

**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; relating to the allocation of lease expenditures and adjustments to**  
 5 **lease expenditures; and providing for an effective date."**

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

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

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

13 (1) the annual production tax value of the taxable oil and gas as

1 calculated under AS 43.55.160(a)(1) multiplied by 25 percent; and

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

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

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

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

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

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

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

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

1 quotient obtained by dividing the total gross value at the point of production of the  
2 taxable gas produced from the lease or property during the 12-month period ending on  
3 March 31, 2006, by the total amount of that gas;

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

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

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

18 \* **Sec. 5.** AS 43.55.011 is amended by adding a new subsection to read:

19 (p) Before January 1, 2015, a person that produces oil and gas from a lease or  
20 property in the state may claim an annual credit against the tax determined under (e) -  
21 (o) of this section in an amount equal to the difference between the tax amounts  
22 determined under (e) - (o) of this section and the tax amounts determined under (e) -  
23 (o) of this section as (e) - (o) of this section read before the effective date of this  
24 subsection. The amount of the credit may not be less than zero.

25 \* **Sec. 6.** AS 43.55.020(a) is amended to read:

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

28 (1) an installment payment of the estimated tax levied by  
29 AS 43.55.011(e), net of any tax credits applied as allowed by law, is due for each  
30 month of the calendar year on the last day of the following month; except as otherwise  
31 provided under (2) of this subsection, the amount of the installment payment is the

1 sum of the following amounts, less 1/12 of the tax credits that are allowed by law to be  
 2 applied against the tax levied by AS 43.55.011(e) for the calendar year, but the amount  
 3 of the installment payment may not be less than zero:

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

8 (i) zero; or

9 (ii) **an amount equal to** the sum of 25 percent and the  
 10 tax rate calculated for the month under AS 43.55.011(g) multiplied by  
 11 the remainder obtained by subtracting 1/12 of the producer's adjusted  
 12 lease expenditures for the calendar year of production **applicable to**  
 13 **the oil produced by the producer from those leases and properties**  
 14 under AS 43.55.165 and 43.55.170 that are deductible for the leases or  
 15 properties under AS 43.55.160, from the gross value at the point of  
 16 production of the oil [AND GAS] produced from the leases or  
 17 properties during the month for which the installment payment is  
 18 calculated; **added to 25 percent of the remainder obtained by**  
 19 **subtracting 1/12 of the producer's adjusted lease expenditures for**  
 20 **the calendar year of production applicable to the gas produced by**  
 21 **the producer from those leases and properties under AS 43.55.165**  
 22 **and 43.55.170 that are deductible for the leases or properties under**  
 23 **AS 43.55.160, from the gross value at the point of production of the**  
 24 **gas produced from the leases or properties during the month for**  
 25 **which the installment payment is calculated;**

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

28 (i) zero;

29 (ii) zero percent, one percent, two percent, three  
 30 percent, or four percent, as applicable, of the gross value at the point of  
 31 production of the oil and gas produced from all leases or properties

1 during the month for which the installment payment is calculated; or

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

20 (C) for oil and gas produced from each lease or property  
21 subject to AS 43.55.011(j), (k), or (o), the greater of

22 (i) zero; or

23 (ii) an amount equal to 25 percent of 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  
26 gas produced by the producer from those leases and properties  
27 under AS 43.55.165 and 43.55.170 that are deductible for those  
28 leases or properties under AS 43.55.160, from the gross value at the  
29 point of production of the gas produced from those leases or  
30 properties during the month for which the installment payment is  
31 calculated; added to the sum of 25 percent and the tax rate calculated

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

10 (2) an amount calculated under (1)(C) of this subsection for oil or gas  
11 produced from a lease or property subject to AS 43.55.011(j), (k), or (o) may not  
12 exceed the product obtained by carrying out the calculation set out in  
13 AS 43.55.011(j)(1) or (2) or 43.55.011(o), as applicable, for gas or set out in  
14 AS 43.55.011(k)(1) or (2), as applicable, for oil, but substituting in  
15 AS 43.55.011(j)(1)(A) or (2)(A) or 43.55.011(o), as applicable, the amount of taxable  
16 gas produced during the month for the amount of taxable gas produced during the  
17 calendar year and substituting in AS 43.55.011(k)(1)(A) or (2)(A), as applicable, the  
18 amount of taxable oil produced during the month for the amount of taxable oil  
19 produced during the calendar year;

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

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

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

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

5 \* **Sec. 7.** AS 43.55.160(a) is amended to read:

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

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

8 (A) oil and gas produced during a calendar year from leases or  
9 properties in the state that include land north of 68 degrees North latitude is the  
10 gross value at the point of production of the oil and gas taxable under  
11 AS 43.55.011(e) and produced by the producer from those leases or properties,  
12 less the producer's lease expenditures under AS 43.55.165 for the calendar year  
13 applicable to the oil and gas produced by the producer from those leases or  
14 properties, as adjusted under AS 43.55.170; this subparagraph does not apply  
15 to gas subject to AS 43.55.011(o);

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

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

31 (D) gas produced during a calendar year from a lease or

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

6 (E) gas produced during a calendar year from a lease or  
7 property outside the Cook Inlet sedimentary basin and used in the state is the  
8 gross value at the point of production of that gas taxable under  
9 AS 43.55.011(e) and produced by the producer from that lease or property, less  
10 the producer's lease expenditures under AS 43.55.165 for the calendar year  
11 applicable to that gas produced by the producer from that lease or property, as  
12 adjusted under AS 43.55.170;

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

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

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



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

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

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

25 \* **Sec. 8.** AS 43.55.160(c) is amended to read:

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

31 \* **Sec. 9.** AS 43.55.165(h) is amended to read:

1 (h) The department shall adopt regulations that provide for reasonable  
 2 methods of allocating costs between oil and gas, between gas subject to  
 3 AS 43.55.011(o) and other gas, and between leases or properties in those  
 4 circumstances where an allocation of costs is required to determine lease expenditures  
 5 that are costs of exploring for, developing, or producing oil deposits or costs of  
 6 exploring for, developing, or producing gas deposits, or that are costs of exploring for,  
 7 developing, or producing oil or gas deposits located within different leases or  
 8 properties. When determining a reasonable method of allocating lease  
 9 expenditures between the production of oil and the production of gas, the  
 10 department shall consider allocating lease expenditures in proportion to the BTU  
 11 equivalent barrels of oil produced and gas produced from each lease or property.

12 \* **Sec. 10.** AS 43.55.170 is amended by adding a new subsection to read:

13 (d) The department shall adopt regulations that provide for reasonable  
 14 methods of allocating the adjustments to a producer's lease expenditures in (a) of this  
 15 section and the payments and credits described in (b) of this section between oil and  
 16 gas, between gas subject to AS 43.55.011(o) and other gas, and between leases or  
 17 properties in those circumstances where an allocation of costs is required to determine  
 18 lease expenditures that are costs of exploring for, developing, or producing oil  
 19 deposits, or costs of exploring for, developing, or producing gas deposits, or that are  
 20 costs of exploring for, developing, or producing oil or gas deposits located within  
 21 different leases or properties. When determining a reasonable method of allocating the  
 22 adjustments to a producer's lease expenditures between the production of oil and the  
 23 production of gas, the department shall consider allocating the adjustments in  
 24 proportion to the lease expenditures allocated to the production of oil and the  
 25 production of gas under regulations adopted by the department under  
 26 AS 43.55.165(h).

27 \* **Sec. 11.** The uncodified law of the State of Alaska is amended by adding a new section to  
 28 read:

29 APPLICABILITY. Sections 1 - 10 of this Act are applicable on and after the first day  
 30 of the calendar month immediately following the effective date of this Act.

31 \* **Sec. 12.** This Act takes effect immediately under AS 01.10.070(c).