Fiscal Note

State of Alaska
2018 Legislative Session

Bill Version: HB 288
Fiscal Note Number:
() Publish Date:

Identifier: HB288-DOR-TAX-1-20-18
Title: OIL AND GAS PRODUCTION TAX
Sponsor: TARR
Requester: House Resources Committee

Department: Department of Revenue
Appropriation: Taxation and Treasury
Allocation: Tax Division
OMB Component Number: 2476

Expenditures/Revenues

Note: Amounts do not include inflation unless otherwise noted below. (Thousands of Dollars)

	FY2019 Appropriation Requested	Included in Governor's FY2019 Request	Out-Year Cost Estimates				
OPERATING EXPENDITURES	**FY 2019**	**FY 2019**	**FY 2020**	**FY 2021**	**FY 2022**	**FY 2023**	**FY 2024**
Personal Services							
Travel							
Services							
Commodities							
Capital Outlay							
Grants & Benefits							
Miscellaneous							
Total Operating	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**

Fund Source (Operating Only)

None							
Total	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**

Positions

Full-time							
Part-time							
Temporary							

Change in Revenues

1250 UGF Rev (UGF)	107,000.0		222,000.0	230,000.0	235,000.0	233,000.0	255,000.0
Total	**107,000.0**	**0.0**	**222,000.0**	**230,000.0**	**235,000.0**	**233,000.0**	**255,000.0**

Estimated SUPPLEMENTAL (FY2018) cost: 0.0 *(separate supplemental appropriation required)*
(discuss reasons and fund source(s) in analysis section)

Estimated CAPITAL (FY2019) cost: 100.0 *(separate capital appropriation required)*
(discuss reasons and fund source(s) in analysis section)

ASSOCIATED REGULATIONS

Does the bill direct, or will the bill result in, regulation changes adopted by your agency? Yes
If yes, by what date are the regulations to be adopted, amended or repealed? 01/01/19

Why this fiscal note differs from previous version/comments:

Initial Version

Prepared By: Ken Alper, Director Phone: (907)465-8221
Division: Tax Division Date: 01/19/2018 01:00 PM
Approved By: Ken Alper Date: 01/20/2018
Agency: Tax Division

STATE OF ALASKA **BILL NO.** 0
2018 LEGISLATIVE SESSION

Analysis

Bill Background
This legislation makes a single change to Alaska's oil and gas production tax statutes. Currently, the oil and gas production tax is calculated based on 35% of "production tax value," a measure of net profitability, and then reduced by a variable per-taxable-barrel credit of between $0 and $8. Notwithstanding this calculation, there is an alternative minimum tax, or "floor", that is 4% of gross (wellhead) value at oil prices of $25 and above, with a lower percentage at even lower prices. In general, the minimum tax is applicable in years of low prices, and the underlying net profits based tax is applied in years of higher prices.

HB288 increases the minimum tax percentage from 4% to 7%, at oil prices above $25. No change are made at lower prices.

Revenue Impact
In practical terms, the bill will increase tax revenue by the equivalent of 3% of gross value, so long as oil prices are low enough to be within the minimum tax calculation. Additionally, the higher minimum tax will tend to increase the so-called crossover price, at which a given producer would begin paying the net profits tax rather than the gross minimum tax. At forecast oil prices, the additional revenue will range between $222 and $255 million during the time period covered in this analysis. Because of the effective date of January 1, 2019, the higher tax would only apply to half of Fiscal Year 2019, resulting in about half the revenue impact for that year.

There are certain additional impacts that would be felt in future years. Primarily, these will result from the new structure of "carried forward losses" that was put in place with the passage of HB111 in 2017. In the new system, these losses are held by the company until the leases where they were incurred comes into production. Afterwards, they can be used to offset taxable profits, but only to the point of reducing tax liability to the minimum tax.

Therefore, if the minimum tax rate is increased this would increase the tax liability for a new field once it comes into production. It could also result, depending on price, cost, and production circumstances, in a company being unable to use all of their lease expenditures in the time allowed before the value of the carry-forwards begins to erode due to the so-called "downlift" provision of HB111.

Implementation Cost
The changes anticipated in this bill will require reprogramming of the Tax Revenue Management System and Revenue Online tax portal. This will entail a one-time cost we estimate at $100,000. We do not anticipate any additional costs to administer the tax program.

There will also be a need for amendments to existing regulations to fully implement the changes.