Fiscal Note

State of Alaska
2015 Legislative Session

Bill Version: HB 191
Fiscal Note Number:
() Publish Date:

Identifier: HB191-DOR-TAX-4-17-15
Title: OIL AND GAS CORPORATE TAXES
Sponsor: SEATON
Requester: House Finance 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)

	FY2016 Appropriation Requested	Included in Governor's FY2016 Request	Out-Year Cost Estimates				
OPERATING EXPENDITURES	**FY 2016**	**FY 2016**	**FY 2017**	**FY 2018**	**FY 2019**	**FY 2020**	**FY 2021**
Personal Services			550.0	550.0	550.0	550.0	550.0
Travel				25.0	25.0	25.0	25.0
Services			75.0	75.0	75.0	75.0	75.0
Commodities			20.0	20.0	20.0	20.0	20.0
Capital Outlay							
Grants & Benefits							
Miscellaneous							
Total Operating	**0.0**	**0.0**	**645.0**	**670.0**	**670.0**	**670.0**	**670.0**

Fund Source (Operating Only)

1004 Gen Fund			645.0	670.0	670.0	670.0	670.0
Total	**0.0**	**0.0**	**645.0**	**670.0**	**670.0**	**670.0**	**670.0**

Positions

Full-time			4.0	4.0	4.0	4.0	4.0
Part-time							
Temporary							

Change in Revenues			***	***	***	***	***

Estimated SUPPLEMENTAL (FY2015) cost: 0.0 *(separate supplemental appropriation required)*
(discuss reasons and fund source(s) in analysis section)

Estimated CAPITAL (FY2016) cost: 5,000.0 *(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? yes
If yes, by what date are the regulations to be adopted, amended or repealed? 01/01/16

Why this fiscal note differs from previous version:

Initial Version

Prepared By: Ken Alper, Director Phone: (907)465-8221
Division: Tax Division Date: 04/16/2015 05:00 PM
Approved By: Jerry Burnett, Deputy Commissioner Date: 04/17/15
Agency: Department of Revenue

STATE OF ALASKA **BILL NO.** HB 191
2015 LEGISLATIVE SESSION

Analysis

Bill Language:
This bill would repeal the current corporate income tax on oil and gas corporations under AS 43.20, which uses a method of worldwide apportionment to determine tax liability. This would be replaced with a corporate income tax based on separate accounting. Current oil and gas corporate income tax is based on a formula where total worldwide income of a corporation's consolidated business is apportioned to Alaska based on the amount of property, sales, and extraction attributable to Alaska. This bill would require Alaskan oil and gas corporations to calculate income tax for their oil and gas producing and transportation companies based on income earned solely in Alaska. If oil and gas companies are also engaged in activities other than oil and gas production and transportation, this bill would require those companies to calculate and pay tax on those other activities based on the current apportionment mechanism, which remains in statute for non-oil and gas corporations. The separate accounting tax will use the same tax rates and tax brackets as the existing corporate income tax.

This bill would require oil and gas corporations to file a return by 30 days after the due date of their federal tax return. This bill also requires the department to prepare a report each year showing the aggregate amount of income and deductions by category reported by all oil and gas corporate income tax taxpayers. The department would also be required to disclose and report specific information about taxpayers if the taxpayer is a publicly traded company.

Revenues:
The department does not have enough information to accurately and fully estimate the change in oil and gas corporate income tax as a result of this legislation. The current corporate income tax is highly dependent on the price and thus the year to year profitibility of the oil industry; the change envisioned in this bill would likely increase that volatility. Preliminary estimates show that under separate accounting, oil and gas corporations would have paid average of $220 million more per year during the years 2006-2013.

As a proxy to estimate potential separate accounting revenue, we have used the companies' Production Tax Value less their production tax payments, as reported in their Oil and Gas Production Tax returns. It should be noted that this estimate uses income as currently reported. Under separate accounting certain loopholes may allow corporations to shift income to other locations outside Alaska; that scenario was not considered in the estimate. To help minimize this sort of shifting, the bill includes language to require interest and depreciation to remain based on an apportioned system.

This bill has an effective date of January 1, 2016. It provides for quarterly estimated tax payments, thus will generate revenues that differ from current statute in the last quarter of FY17.

Implementation
This bill would require the Department of Revenue to calculate the amount of tax due by each oil and gas corporation operating in the state. Currently, the department relies on federal corporate income tax audits as an audit resource, and does not audit down to the invoice level. Because the calculation of taxable income under separate accounting does not start with federal taxable income, the department will not be able to rely on federal audits will have to conduct more comprehensive audits down to the invoice level. The bill also requires the preparation of a new annual report to the legislature that includes aggregated income and deduction information.

The department believes it will need four additional corporate income tax auditors to handle the increased work as a result of this legislation. In addition, it will require a substantial capital expense to update the Tax Revenue Managment System with what amounts to a completely new tax that is fundamentally different than the existing Corporate Income Tax.