

Fiscal Note

State of Alaska
2018 Legislative Session

Bill Version: HB 411
Fiscal Note Number: _____
() Publish Date: _____

Identifier: HB411-DOR-TAX-04-07-18
Title: OIL & GAS PRODUCTION
TAX;PAYMENTS;CREDITS
Sponsor: FINANCE
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)

	FY2019 Appropriation Requested	Included in Governor's FY2019 Request	Out-Year Cost Estimates				
OPERATING EXPENDITURES	FY 2019	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023	FY 2024
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

1250 UGF Rev (UGF)	788,000.0		757,000.0	705,000.0	712,000.0	722,000.0	704,000.0
Total	788,000.0	0.0	757,000.0	705,000.0	712,000.0	722,000.0	704,000.0

Estimated SUPPLEMENTAL (FY2018) cost: 0.0 (separate supplemental appropriation required)
(discuss reasons and fund source(s) in analysis section)

Estimated CAPITAL (FY2019) cost: 900.0 (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If yes, by what date are the regulations to be adopted, amended or repealed? 07/01/18

Why this fiscal note differs from previous version/comments:

Initial version

Prepared By: Ken Alper, director
Division: Tax Division
Approved By: Mike Barnhill
Agency: Department of Revenue

Phone: (907)465-8221
Date: 04/07/2018 11:00 AM
Date: 04/07/18

Analysis

Bill Background

This legislation would make changes to Alaska's oil and gas production tax and tax credit statutes. It is largely based on the version of HB111 that passed the House of Representatives in 2017.

The bill changes the base tax rate calculated as a percentage of Production Tax Value (PTV, or net profits) from oil and gas production in Alaska. Currently 35%, HB411 reduces this to 25%. Also, the "per taxable barrel" credit, which is subtracted from the tax calculation under current law, is repealed. At high levels of profitability, the tax contains three additional "brackets" above which incremental PTV is taxed at the higher rate. These are:

- * above \$40 / bbl - 30%
- * above \$50 / bbl - 35%
- * above \$60 / bbl - 40%

Revenue Impact

The tax changes would increase the tax at all prices, but would have significantly different revenue impacts depending on the price of oil, which is illustrated in the graph on page 3. The greatest impacts would be at oil prices between \$60 and \$80. The per-barrel credits repealed in HB411 are not and have never been eligible for cash repurchase, so there is no budgetary (spending) impact from repealing them.

Implementation Cost

The changes anticipated in this bill will require somewhat substantial reprogramming of the Tax Revenue Management System and Revenue Online tax portal. Because there are only a small number of changes in the bill, the project would be smaller than what was recently done after the passage of HB247 and HB111. We currently assume a one-time cost of about \$900,000 to accomplish this. We do not anticipate any additional staffing needs or other costs to administer the tax program. There will also be a need for amendments to existing regulations to fully implement the changes.

The bill has an effective date of July 1, 2018. It is likely the programming changes would not be completed in time; therefore the bill provides transition language enabling taxpayers to make monthly installment payments based on the former tax system. The taxes would be "trued-up" at the time of the annual filing in March, 2019.

Provisions in **HB 411** and their Estimated Fiscal Impacts based on Spring 2018 Forecast (\$millions) - **FC PRICE**

Revised 4-6-18 by Dept. of Revenue

Description of Provision	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023	FY 2024	FY 2025	FY 2026	FY 2027	FY 2028
1. Effective 7/1/18, the production tax rate for North Slope oil is reduced from 35% to 25% of Production Tax Value. A progressive surcharge is established for North Slope oil. The surcharge is 5% of PTV over \$40 per barrel, plus an additional 5% of PTV over \$50 per barrel, plus an additional 5% of PTV over \$60 per barrel, for a maximum marginal tax rate of 40%.	-\$36	-\$33	-\$67	-\$67	-\$83	-\$120	-\$218	-\$314	-\$341	-\$389
2. Effective 7/1/18, repeals per-taxable-barrel credits for North Slope oil production.	\$1,238	\$1,202	\$1,160	\$1,175	\$1,186	\$1,177	\$1,170	\$1,168	\$1,155	\$1,149
3. Additional impact of implementing above provisions together.	-\$414	-\$412	-\$388	-\$397	-\$381	-\$353	-\$281	-\$211	-\$187	-\$150
Total Revenue Impact	\$788	\$757	\$705	\$712	\$722	\$704	\$671	\$642	\$627	\$610
Total Budget Impact	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Total Fiscal Impact - (does not include potential changes in investment)	\$788	\$757	\$705	\$712	\$722	\$704	\$671	\$642	\$627	\$610

NOTE: The fiscal impact of this proposal is an estimate based on the Spring 2018 revenue forecast. **Estimates shown here are draft / preliminary based on our interpretation of possible changes, and do not include any changes in company behavior as a result of this proposal. We reserve the right to make modifications to estimates for any forthcoming fiscal notes.**

