

# Fiscal Note

State of Alaska  
2026 Legislative Session

Bill Version: SB 275  
Fiscal Note Number: \_\_\_\_\_  
( ) Publish Date: \_\_\_\_\_

Identifier: SB275-DOR-TAX-3-10-26  
Title: NATURAL GAS PROJECTS/INCOME  
TAX/SURCHARGE  
Sponsor: RESOURCES  
Requester: (S) RESOURCES

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	FY 2032
<b>OPERATING EXPENDITURES</b>								
Personal Services	1,921.1		1,921.1	1,921.1	1,921.1	1,921.1	1,921.1	1,921.1
Travel	95.0		95.0	95.0	95.0	95.0	95.0	95.0
Services	139.0		139.0	139.0	139.0	139.0	139.0	139.0
Commodities	41.0		1.0	1.0	1.0	21.0	1.0	1.0
Capital Outlay								
Grants & Benefits								
Miscellaneous								
<b>Total Operating</b>	<b>2,196.1</b>	<b>0.0</b>	<b>2,156.1</b>	<b>2,156.1</b>	<b>2,156.1</b>	<b>2,176.1</b>	<b>2,156.1</b>	<b>2,156.1</b>

**Fund Source (Operating Only)**

1003 GF/Match (UGF)	2,196.1		2,156.1	2,156.1	2,156.1	2,176.1	2,156.1
<b>Total</b>	<b>2,196.1</b>	<b>0.0</b>	<b>2,156.1</b>	<b>2,156.1</b>	<b>2,156.1</b>	<b>2,176.1</b>	<b>2,156.1</b>

**Positions**

Full-time	10.0		10.0	10.0	10.0	10.0	10.0
Part-time							
Temporary							

**Change in Revenues**

None	***		***	***	***	***	***
<b>Total</b>	<b>***</b>	<b>0.0</b>	<b>***</b>	<b>***</b>	<b>***</b>	<b>***</b>	<b>***</b>

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

**Estimated CAPITAL (FY2027) cost:** 1,500.0 *(separate capital appropriation required)*

**Does the bill create or modify a new fund or account?** No  
*(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If yes, by what date are the regulations to be adopted, amended or repealed? 01/01/27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:**

Not applicable, initial version.

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Division: Tax Division	Date: 03/10/2026
Approved By: Janelle Earls, Acting Commissioner	Date: 03/10/26
Agency: Department of Revenue	

## FISCAL NOTE ANALYSIS

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### Analysis

#### Background

This bill makes numerous changes to state laws that relate directly or indirectly to the proposed Alaska Liquefied Natural Gas (LNG) project. Broadly speaking, the changes fall into three categories: (1) significantly increased oversight and disclosure requirements for the Alaska Gasline Development Corporation (AGDC); (2) firmer language to ensure the state receives fair value for oil and gas for royalty and tax purposes; and (3) new or increased taxes related to gas. Following are the major provisions specifically relating to DOR:

**1. Creates a new pass-through entity tax for companies engaged in gas pipeline transportation and LNG processing.**

Under current law, only C-Corporations doing business in the state are subject to corporate income tax under AS 43.20. This bill proposes taxing pass-through entities with taxable income over \$5,000,000, including sole proprietorships, partnerships, limited liability companies, and S-corporations, that are engaged in gas production, transportation and sales or in LNG processing. Tax would be applied at a 9.4 percent rate on all taxable income over \$5,000,000. Pass-through entities not involved in this narrow set of activities would continue to be exempt. It is likely that only a handful of companies would be impacted by the new tax. Oil and gas producers that operate as pass-through entities would qualify and potentially would need to parse out oil versus gas income. This provision would apply beginning 1/1/27.

**2. Disallows “costs incurred to explore for, develop, or produce gas deposits” on the North Slope from the oil and gas production tax under AS 43.55.** This provision adds another layer of complexity to what is already an incredibly nuanced and complicated tax system. Under current law, North Slope producers calculate tax before credits for oil and gas separately. Gas is subject to a 13 percent gross tax with a 17.7 cent/ mcf ceiling for gas used in-state, while oil is subject to a 35 percent net profits tax. A four percent gross tax floor based on the value of North Slope oil applies to the oil tax calculation but also sets a floor for application of tax credits statewide. Under current law, any lease expenditures on the North Slope are allowed to be taken in the oil tax calculation. Under this bill, any lease expenditures for gas would be disallowed. The Department of Revenue (DOR) would need to develop and implement a methodology for breaking out these costs. This provision would apply retroactive to 1/1/26.

**3. Creates a new surcharge for gas processed into LNG under AS 43.55.** A 15 cents/ mcf surcharge on “gas processed into LNG” would be created, modeled after the existing hazardous release surcharge on oil. The surcharge would apply only to processors with capacity of over 50 million cubic feet/ day, effectively exempting the current small scale LNG processing taking place on the North Slope and targeting the new surcharge to the proposed large-scale Alaska(AK)LNG export facility. This provision would apply beginning 1/1/27.

**4. Creates new valuation and reporting requirements for DOR.** This provision would require that oil or gas sold at no or low value be subject to tax. Currently such sales “may” be subject to tax but this provision changes the language to state that they “shall” be subject to tax. Additionally, a requirement is added that oil and gas value must be based on fair market value for production tax purposes, and DOR is required to publish a written report on the determination of the value for oil and gas by field, unit, or area by month, and host this report on the department’s website for at least 10 years.

**5. Creates DOR requirement for assisting with state investment decisions on AKLNG.** As part of the AGDC provisions, AGDC is required to negotiate state purchase options for the gas project. DOR is required to cooperate with and assist the legislature in determining whether to acquire said interest, including analyzing funding sources and providing fiscal analysis of the investment opportunities. This provision would have an immediate effective date.

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**6. Changes provisions around Tax as Gas election for production tax under AS 43.55.** Under current law, if the Department of Natural Resources (DNR) elects to take royalty in kind for major gas sales, this triggers an election by the producer to also pay gas tax in kind. DOR regulations are silent on certain important details of how this in-kind election would interact with complex oil tax calculations and tax credits. This provision would change the in-kind provision from being a producer election to being a DOR Commissioner determination, where gas tax could be taken in kind following a best interest finding by DOR. The option would still be contingent on a DNR election to take royalty in kind. This provision would have an immediate effective date.

**Revenue Impact**

The revenue impact of this bill is indeterminate. This is a complex bill with many different pieces and is difficult to analyze with certainty. Revenue impact could be positive or negative and could impact state finances by hundreds of millions of dollars, or more, per year. Key uncertainties include the impact of this bill on whether the Alaska LNG project moves forward, detailed final project cost and timing, and how certain provisions of this bill are interpreted and applied.

Following is specific discussion of the major tax changes:

For the new pass-through entity tax for companies engaged in gas production, transportation and sales and in LNG processing, it is likely that only a handful of companies would be impacted by the new tax. Without AKLNG, and depending on interpretation of the bill provisions, this tax could have zero impact, or could potentially apply to the gas-related income for a small number of existing companies such as those providing fuel gas from one unit to another. DOR has estimated a range of \$0-100 million per year for a similar tax applied to oil and gas companies; a gas only tax would require complex allocations and regulatory decisions but would likely generate only a fraction of that range. With AKLNG, this tax would also potentially apply to passthrough entities selling gas into the project and those operating the project. Estimating the upstream impacts is extremely speculative, but using DOR's baseline AKLNG modeling the potential midstream contribution of the 9.4 percent tax, assuming the midstream is operated by qualifying entities, could be around \$10 million per year by the end of the fiscal note time horizon and around \$60 million per year later in the 2030s, increasing substantially in the 2040s once all non-operating loss balances are used up.

Disallowance of "costs incurred to explore for, develop, or produce gas deposits" on the North Slope from the oil and gas production tax under AS 43.55 would have an indeterminate revenue impact. Allocation of costs would require complex allocations and policymaking via regulation. Disallowing gas related costs would have an impact on current producers including retroactively. The impact with AKLNG would be more significant. As just one scenario, if assuming that half of the incremental upstream costs in DOR's baseline AKLNG modeling were deemed to be gas costs, this provision could increase revenue by between \$0 and \$100 million per year during the fiscal note time horizon with a similar range later in project life. Expected revenue impact from this provision is both highly variable, due to large expected variations in lease expenditures relating to gas development, and highly uncertain, due to the difficulty in predicting how expenditures will be allocated between oil and gas.

Creation of a new surcharge for gas processed into LNG under AS 43.55 would generate an estimated \$157 million per year by the end of the fiscal note time horizon, continuing at similar levels through the life of the project. Creation of new valuation and reporting requirements for DOR would have an indeterminate revenue impact. Revenue would only be impacted to the extent these provisions increase the taxable value of oil or gas, and whether this would have any impact is not known.

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**Analysis**

Changes to provisions around Tax as Gas election for production tax under AS 43.55 would have either no impact or an indeterminate positive revenue impact. Currently, there are scenarios where a producer could elect to pay tax in kind that would not benefit the state; this change would ensure that any tax-in-kind election is in the state's best interest.

Note, revenue estimates and impacts are based on the Fall 2025 forecast and related baseline AKLNG modeling. As mentioned, the fiscal impacts are uncertain even under the baseline assumptions. A further layer of uncertainty is introduced in that it is not possible to say how this bill would impact the overall economics, commercial environment, and Final Investment Decision for the AKLNG project. Directionally, this bill is likely to have a negative impact but whether that impacts the binary go/ no go decision is impossible to say.

**Implementation Cost**

The Tax Division would need to add ten positions to fully implement the provisions of this bill:

-A Corporate Income Tax Auditor 3 in the Corporate Income Tax group, to administer the new tax on passthrough entities. Even though the expected taxpayer base is small, this change would create additional workload which could not be absorbed.

-An Oil & Gas Revenue Specialist, two Oil & Gas Revenue Auditor 4 positions, and a Tax Technician 4 in the Oil & Gas Production Tax group, to administer the new surcharge, increased valuation requirements, and increased complexity of tax administration and audit given the gas lease expenditures disallowance provisions.

-Three Commercial Analysts in the Economic Research group, to comply with increased analysis and reporting requirement, increase complexity of tax analysis and forecasting given the gas lease expenditures disallowance provisions, and required commercial analysis of gas project ownership decisions.

-An Analyst Programmer 5 in the Information Technology group to support increased reporting requirements and general increased support needs with the staffing increments needed to implement this bill.

-An Administrative Assistant 2 in the Administrative Support group for general increased support needs with the staffing increments needed to implement this bill.

Services costs are primarily internal core services paid to other state agencies for the additional employees, and there would also be ongoing costs for travel and training. There is also a one-time costs for issuing a computer and related business equipment to the new positions.

Additionally, this legislation would require the Department to make significant changes to its Tax Revenue Management System. \$1 million of the 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 remaining \$500,000 of the capital cost reflects an estimate for outside expertise to assist with the highly complex regulations to implement the gas cost disallowance and gas-specific passthrough entity provisions of this bill, significant amendments to existing regulations to fully implement and make current regulations consistent with the changes, and the fiscal analysis of state purchase options for gas projects. This capital cost would be for expertise above and beyond internal resources, and it is anticipated that some of these monies would be utilized across multiple fiscal years. Some of the work on project investment decisions can be performed with existing resources and added positions.