

26-LS1577\S
Bullock
3/18/10

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

1 **"An Act relating to that part of the tax on oil and gas production that increases the rate**
2 **of tax as the production tax value increases above \$30, eliminating the effect of gas**
3 **production in the determination of that rate, and making that rate inapplicable to the**
4 **production of gas; and providing for an effective date."**

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

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

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

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

14 (2) the sum, over all months of the calendar year, of the tax amounts

1 determined under (g) of this section on the production of oil.

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

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

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

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

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

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

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

1 March 31, 2006, by the total amount of that gas;

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

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

11 (o) Notwithstanding other provisions of this section, for a calendar year before
12 2022, the tax levied under (e)(1) [(e)] of this section for each 1,000 cubic feet of gas
13 for gas produced from a lease or property outside the Cook Inlet sedimentary basin
14 and used in the state may not exceed the amount of tax for each 1,000 cubic feet of gas
15 that is determined under (j)(2) of this section.

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

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

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

26 (A) for oil and gas produced from leases or properties in the
27 state outside the Cook Inlet sedimentary basin but not subject to
28 AS 43.55.011(o), other than leases or properties subject to AS 43.55.011(f), the
29 greater of

30 (i) zero; or

31 (ii) **an amount equal to** the sum of 25 percent and the

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

17 (B) for oil and gas produced from leases or properties subject
18 to AS 43.55.011(f), the greatest of

19 (i) zero;

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

24 (iii) **an amount equal to 25 percent of the remainder**
25 **obtained by subtracting 1/12 of the producer's adjusted lease**
26 **expenditures for the calendar year of production applicable to the**
27 **gas produced by the producer from those leases and properties**
28 **under AS 43.55.165 and 43.55.170 that are deductible for those**
29 **leases or properties under AS 43.55.160, from the gross value at the**
30 **point of production of the gas produced from those leases or**
31 **properties during the month for which the installment payment is**

1 **calculated; added to** 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), the greater of

13 (i) zero; or

14 (ii) **an amount equal to 25 percent of the remainder**
15 **obtained by subtracting 1/12 of the producer's adjusted lease**
16 **expenditures for the calendar year of production applicable to the**
17 **gas produced by the producer from those leases and properties**
18 **under AS 43.55.165 and 43.55.170 that are deductible for those**
19 **leases or properties under AS 43.55.160, from the gross value at the**
20 **point of production of the gas produced from those leases or**
21 **properties during the month for which the installment payment is**

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

1 (2) an amount calculated under (1)(C) of this subsection for oil or gas
2 produced from a lease or property subject to AS 43.55.011(j), (k), or (o) may not
3 exceed the product obtained by carrying out the calculation set out in
4 AS 43.55.011(j)(1) or (2) or 43.55.011(o), as applicable, for gas or set out in
5 AS 43.55.011(k)(1) or (2), as applicable, for oil, but substituting in
6 AS 43.55.011(j)(1)(A) or (2)(A) or 43.55.011(o), as applicable, the amount of taxable
7 gas produced during the month for the amount of taxable gas produced during the
8 calendar year and substituting in AS 43.55.011(k)(1)(A) or (2)(A), as applicable, the
9 amount of taxable oil produced during the month for the amount of taxable oil
10 produced during the calendar year;

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

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

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

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

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

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

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

30 (A) oil and gas produced during a calendar year from leases or
31 properties in the state that include land north of 68 degrees North latitude is the

1 gross value at the point of production of the oil and gas taxable under
2 AS 43.55.011(e) and produced by the producer from those leases or properties,
3 less the producer's lease expenditures under AS 43.55.165 for the calendar year
4 applicable to the oil and gas produced by the producer from those leases or
5 properties, as adjusted under AS 43.55.170; this subparagraph does not apply
6 to gas subject to AS 43.55.011(o);

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

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

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

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

1 the producer's lease expenditures under AS 43.55.165 for the calendar year
2 applicable to that gas produced by the producer from that lease or property, as
3 adjusted under AS 43.55.170;

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

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

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

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

29 (D) GAS PRODUCED DURING A MONTH FROM A
30 LEASE OR PROPERTY IN THE COOK INLET SEDIMENTARY BASIN IS
31 THE GROSS VALUE AT THE POINT OF PRODUCTION OF THE GAS

1 TAXABLE UNDER AS 43.55.011(e) AND PRODUCED BY THE
2 PRODUCER FROM THAT LEASE OR PROPERTY, LESS 1/12 OF THE
3 PRODUCER'S LEASE EXPENDITURES UNDER AS 43.55.165 FOR THE
4 CALENDAR YEAR APPLICABLE TO THE GAS PRODUCED BY THE
5 PRODUCER FROM THAT LEASE OR PROPERTY, AS ADJUSTED
6 UNDER AS 43.55.170;

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

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

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

22 * **Sec. 8.** AS 43.55.170 is amended by adding a new subsection to read:

23 (d) The department shall adopt regulations that provide for reasonable
24 methods of allocating the adjustments to a producer's lease expenditures in (a) of this
25 section and the payments and credits described in (b) of this section between oil and
26 gas, between gas subject to AS 43.55.011(o) and other gas, and between leases or
27 properties in those circumstances where an allocation of costs is required to determine
28 lease expenditures that are costs of exploring for, developing, or producing oil
29 deposits, or costs of exploring for, developing, or producing gas deposits, or that are
30 costs of exploring for, developing, or producing oil or gas deposits located within
31 different leases or properties.

1 * **Sec. 9.** The uncodified law of the State of Alaska is amended by adding a new section to
2 read:

3 **APPLICABILITY.** Sections 1 - 8 of this Act are applicable on and after the first day
4 of the calendar month immediately following the effective date of this Act.

5 * **Sec. 10.** This Act takes effect immediately under AS 01.10.070(c).