

ALASKA STATE LEGISLATURE

RESOURCES COMMITTEE

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SENATE BILL 227

Tax Compact; Sales Tax; Oil & Gas Tax

Sectional Analysis

Section 1: Legislative Intent

Adds intent language that the revenue generated from the education head tax be appropriated to the public education fund and that revenue from the infrastructure maintenance surcharge on oil be appropriated for maintenance and operation costs incurred along the Trans Alaska Pipeline System corridor.

Section 2: Conforming Changes for Alaska Tax Credit Certificate Bond Corporation

Makes conforming changes relating to the Alaska Tax Credit Certificate Bond Corporation due to a repealed statutes that enable the gross production tax established under the bill and clarifies its authority to finance certain outstanding oil and gas tax credit obligations.

Sections 3: Multistate Tax Compact

Amends the codification of the Multistate Tax Compact into Alaska law to updates Alaska's corporate income tax apportionment system to adopt market-based sourcing for determining when sales of services and intangible property are attributed to Alaska.

Section 4: Corporate Income Tax for Oil and Gas Pass-Through Entities

Requires certain oil and gas pass-through entities—sole proprietorships, partnerships, limited liability companies, and S-corporations—with income from oil or gas production or pipeline transportation in the state to pay corporate income tax. The tax applies to net income derived from oil or gas production or transportation in Alaska using the following bracketed rate structure:

Less than \$1,000,000: no tax

\$1,000,000 – \$2,000,000: 5% of income over \$1,000,000

\$2,000,000 – \$3,000,000: \$50,000 plus 6% of income over \$2,000,000

\$3,000,000 – \$4,000,000: \$110,000 plus 7% of income over \$3,000,000

\$4,000,000 – \$5,000,000: \$180,000 plus 8% of income over \$4,000,000

Over \$5,000,000: \$260,000 plus 9.4% of income over \$5,000,000

Section 5-6: Conforming Changes for Existing Corporate Income Tax Statutes

Makes conforming amendments to corporate income tax statutes for applicability to the revised corporate income tax structure for oil and gas pass-through entities established in the bill.

Section 7: Preventing Double Taxation

Provides that a taxpayer may deduct from its taxable income the income given as a payment to another taxpayer when the payment is taxed with the other taxpayer's income.

Section 8-11: Conforming Changes for Apportionment

Makes conforming changes to specific apportionment statutes to reflect the amendments to the Multistate Tax Compact made in Section 3.

Section 12: Conforming Change for Report Filing

Makes conforming change referencing the new statutory section for highly digitized businesses.

Section 13: Single Sales Factor for Highly Digitized Businesses

Adopts a single sales factor for highly digitized businesses when calculating the portion of corporate income attributable to Alaska.

Section 14: Education Head Tax

Establishes an education head tax on wages and self-employment income, with tax amounts based on the following annual income levels:

Under \$30,000: \$20 per year

\$30,000 – \$90,000: \$30 per year

\$90,000 – \$150,000: \$40 per year

Over \$150,000: \$60 per year

The tax applies to both resident and nonresident workers earning income in Alaska. This section also provides for administration, collection, and enforcement of the education head tax by the Department of Revenue.

Section 15: Oil and Gas Production Tax Gross Tax Structure

Revises Alaska's oil and gas production tax structure by adopting a gross production tax calculated as 17.5 percent of the gross value of oil at the point of production and maintaining the existing 13 percent of the gross value of gas at the point of production.

Section 16: Fixed Production Tax Rate for Middle Earth

Revises existing production tax rate from a tax ceiling to a fixed 4 percent for leases outside of Cook Inlet or the North Slope commencing production before January 1, 2027.

Section 17: Conforming Change for Gas Tax Payments In Kind

Makes conforming change to gas tax payment-in-kind statute to reflect the revised gross production tax.

Section 18: Conforming Amendment for Installment Payments of Tax

Makes conforming changes to the calculation of the installment payment for oil and gas production taxes to reflect the revised gross production tax.

Section 19: Conforming Change for Interest on Installment Payments

Makes conforming amendments to provisions governing interest applied to unpaid oil and gas production tax installment payments to reflect the revised gross production tax and removes outdated language related to prior tax regimes.

Section 20: Conforming Change for Overpayments

Makes conforming change to overpayments of oil and gas production taxes to reflect the revised gross production tax.

Section 21: Conforming Change for Retroactive Application of Regulations

Makes conforming change to reflect the revised gross production tax for procedures for adjusting interest when production tax payments are affected by the retroactive application of Department of Revenue regulations resulting in underpayments or overpayments of tax.

Section 22: Conforming Change for Royalty Settlement Adjustments

Makes conforming change to reflect the revised gross production tax for how producers may deduct production taxes when settling royalty obligations and establishes procedures for refunding excess deductions.

Section 23: Department to Adopt Regulations for Production Tax Monthly Payment

Directs the Department of Revenue to adopt regulations governing monthly tax payments for oil and gas subject to specific production tax provisions, modeled after installment payment procedures as they read on January 1, 2026, due to changes for the revised gross production tax established by the bill.

Section 24-29: Conforming Changes for Oil and Gas Tax Credit Fund

Makes conforming amendments relating to the oil and gas tax credit fund and its use to purchase transferable and production tax credit certificates, pay certain refunds and payments, and limitations and eligibility requirements due to repealed statutes that enable the gross production tax established under the bill.

Section 30: Conforming Changes for Limitations on Assessments

Makes conforming amendments to reflect the revised gross production tax to the assessment of taxes due to a decision by an adjudicative body that has retroactive effect.

Section 31: Conforming Changes for Department of Revenue Study

Makes conforming changes to reflect the revised gross production tax for reporting requirements directing the Department of Revenue to study the effects of oil and gas tax policy on exploration, development, production, and state revenue.

Section 32: Conforming Changes for Production Tax Surcharges

Makes conforming change to add the new infrastructure maintenance surcharge to existing oil production tax surcharges.

Section 33: Infrastructure Maintenance Surcharge

Establishes a 15-cent per barrel surcharge on oil produced in the state with proceeds separately accounted and deposited in the general fund.

Sections 34: Conforming Change to Definitions

Makes conforming change to add to the definition of “surcharge” the new infrastructure maintenance surcharge.

Section 35: Conforming Change for Tax Credit Certificates and Overriding Royalty Interests

Makes conforming changes to overriding royalty interest agreement authority due to repealed statutes that enable the gross production tax established under the bill.

Section 36: Repeals

Repeals outdated and superseded provisions of oil and gas production tax statutes, including lease expenditure deductions, tax credits, and related reporting requirements to enable the gross production tax structure established by the bill.

Sections 37–40: Applicability and Retroactivity

Establishes applicability and retroactivity provisions. The corporate income tax on pass-through entities applies to tax years beginning on or after January 1, 2026, and the highly digitized business apportionment rules apply to returns filed for tax years beginning on or after January 1, 2026. Sections 4–7, 38, and 39 are made retroactive to January 1, 2026. The Department of Revenue is authorized to adopt implementing regulations retroactive to a specific date. Interest and penalties that would otherwise accrue as a result of the retroactivity of those sections are waived until January 1, 2027.

Sections 41–42: Effective Date

Sections relating to the pass-through entity income tax, transition payment rules, and retroactivity provisions take effect immediately upon enactment. All other sections of the bill take effect January 1, 2027.