



ALASKA MINERS ASSOCIATION, INC.

RE: Mining Industry Taxation

March 2007

Tax, Rent and Royalty History

1. The Mining License Tax was first enacted by the Territorial Legislature in 1913.
2. 1981 - the State AG questioned state policy under Section 6(i) of the State Constitution.
3. 1981/82 - Legislature worked on modifications.
4. 1983 to 1987 - litigation over the 6(i) issue.
5. 1987 - Alaska Supreme Court ruled rents **or** royalties are required.
6. 1989 - Legislature enacted **both** rents **and** royalties.

Taxes presently paid in Alaska by the mining industry

1. Since statehood, the mining industry has been targeted to pay a “special” tax called the Mining License Tax (MLT). This is a 7% net profits tax that applies to all mining operations regardless of land ownership. **This MLT is over and above the corporate tax applied to other industries.**
2. On State land, an additional 3% Net Profits Production Royalty is paid.
3. Claim rentals are paid on state and federal lands.
4. Alaska Corporate Income Tax at 9%, same as other industries.
5. Payments to local governments - for property taxes, sales taxes, direct payments, payments in lieu of tax, etc.

Observations

1. There are **only five large mines** (Usibelli, Greens Creek, Red Dog, Ft Knox, and Pogo) and **one intermediate mine** (Nixon Fork) operating in Alaska. Kensington and Rock Creek are in construction but at both of these projects the Corps of Engineers is being sued over wetlands permits the agency has issued.
2. **In order to significantly increase tax revenue from the mining industry, Alaska needs more large mines.**
3. The mining industry worldwide, including Alaska, is experiencing a period of growth and increased investment. This has been due primarily to **improved metal prices**, which can be

volatile. Improved prices have resulted in increased exploration activity, development of some projects, and new investments are being made in the state.

4. **Metal prices are cyclic** and will swing the other way at some point in time. Metals are a commodity and prices are **established by world markets** and tax increases go directly to the bottom line and reduce the viability of projects. There is **no possibility to pass on any tax to the customer**.
5. Alaska has a **progressive tax structure** for mining. When the miner is successful the State is also successful and shares in that success.
6. Under current tax policy, when metal prices decrease, mines will continue to operate longer before being idled and thereby **provide added stability to local communities by maintaining the jobs**.
7. **Current tax policy will result in higher conservation of the mineral resource** from each deposit on State land, and other lands. **Current policy will allow for lower grade ore to be processed, thereby increasing mine life and providing added stability to local communities by maintaining the jobs for a longer mine life.**
8. Mines are **very capital intensive**. New operations can take 5 to 15 years from exploration to first production, and possibly longer, with large amounts of money spent on exploration, environmental studies, mine design, etc. (Kensington - >\$150 million over 16 yr period and still no production; AJ - >\$100 million and then closed and reclaimed with no production.)
9. **Historically, the worldwide mining industry has averaged about a 5% return on investment, significantly below other major industries in Alaska.** Due to these low rates of return, **a net profits tax is the only type of tax that can be paid on a sustainable basis.**
10. The mining industry supports paying its fair share and is now paying higher taxes through the mining license tax.
11. Mining represents **the greatest source of private employment and local revenue in many parts of rural Alaska** and this directly **off-sets State contributions** and provides the **basis for these areas to become self supporting.**
12. Mining companies have invested in Alaska because of its stable tax and regulatory climate. They have made their decisions based on this situation. In order to continue attracting investment to Alaska, the industry needs this tax stability.
13. Mineral development has the greatest opportunity for future economic activity in many parts of rural Alaska. **In much of rural Alaska mineral development may be the only opportunity for creating new, quality, local jobs.**