Alaska 2010 Mining License Tax Return Instructions

General Information

Who Must File a Mining License Tax Return?

A person engaged in one or more of the following activities in the state is in the business of mining and shall obtain a mining license and file a mining license tax return:

1. A person owning and operating a mining property.
2. A person owning a mining property and receiving lease payments or royalty payments based on production from the property.
3. A person leasing a mining property.
4. A person processing a mineral interest, whether an economic or production interest, in a producing property, including royalty, working or operating interests, net profits, overriding royalties, carried interests and production payments.

Return Period

A taxpayer shall make the return either on a calendar year or fiscal year basis, in conformance with the basis used in making the return for federal income tax purposes. An entity with a calendar year-end shall file a return on or before April 30 of the following calendar year. An entity with a fiscal year-end shall file a return on or before the last day of the fourth month following the end of the fiscal year.

Form 0405-662

Use this form to calculate the Alaska mining license tax on all mining operations conducted during the tax year in Alaska, including operating and royalty interests. A mining operation is an operation by which valuable metals, ores, minerals, asbestos, gypsum, coal, marketable earth, or stone, or any of them are extracted, mined, or taken from the earth. A mining operation consists of a single mining property or several mining properties that are connected geographically.

How to File

File paper return - Mail completed return to:

Alaska Department of Revenue
Tax Division
PO Box 110420
Juneau AK 99811-0420

Payment

Pay your taxes using the Online Tax Information System (OTIS) at *www.tax.alaska.gov*. Note that you must be an existing taxpayer with the Tax Division to pay electronically. If you are a first-time taxpayer, contact the Tax Division at (907) 465-2320 or visit *www.tax.alaska.gov* for information.

ACH Debit (EFT) - OTIS accommodates Automated Clearing House (ACH) debit payments. If your bank account has a debit block, your online payment request will be rejected by your bank. Rejected payments may result in late payment penalties and/or interest.

If you think your bank account has a debit block, contact your bank before making an online payment to register the State of Alaska as an authorized ACH debit originator. The company ID for the Alaska Department of Revenue is 0000902050.

Credit Cards & ACH Credit - OTIS does not accept credit card or ACH credit transactions for this tax program.

Wire Transfers - If you are paying by wire transfer, log on to the OTIS website at *www.tax.alaska.gov* for instructions.

Checks - Note that if your total payment exceeds $150,000 you are required to pay electronically or by wire transfer. If you are paying by check, make your check payable to the State of Alaska and mail it with your return to:

Alaska Department of Revenue
Tax Division
PO Box 110420
Juneau AK 99811-0420

Penalties

Late filing of return. Returns not filed by the due date are subject to a failure to file penalty of 5% of the unpaid tax for each 30 day period or portion of a period the return is late, up to a maximum of 25%.

Late payment of tax. If the full amount of tax is not paid when due, the return is subject to a failure to pay penalty of 5% of the unpaid tax for each 30 day period or portion of a period the payment is late, up to a maximum of 25%. If during any period or portion of a period, both the failure to file and failure to pay penalties are applicable, only the failure to file penalty is imposed.

Interest

Under Alaska Statute 43.05.225, interest will be assessed on any unpaid or delinquent tax. Interest is compounded quarterly at the applicable rate each quarter. Refer to *www.tax.alaska.gov* or contact the Tax Division for applicable rates.

LINE BY LINE INSTRUCTIONS

Note: Report all income and expenses in U.S. Dollars

Line 1 - Enter the aggregate amount of taxable income from all mining operations as reported on line 7 of each Schedule A.

Line 2 - Computation of tax. If line 1 is:

- $40,000 or less; the tax is zero.
- Over $40,000 and less than or equal to $50,000; the tax is $1,200 plus 3% (0.03) of the excess over $40,000.
- Over $50,000 and less than or equal to $100,000; the tax is $1,500 plus 5% (0.05) of excess over $50,000.
- Over $100,000; the tax is $4,000 plus 7% (.07) of excess over $100,000.

Line 3 - Exploration incentive credit. Enter the amount from line 5 of Form 0405-665 Exploration Incentive Credit.

Line 4 - Enter the amount, if any, from line 4 of Schedule EC - Mining Business Education Credit. Contributions used to calculate a credit against any other taxes e.g. Alaska corporation net income tax, cannot be used as a credit against the Mining License Tax.

Line 6 - Enter any payments of tax previously paid with Form 0405-668, Application for Extension of Time to File.

Line 7 - If you are filing an amended return, enter the amount of tax you paid when you filed the original return. Otherwise enter zero.

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Schedule A - Taxable Income From Mining Operation

A separate Schedule A must be completed for each mining operation from which income or royalties are received. Taxable income must be calculated for each mining operation separately. Examples of mining operations are as follows:

Example 1: Mining company A is a gold dredging operator which owns or leases three properties. The properties are joined contiguously and lie within a single river valley. Company A acquires an additional lease that shares a common boundary with the other properties. Company A is engaged in a single mining operation that includes the four properties. Company A is required to file a single Schedule A to report taxable income from its operation.

Example 2: Company B owns and operates property P1, a producing placer mine in southeast Alaska, receives a royalty from property P2 located in Fairbanks, and is developing property P3, a potential placer mine near Anchorage. Company B is engaged in three separate mining operations and must file a separate Schedule A to calculate taxable income from each operation.

Line 1 - Enter the gross income or royalties received from the mining operation identified at the top of the schedule. Gross income is the sale price, or the actual cash, credits, in-kind exchange and other valuable consideration received for mined materials. If royalties were received on the property, Schedule E must be completed and the amount on Schedule E, line 6 must be included on Schedule A, line 1.

Line 6 - An exemption from the mining license tax is allowed for three and one-half years after initial commercial production begins on the property, if the Department of Revenue has issued a certificate of exemption. There is no exemption for sand and gravel mining. Please contact the Department if you have questions regarding the exemption at (907) 269-6620.

Schedule B - Depletion

A separate Schedule B must be completed to calculate the allowable depletion deduction for each mining operation. Enter only amounts attributable to the mining operation identified at the top of this page.

Line 1 - Enter the purchase cost of the property plus all development costs incurred while the property was in the development stage, less the amount of cost or percentage depletion previously taken as a deduction for this property.

Line 2 - Enter the amount of total recoverable units estimated to be produced from the property over the life of the mine.

Line 4 - Enter the total number of units sold during the reporting period. **This line must be filled out.**

Line 9 - Enter the applicable depletion percentage. Sand and gravel cannot use percentage depletion and must enter zero.

Line 14 - Percentage depletion is limited to 50% of net income from the property before the depletion deduction.

Line 16 - The depletion deduction is the greater of cost or percentage depletion calculated each year.

Schedule C - Mining Expenses

Complete a separate Schedule C for each mining operation. Royalty recipients cannot take any expenses except for depletion.

Direct Mining Expenses

Direct mining expenses are fully deductible against mining gross income. Only those expenses related to the extraction of the mined material, transportation of the material to the point of ordinary treatment processes, and the ordinary treatment process itself are deductible. Included in this category of expenses are maintenance and repairs, and salaries and wages paid to those engaged in the extraction, transportation and ordinary treatment processes of the mined material.

Line 3 - Current Development Costs. If a mining property is in the development stage, all development costs which are in excess of net income from the sale of mined materials must be included in the mine's basis and are recoverable through the depletion allowance. Development expenses incurred after the mine has reached the production stage are deductible as a current operating cost. A mine is considered to be in production stage when the principal activity becomes the production of ore from the property rather than the development of the ore body. (15 AAC 65.125)

Indirect Mining Expenses (Allocation)

Indirect mining expenses are those expenses necessary to the mining operation but not directly connected to the extraction, transportation and ordinary treatment processes of the operation. These expenses are deductible from mining gross income in whole or in part. Exploration costs, federal income taxes, the Alaska mining license tax, losses on the sale of mining equipment or properties, net operating losses and other capital losses are not deductible. (15 AAC 65.125) Exploration costs may, however, be allowed as a credit against mining license tax due. See instructions for Form 04-665 to see if the property qualifies for the exploration incentive credit.

Line 15 - If the indirect expense is related to both mining and non mining activities, the item of expense is allocated in proportion to the mining and non mining activity's direct expenses. (15 AAC 65.125)

Line 33 - Where two or more properties are involved, indirect expenses must be allocated between the properties based upon the ratio of each property's production to the taxpayer's total production from all properties during the tax year.

Schedule D - Royalties Paid

Complete a Schedule D for each mining operation if royalties were paid. Show the name, address and identification number of each individual, partnership or corporation to whom royalties were paid. If the royalty payment was in-kind, report the fair market value of the mined material on the date that payment was made. Enter the amount from Schedule D, line 6 on line 1 of the appropriate Schedule C.

Schedule E - Royalties Received

Complete a Schedule E for each mining operation if royalties were received from the operation. Show the name, address and identification number of each individual, partnership or corporation from whom royalties were received. If the royalty payment was in-kind report the fair market value of the mined material at the date that payment was received. Advance royalty payments received should be included in gross income for the tax year in which the mined material was actually produced.

Need Help?

If you have questions not addressed in these instructions, need more information or require assistance, contact the Tax Division at dor.tax.mining@alaska.gov or call 907-269-6620.