FISCAL NOTE

STATE OF ALASKA
2011 LEGISLATIVE SESSION

Fiscal Note Number	
Bill Version	**CSHB110(FIN)**
() Publish Date	

Identifier (file name)	CSHB110(FIN)-DOR-TAX-03-29-11	Dept. Affected	Revenue
Title	Production Tax on Oil and Gas	Appropriation	Treasury and Taxation
		Allocation	Tax Division
Sponsor	Rules Committee by Request of the Governor		
Requester	House Finance Committee	OMB Component Number	2476

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			267.0	267.0	267.0	267.0	267.0
Travel			10.0	10.0	10.0	10.0	10.0
Services	115.0		9.4	9.4	9.4	9.4	9.4
Commodities			1.0	1.0	1.0	1.0	1.0
Capital Outlay							
Grants							
Miscellaneous							
TOTAL OPERATING	**115.0**	**0.0**	**287.4**	**287.4**	**287.4**	**287.4**	**287.4**
CAPITAL EXPENDITURES							
CHANGE IN REVENUES	***	***	***	***	***	***	***

FUND SOURCE (Thousands of Dollars)

1002 Federal Receipts							
1003 GF Match							
1004 GF	115.0		287.4	287.4	287.4	287.4	287.4
1005 GF/Program Receipts							
1037 GF/Mental Health							
Other (please identify)							
TOTAL	**115.0**	**0.0**	**287.4**	**287.4**	**287.4**	**287.4**	**287.4**

Estimate of any current year (FY2011) cost

POSITIONS

Full-time			2	2	2	2	2
Part-time							
Temporary							

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

This fiscal note incorporates changes made in the House Finance committee substitute.
See analysis section for detail on these changes.

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Division	Tax Division	Date/Time	3/28/11; 6:45pm
Approved by	Ginger Blaisdell, Director Administrative Services Division	Date	3/29/11; 12:23pm
	Department of Revenue		

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 their potential revenue impact, are discussed below.

1. **The interest rate on delinquent taxes is changed** from the greater of 5 percentage points above the annual rate of interest charged by the 12th Federal Reserve District or 11 percent, to the lesser of 3 percent points above the annual rate of interest charged by the 12th Federal Reservice District or 11 percent. The effective date of this provision is 7/1/11. There will be $100,000 in one-time contractor costs to implement this change in our accounting system. Over the past three fiscal years (FY 2008-FY 2010), interest on delinquent taxes and refunds has resulted in a net positive revenue to the state. The average annual net revenue to the state in these years was $30 million in revenue to the General Fund and $111 million in revenue to the Constitutional Budget Reserve Fund. The Department of Revenue (DOR) does not forecast interest on taxes; therefore this provision has no quantifiable revenue impact.

2. **The tax rate is changed for production in unitized areas or areas where there has been commercial production.** The tax rates under the bill are bracketed and only the increment of production tax value (PTV) within each bracket is taxed at that bracket's rate. The brackets range from 25% for PTV up to $30 per barrel to 50% for PTV over $92.50 per barrel. The maximum total production tax rate is 50%. The effective date of this provision is 1/1/2013. The potential revenue impacts are presented below, using the preliminary Spring 2011 forecast as a base. The first table shows the revenue impact for production tax only, and the second table shows the revenue impact including increased revenue from royalties for increased production.

Production Tax Only Fiscal Impact of this provision using various production scenarios - at preliminary Spring 2011 forecast level with incremental production starting 1/1/13 (in $millions)

Year	Forecast production	Forecast + 5%	Forecast + 10%	Forecast + 15%	Forecast + 20%
FY 2012	$0	$0	$0	$0	$0
FY 2013	-$469	-$408	-$347	-$285	-$224
FY 2014	-$989	-$846	-$704	-$561	-$419
FY 2015	-$1,166	-$1,011	-$857	-$703	-$548
FY 2016	-$1,418	-$1,245	-$1,072	-$899	-$726
FY 2017	-$1,554	-$1,373	-$1,191	-$1,010	-$828

Production Tax plus Total Royalties Fiscal Impact of this provision using various production scenarios - at preliminary Spring 2011 forecast level with incremental production starting 1/1/13 (in $millions)

Year	Forecast production	Forecast + 5%	Forecast + 10%	Forecast + 15%	Forecast + 20%
FY 2012	$0	$0	$0	$0	$0
FY 2013	-$469	-$349	-$229	-$108	$12
FY 2014	-$989	-$722	-$455	-$189	$78
FY 2015	-$1,166	-$884	-$602	-$321	-$39
FY 2016	-$1,418	-$1,108	-$798	-$489	-$179
FY 2017	-$1,554	-$1,234	-$914	-$593	-$273

Analysis Continued

3. **For areas that were not unitized on 12/31/2008 and where there has been no commercial production, the tax rate is changed and the lease expenditures in those areas may not be applied outside those areas. The separate tax rate is in effect for the first seven consecutive years after the start of sustained production from each of the areas subject to the rate.** The tax rates under the bill are bracketed and only the increment of PTV within each bracket is taxed at that bracket's rate. The brackets range from 15% for PTV up to $30 per barrel to 40% for PTV over $92.50 per barrel. The maximum total production tax rate is 40%. The effective date of this provision is 1/1/2013. The fiscal impact of this provision during the time horizon of the fiscal note will be zero under our existing production forecast and positive if additional production is brought on line.

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 12/31/2010. Using the Fall 2010 forecast assumptions, this provision is expected to decrease revenue in the amount of $200 million in CY 2011 (taken over FY 2011 and FY 2012). Another $100 million in refunds would also be likely sought for credit certificates in FY 2011 and FY 2012.

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 12/31/2010 and the provision sunsets on 1/1/2021. We estimate this provision will decrease revenue in the amount of $200 million to $400 million annually, based on a conservative estimate that 85% of drilling costs would be eligible for this credit. No additional positions will be required, however, there will be a one-time contractual cost of $15,000 for auditor training on well lease expenditures.

6. **Small producer, new area development, and alternative tax credit for exploration programs were extended from their current sunset date of 2016 to a sunset date of 2021.** These credits are in current law at AS 43.55.024 and AS 43.55.025. The effective date of this provision is 7/1/2011. Since 2006, small producer credits used each year averaged about $30 million and roughly $80 million in alternative credits for exploration were used each year. We expect the small producer credits to increase within the next several years to $40-$50 million per year and for alternative credits for exploration to decrease in the near term but potentially increase if oil prices remain above $100 per barrel. For purposes of this fiscal note, the extension of these credits will only impact revenue in FY 2017.

7. **The tax information disclosure statute was expanded to include the disclosure of types of credits claimed and types of expenditures for which the credits were claimed.** The effective date of this provision is January 1, 2012. This provision has no fiscal impact.

The department will require the addition of two auditor positions to administer the additional credit and reporting provisions of this bill, beginning in FY 2013. These positions would be oil and gas auditor IV positions, and expected to cost $287,400 annually.

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BILL NO. CSHB110(FIN)

Analysis Continued

Provisions in CSHB 110(FIN) and their Revenue Impact as compared to Preliminary Spring 2011 Forecasted Revenue

Brief Description of Provisions	Revenue Impacts of the Provisions ($mm)					
Provisions in CSHB110(FIN) prior to amendments	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017
1. Change in interest rate from greater of 5% above Fed Rate or 11% to lesser of 3% above Fed Rate or 11%.	Indeterminate					
2. Change the tax rate for unitized areas from current ACES progressivity to a bracketed progressivity structure.	$0	-$470	-$989	-$1,166	-$1,418	-$1,554
3. Change the tax rate for non-unitized areas from current ACES to a base rate of 15% and a bracketed progressivity structure. This tax rate would be in effect through the first 7 years of sustained production, after which time the tax rate becomes the same as that for unitized areas.	Net positive impact due to projects not currently on forecast horizon being added					
4. Eliminate the provision that credits must be taken over two years.	Revenue neutral					
5. Expand the well lease expenditure credit to include expenditures in areas north of 68 degrees North Latitude.	-$200 to -$400 per year until 1/1/2021					
6. Extend the small producer, new area development, and alternative tax credit for exploration from 2016 to 2021.	$0	$0	$0	$0	$125	$125
7. Expand the tax information disclosure statute to include the disclosure of types of credits and expenditures	$0	$0	$0	$0	$0	$0
8. DOR Agency Costs	-$0.1	$0.0	-$0.3	-$0.3	-$0.3	-$0.3
TOTAL REVENUE IMPACT	**-200 to -400**	**-$670 to -$870**	**-$1,189 to -$1,389**	**-$1,366 to -$1,566**	**-$1,743 to -$1,943**	**-$1,879 to -$2,079**