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Bullock
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CS FOR SENATE BILL NO. 305(FIN)

IN THE LEGISLATURE OF THE STATE OF ALASKA

TWENTY-SIXTH LEGISLATURE - SECOND SESSION

BY THE SENATE FINANCE COMMITTEE

Offered:

Referred:

Sponsor(s): SENATE FINANCE COMMITTEE

A BILL

FOR AN ACT ENTITLED

"An Act relating to that part of the tax on oil and gas production that increases the rate of tax as the production tax value increases above \$30 and limiting the effect of that rate increase to the production of oil; and providing for an effective date."

BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF ALASKA:

* **Section 1.** AS 43.55.011(e) is amended to read:

(e) There is levied on the producer of oil or gas a tax for all oil and gas produced each calendar year from each lease or property in the state, less any oil and gas the ownership or right to which is exempt from taxation or constitutes a landowner's royalty interest. Except as otherwise provided under (f), (j), (k), and (o) of this section, the tax is equal to the sum of

(1) the annual production tax value of the taxable oil and gas as calculated under AS 43.55.160(a)(1) multiplied by 25 percent; and

(2) the sum, over all months of the calendar year, of the tax amounts determined under (g) of this section on the production of oil.

1 * **Sec. 2.** AS 43.55.011(g) is amended to read:

2 (g) For each month of the calendar year for which the producer's average
3 monthly production tax value under AS 43.55.160(a)(2) of a [PER BTU
4 EQUIVALENT] barrel of [THE] taxable oil [AND GAS] is more than \$30, the
5 amount of tax for purposes of (e)(2) of this section is determined by multiplying the
6 monthly production tax value of the taxable oil [AND GAS] produced during the
7 month by the tax rate calculated as follows:

8 (1) if the producer's average monthly production tax value of a [PER
9 BTU EQUIVALENT] barrel of [THE] taxable oil [AND GAS] for the month is not
10 more than \$92.50, the tax rate is 0.4 percent multiplied by the number that represents
11 the difference between the producer's [THAT] average monthly production tax value
12 of a [PER BTU EQUIVALENT] barrel of oil and \$30; or

13 (2) if the producer's average monthly production tax value of a [PER
14 BTU EQUIVALENT] barrel of [THE] taxable oil [AND GAS] for the month is more
15 than \$92.50, the tax rate is the sum of 25 percent and the product of 0.1 percent
16 multiplied by the number that represents the difference between the producer's
17 average monthly production tax value of a [PER BTU EQUIVALENT] barrel of oil
18 and \$92.50, except that the sum determined under this paragraph may not exceed 50
19 percent.

20 * **Sec. 3.** AS 43.55.011(j) is amended to read:

21 (j) For a calendar year before 2022, the tax levied by (e)(1) [(e)] of this section
22 for gas produced from a lease or property in the Cook Inlet sedimentary basin may not
23 exceed

24 (1) for a lease or property that first commenced commercial production
25 of gas before April 1, 2006, the product obtained by multiplying (A) the amount of
26 taxable gas produced during the calendar year from the lease or property, times (B) the
27 average rate of tax that was imposed under this chapter for taxable gas produced from
28 the lease or property for the 12-month period ending on March 31, 2006, times (C) the
29 quotient obtained by dividing the total gross value at the point of production of the
30 taxable gas produced from the lease or property during the 12-month period ending on
31 March 31, 2006, by the total amount of that gas;

(2) for a lease or property that first commences commercial production of gas after March 31, 2006, the product obtained by multiplying (A) the amount of taxable gas produced during the calendar year from the lease or property, times (B) the average rate of tax that was imposed under this chapter for taxable gas produced from all leases or properties in the Cook Inlet sedimentary basin for the 12-month period ending on March 31, 2006, times (C) the average prevailing value for gas delivered in the Cook Inlet area for the 12-month period ending March 31, 2006, as determined by the department under AS 43.55.020(f).

* **Sec. 4.** AS 43.55.011(o) is amended to read:

(o) Notwithstanding other provisions of this section, for a calendar year before 2022, the tax levied under (e)(1) [(e)] of this section for each 1,000 cubic feet of gas for gas produced from a lease or property outside the Cook Inlet sedimentary basin and used in the state may not exceed the amount of tax for each 1,000 cubic feet of gas that is determined under (j)(2) of this section.

* **Sec. 5.** AS 43.55.020(a) is amended to read:

(a) For a calendar year, a producer subject to tax under AS 43.55.011(e) - (i) shall pay the tax as follows:

(1) an installment payment of the estimated tax levied by AS 43.55.011(e), net of any tax credits applied as allowed by law, is due for each month of the calendar year on the last day of the following month; except as otherwise provided under (2) of this subsection, the amount of the installment payment is the sum of the following amounts, less 1/12 of the tax credits that are allowed by law to be applied against the tax levied by AS 43.55.011(e) for the calendar year, but the amount of the installment payment may not be less than zero:

(A) for oil and gas produced from leases or properties in the state outside the Cook Inlet sedimentary basin but not subject to AS 43.55.011(o), other than leases or properties subject to AS 43.55.011(f),
[THE GREATER OF]

(i) [ZERO; OR

(ii)] the sum of 25 percent and the tax rate calculated for the month under AS 43.55.011(g) multiplied by the remainder

obtained by subtracting 1/12 of the producer's adjusted lease expenditures for the calendar year of production applicable to the oil produced by the producer from those leases and properties under AS 43.55.165 and 43.55.170 that are deductible for the leases or properties under AS 43.55.160 from the gross value at the point of production of the oil [AND GAS] produced from the leases or properties during the month for which the installment payment is calculated; and

(ii) 25 percent of the remainder obtained by subtracting 1/12 of the producer's adjusted lease expenditures for the calendar year of production applicable to the gas produced by the producer from those leases and properties under AS 43.55.165 and 43.55.170 that are deductible for the leases or properties under AS 43.55.160 from the gross value at the point of production of the gas produced from the leases or properties during the month for which the installment payment is calculated;

(B) for oil and gas produced from leases or properties subject to AS 43.55.011(f), the greater [GREATEST] of

(i) [ZERO;

(ii)] zero percent, one percent, two percent, three percent, or four percent, as applicable, of the gross value at the point of production of the oil and gas produced from all leases or properties during the month for which the installment payment is calculated; or

(ii) 25 percent of the remainder obtained by subtracting 1/12 of the producer's adjusted lease expenditures for the calendar year of production applicable to the gas produced by the producer from those leases and properties under AS 43.55.165 and 43.55.170 that are deductible for those leases or properties under AS 43.55.160 from the gross value at the point of production of the gas produced from those leases or properties during the month for which the installment payment is calculated and

1 [(iii)] the sum of 25 percent and the tax rate calculated
2 for the month under AS 43.55.011(g) multiplied by the remainder
3 obtained by subtracting 1/12 of the producer's adjusted lease
4 expenditures for the calendar year of production **applicable to the oil**
5 **produced by the producer from those leases and properties** under
6 AS 43.55.165 and 43.55.170 that are deductible for those leases or
7 properties under AS 43.55.160 from the gross value at the point of
8 production of the oil [AND GAS] produced from those leases or
9 properties during the month for which the installment payment is
10 calculated;

11 (C) for oil and gas produced from each lease or property
12 subject to AS 43.55.011(j), (k), or (o), **25 percent of the remainder obtained**
13 **by subtracting 1/12 of the producer's adjusted lease expenditures for the**
14 **calendar year of production applicable to the gas produced by the**
15 **producer from those leases and properties under AS 43.55.165 and**
16 **43.55.170 that are deductible for those leases or properties under**
17 **AS 43.55.160 from the gross value at the point of production of the gas**
18 **produced from those leases or properties during the month for which the**
19 **installment payment is calculated and** [THE GREATER OF

20 (i) ZERO; OR

21 (ii)] the sum of 25 percent and the tax rate calculated
22 for the month under AS 43.55.011(g) multiplied by the remainder
23 obtained by subtracting 1/12 of the producer's adjusted lease
24 expenditures for the calendar year of production **applicable to the oil**
25 **produced by the producer from those leases and properties** under
26 AS 43.55.165 and 43.55.170 that are deductible under AS 43.55.160
27 for oil [OR GAS, RESPECTIVELY,] produced from the lease or
28 property from the gross value at the point of production of the oil [OR
29 GAS, RESPECTIVELY,] produced from the lease or property during
30 the month for which the installment payment is calculated;

31 (2) an amount calculated under (1)(C) of this subsection for oil or gas

produced from a lease or property subject to AS 43.55.011(j), (k), or (o) may not exceed the product obtained by carrying out the calculation set out in AS 43.55.011(j)(1) or (2) or 43.55.011(o), as applicable, for gas or set out in AS 43.55.011(k)(1) or (2), as applicable, for oil, but substituting in AS 43.55.011(j)(1)(A) or (2)(A) or 43.55.011(o), as applicable, the amount of taxable gas produced during the month for the amount of taxable gas produced during the calendar year and substituting in AS 43.55.011(k)(1)(A) or (2)(A), as applicable, the amount of taxable oil produced during the month for the amount of taxable oil produced during the calendar year;

(3) an installment payment of the estimated tax levied by AS 43.55.011(i) for each lease or property is due for each month of the calendar year on the last day of the following month; the amount of the installment payment is the sum of

(A) the applicable tax rate for oil provided under AS 43.55.011(i), multiplied by the gross value at the point of production of the oil taxable under AS 43.55.011(i) and produced from the lease or property during the month; and

(B) the applicable tax rate for gas provided under AS 43.55.011(i), multiplied by the gross value at the point of production of the gas taxable under AS 43.55.011(i) and produced from the lease or property during the month;

(4) any amount of tax levied by AS 43.55.011(e) or (i), net of any credits applied as allowed by law, that exceeds the total of the amounts due as installment payments of estimated tax is due on March 31 of the year following the calendar year of production.

* **Sec. 6.** AS 43.55.160(a) is amended to read:

(a) Except as provided in (b) of this section, for the purposes of

(1) AS 43.55.011(e), the annual production tax value of the taxable

(A) oil and gas produced during a calendar year from leases or properties in the state that include land north of 68 degrees North latitude is the gross value at the point of production of the oil and gas taxable under

AS 43.55.011(e) and produced by the producer from those leases or properties, less the producer's lease expenditures under AS 43.55.165 for the calendar year applicable to the oil and gas produced by the producer from those leases or properties, as adjusted under AS 43.55.170; this subparagraph does not apply to gas subject to AS 43.55.011(o);

(B) oil and gas produced during a calendar year from leases or properties in the state outside the Cook Inlet sedimentary basin, no part of which is north of 68 degrees North latitude, is the gross value at the point of production of the oil and gas taxable under AS 43.55.011(e) and produced by the producer from those leases or properties, less the producer's lease expenditures under AS 43.55.165 for the calendar year applicable to the oil and gas produced by the producer from those leases or properties, as adjusted under AS 43.55.170; this subparagraph does not apply to gas subject to AS 43.55.011(o);

(C) oil produced during a calendar year from a lease or property in the Cook Inlet sedimentary basin is the gross value at the point of production of the oil taxable under AS 43.55.011(e) and produced by the producer from that lease or property, less the producer's lease expenditures under AS 43.55.165 for the calendar year applicable to the oil produced by the producer from that lease or property, as adjusted under AS 43.55.170;

(D) gas produced during a calendar year from a lease or property in the Cook Inlet sedimentary basin is the gross value at the point of production of the gas taxable under AS 43.55.011(e) and produced by the producer from that lease or property, less the producer's lease expenditures under AS 43.55.165 for the calendar year applicable to the gas produced by the producer from that lease or property, as adjusted under AS 43.55.170;

(E) gas produced during a calendar year from a lease or property outside the Cook Inlet sedimentary basin and used in the state is the gross value at the point of production of that gas taxable under AS 43.55.011(e) and produced by the producer from that lease or property, less the producer's lease expenditures under AS 43.55.165 for the calendar year

1 applicable to that gas produced by the producer from that lease or property, as
2 adjusted under AS 43.55.170;

3 (2) AS 43.55.011(g), the monthly production tax value of the taxable

4 (A) oil [AND GAS] produced during a month from leases or
5 properties in the state that include land north of 68 degrees North latitude is the
6 gross value at the point of production of the oil [AND GAS] taxable under
7 AS 43.55.011(e) and produced by the producer from those leases or properties,
8 less 1/12 of the producer's lease expenditures under AS 43.55.165 for the
9 calendar year applicable to the oil [AND GAS] produced by the producer from
10 those leases or properties, as adjusted under AS 43.55.170; [THIS
11 SUBPARAGRAPH DOES NOT APPLY TO GAS SUBJECT TO
12 AS 43.55.011(o);]

13 (B) oil [AND GAS] produced during a month from leases or
14 properties in the state outside the Cook Inlet sedimentary basin, no part of
15 which is north of 68 degrees North latitude, is the gross value at the point of
16 production of the oil [AND GAS] taxable under AS 43.55.011(e) and produced
17 by the producer from those leases or properties, less 1/12 of the producer's
18 lease expenditures under AS 43.55.165 for the calendar year applicable to the
19 oil [AND GAS] produced by the producer from those leases or properties, as
20 adjusted under AS 43.55.170; [THIS SUBPARAGRAPH DOES NOT APPLY
21 TO GAS SUBJECT TO AS 43.55.011(o);]

22 (C) oil produced during a month from a lease or property in the
23 Cook Inlet sedimentary basin is the gross value at the point of production of
24 the oil taxable under AS 43.55.011(e) and produced by the producer from that
25 lease or property, less 1/12 of the producer's lease expenditures under
26 AS 43.55.165 for the calendar year applicable to the oil produced by the
27 producer from that lease or property, as adjusted under AS 43.55.170 [;

28 (D) GAS PRODUCED DURING A MONTH FROM A
29 LEASE OR PROPERTY IN THE COOK INLET SEDIMENTARY BASIN IS
30 THE GROSS VALUE AT THE POINT OF PRODUCTION OF THE GAS
31 TAXABLE UNDER AS 43.55.011(e) AND PRODUCED BY THE

PRODUCER FROM THAT LEASE OR PROPERTY, LESS 1/12 OF THE PRODUCER'S LEASE EXPENDITURES UNDER AS 43.55.165 FOR THE CALENDAR YEAR APPLICABLE TO THE GAS PRODUCED BY THE PRODUCER FROM THAT LEASE OR PROPERTY, AS ADJUSTED UNDER AS 43.55.170;

(E) GAS PRODUCED DURING A MONTH FROM A LEASE OR PROPERTY OUTSIDE THE COOK INLET SEDIMENTARY BASIN AND USED IN THE STATE IS THE GROSS VALUE AT THE POINT OF PRODUCTION OF THAT GAS TAXABLE UNDER AS 43.55.011(e) AND PRODUCED BY THE PRODUCER FROM THAT LEASE OR PROPERTY, LESS 1/12 OF THE PRODUCER'S LEASE EXPENDITURES UNDER AS 43.55.165 FOR THE CALENDAR YEAR APPLICABLE TO THAT GAS PRODUCED BY THE PRODUCER FROM THAT LEASE OR PROPERTY, AS ADJUSTED UNDER AS 43.55.170].

*** Sec. 7.** AS 43.55.160(c) is amended to read:

(c) Notwithstanding any contrary provision of AS 43.55.150, for purposes of calculating a monthly production tax value under (a)(2) of this section, the gross value at the point of production of the oil [AND GAS] is calculated under regulations adopted by the department that provide for using an appropriate monthly share of the producer's costs of transportation for the calendar year.

*** Sec. 8.** The uncodified law of the State of Alaska is amended by adding a new section to read:

APPLICABILITY. Sections 1 - 7 of this Act are applicable on and after the first day of the calendar month immediately following the effective date of this Act.

*** Sec. 9.** This Act takes effect immediately under AS 01.10.070(c).