Fiscal Note

State of Alaska
2016 Legislative Session

Bill Version: HB 100
Fiscal Note Number:
() Publish Date:

Identifier: HB100-DOR-TAX-2-26-16
Title: UREA/AMMONIA/GAS-LIQ FACILITY; TAX CREDIT
Sponsor: CHENAULT
Requester: Senate Resources Committee

Department: Department of Revenue
Appropriation: Taxation and Treasury
Allocation: Tax Division
OMB Component Number: 2476

Expenditures/Revenues

Note: Amounts do not include inflation unless otherwise noted below. (Thousands of Dollars)

	FY2017 Appropriation Requested	Included in Governor's FY2017 Request	Out-Year Cost Estimates				
OPERATING EXPENDITURES	**FY 2017**	**FY 2017**	**FY 2018**	**FY 2019**	**FY 2020**	**FY 2021**	**FY 2022**
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 (Operating Only)

None							
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 (FY2016) cost: 0.0 *(separate supplemental appropriation required)*
(discuss reasons and fund source(s) in analysis section)

Estimated CAPITAL (FY2017) cost: 0.0 *(separate capital appropriation required)*
(discuss reasons and fund source(s) in analysis section)

ASSOCIATED REGULATIONS

Does the bill direct, or will the bill result in, regulation changes adopted by your agency? No
If yes, by what date are the regulations to be adopted, amended or repealed? n/a

Why this fiscal note differs from previous version:

Revised based on House amendments

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Division: Tax
Date: 02/26/2016 06:00 PM
Approved By: Jerry Burnett, Deputy Commissioner
Date: 02/27/16
Agency: Department of Revenue

FISCAL NOTE ANALYSIS

STATE OF ALASKA **BILL NO.** CSHB100(FIN)
2015 LEGISLATIVE SESSION

Analysis

The bill adds a section to DOR's corporate income tax statutes, creating a new corporate income tax credit for owners of facilities used in the manufacture and sale of urea and ammonia. This analysis is limited to the tax credit created in this bill and does not consider the broader economic activity that would result from the business development that it may incentivize.

Urea and ammonia are typically manufactured by harvesting nitrogen from the atmosphere. This process is highly energy intensive and in Alaska has historically used large amounts of natural gas as "feedstock." The tax credit envisioned in this bill is limited to the amount of state royalty paid on natural gas that would be delivered to the manufacturing facility. As written, the tax credit could not be used to reduce a taxpayer's liabiltiy below zero, and cannot be carried forward to a subsequent tax year.

Although the owner of the facility is not expected to be the gas producer who is responsible to pay the state royalty, it is expected that the owner would be able obtain that information and provide it to the Department of Revenue for the purpose of claiming the credit.

Although available statewide to any facility engaged in the manufacture of urea and ammonia, this legislation is widely understood to be for the purpose of assisting the Agrium fertilizer plant in Nikiski to retool and reopen. The sponsor has provided the Department of Revenue with a recent study by the McDowell group entitled "Potential Impacts of Agrium's Operations on State of Alaska Revenues." This study has been used as a source document for this fiscal note. If passed, it is not expected that there will be any other facilities in Alaska who use this tax credit.

According to the McDowell study, a reopened Agrium plant utilizing a single production train would consume 28 BCF / year of gas with 21 BCF coming from state leases. Assuming a wellhead value of $5.70 / mcf the total royalty payment to the state would be $14.96 million / year. This is the maximum annual tax credit liability envisioned by this legislation. Assuming two years to get the plant ready for reopening, we assume no revenue impact prior to FY19. Unlike other tax credit programs, there would be no tax benefit for the facility owner during the time they are under construction. The tax benefit would not begin accruing until they began actually purchasing gas for the purpose of manufacturing.

Assuming a corporate income tax rate of 9.4%, it would require taxable profits of $159 million per year to generate a tax liability equal to the maximum credit available under this bill. A recent article in the Peninsula Clarion estimated a corporate income tax liaibilty for Agrium at $3 to $4 million per year. Since the actual anticipated profits are unknown, this fiscal note is an indeterminate revenue impact beginning in FY19, with an actual amount of foregone revenue between zero and $14.96 million per year, and with a likely figure in the $3 to $4 million range.
If both production trains at the Agrium facility were reopened, the cost could potentially be double these figures.
If the plant did not reopen and begin actually purchasing gas, the state's obligation would be zero.

This tax credit sunsets after calendar year 2026.

Expenditures:
The department can implement the provisions of this bill with existing resources.

Regulations:
The department does not anticipate that it will need to adopt additional regulations to implement this bill.