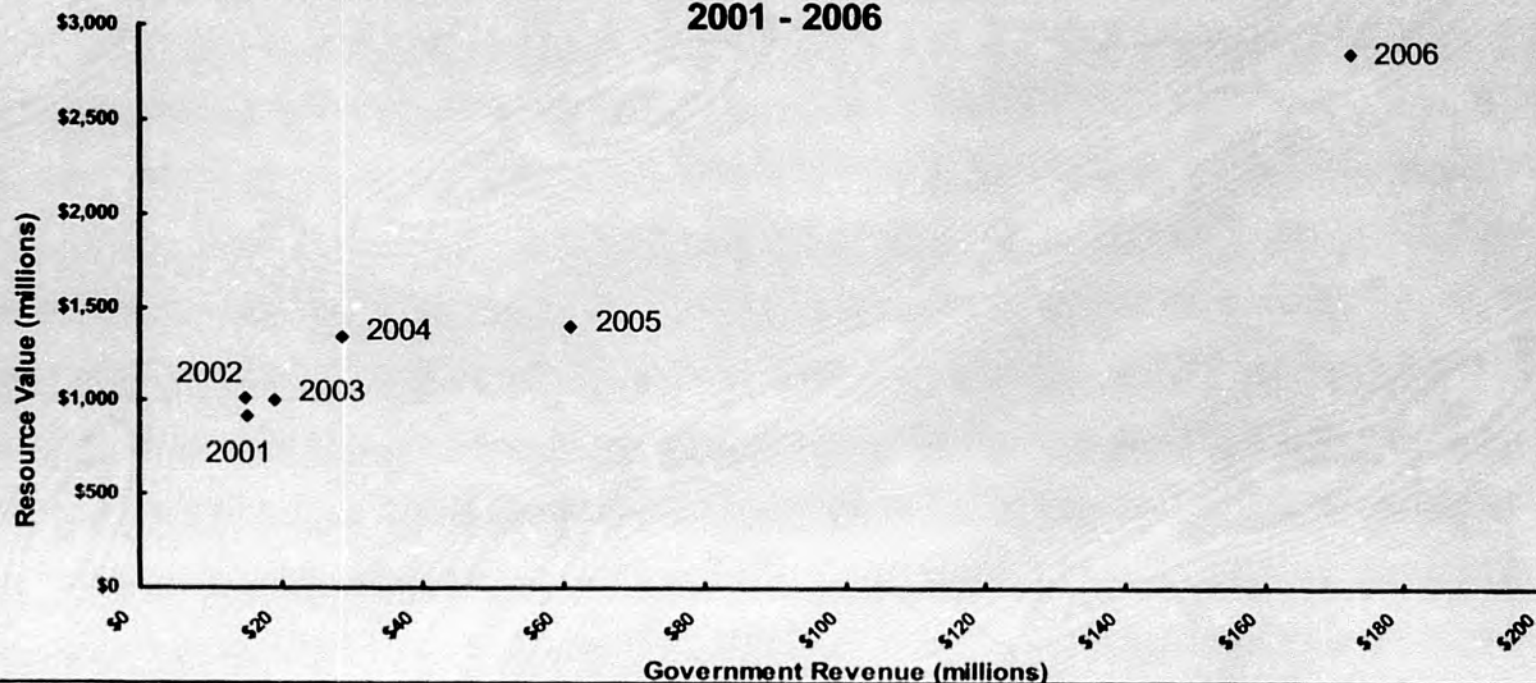
The combination of a *net* income-based tax structure and the absence of operating cost data makes it difficult to reach meaningful conclusions regarding causal relationships between recent increases in total value of resources extracted by the mining industry in Alaska and recent increases in government 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

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%.

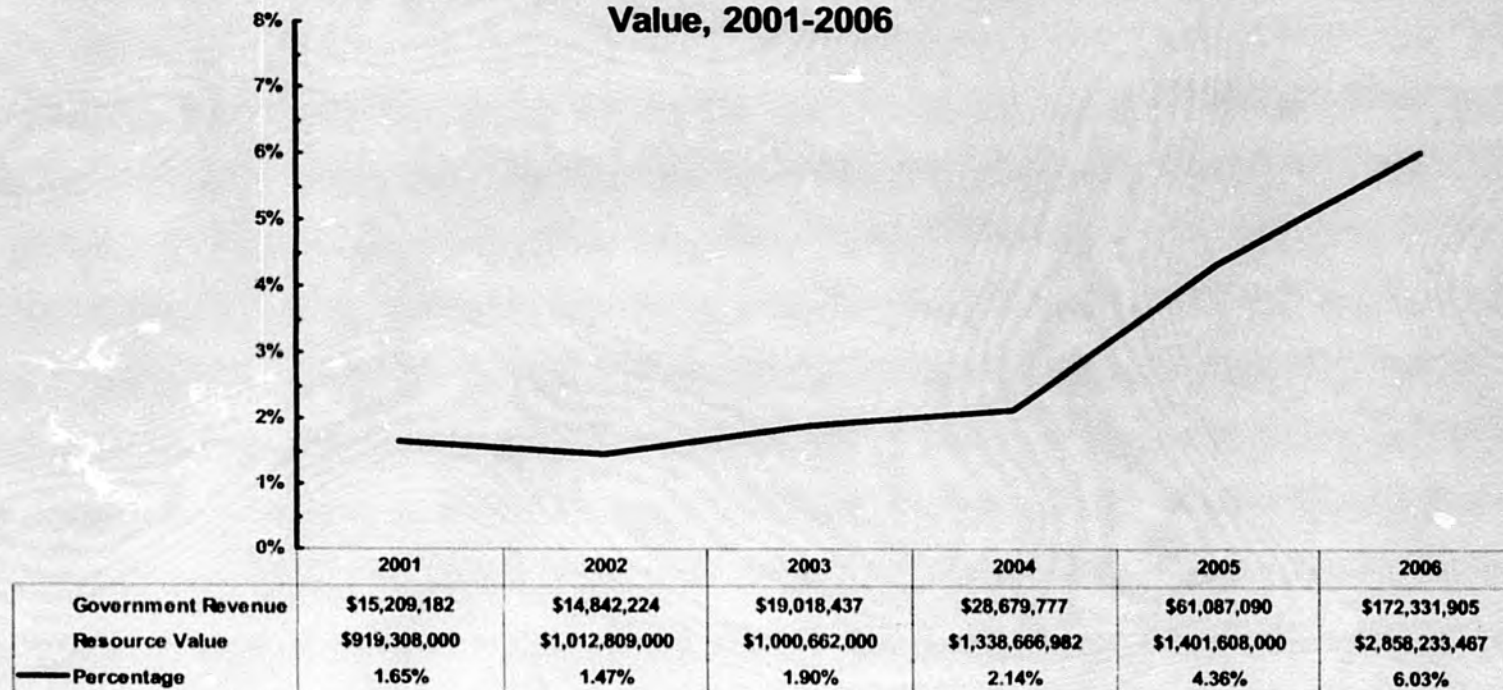
³ We include, as Attachments A and B, the tables from which we derived data for the figures in this report.

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



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.

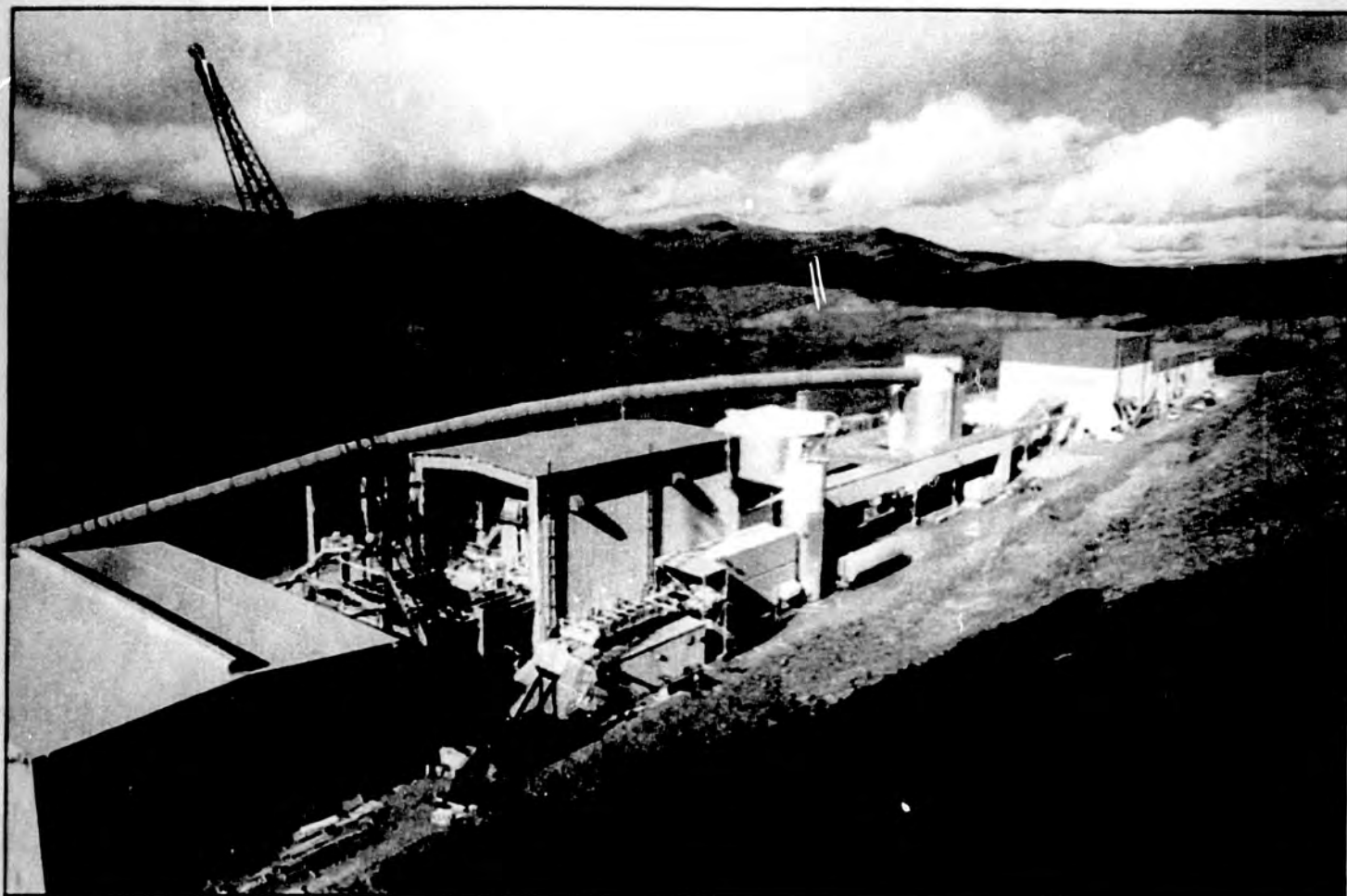
I hope you find this information to be useful. Please do not hesitate to contact us if you have questions or need additional information.

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			Estimated Values ^b		
	2004	2005	2006	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

^aProduction data from DCGS questionnaire, phone interviews with mine and quarry operators, ADOT&PF, and municipalities, Regional corporations, and federal land management agencies.

^bValues 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.

^c2006 lode production 509,747 ounces; placer production 60,382 ounces.

^dGreens Creek has historically been credited with a small copper concentrate production; no credit was experienced for 2004-2006 production.

^eJade 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,d}	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

^aIncludes upland lease and offshore lease rentals.^bPreliminary data for 2006.^conly subchapter C corporations pay income tax.^dthis report may not reflect 100% of the returns received in a year.^edata 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.

^fIncludes metals, coal and material.^gMining 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.^hData does not match earlier reports.ⁱ2006 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



Joe 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 July 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 Arund, president, Usibelli Coal Mine Inc.

DEPARTMENT OF GEOLOGICAL & GEOPHYSICAL SURVEYS

in cooperation with

Division of Economic Development

Division of Mining, Land & Water

Table 10. Estimated mineral production in Alaska, 2001-2003^a

	Quantity			Estimated values ^b		
	2001	2002	2003	2001	2002	2003
Metals						
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

^aProduction data from DGGs questionnaires, phone interviews with mine and quarry operators, Alaska Department of Transportation and Public Facilities, and federal land management agencies.

^bValues 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.

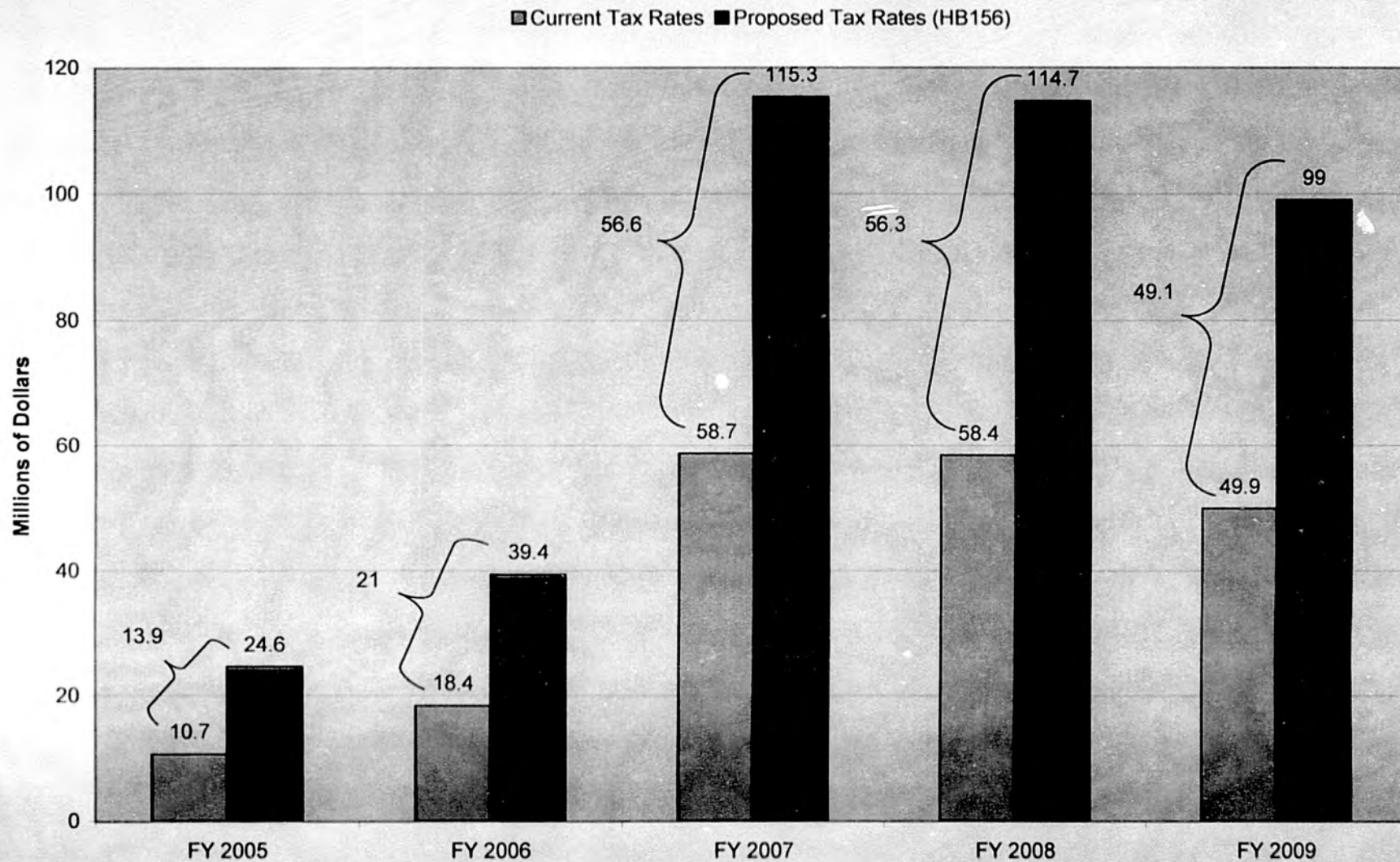
^cHardrock gold 504,591 ounces, placer gold 23,600 ounces.

^dGreens Creek has historically been credited with a small copper concentrate production; no credit was experienced for 2003 production.

^eJade and soapstone credit has been dropped.

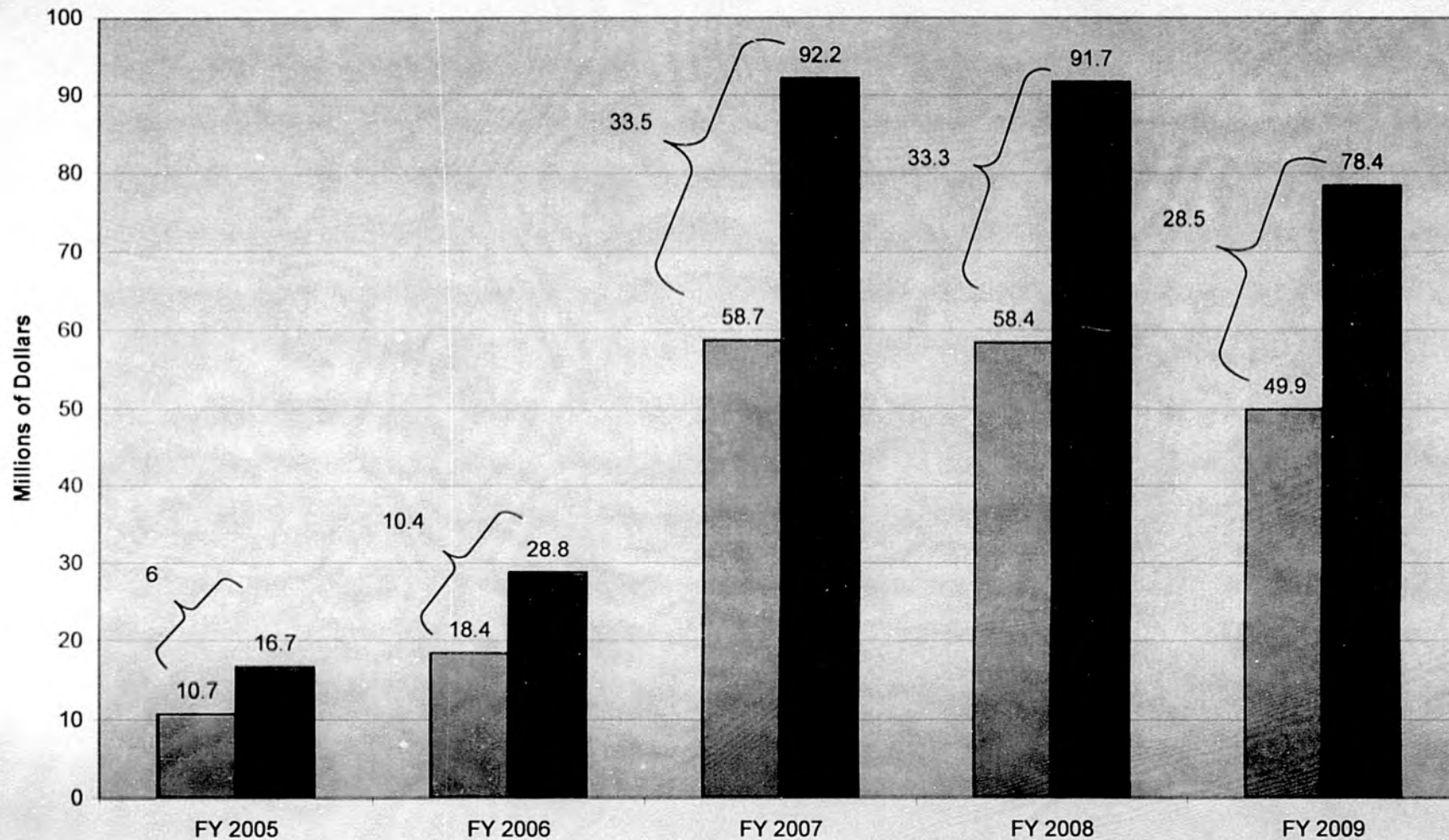
^fProjected only; no reports from producers.

Mining License Tax Revenues - Total Effect of HB 156

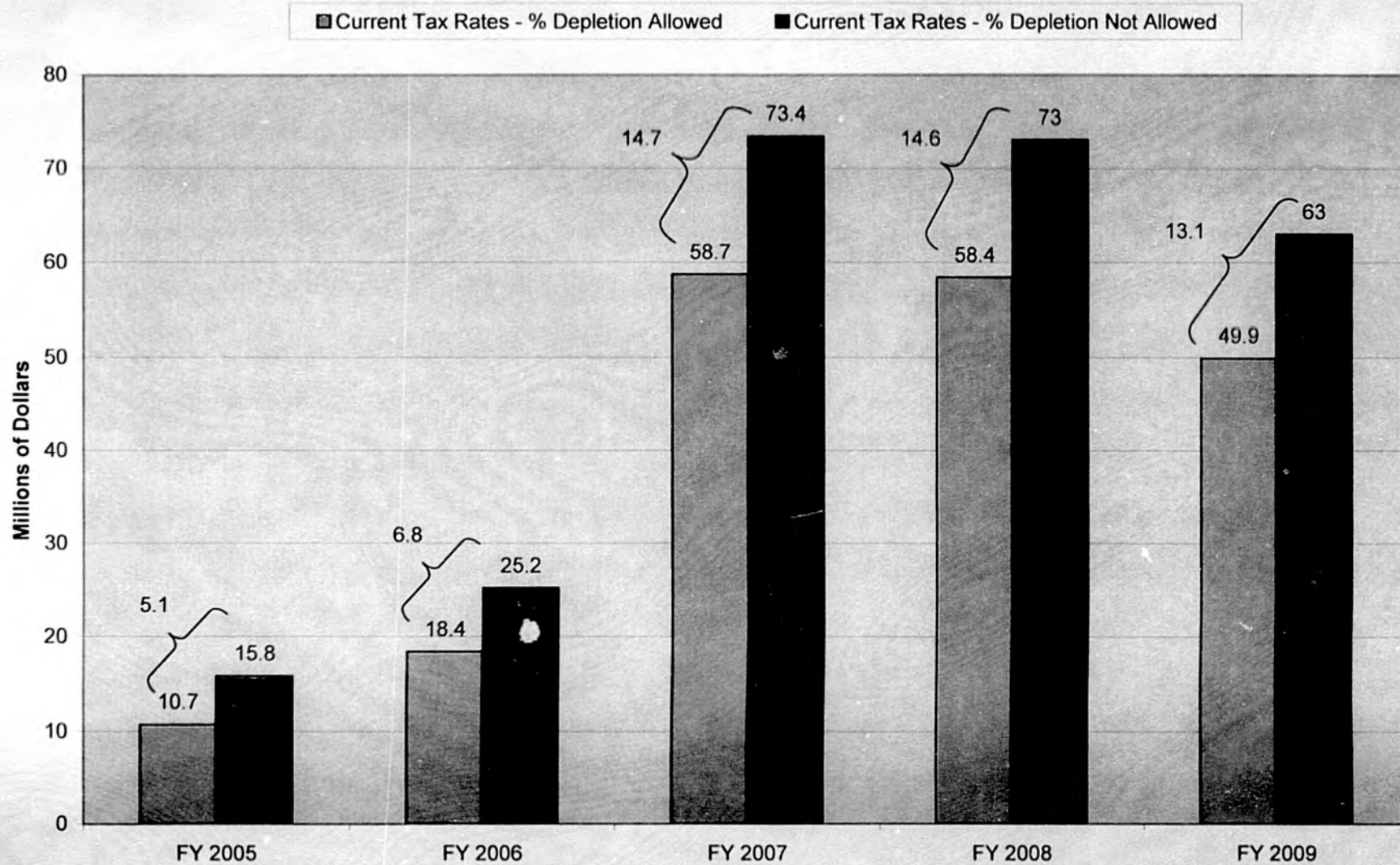


Mining License Tax Revenues - Effect of Tax Rate Change % Depletion Allowed

■ Current Tax Rate ■ Proposed Tax Rate (HB 156)



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

SESSION ADDRESS

State Capitol Building
Juneau, Alaska 99801-1182
(907) 465-2689
Fax: (907) 465-3472
1-800-665-2689



INTERIM ADDRESS

345 W. Sterling Highway
Homer, Alaska 99603
(907) 235-2921
Fax: (907) 235-4008
1-800-665-2689

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%.

ALASKA STATE LEGISLATURE

REPRESENTATIVE PAUL SEATON

House District 35

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 final 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):

Title: Mining Prod. & License Taxes/Royalties

Dept. Affected: Revenue 04

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

Division: Tax

Approved by: Jerry Burnett

Agency: Dept. of Revenue

Phone: (907) 269-6628

Date/Time: 3/14/2007 4:10 p.m.

Date: 3/14/2007

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
 Division: Office of Economic Development
 Approved by: Emil Notti, Commissioner
 Agency: Commerce, Community, and Economic Development

Phone 907.451.2738
 Date/Time 3/15/07 12:12 PM
 Date 3/15/2007

CORRECTION

THE FOLLOWING DOCUMENT(S)
HAVE BEEN REFILMED TO
ASSURE LEGIBILITY OR PAGINATION



Rev. 6/98

Central Microfilm Services
Department of Education & Early Development
State of Alaska

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

FISCAL NOTE

STATE OF ALASKA
2007 LEGISLATIVE SESSION

BILL NO. HB 156

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)

Sponsor: Seaton, Doll

Component: Office of Economic Development

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

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):

Title MINING PROD. & LICENSE TAXES/ROYALTIES

Dept. Affected: Natural Resources

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

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STATE OF ALASKA

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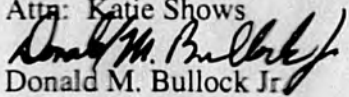
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Juneau, Alaska 99801-1182
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MEMORANDUM

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.

Representative Paul Seaton
March 7, 2007
Page 3

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 Point 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 through 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 3 1/2 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 statute 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, overhead, operating expenses, development costs, depreciation, 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 or renegotiated after December 31, 2007.

Sec. 18 Effective Date

This legislation takes effect January 1, 2008.

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Globalization

PUBLICATIONS

Annual Survey of Mining Companies 2005/2006

Publication Date: March 2006

Publication Format: Survey

Author(s):

Fred McMahon, Director, Centre for Trade & Globalization Studies, The Fraser Institute

Email: fredm@fraserinstitute.ca

Telephone: (416) 363-6575 ext 226

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 is 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

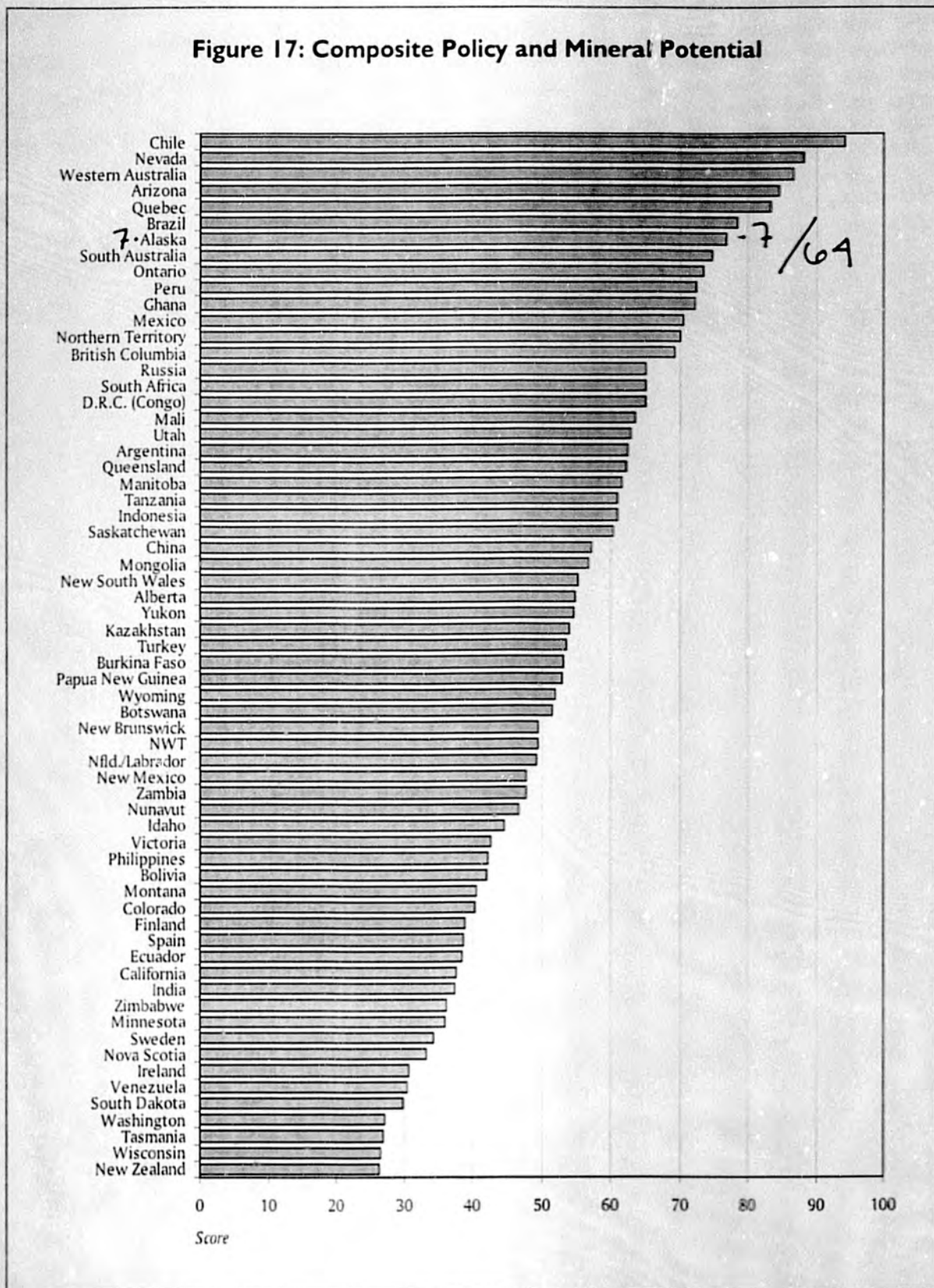
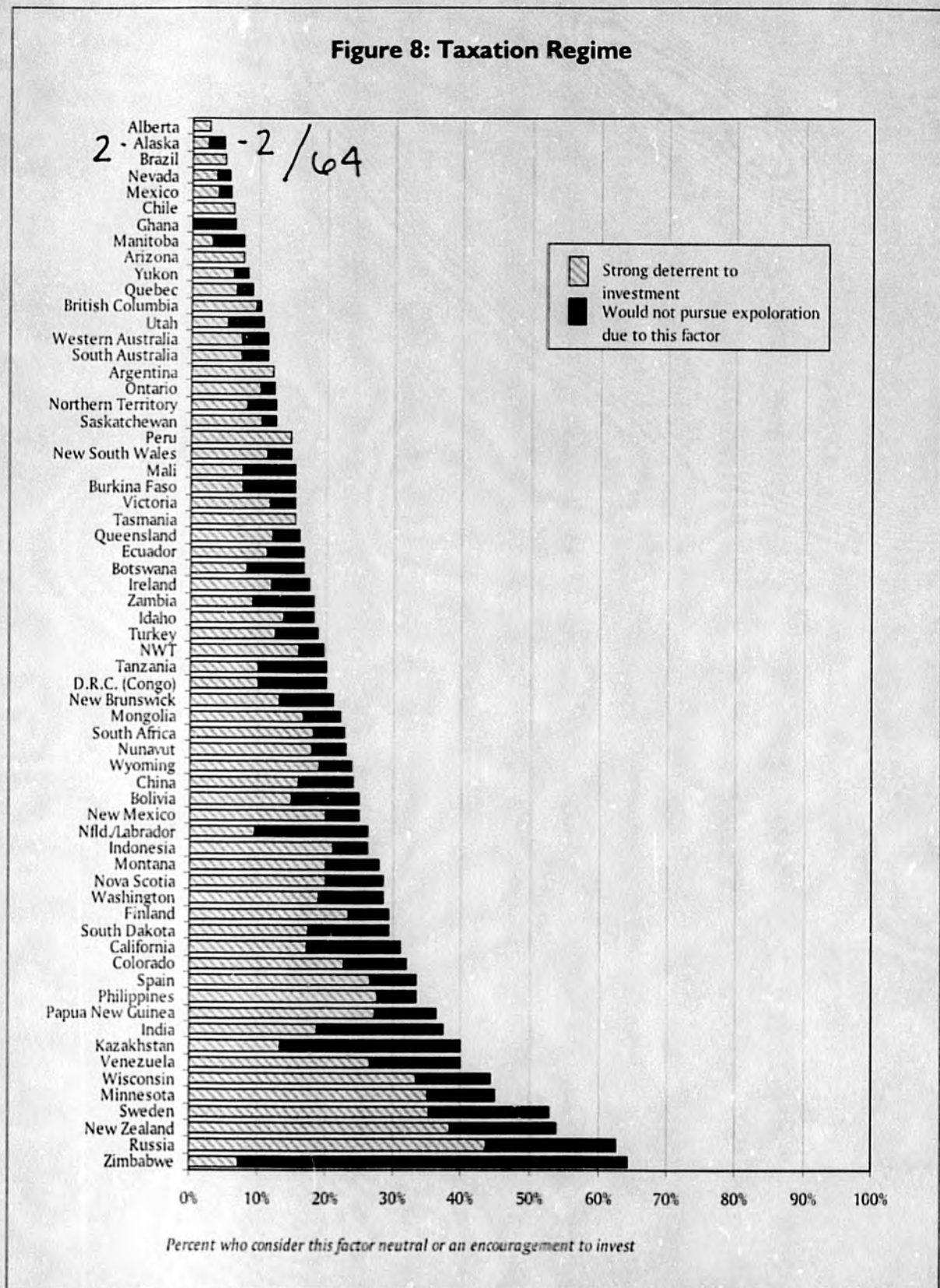


Figure 8: Taxation Regime



**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 ⁶	60	10% of net profits of precious metals; \$4/oz of gold; 4.5% of taxable value (posted field price) of energy minerals	None	2 mills on the dollar maximum for state levy; 1 mill maximum for state highway levy. Other property taxes are variable by county.	None	Personal property is subject to a sales tax	\$1 - \$4 per oz of gold if London price is \$500/oz or greater; through June 30, 2004, 2% of the first \$50,000,000 of gross yield and 1% of all additional revenue over \$50,000,000
12	Utah ⁷	26	2.6% of the taxable value	5% - flat rate; \$50 minimum for banks	Used for local purposes only, approx. 1% of market value	None	Personal property is subject to a sales tax	None
13	Washington ⁸	46	None	None	A maximum of 3.6 mill/\$1,000 of value of real and personal property for state education equalization. Personal property is valued annually. The state prepares valuation schedules but the property is taxed locally.	None	Personal property is subject to a sales tax	None
14	Wyoming	45	2% of gross product of miscellaneous minerals	None	Property taxes are levied on a local basis. The rates range from 6% to 8.4%.	None	Personal property is subject to a sales tax	None

Compiled by the Office of Representative Paul Seaton

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 Fraser 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 equipment is available in US or NAFTA zone)	none	30% to non-treaty countries; Treaty countries vary from 5-15%; not deductible for income tax purposes	30% to non-treaty countries; Treaty countries vary from 0-15%; not deductible for income tax purposes
Alaska (Proposed)	n/a	15-35% - Federal rate, increases with taxable income; 1-9.4% - State rate, increases with taxable income, deductible against federal tax	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 equipment is available in US or NAFTA zone)	none	30% to non-treaty countries; Treaty countries vary from 5-15%; not deductible for income tax purposes	30% to non-treaty countries; Treaty countries vary from 0-15%; not deductible for income tax purposes
Argentina	13	35%	Levied locally - rates vary between jurisdictions and may not exceed 3% of mine mouth value;	21% - refundable if attributable to export product.	Mines are technically exempt with the exception of a 1 % control fee.	None	0-35% - only on the excess of the accumulated taxable net income, not deductible for tax purposes.	15.05% (35% on intercompany loans) deductible for tax purposes.
Australia (Western)	2	30%	1.25-7.5% of realized value; rates vary by mineral and with sustained market value. (4)	10% - most refundable within a month	Representative rate of 5%; exemption available only if equipment is not available in the country	None	15% for remittance to a treaty country, otherwise 30% (if fully franked, the rate is effectively 0%)	10% - deductible

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

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

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Kazakhstan	49	30%; an excess profit tax applies if the IRR on net income is greater than 20% - ranges between 0-30% of profit	Vary by mineral, accounting for 2% of gross revenue; Rates can also vary by contract depending on project economics and feasibility studies	20%; either reimbursed or offset against other taxes	none	none	15% - not deductible	15% - deductible
Mexico	8	35% if profits are reinvested, 5% of such investment may be deferred; mandatory 10% of taxable income is shared among workers	none	15% - reimbursed	Generally around 10%; exemption may be granted where projects are considered export-oriented units by domestic laws	None	7.6925% foreign residents or mexican individuals; not deductible for income tax purposes	15% - if there is a tax treaty with lender's country, the rate is 4.9%. If interest is not grossed up, the tax is not deductible
Papau New Guinea	19	35%; an excess profit tax applies to certain leases when profit threshold is reached	2% NSR on nickel, 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

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

Chart prepared by the Office of Representative Paul Seaton

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

Notes: (1) Net profit tax may have been eliminated with recent creation of gross tax. (2) STC = Rate on dividends distributed; secondary tax on companies elected during negotiations; goldmines may choose to be exempt. (4) Most states have a combination of net profits and ad valorem type taxes on minerals; Rates vary by mineral, form and between states. (5) Rank established in *Frasier Institute Annual Survey of Mining Companies*, 2004/2005, Pg. 49: Figure 17. (6) NSR = Net Smelter Return: Typically the Realized Value less the cost of any processing, transportation and marketing. (7) British Columbia - 2% of net after immediate operating expenses; 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.