

# **A Perspective on Alaska's Fiscal Regime and the Mining Industry**

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Resource Development Council, November 16, 2005

# Mining Industry Taxation in Alaska

## Known

- Federal
- State
  - Corporate income - 9.4%
  - Mining license
  - Rents and royalties
- Municipal
  - Property tax
  - Production tax
  - Payments in lieu of property tax

# Mining Industry Taxation in Alaska

## Unknown

- Who should act as the owner?
- Challenges in the unorganized areas?

# Mining License Tax

- First enacted by Territorial legislature in 1913
- Component of resource policy at statehood
- 7% Net Profits for major operations
- Payable by all operations in State regardless of land status or mineral ownership

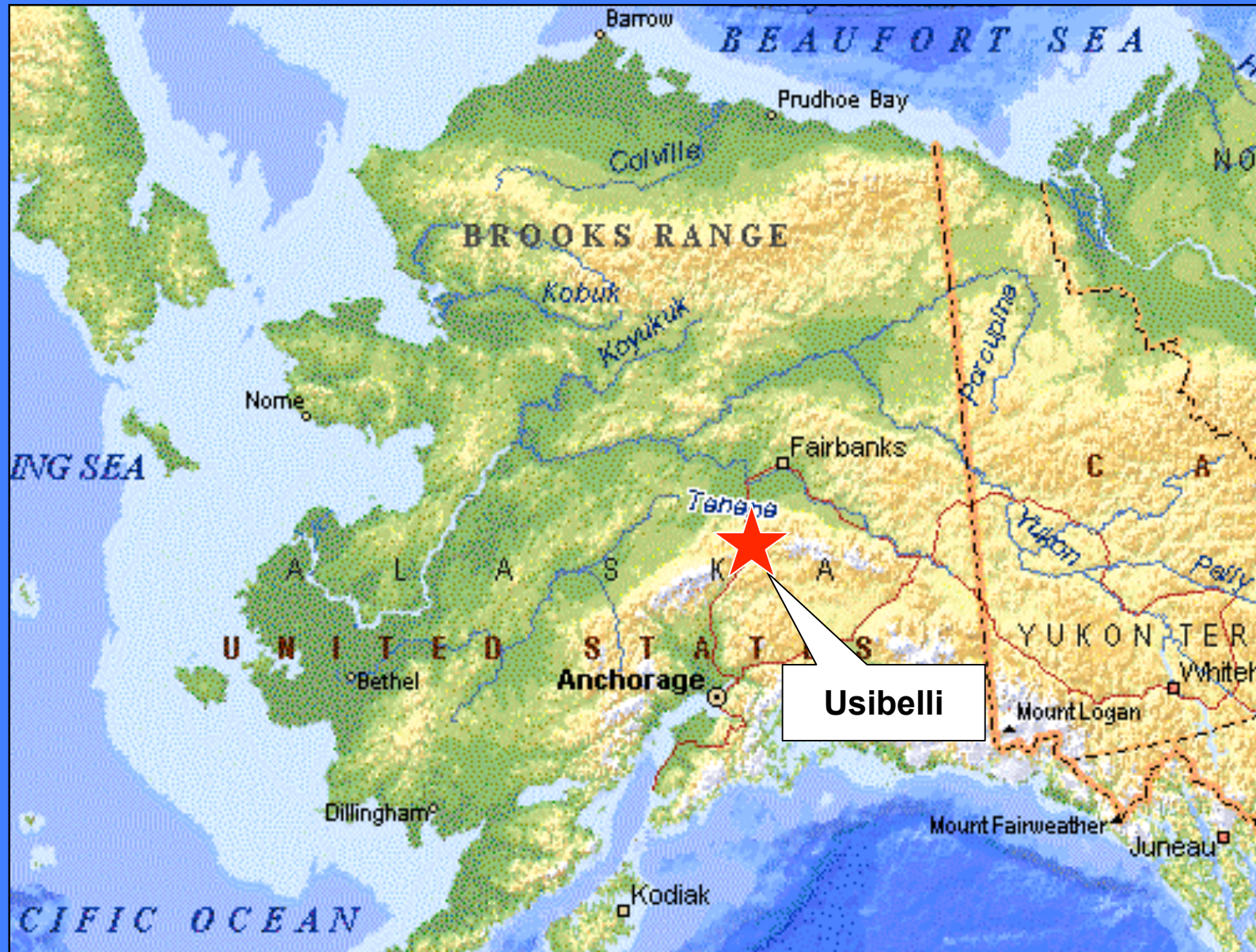
# Rents & Royalties

- Mineral development major factor at statehood
- 1981- State AG questioned state policy (Section 6(i))
- 1981/82 legislature tried modification
- 1983-1987 litigation
- 1987- AK Supreme Court – rents or royalties
- 1989 legislature – rents and royalties

# Rents & Royalties

- Rent – up to \$3.30 per acre/yr
- Royalty – 3% Net Profits
- State land only
- Debate and resolution occurred prior to industry expansion

# Major Alaska Mines - 1985



# Major Alaska Mines - 1995

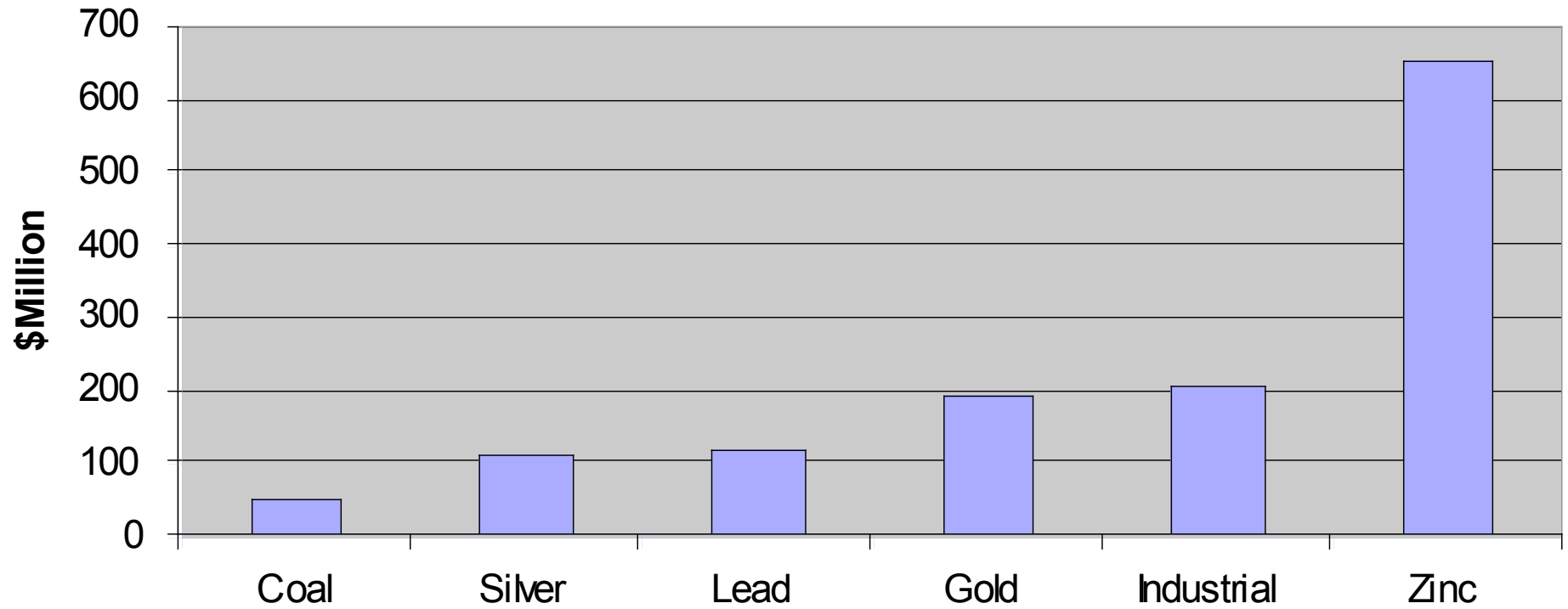




# Major Alaska Mines - 2005



## 2004 Alaska Mineral Production



Source: State of Alaska DGGs Special Report 59

# Major Alaska Mines - 2007



# Major Alaska Mines – 2010+?



# Industry Potential

- Lived up to its billing
- Rare opportunity for substantial economic activity in rural areas
- Future growth potential
- Fiscal policies can have significant effect on whether this potential is realized

# Continued Improvements in Alaska Mineral Industry Tax Structure

- 1991-clarification that municipalities cannot tax minerals in place
  - Removed disincentive to exploration
- 1995 Minerals Exploration Incentive
  - Up to \$20M credit for exploration expenses
  - Taken within 15 years after startup
  - Applied against 50% of state tax liability

# Metal Mine and Coal Industry Payments to Municipalities

Project Specific and working

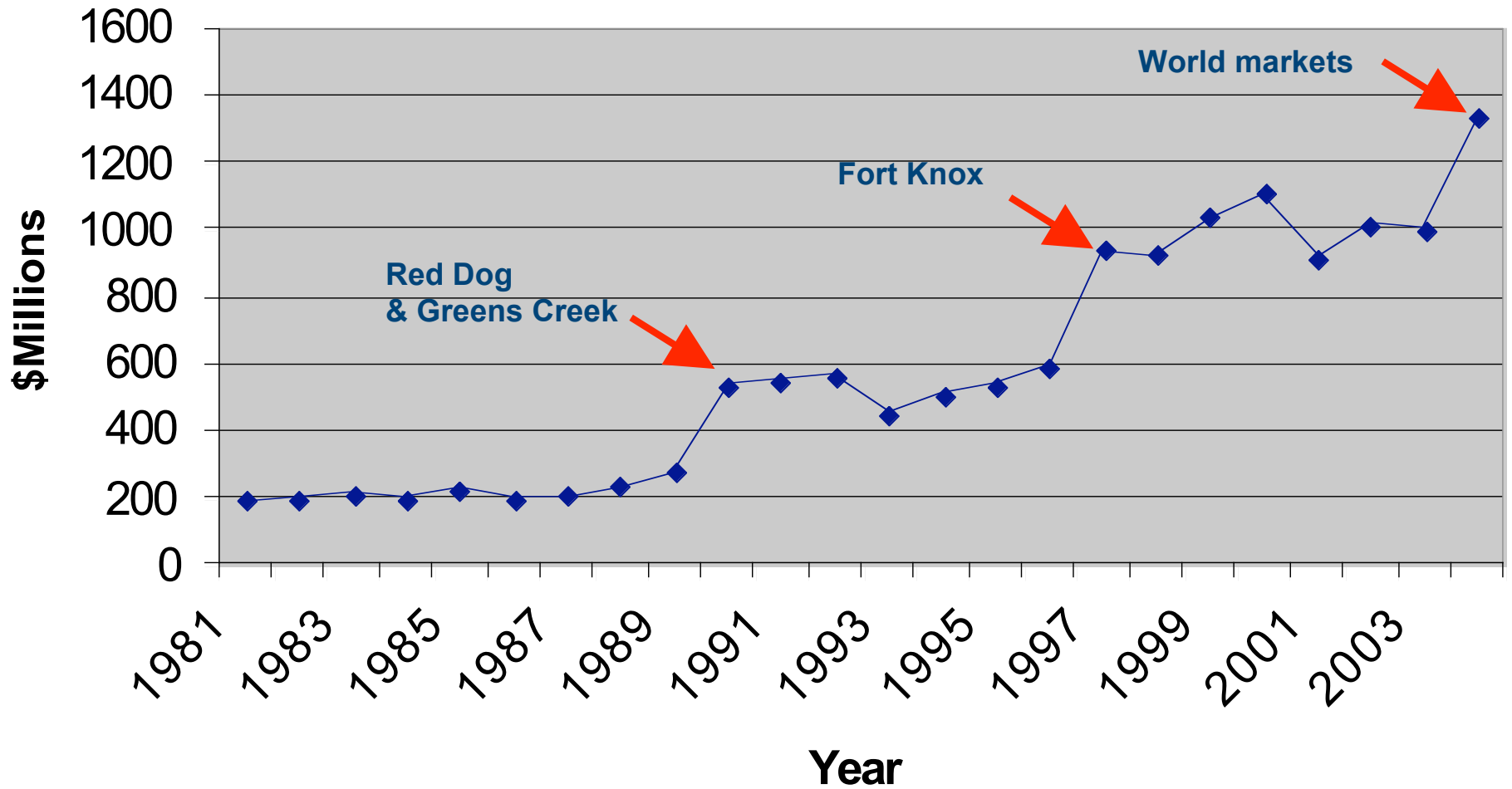
- Red Dog – sole taxpayer via payment in lieu of taxes agreement to fund NWAB
- Fort Knox – second largest property tax payer in FNSB
- Greens Creek – largest property tax payer to City & Borough of Juneau
- Usibelli – production tax
- Pogo – payment in lieu of taxes agreement will fund major portion of borough if/when organized

# Payments to Municipalities

- Existing projects work due to symbiotic relationships with stable governments
- Challenges
  - Some locals approach taxation as if the municipalities own the minerals
  - In unorganized areas of Alaska - government structure unclear
- Leads to fiscal uncertainty
- Impediment to capital investment
- CAP proposed legislation in 2004 to reduce this uncertainty



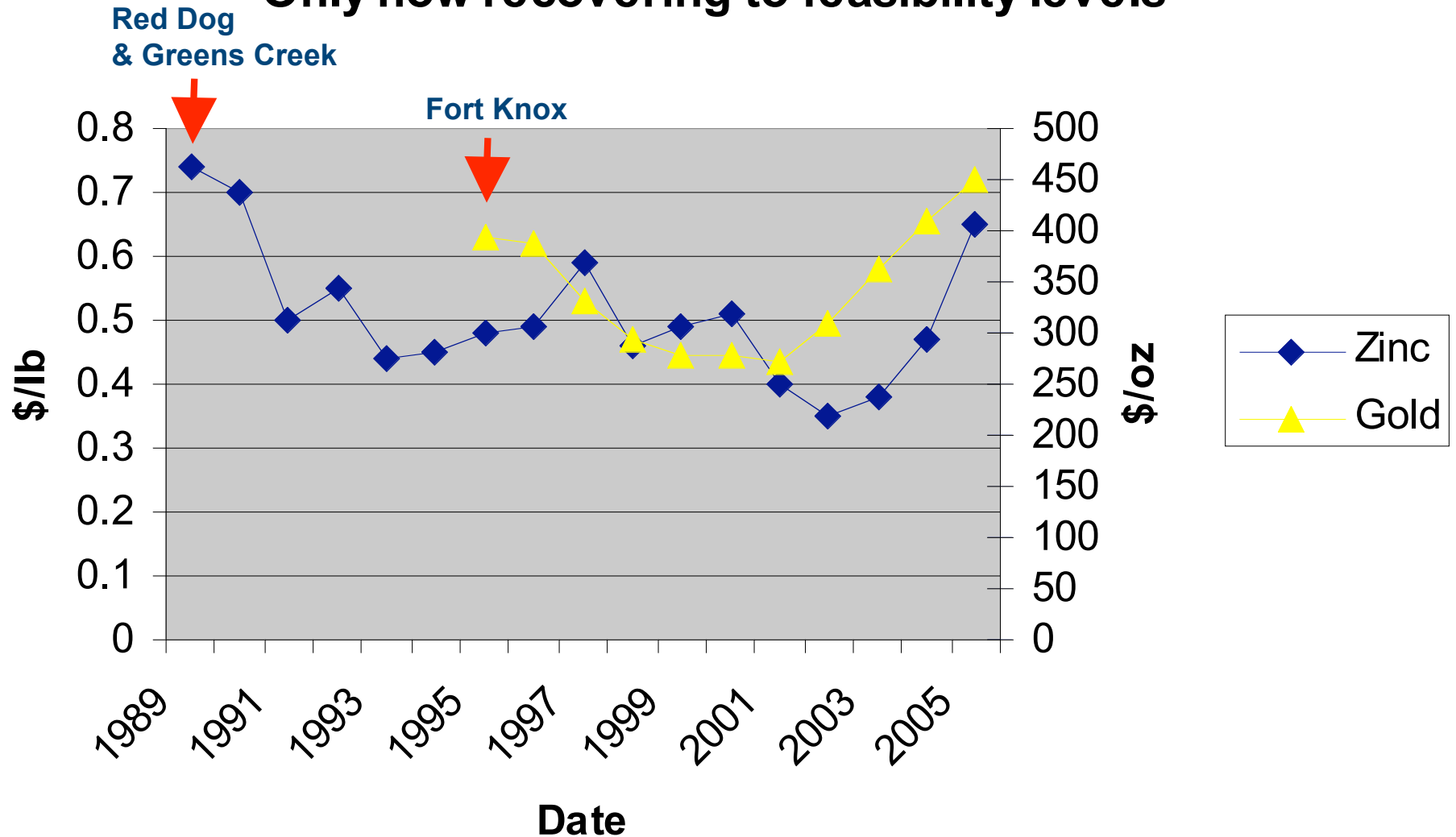
# Total Value of Alaska Mineral Production



Source: State of Alaska DGGs Special Report 59

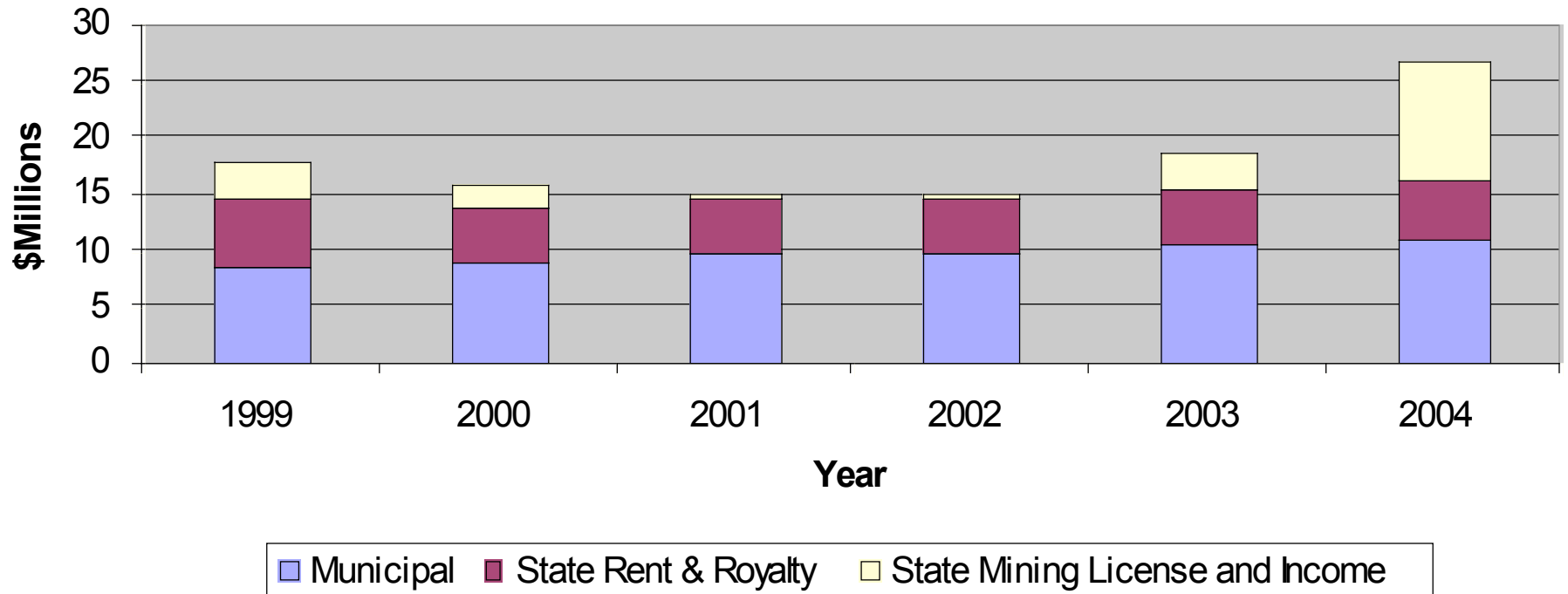
# Zinc and Gold Prices

Only now recovering to feasibility levels



Source: State of Alaska DGGs Special Report 59

## Alaska Mining Industry Payments



Source: State of Alaska DGGs Special Report 59 & Office of Economic Development

# Alaska Fiscal Regime Summary

- What's working
  - Corporate tax – broad based, stable
  - Mining license tax – statewide, progressive, stable
  - Rents & Royalties – product of intense policy and legal debate, progressive, now stable
  - Existing local payments – tailored to local needs
- Room for Improvement
  - Targeted taxes by local governments
  - Tax uncertainty in unorganized areas