

ALASKA MINERALS-RELATED TAXES

SUMMARY

Both the State and municipal governments in Alaska collect taxes relating to minerals production. State taxes include an income tax on net income to corporations, a mining license tax on all net income from product sales from all lands, a production royalty on net income from product sales from state lands, and miscellaneous taxes/license fees and reclamation bonding fees. State claim-related rental or leasehold and assessment work fees are collected as appropriate. Municipal¹ property, sales taxes, and/or excise taxes are collected in some venues; in four cases, a severance tax on production is part of the municipal government revenue.

An exploration incentive tax credit specific to state taxes is allowed for persons, partnerships, or corporations. Donations to educational institutions, libraries and museums, and endowments to an Alaskan university foundation also can serve as credit against Mining License and State income taxes.

STATE TAXES

State-level taxes include:

- Corporate net income taxes
- Mining license tax on net income from product sales from all lands in the State
- Production royalty tax on all net income from product sales from State lands
- State claim rentals - payable on an annual basis and are based on the acreage claimed
- Uplands lease payments - State mining claims are converted to an uplands lease upon intent to begin production or upon request of the claimant; a yearly lease payment to the State based on acreage within the lease is collected to maintain the lease in good standing

- Annual assessment work, or payment in lieu thereof, are required each assessment year
- Fees are required for handling of the application for hard rock exploration, suction dredging, for placer mining, and for miscellaneous land use; large mines are handled through the large mine permitting office and require a different process - not discussed in this document
- Reclamation bonding is required for all disturbances and is based on the disturbed acreage on all lands
- Taxes on fuel are collected by the suppliers; however, certain uses are not taxable or only partially taxable

Certain credits for exploration and for donations to University level educational institutions are recognized.

Corporate Income Tax. The State corporate net income tax applies to corporations doing business in Alaska. The “water’s edge” combined reporting method is mandatory in Alaska. Most of Alaska taxes can be deducted; the Mining License Tax and federal income tax can not be deducted. In addition, a depletion allowance as prescribed in the federal tax code is allowed. The reader is referred to Form 04-611 – Alaska Corporation Net Income Tax Return Instructions for further detail; these instructions can be found at the Department of Revenue, Tax Division website, <http://www.tax.state.ak.us/forms.asp>. The corporate income tax rate is graduated in accordance with the following table:

NET INCOME	BASE TAX	PLUS %	OF EXCESS OVER
<\$10,000	\$0	1%	0
\$10,000 – 20,000	\$100	2%	\$10,000
\$20,000 – 30,000	\$300	3%	\$20,000
\$30,000 – 40,000	\$600	4%	\$30,000
\$40,000 – 50,000	\$1,000	5%	\$40,000
\$50,000 – 60,000	\$1,500	6%	\$50,000
\$60,000 – 70,000	\$2,100	7%	\$60,000
\$70,000 – 80,000	\$2,800	8%	\$70,000
\$80,000 – 90,000	\$3,600	9%	\$80,000
>\$90,000	\$4,500	9.4%	\$90,000

State corporate income tax schedule.

¹ Municipality – used as a designation for a borough and/or city.

Mining License Tax. The Mining License Tax is assessed on net income from mineral product sales from all lands within the State. General accounting principles apply. The statutes/regulations provide for a 3.5-year hiatus, except for sand and gravel, from this tax. An Affidavit of Initial Production for Mining must be filed with the State to set the start of the 3.5-year tax hiatus period. Loss carry forward is not allowed. The reader is referred to <http://www.tax.state.ak.us/forms.asp> for further detail. A table showing the mining license tax calculation is shown below:

NET INCOME	BASE TAX	PLUS %	OF EXCESS OVER
\$0 – 40,000	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

Mining license tax rate schedule.

Production Royalty. The State sets a production royalty of 3% on net income from product (except coal) sales from State lands only. No deferral period is provided for the royalty. A credit is allowed for annual rental paid on mining claims, leasehold location, or mining lease in production that year; a refund may not be made if the amount of annual rental due and paid exceeds the amount of the production royalty. The reader is referred to the DNR website http://www.dnr.state.ak.us/mlw/forms/royalty_fm.pdf for further detail.

Coal royalties for non-competitive leases are set at 5% of the adjusted gross value of sales, disposal, or consumption. Royalties for competitive leases may not be less than 5% or more than 12% where royalty is not a bid variable. If coal is sold in a bona fide arm’s-length transaction between independent parties, adjusted gross value is a full consideration received by the lessee minus (1) reasonable beneficiation

costs, and (2) reasonable transportation costs.²

Depletion Allowance for Mining License Tax and Production Royalty. Two methods of calculating depletion are provided (except for sand and gravel) for both the Mining License and the Production Royalty – Cost and Percentage Depletion. The percentage depletion is modified from the federal schedule; however, must not exceed one-half of the taxable income. The greater of the two methods may be taken as the deduction from income for tax calculations. The percentage depletion rate by commodity is shown in the following table.

COMMODITY	RATE, %
Coal mines	10%
Metal mines, fluorspar, flake graphite, vermiculite, beryl, feldspar, mica, talc, lepidolite, spodumene, barite, ball and sagger clay, or rock asphalt mines and potash mines or deposits	15%
Sulphur mines or deposits	23%

The cost depletion calculation is performed by dividing the development capital cost or other basis of the mineral interest (less residual value) by the estimated recoverable units of the resource at the beginning of the tax year and multiplying that by the number of units extracted and sold during the year. Sand and gravel operations must use the cost depletion method.

Annual Claim Rental. An annual rental for a mining claim, leasehold location, or mining lease (non-coal) is based on the number of years since the claim, or leasehold location was first located. Annual rentals are due on September 1 of each year and must be paid by November 30. The current (9-1-09) rental rate is shown in the following table:

² The reader is referred to the Alaska Administrative Codes at <http://www.legis.state.ak.us/pubs/pubs.php>

YEARS SINCE LOCATION	QTR SEC.	40-ACRE CLAIM
0 – 5	\$140.00	\$35.00
6 – 10	\$280.00	\$70.00
11 or more	\$680.00	\$170.00

Claim rental rate schedule. The rental rate is reviewed for adjustment every 10-years based on the consumer price index. The reference base is the index for January – June 1989. The increase/decrease, as appropriate, is adjusted by an amount equal to the change in the index rounded to the nearest \$5.00. Rates were adjusted in August 2009.

The annual lease rate for coal properties is \$3.00 per acre. The payment may be credited against royalties to the extent that they do not exceed the royalties.

Upland Lease. Commissioning of a mining operation to produce a saleable product, or voluntary requests, initiates the Uplands Lease process. An uplands lease provides an exclusive right of possession and extraction of all minerals subject to AS 38.05.185 – 38.05.275 lying within the boundaries of the lease or location. The exterior boundary of the lease must be surveyed within 10-years after the effective date of the lease. Annual rentals are due on September 1 of each year and must be paid by November 30. The annual rental (lease) payments are shown in the following table:

YEARS SINCE FIRST LOCATED	RENTAL RATE PER ACRE
0 – 5	\$0.88
6 – 10	\$1.75
11 – More	\$4.25

Uplands lease rate schedule. The start date for “years since first located” is considered August 31, 1989 for all claims/leases established prior to that date. Rates were adjusted in August, 2009.

Annual Labor. Labor must be performed or improvements made annually on or for the benefit or development of each mining claim or leasehold location and mining lease

on state land except where adjacent mineral properties (claim, leases, etc.) are held in common and adequate expenditures are made thereon. The annual expenditure requirements are \$100.00 per claim, leasehold location, or lease per 40-acre (or smaller sized) parcel. The labor requirement for quarter section claims (MTRSC) is \$400. Payments may be made in lieu of improvements to the claim for each, but for not more than 5 consecutive years. Affidavits of annual labor must be filed within 90 days of the close of the assessment year in both cases (improvements performed or payment made in lieu thereof). See Sec. 38.05.210 – 211.

Annual Placer Mining Application Fee.

The APMA is divided into three separate applications:

1. Hard rock exploration
2. Suction dredging
3. Placer mining
4. Miscellaneous land use application for cross-country travel only.

The application (and other) form is available at www.dnr.state.ak.us/mlw/forms on the State of Alaska web site or from the DNR offices. A processing fee of \$100.00 is required for handling the application. The form can be used for both State and federal permit applications.

Reclamation Bonding.

Bonding for reclamation of disturbances of 5 acres or more is required on all lands in the state. A MOA³ between the BLM and the State provides for use of the State Bond Pool for assurance of this coverage. Bonding pool forms are available at the above web site. The bond rate is divided into two portions, refundable and non-refundable. The refundable portion is returned after State or BLM certification of reclamation and amounts to a one-time payment of

³ Memorandum of Agreement

\$112.50/acre. The non-refundable portion is assessed initially on intended disturbances and annually on unreclaimed lands; this portion is \$37.50/acre.

Fuel Tax. A highway tax of \$0.08/gallon is collected for all fuel for mining operations. Fuel used for heating and stationary power plant is not taxable and application for refund of the full amount may be made to the State of Alaska. Off-highway fuel use for equipment and vehicles, mobile power plants, pumps, and unlicensed vehicle operation is partially refundable at the rate of \$0.06/gallon of gasoline or diesel fuel. In the latter case individual pieces of equipment must be identified by description, serial number, purpose, and gallons used. Refund forms are available at www.tax.state.ak.us/programs/mororfuel/forms/Claim_for_refund_Template04-01.pdf.

Exploration Incentive Credits. Certain exploration expenditures in search for minerals within the state may be used as credits against State taxes. The credit may be applied against taxes payable by the person/corporation and applies to corporate income tax, the production royalty (including leasable minerals - coal, phosphates, oil shale, sodium, sulfur, potassium and other common variety minerals), and mining license taxes. The credit application may not exceed 50% of the person's tax liability under AS43.65, AS43.20, and AS38.05.212 (corporate income tax, production royalty, and mining license tax) for the tax year that is related to production from the mining operation at which the exploration activities occurred.

The exploration incentive credit may not exceed \$20,000,000 and must be applied within 15 years of royalty payment periods after the taking of the credit is approved under AS 27.30.020(2).

Mining Business Education Credit.

Credits against the corporate income tax and mining license tax is allowed for contributions (cash) to nonprofit public or private, Alaska two-year or four-year colleges accredited in the state. The contributions can be made to institutions involved in direct instruction, research, and educational support purposes, including library and museum acquisitions, and contributions to an endowment, or an Alaska university foundation. The credit is limited to 50% of the contributions of not more than \$100,000 and 100% of the next \$100,000 of contributions. See AS 43.65.018.

MUNICIPAL TAXES

Municipal governments in the State can assess property, sales, and use and/or Severance taxes. These taxes can be a significant portion of the operation's total tax bill. These taxes are set by Title 29 of the State statutes. Specific sub-sections of the law are

- Assessment and collection of taxes: AS 29.35.170(b);
- Property taxes: AS 29.45.010 - .570;
- Sales and use tax: AS 29.45.650(c) - (f), and AS 29.45.700(d).

All boroughs, cities, and unified municipalities in the State may chose to levy a property tax. The tax is neither mandatory nor even generally applied in the State. Of the sixteen (16) boroughs and unified municipalities, twelve (12) levy a property tax, and of the one hundred forty-seven (147) home rule, first, and second class cities, only thirteen (13), which are located outside boroughs, levy a property tax. If a municipality chooses to levy a property tax, it may only do so on property that is "taxable". All real and personal property is taxable unless it is exempted. Required exemptions are specified in AS 29.45.030.

Examples of exemptions include household furniture and personal effects of members of a household, natural resources in place, and property used exclusively for nonprofit religious, charitable, cemetery, hospital, or educational purposes. ANCSA Native corporations are also exempt from municipal property tax unless the property is leased or developed. No property tax may be levied exceeding three percent (3% or 30 mills) of the assessed value of the property within the municipality during a year; shared geographical areas by municipalities may not levy a tax exceeding \$1,500 per resident within the common area.

Second Class cities are subject to an additional limitation for property tax assessment. See AS 29.45.590. The rate may not exceed 2% of the assessed value of a property within its boundaries in any one year.

Sales and use taxes (AS 29.45.650-710) authorize the levy of sales and use taxes at the municipal level. Local ordinances may grant exemptions. There are no limits, by statute, on the rate of levy for sales or use taxes for either type of municipality.

Municipal governments under the broad taxing powers, which are not specifically enumerated in state law, may impose excise taxes. A first class borough would have the legal authority to levy severance taxes within its municipal boundaries. At the present time, four (4) boroughs, the Denali Borough, the Kodiak Island Borough, the Lake and Peninsula Borough, and the City and Borough of Yakutat, levy severance taxes against the activity of harvesting or extracting natural resources within their jurisdictions.

Property and Severance Taxes.

Municipalities assessing a property tax generally do so by service area. Rates are set by a base rate plus by services provided

within the service area in which the property is located. The number of service areas varies considerably by municipality from a single (1) assessment borough-wide to a high of 127 distinct areas for the Fairbanks North Star Borough. The mill rates are broken down by the following individual services (items) as identified by municipality:

- General government
- Education
- School & library bonds
- Fire district
- Hospital
- Debt service
- Roads/drainage
- Police
- Parks & recreation
- Building safety
- Solid waste
- Waste water.

A breakdown is not provided herein by municipality.

Property and severance taxes for the various municipalities are shown in the following table⁴:

⁴ Refer to the State Assessor's website for up-to-date listing of property, sales and other tax rates: <http://www.commerce.state.ak.us/dca/osa/assessor.htm> Please note that this site lists only responses by municipal assessors.

MUNICIPALITY	SERV. AREAS Reporting	MILL RATE			COMMENTS
		2008	HIGH	LOW	
Aleutians East Borough		0	0	0	Severance tax on raw fish only
Municipality of Anchorage	41	14.89	15.04	7.31	
Bristol Bay Borough	1	13.000			Mill rate is areawide
City of Cordova	2	13.00			
City of Craig		6.00			Area wide mill rate.
Denali Borough		0	0	0	\$0.05/ton of coal & yd of gravel severance tax.
City of Dillingham		13.000			Area wide mill rate.
City of Eagle		0.000			Area wide mill rate. Not levied since 1998.
Fairbanks North Star Borough		12.3900			
City of Fairbanks	132		28.4870	12.7900	Borough levy 12.3900
City of North Pole		15.3900			Borough levy 12.3900
Haines Borough	10	11.26	11.71	8.15	10 services areas reported in 2008
City and Borough of Juneau	3	10.37	10.37	7.43	
Kenai Peninsula Borough	23	4.50	15.30	5.90	
City of Kenai		9.90			Borough levy at 4.50 in cities
City of Seldovia		9.10			Same
City of Homer		11.30			Same
City of Seward		8.12			Same
City of Soldotna		9.50			Same
City of Kachemak		7.80			Same
Ketchikan Gateway Borough	18	6.80	12.900	6.800	
City of Ketchikan		12.90			Borough levy 6.80
City of Saxman		6.80			Borough levy 6.80
Kodiak Island Borough	15	10.50	14.50	10.50	Plus 1.05% gross value severance tax
City of Kodiak		12.50			
Lake & Peninsula Borough		0	0	0	Plus 1.5% gross value severance tax
Matanuska-Susitna Borough	31	10.326	18.836	11.729	
City of Wasilla		11.886			
City of Palmer		13.326			
City of Houston		12.326			
City of Nenana		12.000			Area wide mill rate.
City of Nome		10.000			Area wide mill rate.
North Slope Borough	1	18.500			
Northwest Arctic Borough		0	0	0	
City of Pelican		6.000			
City of Petersburg		10.31			
City & Borough of Sitka	1	6.000			
City of Skagway	5	8.00	8.00	1.44	
City of Unalaska		10.50			Area wide mill rate.
City of Valdez		20.000			Tax cap at 20 mills-doesn't apply to bonds
City of Whittier		5.000			
City of Wrangell		12.75			
City and Borough of Yakutat		10.000			Roadless prop. at 7 mills; 4.0% gross mineral value severance tax

Property and severance taxes assessed by boroughs and cities in the State. The Low and High numbers reflect respective extremes in service areas – mines would generally be in the Low range. Severance taxes are shown in the “COMMENTS” column.

Sales & Other Taxes. Sales taxes and other special taxes are levied by a number of municipalities. The rates are shown in the following table.

MUNICIPALITY	SALES TAX	OTHER	COMMENTS
Adak	3%	\$0.02	Fuel transfer tax per gallon.
Alakanuk	4%		
Aleknagik	5%	5%	Bed tax
Ambler	3%		
Anchorage	0	12%	Bed tax, 8% car rental
Angoon	3%		
Aniak	2%		
Bethel	6%	3%	Room, 6% alcohol, 6% gaming
Bettles	0	\$0.02	Fuel transfer tax per gallon.
Brevig Mission	3%		
Buckland	6%		
Chefornak	2%		
Chevak	NR		
Clarks Point	NR		
Cold Bay	0	\$0.04	Fuel tax per gallon, 10% bed tax
Cordova	6%	6%	Bed tax, 6% Vehicle Rental Tax
Craig	5%		
Deering	3%		
Denali Borough	0	\$0.05	Per ton of coal and yard of gravel severance, 7% bed tax
Dillingham	6%	10%	Bed and liquor tax
Diomede	3%		
Eek	2%		
Elim	3%		
Emmonak	3%		
Fairbanks	0%	8%	Bed tax, 5% alcohol tax (city & borough)
False Pass	3%	6%	Bed tax
Fort Yukon	3%		
Galena	3%		
Gambell	3%		
Gustavus	2%	4%	Bed tax
Haines Borough	5.5%	4%	Bed tax
Homer	4.5%		
Hoonah	NR		
Hooper Bay	4%		
Houston	2%		
Hydaburg	4%		
Juneau, City & Borough	5%	7%	Bed tax.
Kake	5%		
Kenai	3%		
Kenai Peninsula Borough	2%/3%		
Ketchikan	3.5%	7%	Bed tax
Ketchikan Gateway Bor.	2.5%	4%	Bed tax
Kiana	NR		
King Cove	4%	2%	Business impact tax-flat rate
Kivalina	2%		
Klawock	5.5%	6%	Bed tax
Kodiak	6%	5%	Bed tax, 1.05% gross mineral value severance
Kotlik	3%		

MUNICIPALITY	SALES TAX	OTHER	COMMENTS
Kotzebue	6%	6%	Bed tax
Koyuk	2%		
Kwethluk	5%		
Larsen Bay	3%	\$5	Per day person bed tax
Manokotak	2%		
Marshall	4%		
Mekoryuk	2%		
Mountain Village	3%		
Napakiak	3%		
Nenana	4%		Motor Vehicle Tax
Newhalen	2%		
Nightmute	2%		
Nome	5%	4%	Bed tax
Nondalton	3%		
Noorvik	NR		
North Pole	4%		
Nunam Iqua (Sheldon Pt.)	4%		
Nunapitchuk	3%		
Old Harbor	3%	5%	Bed tax
Ouzinkie	3%		
Palmer	3%		
Pelican	4%	10%	Bed tax
Petersburg	6%	4%	Bed tax
Point Hope	3%		
Port Alexander	4%	6%	Bed tax
Quinhagak	3%		
St. Mary's	3%		
St. Michael	NR		
Saint Paul	3%		
Sand Point	3%	7%	Bed tax
Savoonga	3%		
Saxman	3.5%		
Scammon Bay	2%		
Selawik	5%		
Seldovia	2%/4.5%		
Seward	4%	4%	Bed tax
Shaktoolik	NR		
Shismaref	NR		
Shungnak	2%		
Sitka, City & Borough	5%/6%	6%	Bed tax
Skagway (borough)	4%	8%	Bed tax
Soldotna	3%		
Stebbins	3%		
Tanana	2%		
Teller	3%		
Tenakee Springs	2%	6%	Bed tax
Thorne Bay	5%	4%	Bed tax
Togiak	2%		
Toksook Bay	2%		
Unalakleet	5%		
Unalaska	2%	5%	Bed tax

Wasilla	2.5%		
MUNICIPALITY	SALES TAX	OTHER	COMMENTS
White Mountain	1%		
Whittier	5%		Summer only, \$2.50 summer passenger tax
Wrangell	7%		
Yakutat, City & Borough	4%	8%	Bed & car rental tax

Table showing sales and other tax by municipality. Those having no sales or special tax are not included. Sales tax could be significant in some situations as major purchases might be made in those venues.