

Fiscal Note

State of Alaska
2026 Legislative Session

Bill Version: SB 227
Fiscal Note Number: _____
() Publish Date: _____

Identifier: SB227CS(RES)-DOR-TAX-3-17-26
Title: TAX COMPACT; SALES TAX; OIL & GAS TAX
Sponsor: RLS BY REQUEST OF THE GOVERNOR
Requester: (S) Finance

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)

	FY2027 Appropriation Requested	Included in Governor's FY2027 Request	Out-Year Cost Estimates				
			FY 2027	FY 2028	FY 2029	FY 2030	FY 2031
OPERATING EXPENDITURES	FY 2027	FY 2027	FY 2028	FY 2029	FY 2030	FY 2031	FY 2032
Personal Services	4,447.9		8,895.8	8,895.8	8,895.8	8,895.8	8,895.8
Travel	85.0		60.0	30.0	30.0	30.0	30.0
Services	1,821.2		4,071.2	3,305.2	3,305.2	9,305.2	3,305.2
Commodities	2,063.4		173.0	27.0	27.0	173.0	173.0
Capital Outlay	32.0						32.0
Grants & Benefits							
Miscellaneous							
Total Operating	8,449.5	0.0	13,200.0	12,258.0	12,258.0	18,404.0	12,436.0

Fund Source (Operating Only)

1004 Gen Fund (UGF)	8,449.5		13,200.0	12,258.0	12,258.0	18,404.0	12,436.0
Total	8,449.5	0.0	13,200.0	12,258.0	12,258.0	18,404.0	12,436.0

Positions

Full-time	37.0		73.0	73.0	73.0	73.0	73.0
Part-time							
Temporary							

Change in Revenues

None	***		***	***	***	***	***
Total	***	0.0	***	***	***	***	***

Estimated SUPPLEMENTAL (FY2026) cost: 0.0 *(separate supplemental appropriation required)*

Estimated CAPITAL (FY2027) cost: 10,500.0 *(separate capital appropriation required)*

Does the bill create or modify a new fund or account? Yes
(Supplemental/Capital/New Fund - 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If yes, by what date are the regulations to be adopted, amended or repealed? 01/01/27

Why this fiscal note differs from previous version/comments:

This fiscal note has been updated to correct an error in the number of positions required to implement the proposed education tax. Cost estimates for personal services, services, commodities, and full-time positions have been revised.

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Division: <u>Tax Division</u>	Date: 03/17/2026
Approved By: <u>Janelle Earls, Acting Commissioner</u>	Date: 03/17/26
Agency: <u>Department of Revenue</u>	

FISCAL NOTE ANALYSIS

STATE OF ALASKA
2026 LEGISLATIVE SESSION

BILL NO. CSSB 227 (RES)

Analysis

Background

This bill makes several changes to state taxes:

1. Effective 1/1/2027, updates the corporate income tax apportionment rules for the sales factor sourcing from cost-of-performance to market-based-sourcing.
2. Effective 1/1/2027, implements a single sales apportionment factor for determining the corporate income tax liability of "highly-digitized businesses" as defined in the bill.
3. Effective retroactive to 1/1/2026, extend the corporate oil and gas income tax to include passthrough entities.
4. Effective 1/1/2027, replaces the existing Oil and Gas Production Tax with a 17.5 percent tax on Gross Value at Point of Production with no deductions, allowances, or credits. Some tax limits for Cook Inlet and Middle Earth (areas outside the North Slope and Cook Inlet) are retained.
5. Effective 1/1/2027, create a new infrastructure fee of \$0.15 levied on each taxable barrel of oil produced in the state. Proceeds of this fee would be intended for use for pipeline corridor maintenance and operation costs and would be considered Designated General Fund.
6. Effective 1/1/2027, imposes an annual education tax on employee wages and net self-employment earnings. Tax rates would range from \$20 to \$60 per taxpayer depending on income. Proceeds of this tax would be intended for appropriation to the public education fund and would be considered designated general fund.

Revenue Impact

The revenue impact of this bill is indeterminate. Several of the provisions are difficult to estimate with certainty, but the impacts for the oil and gas fiscal changes are particularly hard to estimate. As detailed in the attached table, directed revenues from the provisions in this bill could range from roughly \$513 to \$815 million for FY2027 and \$937 million to \$1.6 billion for FY2028. By FY2032 (the final year of the fiscal note timeframe) the range would be \$753 million to \$2.1 billion, and by FY2036 (the end of the 10-year forecast window) the range would be \$360 million to \$2.0 billion.

The production tax regime implemented in this bill would make most fields in Alaska uneconomic to operate for the entirety of the 10-year forecast and beyond, under the Fall 2025 forecast. As a general rule, department fiscal notes for oil and gas legislation do not attempt to predict changes in company behavior as a result of incremental tax changes (increased or decreased taxes that make projects more or less economic). With such a tax increase, however, companies would rationally be expected to make major changes in behavior if they expected the tax regime to remain in place. Thus, for this proposal, given the clear outsized tax burden, a scenario was developed assuming no new drilling or development, with current production undergoing natural decline, resulting in Trans-Alaska Pipeline System (TAPS) throughput of under 300,000 barrels per day by FY2032. Consistent with fiscal note protocols, the impacts on other revenue sources such as royalties, corporate income tax, and property tax are not included; with those included, the low range of the fiscal note for this proposal would be negative from FY2031 onwards. If companies were to additionally shut in or abandon higher cost fields, oil and gas production and hence revenue would be more negatively impacted than shown here.

Corporate Income Tax - Market Based Sourcing:

Impacts to revenue from the changes to apportionment of income to the state from implementing market-based sourcing in January 2027 are estimated to be an increase of \$15 million after full implementation. For FY2027 the half year of implementation is anticipated to increase revenue by \$7.5 million. Revenue impact based on information provided from Chainbridge, who used a micro-data-based approach analyzing the top 100 2020 taxpayers by sales from existing tax returns supplemented with Securities and Exchange Commission (SEC) Form 10-K information to calculate how market-based sourcing would change sales apportionment factors.

Corporate Income Tax - Single Sales Factor for Highly Digitized Companies:

Impacts to revenue from the single sales factor for highly digitized companies are uncertain due to the challenge in determining which companies will be subject to the single sales factor. The department prepared a range of estimates by evaluating companies in the technology sector and using a broad or narrow estimate of which companies might be subject to the highly digitized provisions. This yielded an estimate of \$10 to \$50 million after full implementation, or a total of \$25 to \$65 million when combined with the market based sourcing changes. For FY2027 the half year of implementation is anticipated to increase revenue by \$5 to \$25 million.

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Corporate Income Tax - Passthrough Entity Tax for Oil and Gas Companies:

The revenue impact of this provision is highly uncertain, as the department does not have detailed financial information for the companies that would be impacted. Further, the revenue impact would likely be concentrated in a small number of companies. To provide one possible scenario for potential revenue impacts for this legislation, the department used a fairly simple approach that "scaled up" forecasted corporate income tax revenue from C-corporations based on production and assumed that passthrough entities would pay at a similar rate. At the low end of the range, it is not certain that this provision would yield any revenue, based on discussions with potentially impacted companies and the impact on profit from other provisions of this bill. The estimated revenue impact from this provision ranges \$0-70 million and \$0-110 million in any given year.

Oil and Gas Production Tax - 17.5 Percent Gross Tax:

The revenue impact of this provision is highly uncertain, as it would fundamentally reshape the fiscal system for oil and gas as well as the economics of exploration, development, and production. Without changes in company behavior, this provision could increase revenue by \$670 million in FY2027 and by \$1.4-2.1 billion per year thereafter. In the low case, assuming no drilling or development, this provision could increase revenue by \$480 million in FY2027 and by \$310-880 million per year thereafter. This low case is uncertain, includes only direct production tax impacts, and is intended as just one scenario to illustrate the potential impacts.

Infrastructure Fee:

Over time, revenue collected from this surcharge is expected to change proportionally to forecasted taxable barrels of oil produced in the state. Under the Fall 2025 forecast, revenue is expected to be \$12 million in FY2027 and range from \$24-32 million per year thereafter. In the low case, revenue could be \$10 million in FY2027 and \$11-18 million per year thereafter. Proceeds of this surcharge would be deposited in the newly created pipeline corridor maintenance fund and are considered designated general fund revenue in this fiscal note.

Education Tax:

This tax would generate revenue from wage earners and self-employed individuals. The estimate is based on solid wage earner data and on less solid self-employment data. The taxpayer base is estimated at about 465,000 taxpayers.

This revenue analysis assumes an effective date of January 1, 2027, and that FY2027 revenue would be for only the second half of the fiscal year. However, since the tax is a flat amount withheld from the first paycheck of the calendar year, FY2027 revenue is estimated at 75 percent of the amount that would be collected in a full year. FY2027 revenue would be \$10 million and annual revenue thereafter would be \$14-17 million. The range represents uncertainty about how taxpayers will move between brackets over time and does not attempt to estimate growth or decline in the workforce due to other provisions of the bill. Proceeds of this tax would be designated for education funding and are considered designated general fund revenue in this fiscal note.

Implementation Costs

Education Tax:

The cost and time required to implement a new broad-based tax is directly related to its complexity. For a more robust tax such as the one envisioned in this bill a 12-month implementation process should be expected. The department expects to engage FAST Enterprises, the Tax Revenue Management System (TRMS) contractor, to build an income tax module into TRMS. The estimated FY2027 capital cost on page one includes \$9.5 million as an estimated initial implementation cost for FAST to add the income tax module and a Fast Identity Verification Services (FIVS) module.

After initial implementation, continued maintenance and support by FAST for the individual income tax module is estimated to be \$2.25 million in FY2028 and \$1.5 million in each year thereafter. Continued maintenance and support by FAST for the FIVS module is estimated to be \$500.0 annually beginning FY2028. The system is expected to be upgraded every four years post implementation.

Adding a fully functional income tax module would be a multi-year process. The initial fast-track need would be to build and implement a tax withholding system, which would need to be in operation by January 1, 2027. The department would also need to adopt regulations by December 31, 2026. In addition to the software development, this bill would require a rapid and robust outreach to the business community throughout Alaska, and this fiscal note includes funding for travel needs. Additionally, this bill would require integration with national accounting and tax software vendors in order to update programs such as TurboTax and QuickBooks to incorporate the Alaska return.

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BILL NO. CSSB 227 (RES)

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Once the withholding system is in place, FAST and Tax Division staff would begin building the tax return filing and examination modules, with their associated databases, communications, and integration with existing imaging, accounting, and collections systems. The legislation creates an annual tax, meaning that the first tax returns would be filed by self-employed individuals in January 2028, with a filing due date to be determined (presumably in regulation).

The department spoke with tax administrators in the States of Montana and Vermont as part of the research into the potential costs to administer this tax. Each have population sizes close to Alaska's and impose individual income taxes. Montana and Vermont employ approximately 102 and 60 people, respectively, to administer each state's individual income taxes.

Given the complexities that come with administering nonresident, and the sheer volume of estimated new taxpayers, employer withholding, returns, and refunds, combined with the fact that staff would have little to no experience in state individual income tax administration to start off with, the department expects to need 70 new positions to administer an individual income tax in Alaska.

The new staff would be roughly split between the Juneau and Anchorage offices. The department would continue to look for ways to automate administration of this tax and look for efficiencies.

Additional travel is largely for public education efforts, as well as the need to train new staff on the tax management system and the new tax. Services costs reflects primarily internal core service rates paid to other state agencies, including additional lease space, due to additional staff within the Tax Division, as well as ongoing maintenance and support costs for FAST. Commodities reflect the initial outfit for new employees for office and computer furnishings.

Oil and Gas Production Tax:

The changes to the production tax would require overhauling the production tax modules in the TRMS and Revenue Online (ROL) systems but would not require hiring additional staff. The estimated cost of updating the programs is \$500.0 and is included in the estimated FY2027 capital costs.

Corporate Income Tax - Market Based Sourcing and Single Sales Factor for Highly Digitized Companies:

The initial fast-track need will be for the department to adopt regulations by January 1, 2027, to give adequate time for taxpayers who will be preparing their 2026 tax returns by the 2027 due date. The department will also need to update its TRMS and ROL system, which allows a taxpayer to file a return online. The department will also need to update its corporate income tax forms and integrate those with national accounting and tax software vendors in order to update programs they use to prepare their Alaska corporate income tax returns.

The department would use existing resources to make the necessary changes. The department expects to also engage in a robust taxpayer outreach and compliance program to ensure taxpayers understand and comply with their filing requirements. This additional workload requires the department to hire two new Corporate Income Tax Auditors. The department will have additional travel costs for training, outreach, and audit purposes, services costs for statewide and department-wide core service and overhead costs, initial IT equipment, and ongoing business supply needs.

Corporate Income Tax - Passthrough Entity Tax for Oil and Gas Companies

Administering this tax to new entities requires a Corporate Income Tax Auditor 3. Even though the expected taxpayer base is small, this change would create additional workload which could not be absorbed. The department will have additional travel costs for training, services costs for statewide and department-wide core service and overhead costs, initial IT equipment, and ongoing business supply needs.

Additionally, this legislation would require the department to make significant changes to its Tax Revenue Management System. The \$500.0 capital cost reflects an estimate for the Division's contract with FAST Enterprises to make the necessary changes in a short amount of time. The contractor would need to provide changes for the associated databases, forms, communications, and integration with the Division's existing imaging, accounting, and collections modules. There would also need to be changes to Revenue Online, the online program that allows taxpayers to file, pay, and request refunds electronically.

The department would also need to make significant amendments to existing regulations to fully implement the changes. The department believes the work on regulations can be performed with existing resources and support from the Department of Law.

FISCAL NOTE ANALYSIS

Analysis

Prepared 3/13/2026 by Dept of Revenue

Estimated Impact of CSSB227 (RES), based on the Fall 2025 Forecast (\$millions)	FY 2027	FY 2028	FY 2029	FY 2030	FY 2031	FY 2032	FY 2033	FY 2034	FY 2035	FY 2036
Description of Provision										
1. Effective 1/1/2027, implement market-based sourcing on corporate income tax.	\$8	\$15	\$15	\$15	\$15	\$15	\$15	\$15	\$15	\$15
2. Effective 1/1/2027, implement a single sales apportionment factor for determining the corporate income tax liability of "highly-digitized businesses" (amount shown is additional to Item 1).	\$5 to \$25	\$10 to \$50	\$10 to \$50	\$10 to \$50	\$10 to \$50	\$10 to \$50	\$10 to \$50	\$10 to \$50	\$10 to \$50	\$10 to \$50
3. Effective retroactive to 1/1/2026, extend the corporate oil and gas income tax to include passthrough entities.	\$0 to \$90	\$0 to \$100	\$0 to \$110	\$0 to \$100	\$0 to \$90	\$0 to \$80	\$0 to \$70	\$0 to \$70	\$0 to \$70	\$0 to \$80
4. Effective 1/1/2027, replace existing Oil and Gas Production Tax with a 17.5% tax on Gross Value at Point of Production with no deductions, allowances, or credits. Some tax limits for Cook Inlet and Middle Earth are retained.	\$480 to \$670	\$880 to \$1,360	\$830 to \$1,350	\$790 to \$1,450	\$760 to \$1,680	\$700 to \$1,900	\$650 to \$2,090	\$580 to \$2,140	\$530 to \$2,110	\$310 to \$1,830
Total Unrestricted General Fund Impact - (does not include impact to royalties or other taxes)	\$493 to \$793	\$905 to \$1,525	\$855 to \$1,525	\$815 to \$1,615	\$785 to \$1,835	\$725 to \$2,045	\$675 to \$2,225	\$605 to \$2,275	\$555 to \$2,245	\$335 to \$1,975
5. Effective 1/1/2027, an infrastructure fee of \$0.15 is levied on each taxable barrel of oil produced in the state. Proceeds of this fee would be intended for use for pipeline corridor maintenance and operation costs and would be considered DGF.	\$10 to \$12	\$18 to \$25	\$17 to \$24	\$16 to \$25	\$15 to \$27	\$14 to \$30	\$13 to \$32	\$12 to \$32	\$12 to \$31	\$11 to \$30
6. Effective 1/1/2027, impose an annual education tax on employee wages and net self-employment earnings. Tax would range from \$20 to \$60 per taxpayer depending on income. Proceeds of this tax would be intended for appropriation to the public education fund and would be considered DGF.	\$10 to \$10	\$14 to \$14	\$14 to \$14	\$14 to \$15	\$14 to \$15	\$14 to \$15	\$14 to \$16	\$14 to \$16	\$14 to \$17	\$14 to \$17
Total Fiscal Impact - (does not include impact to royalties or other taxes)	\$513 to \$815	\$937 to \$1,564	\$886 to \$1,563	\$845 to \$1,654	\$814 to \$1,877	\$753 to \$2,090	\$702 to \$2,272	\$631 to \$2,323	\$581 to \$2,293	\$360 to \$2,022

NOTE: The fiscal impact of this proposal is an estimate based on the Fall 2025 revenue forecast. Estimates shown here are preliminary based on our interpretation of possible changes. As a general rule the estimates do not include changes in company behavior as a result of this proposal; however the low range for oil and gas changes in this table does reflect an alternative scenario with only currently producing oil included in the forecast. We reserve the right to make modifications to estimates for any forthcoming fiscal notes.