

Instructions for Form 662

2013 Alaska Mining License Tax Return

WHAT'S NEW

The Alaska Department of Revenue Tax Division (DOR) is currently implementing a new tax revenue management system. The new system will allow us to process refunds more quickly, communicate with taxpayers in a more timely manner, and to account for information that we are required to report to the legislature.

Form Changes

Page 1 - Mining license numbers are no longer reported on page 1. Mining license numbers are required on Schedules A/B, C, E & F.

A checkbox to indicate a new mailing address has been added to the "Mailing Address" line of the address section.

The "Inactive" checkbox has been removed. If your mine was inactive for the season, and you were licensed, you are still required to file a return. Complete the return, placing zeroes where appropriate.

First return and a final return checkboxes have been added.

Taxpayer type checkboxes: "Owner", "Lessor", "Operator" have been removed.

The checkbox, "I wish to renew my mining license(s) for next year" has been removed. A license application must be submitted each year.

Lines have been added to page 1 to accommodate the Film Production Tax Credit. Line numbers have been shifted to accommodate the change. See the "Legislative Changes" section and the "Specific Instructions" section of these instructions for more information about the film credit.

The "Electronic Payment Information" section has been updated.

Schedule A - Gross income from mining and royalties received are now on separate lines. Line numbers have been shifted due to the added income line.

Schedule C - Mining Expenses: In an effort to eliminate filing errors Schedule C has been redesigned. Indirect expenses are no longer reported on this schedule and line numbers have been shifted.

A new Schedule D - Indirect Expenses, has been added. Report all indirect expenses on this new schedule. Note that only one Schedule D is to be filed with Form 662.

Schedule D to E - The schedule designation of the Royalties Paid to Owner/Lessor schedule was changed from Schedule D to Schedule E.

Schedule E to F - The schedule designation of the Royalties Received from Operator/Lessee schedule was changed from Schedule E to Schedule F.

Legislative Changes

Alaska Senate Bill 83 (SB 83) changed the interest rates applicable to delinquent taxes. Effective 1/1/14, the Alaska interest rates decreased from 11% compounded quarterly to 3.75%¹ calculated as simple interest. For delinquent balances outstanding at 1/1/14, interest will be calculated at 3.75% on the balance of tax due. The payoff amount at any date after 12/31/13 will include the tax balance, accrued interest at 3.75% from 1/1/14, and the interest balance at 12/31/13.

Effective 7/1/13, a film production tax credit may be claimed against your tax liability. In order to claim the credit, you must have acquired a credit certificate issued by the Film Office. Any unused credit may be carried forward but must be claimed before the expiration date on the certificate (six years from the date of issuance). For more information about this credit, refer to AS 43.98.030 or contact the Film Office at 907-269-6620.

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 possessing 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.

¹Current as date of publication.

Form 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, 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 and Where to File

File paper return - Mail completed return to:

TAX DIVISION
ALASKA DEPARTMENT OF REVENUE
PO BOX 110420
JUNEAU AK 99811-0420

Payment

Tax payments can be made by Electronic Funds Transfer (EFT), wire transfer or check.

When a payment is greater than \$150,000, the payment must be made by EFT or wire transfer, see Alaska Regulation 15 AAC 05.310.

As we implement the new tax revenue management system, we are transitioning from using the Online Tax Information System (OTIS) payment center, to a new web-based portal named "Revenue Online." Since this is a transition year, these instructions refer to both systems.

A taxpayer may pay taxes electronically by using OTIS at www.tax.alaska.gov or Revenue Online at <https://online-tax.alaska.gov>. These systems may also be used to print a payment voucher for a payment to be made by wire or check.

OTIS and Revenue Online accommodate Automated Clearing House (ACH) debit payments. OTIS and Revenue Online do not accept credit cards or ACH credit transactions. If a taxpayer wishes to use OTIS, the taxpayer must be registered online in "myAlaska." As we transition to Revenue Online, the taxpayer will register directly with Revenue Online. A first-time taxpayer wishing to use these online systems should contact the DOR at 907-465-2320 or visit www.tax.alaska.gov for information.

If a bank account has a debit block, any online payment request will be rejected by the bank. Rejected payments may result in late payment, penalties and interest. If a bank account may have a debit block, the taxpayer is encouraged to contact its 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.

A taxpayer making a payment by wire transfer is required to notify the State of Alaska, Treasury Division by 2:00 p.m. the business day prior to the wire transfer settlement date.

Prepare the payment voucher on OTIS or Revenue Online and email to cashmgmt@alaska.gov. If the payment covers multiple tax years, prepare a separate voucher for each year.

Make checks payable to the State of Alaska. Note: if the total payment exceeds \$150,000 the payment is required to be paid by EFT or wire transfer.

A check must be submitted with the appropriate return or payment voucher. Payment vouchers can be found on OTIS or Revenue Online.

Mail check with return or payment voucher to:

TAX DIVISION
ALASKA DEPARTMENT OF REVENUE
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 by the original due date of the return, even if an extension to file was granted, 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%. An extension to file is not an extension to pay the tax. 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. See the "Legislative Changes" section above for how interest will be calculated after 1/1/14. For rates prior to 1/1/14, refer to our website: www.tax.alaska.gov.

SPECIFIC INSTRUCTIONS

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

Page 1

Line 1 - Enter the aggregate amount of taxable income from all mining operations as reported on line 8 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 the excess over \$50,000.

- Over \$100,000; the tax is \$4,000 plus 7% (.07) of the excess over \$100,000.

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

Line 4 - Enter the amount, if any, from line 6 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. See Schedule EC for more information and instructions.

Line 6 - Film production tax credit. Enter the amount of the film production tax credit from the certificate issued by the DOR. You must attach the original certificate to the tax return.

Line 7 - Enter extension payment made if applicable.

Line 8 - If filing an amended return, enter the total amount of tax paid on the original return and/or previous amendments. Otherwise enter zero.

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: 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 the 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 from the mining operation identified at the top of the schedule. Gross income is the sale price, or value actually received, including cash, credits, in-kind exchange and other valuable consideration received for mined materials. Include the value of mined materials when the mined materials were traded for labor.

Line 2 - Enter the total amount of royalties received from the mining operation identified at the top of the schedule. Complete Schedule F and include the lessee's name, address and federal identification number.

Line 7 - 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. Please contact the Department with questions regarding the exemption at 907-269-6620.

Schedule B - Depletion

A separate Schedule B must be completed for each mining operation to calculate the allowable depletion deduction. 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 estimated recoverable reserves remaining at the end of the tax year plus the units sold in the tax year.

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.

Depletion percentages to be used:

10% Coal mines

15% 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

23% Sulphur mines or deposits

If the material mined is not listed above, enter 0 on line 9.

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 the 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)

Line 9 - Other expenses. Enter the amount of other expenses directly related to the mining operation. Attach a separate schedule itemizing the type and amount of other mining expenses that are not included on lines 1 through 8.

Line 12 - Total direct mining expenses of all mining operations.

Tip: This line 12 must be the same as line 12 of all schedules C.

Line 13 - Total direct non-mining expenses from all non-mining activities. Enter the total direct non-mining expenses incurred from business activities which are non-mining but share indirect expenses with the mining operation(s).

Tip: This line 13 must be the same as line 13 of all schedules C.

Direct non-mining expenses would arise in a situation similar to the following. A miner uses a loader to mine in summer and at end of the summer the miner transports the loader to town to be used for snow removal in the winter. Direct non-mining expenses related to the use of the loader would be the fuel used and other expenses incurred as a result of snow removal. These non-mining direct expenses need to be taken into account before indirect expenses of owning the loader, such as insurance, finance charges, etc., can be allocated between mining operations and non-mining operations.

Another example of when direct non-mining expenses would arise is if a company has a mining division and a logging division and the company uses the same central office for administrative functions (billing, payroll, etc.). The mining operation and the logging operation are considered related because of the expenses incurred at the common central office. In this case the expenses directly incurred by the logging operation are the direct non-mining expenses. For mining license tax purposes, the direct expenses of the logging operation need to be taken into account before the indirect expenses (central office expenses) can be allocated to the mining division.

Line 15 - Calculate what percent of total direct expenses the direct mining expenses are. This calculation is needed so indirect expenses can be allocated between mining and non-mining activities in proportion to the mining and non-mining direct expenses. (15 AAC 65.125)

Indirect Expense Allocation

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.

Line 18 - Enter the total number of units produced during the tax year from the mining operation identified at the top of Schedule C, regardless of the number of units sold.

Line 19 - Enter the total number of units produced during the tax year from the mining operation(s) not identified at the top of Schedule C, regardless of the number of units sold.

Line 20 - Tip: This line 20 should be the same as line 20 of all schedules C.

Schedule D Indirect Mining Expenses

Use **only** one schedule D with Form 662.

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.

Include indirect expenses from **all** mining and **all** related non-mining activities. The expenses entered on schedule D will be carried to schedule C of all mining operations reported on the return. The expenses will then be allocated to the mining operations.

Line 11 - Other expenses. Enter the amount of other expenses indirectly related to the mining operation. Attach a separate schedule itemizing the type and amount of other mining expenses that are not included on lines 1 through 10.

Line 12 - Total indirect expenses. Sum lines 1 through 11 enter the result here and on each schedule C, line 19. If you are reporting the income and expenses of three operations you will include this total on three schedules C.

Schedule E - Royalties Paid

Complete a Schedule E for each mining operation if royalties were paid. Show the name, address and federal 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 the payment was made.

Enter the amount from Schedule E, line 6 on line 1 of the appropriate Schedule C.

Schedule F - Royalties Received

Complete a Schedule F for each mining operation if royalties were received from the operation. Show the name, address and federal 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.

Enter the amount from Schedule F, line 6 on line 2 of the appropriate Schedule A.

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.