FISCAL NOTE

STATE OF ALASKA
2012 LEGISLATIVE SESSION

Bill Version	SB 3001
Fiscal Note Number	1
(S) Publish Date	4/18/12

Identifier (file name)	0358-DOR-TAX-04-18-12	Dept. Affected	Revenue
Title	Oil and Gas Production Tax	Appropriation	Treasury and Taxation
		Allocation	Tax Division
Sponsor	Request of the Governor		
Requester	Governor	OMB Component Number	2476

Expenditures/Revenues (Thousands of Dollars)

Note: Amounts do not include inflation unless otherwise noted below.

	FY13 Appropriation Requested	Included in Governor's FY13 Request	Out-Year Cost Estimates				
OPERATING EXPENDITURES	**FY13**	**FY13**	**FY14**	**FY15**	**FY16**	**FY17**	**FY18**
Personal Services							
Travel							
Services							
Commodities							
Capital Outlay							
Grants, Benefits							
Miscellaneous							
TOTAL OPERATING	**0.0**		**0.0**	**0.0**	**0.0**	**0.0**	**0.0**

FUND SOURCE		(Thousands of Dollars)						
1002	Federal Receipts							
1003	GF Match							
1004	GF	0.0		0.0	0.0	0.0	0.0	0.0
1005	GF/Prgm (DGF)							
1037	GF/MH (UGF)							
1178	temp code (UGF)							
TOTAL		**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**

POSITIONS							
Full-time							
Part-time							
Temporary							

CHANGE IN REVENUES	***		***	***	***	***	***

Estimated SUPPLEMENTAL (FY12) operating costs ______ *(separate supplemental appropriation required)*
(discuss reasons and fund source(s) in analysis section)

Estimated CAPITAL (FY13) costs ______ *(separate capital appropriation required)*
(discuss reasons and fund source(s) in analysis section)

Why this fiscal note differs from previous version (if initial version, please note as such)

This is the initial version of the bill.

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Division	Tax	Date/Time	04/18/12 10:30am
Approved by	Bryan D. Butcher, Commissisoner	Date	4/18/2012
	Department of Revenue		

(Revised 8/17/2011 OMB)

FISCAL NOTE #1

STATE OF ALASKA **BILL NO.** SB 3001
2012 LEGISLATIVE SESSION

Analysis

The revenue impact of this bill is indeterminate.

This bill makes several changes to the oil and gas production tax system. Each of the major changes, along with its potential revenue impact, is discussed below.

1. **A gross revenue exclusion is created for calculating the base tax and the progressive tax for North Slope production in areas that were not unitized or in commercial production as of January 1, 2008.** For production from qualifying areas, the production tax value is adjusted by 30 percent of the gross value at point of production for purposes of calculating the base tax and progressive tax due. The tax rates are calculated before application of this adjustment, and the production tax value may not be reduced below zero. The qualifying new fields provisions are effective for the first 10 years of production, after which the field would be taxed at the same rate as non-qualifying production. The effective date of this provision is 1/1/2013. Estimated revenue impacts based on our Fall 2011 revenue forecast assumptions, and illustrations of higher production levels, are shown in following tables.

2. **A gross revenue exclusion is created for calculating the progressive tax for North Slope production in areas that were unitized or in commercial production as of January 1, 2008.** For production from qualifying areas, the production tax value is adjusted by 40 percent of the gross value at point of production for purposes of calculating the progressive tax due (no change in calculation of the base tax). The tax rates are calculated before application of this adjustment, and the production tax value may not be reduced below zero. The effective date of this provision is 1/1/2013. Estimated revenue impacts based on our Fall 2011 revenue forecast assumptions, and illustrations of higher production levels, are shown in following tables.

3. **The maximum production tax rate is reduced from 75% to 60%.** Currently, the maximum production tax rate is 75% (25% base rate and 50% progressive rate) which would apply at a production tax value of $342.50 per barrel. This bill reduces the maximum rate to 60% (25% base rate and 35% progressive rate) which would apply at a production tax value of $192.50. The effective date of this provision is 1/1/2013. While this provision would provide a benefit and maintain the efficacy of the tax system at extremely high prices, we do not forecast a revenue impact because prices are expected to be lower than what would be needed to invoke the 60% maximum rate.

4. **The provision requiring that credits be taken over two years is eliminated.** This provision would result in companies using credits earlier than they would without this change, and except for time value of money impact, it is revenue neutral. This provision applies to expenditures after 12/31/2011. Using the Fall 2011 forecast assumptions, this provision is expected to increase credits taken in CY 2012 by around $400 million (presented in FY 13 for this fiscal note). Since the credit redemption is brought forward, not increased, a corresponding decrease in credit redemption would be expected in CY 2013 (presented in FY 2014). The impact would be seen in both tax liabilities and credits for refund, which are paid through appropriation.

5. **The 40% credit for well lease expenditures is expanded to include qualified expenditures incurred north of 68 degrees North Latitude.** This provision applies to expenditures incurred after 12/31/2012. Over the time horizon of this fiscal note, we estimate this provision will have an annual fiscal impact of between $200 million and $400 million annually. The fiscal impact would be seen in both tax liabilities and credits for refund, which are paid through appropriation. These estimates do not include any additional production or investment that might result from this bill.

Analysis

Estimated Change In Production Tax and Royalty Revenue (in $millions) and illustrations with additional production - impact of gross revenue exclusion only *

Year	Estimated Change	Forecast + 5%	Forecast + 10%	Forecast + 15%	Forecast + 20%
FY 2013	-$575	-$525	-$400	-$300	-$150
FY 2014	-$1,075	-$800	-$550	-$300	-$50
FY 2015	-$900	-$650	-$450	-$200	$25
FY 2016	-$900	-$700	-$475	-$225	$0
FY 2017	-$850	-$650	-$425	-$225	$0
FY 2018	-$1,025	-$800	-$600	-$375	-$125

* In addition to our estimate of the fiscal impact of this provision, this table illustrates the production tax and royalty (including PF and SF contributions) fiscal impact of this bill w ith additional production, versus status quo w ith forecasted production. For purposes of this illustration, w e simply increase all forecast production and costs by a flat percentage beginning 1/1/2013.

Estimated Change In Production Tax Revenue (in $millions) and illustrations with additional production - impact of gross revenue exclusion only *

Year	Estimated Change	Forecast + 5%	Forecast + 10%	Forecast + 15%	Forecast + 20%
FY 2013	-$575	-$575	-$500	-$500	-$400
FY 2014	-$1,075	-$900	-$775	-$650	-$525
FY 2015	-$900	-$775	-$675	-$550	-$425
FY 2016	-$900	-$800	-$675	-$550	-$450
FY 2017	-$850	-$750	-$625	-$525	-$400
FY 2018	-$1,025	-$900	-$800	-$675	-$525

* In addition to our estimate of the fiscal impact of this provision, this table illustrates the production tax only fiscal impact of this bill w ith additional production, versus status quo w ith forecasted production. For purposes of this illustration, w e simply increase all forecast production and costs by a flat percentage beginning 1/1/2013.

FISCAL NOTE #1

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BILL NO. SB 3001

Analysis

Provisions in Bill and their Estimated Fiscal Impact as compared to Fall 2011 Forecast ($millions)

Brief Description of Provisions	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018
1, 2. Gross revenue exclusion for new and existing fields.	-$575	-$1075	-$900	-$900	-$850	-$1025
3. Maximum tax rate changed from 75% to 60%.	$0	$0	$0	$0	$0	$0
4. Eliminate the provision that credits must be taken over two years.(1)	-$400	$400	$0	$0	$0	$0
5. Expand the well lease expenditure credit to include expenditures in areas north of 68 degrees North Latitude.(1)	-$200 to -$400	-$200 to -$400	-$200 to -$400	-$200 to -$400	-$200 to -$400	-$200 to -$400
TOTAL FISCAL IMPACT	**-$1175 to -$1375**	**-$875 to -$1075**	**-$1100 to -$1300**	**-$1100 to -$1300**	**-$1050 to -$1250**	**-$1225 to -$1425**

(1) The fiscal impact for these provisions would be seen both in changes to tax liability (ie, change in revenues) and in changes to credits available for refund, which are funded through the appropriation process (ie, change in expenditures).