

State of Alaska

Department of Revenue
Administrative Services Division



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The Honorable Eric Feige
The Honorable Paul Seaton
House Resources Committee
Alaska State Legislature
State Capitol
Juneau, AK 99801

HB110 Production Tax on Oil and Gas By Request of the Governor

SECTION ANALYSIS

Sections 1-3: Sections 1-2 are conforming amendments to reflect changes to AS 43.05.225. Section 3 amends AS 43.05.225(1) to provide that the tax rate on delinquent taxes under Title 43 is charged at the lower of three percentage points above the applicable annual federal rate or at the annual rate of 11 percent. This provision is to be effective July 1, 2011.

Section 4-5: Conforming amendment required by amendment to AS 43.05.225, interest rates due on delinquent taxes.

Section 6: Amends AS 43.55.011(e) to levy the annual production tax at the rate of 25 percent plus progressivity for oil and gas from a lease or property containing land that as of December 31, 2010, was or had previously been within a unit or in commercial production. A new tax rate of 15 percent, plus an annual progressivity tax, is levied on oil and gas produced from a lease of property containing land that had not previously been in a unit or in commercial production prior to December 31, 2010. For each category of production, the progressivity tax is levied on an annual basis. This amendment would be effective January 1, 2013, and apply to production after December 31, 2012.

Section 7: AS 43.55.020(f) is amended to lower the threshold prices at which the minimum tax applies, and would apply to production after December 31, 2012.

Section 8: AS 43.55.011(g) is repealed and reenacted to provide an annual incremental progressivity tax for all production. The applicable incremental progressivity tax rate applies only to the fraction of average annual production tax value per BTU equivalent barrel that falls within that incremental rate. For production subject to the 25 percent base rate, progressivity is capped at 25 percent above the base rate, for a maximum rate of 50 percent. For production subject to the 15 percent base rate, progressivity is capped at 25 percent above the base rate, for a maximum rate of 40 percent. This change would be effective January 1, 2013, and apply to production after December 31, 2012.

Section 9: AS 43.55.020, monthly payments of estimated taxes, is repealed and reenacted to account for the annual progressivity calculation and the new tax rate for certain fields.

Section 10: Conforming amendment related to interest rate changes.

Section 11: AS 43.55.023(a) is amended to remove the requirement that tax credits for qualified capital expenditures be applied against taxes or certificated over two years. This change would be effective January 1, 2012, and would apply to production after December 31, 2011.

Section 12: AS 43.55.023(d) is amended to provide that transferable tax credit certificates will be issued as one certificate. This is to be effective January 1, 2012, for expenditures after December 31, 2011.

Sections 13-14: AS 43.55.023(g) is amended to reflect the interest rate change, and to reflect the repeal of AS 43.55.023(m), related to the issuance of well lease expenditure credit certificates.

Sections 15-16: AS 43.55.023 (l) and (n) are amended to expand the 40 percent well lease expenditure credit to qualified expenditures made on leases or properties north of 68 degrees North Latitude. This change is to be effective January 1, 2012, for expenditures after December 31, 2011.

Sections 17 -18: Conforming amendments are made to AS 43.55.028 (e) and (g) to reflect the repeal of AS 43.55.023(m).

Section 19: AS 43.55.075(a) is amended to change the statute of limitations for assessment of additional production taxes from six years to four years after the return is filed. This change is applicable to production after December 31, 2013, for tax liability beginning tax year 2014.

Sections 20: AS 43.55.160(a) is repealed and reenacted to account for changes in the calculation of the progressivity tax, and to account for new tax rates for certain production under AS 43.55.011(e) (2).

Sections 21-23. These sections make conforming amendments to account for interest rate change.

Section 24: AS 43.55.023(m) is repealed, all capital credit certificates, regardless of the location of the exploration, development or production expenditures, will be issued as one certificate.

Section 25: The applicability provision clarifies that sections 11, 12, 15 and 16 apply to expenditures made after December 31, 2011; sections 6-9 and 20 apply to oil and gas produced after December 31, 2012, and section 19 applies to any tax liability for the production of oil and gas after December 31, 2013 and

Section 26: This section provides that the Department of Revenue will have authority to adopt regulations to implement this Act, not to be effective before the effective date of the provisions implemented by this Act.

Section 27: The provisions related to the issuance of credit certificates and the expansion of the well lease expenditure credit to the North Slope, sections 11, 12, 14-18, 24 and 25(a), take effect January 12, 2012.

Section 28: The provisions related to new production and the progressivity tax, sections 6-9, 20, and 25(b), take effect January 1, 2013.

Section 29: The provisions related to the statute of limitations for the assessment of production taxes takes effect January 1, 2014.

Section 30: The provisions related to the change in the interest due on delinquent taxes and refunds take effect July 1, 2011.