

FISCAL NOTE

STATE OF ALASKA
2012 LEGISLATIVE SESSION

Bill Version **SB 192**
Fiscal Note Number _____
() Publish Date _____

Identifier (file name) SB192-DOR-TAX-02-09-12
Title Oil and Gas Production Tax Rates
Sponsor Senate Resources Committee
Requester (S) RES
Dept. Affected Revenue
Appropriation Taxation and Treasury
Allocation Tax Division
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	0.0

FUND SOURCE		(Thousands of Dollars)					
1002	Federal Receipts						
1003	GF Match						
1004	GF						
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

POSITIONS							
Full-time							
Part-time							
Temporary							

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

Initial version.

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Approved by Bryan Butcher, Commissioner
Department of Revenue

Phone 907-269-1019
Date/Time 2/9/2012; 1pm
Date 2/9/2012

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Analysis

This bill makes a change to the progressive tax rate portion of the production tax at AS 43.55.011(g) by removing the second trigger of the progressive tax rate calculation that lowers the progressive tax rate to 0.1% on production tax values of \$92.50 and greater. The bill also removes the statutory maximum tax rate of 75% under the production tax statutes. The bill retains the initial trigger of \$30 in production tax value at which point the progressive tax rate is calculated as 0.4% per dollar increase in production tax value.

Given the Fall 2011 oil price, production, and lease expenditure forecast through FY 2017, the tax rate changes from this bill are not projected to have a direct revenue impact. The Fall 2011 forecast through the time period covered by this fiscal note (FY 2017) range from \$106 per barrel to close to \$110 per barrel for Alaska North Slope crude oil. Combined with anticipated production levels and lease expenditure projections, our forecast does not anticipate production tax values meeting or exceeding \$92.50 per barrel. Therefore, based on our most recent forecast, the progressivity rate changes in this bill will not impact revenue expectations.

If oil prices were to increase, or if production were to increase with no corresponding increase in lease expenditures, production tax rates, and therefore revenue, could be increased from this bill. With current production levels, and current transport costs and lease expenditure levels, much of North Slope crude oil would be subject to a production tax increase at \$120 - \$130 per barrel (ANS WC) and above. Without a maximum production tax rate, tax rates could continue to escalate until they exceed 100%. Marginal government take exceeds 100% at approximately \$140 per barrel, when holding all other assumptions constant. This means that at \$140 per barrel, the government would take more than 100% of every dollar that the oil price increases.

The bill has an effective date of January 1, 2013.

The following two graphs show nominal production tax rates and marginal tax rates at a range of oil prices given current transport and lease expenditure assumptions for ACES (current law) and SB 192. Nominal production tax rates are the ACES statutory production tax rates as calculated by taxpayers; marginal tax rates are the rates that the government collects of each additional dollar that the oil price increases. The marginal tax rate graph includes all major federal and state taxes and royalties.

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Analysis Continued

