

# Alaska State Legislature

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## REPRESENTATIVE Paul Seaton

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### HB 418 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 418 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.

Alaska’s mining industry bears a light tax burden compared to Alaska’s other high value resource industries. State revenue generally amounts to only about 7/10 of 1% of the mined resource value, while an additional 1% is paid to municipalities. State revenue from oil and gas amounts to about 20% of total production value, while an additional 2 % is paid to municipalities. State revenue from fisheries amount to about 2.8% of the total production value, while an additional 2.5% is paid to municipalities, excluding property tax, vessel and license fees.

HB 418 makes changes to three of the main taxes paid by mining operations including the Mining License Tax, state royalties for minerals and coal, and the per acre rental fees 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, topping out at 7%. Mining operations (excluding sand and gravel operations) are exempt from paying the mining license tax for the first three and a half years of production. HB 418 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%.

The depletion allowance is also changed under the bill 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. Indirect expenses would be disallowed under the bill. This would primarily affect larger operators with multiple mines.

HB 418 changes the calculation of the royalty for mineral mining on state land to a 3% Net Smelter Return (NSR) tax from our current 3% of net income. The royalty represents a share of mineral wealth that is paid the owner of the mineral rights. Most rights holders in Alaska negotiate for a NSR royalty between 2% – 5%.

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 418, 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.

HB 418 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.