FISCAL NOTE

STATE OF ALASKA
2011 LEGISLATIVE SESSION

Fiscal Note Number
Bill Version: **CSHB110(RES)**
() Publish Date

Identifier (file name)	CSHB110(RES)-DNR-O&G-3-11-2011	Dept. Affected	Natural Resources
Title	Oil & Gas Production Tax	Appropriation	Resource Development
		Allocation	Oil & Gas
Sponsor	Governor		
Requester	Rules Committee	OMB Component Number	439

Expenditures/Revenues (Thousands of Dollars)

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

	Appropriation Required	Information					
OPERATING EXPENDITURES	**FY 2012**	**FY 2012**	**FY 2013**	**FY 2014**	**FY 2015**	**FY 2016**	**FY 2017**
Personal Services							
Travel							
Contractual							
Supplies							
Equipment							
Land & Structures							
Grants & Claims							
Miscellaneous							
TOTAL OPERATING	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
CAPITAL EXPENDITURES							
CHANGE IN REVENUES							

FUND SOURCE (Thousands of Dollars)

1002 Federal Receipts							
1003 GF Match							
1004 GF							
1005 GF/Program Receipts							
1037 GF/Mental Health							
Other Interagency Receipts							
TOTAL	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**

Estimate of any current year (FY2011) cost

POSITIONS

Full-time							
Part-time							
Temporary							

Why this fiscal note differs from previous version

The analysis for this fiscal note was updated to reflect changes made from the bill as introduced to the committee substitute reported out of House Resources (CSHB 110(RES)). Changes made relate to defining "old" and "new" production, new tax progressivity factors, creating a new section to extend sunset dates for the "small producer" tax credit program, extending the "exploration" tax credit program and creating an additional tax credit category, and establishing a new section to encourage Alaska resident hire.

Prepared by	Kevin Banks	Phone	269-8800
Division	Oil and Gas	Date/Time	3/11/11 12:00 PM
Approved by	Daniel S. Sullivan	Date	
	Natural Resources		

(Revised 12/29/2010 OMB)

Analysis

This bill may encourage producers to invest more by allowing them to receive the benefits of credits for that investment more quickly. First, currently under AS 43.55.023(b), only half the 20% qualified capital expenditure (QCE) credit can be taken in any one year. Section 11 of this bill would amend AS 43.55.23(b) to allow the full QCE credit to be taken in one year. Second, under AS 43.55.23(d), a producer that applies to obtain a transferable certificate for expenditures on the North Slope giving rise to a QCE credit or the loss carry-forward credit (AS 43.55.023(a)) will be issued two certificates, each for half the credit amounts, with one of the certificates only good for the next calendar year. This limitation dilutes the incentive the credit provides to the extent that a producer/investor must wait before receiving the full benefit of the credit. Section 12 of this bill would amend AS 43.55.023(d) to allow the certificates received to be for immediate use for North Slope expenditures, just as they are currently for expenditures in Alaska outside the North Slope. Third, Section 17 of the bill makes it easier for a small producer receiving a credit for North Slope expenditures to sell that credit to the State by eliminating the requirement that the producer spend additional money before receiving the credit monies.

In addition to allowing a quicker monetization of a given amount of credits, the bill extends the current 40% credit provided under 43.55.023(l) for well expenditures in Alaska off the North Slope to well expenditures on the North Slope. Currently, the North Slope producers receive a 20% QCE credit for well expenditure capital. Under the amendments provided in Sections 15 and 16 of the bill, producers would receive a 40% credit for those expenditures. This increased credit amount may encourage investment in wells on the North Slope.

This bill applies a higher minimum tax rate during periods of lower ANS West Coast prices. To the extent investors perceive the possibility that ANS West Coast prices will fall this low, these changes to the minimum tax may discourage investment. Also, by having separate production tax value calculations for “new production” units, the investors in these new units will have less ability to lower tax liability on “old production” units.

This bill lowers the marginal tax rates for existing and new fields by having progressively higher tax rates only apply to incremental production tax value. To the extent that investments are made as a consequence of these changes to the tax regime, royalty revenue may rise. The fiscal impact on royalty revenue is an indeterminate positive.

This bill creates a development tax credit against production taxes levied under AS 43.55.011(e). For companies whose wages and compensation paid to Alaska residents exceeds 80% of all of the company’s wages and compensation, they may claim a credit equal to the amount by which the wages and compensation paid to Alaska residents exceeds 80%. This credit is not transferrable, but if a company has no production tax obligation this credit can be carried forward for two years. This section should have no impact on royalty revenue.

This bill extends the sunset date on “small producer” tax credits under AS 43.55.024. Previously the “small producer” tax credits were set to sunset in 2016. This section changes the sunset date for the program to 2021. This change to the credit program may serve to increase the amount of production receiving the “small producer” tax credits currently in statute. Additionally, the dollar amount of the “small producer” tax credit is increased. Previously the amount of the “small producer” tax credit was capped at $12,000,000 per year. This change increases that amount to as much as $15,000,000 per producer per year. This amendment should not affect the types or number of companies receiving the “small producer” tax credit, but it is likely to increase the dollar amounts of the “small producer” tax credit that currently exists in statute, AS 43.55.024.

(Continued on page 3)

STATE OF ALASKA **BILL NO.** CSHB110(RES)
2011 LEGISLATIVE SESSION

Analysis Continued

This bill also changes the "exploration" tax credit program under AS 43.55.025 in two ways. First, it extends the sunset date on the program. Previously the AS 43.55.025 tax credits were set to sunset in 2016. This section changes the sunset date for the program to 2021. Second, the bill establishes an additional tax credit category under AS 43.55.025 that awards 30% of qualified exploration expenditures to all other exploration wells that don't qualify for credit under the other "exploration" tax credit categories.

These changes may serve to increase the number of projects receiving "exploration" tax credits as they currently stand in AS 43.55.025 and may increase the administrative burden on DNR to review applications for credits and handle data submissions and ultimate public release of data required.