

# Fiscal Note

State of Alaska  
2026 Legislative Session

Bill Version: SB 280  
Fiscal Note Number: \_\_\_\_\_  
( ) Publish Date: \_\_\_\_\_

Identifier: SB280CS(RES)-DOR-TAX-04-25-26  
Title: OIL & GAS PROPERTY TAX; MUNI TAX  
Sponsor: RLS BY REQUEST OF THE GOVERNOR  
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	2,136.5		2,136.5	2,136.5	2,136.5	2,136.5	2,136.5	2,136.5
Travel	105.0		105.0	105.0	105.0	105.0	105.0	105.0
Services	152.9		152.9	152.9	152.9	152.9	152.9	152.9
Commodities	45.0		1.0	1.0	1.0	21.0	1.0	
Capital Outlay								
Grants & Benefits								
Miscellaneous								
<b>Total Operating</b>	<b>2,439.4</b>	<b>0.0</b>	<b>2,395.4</b>	<b>2,395.4</b>	<b>2,395.4</b>	<b>2,415.4</b>	<b>2,395.4</b>	

## Fund Source (Operating Only)

1004 Gen Fund (UGF)	2,439.4		2,395.4	2,395.4	2,395.4	2,415.4	2,395.4
<b>Total</b>	<b>2,439.4</b>	<b>0.0</b>	<b>2,395.4</b>	<b>2,395.4</b>	<b>2,395.4</b>	<b>2,415.4</b>	<b>2,395.4</b>

## Positions

Full-time	11.0		11.0	11.0	11.0	11.0	11.0
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?** 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If yes, by what date are the regulations to be adopted, amended or repealed? 01/01/27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:

Updated to reflect Senate Resources Committee Substitute version G. The main additions affecting the Tax Division include: new prevailing valuation reporting requirements; pass-through entity tax for oil and gas production and pipeline transportation companies; gas lease expenditures not allowed against oil production tax--added requirement to determine the allocation of lease expenditures of oil versus gas; alternative volumetric tax (AVT) rate changed and broken into three components, taxed at different rates; taxes take effect when component becomes commercially operational; inflation adjustment made to AVT annually based on CPI; state to collect AVT and revenue sharing component added; creates a new community impact fee of \$1 million for each mile of main pipeline installed.

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Division: <u>Tax Division</u>	Date: 04/25/2026 01:00 PM
Approved By: <u>Janelle Earls, Acting Commissioner</u>	Date: 04/25/26
Agency: <u>Department of Revenue</u>	

## FISCAL NOTE ANALYSIS

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BILL NO. CSSB 280 (RES)

### Analysis

#### Background Information

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

**1. Exempts AKLNG project from state and municipal property taxes.** Alaska levies a property tax on qualifying oil and gas property in the state in the amount of 20 mills (2 percent). Municipal property taxes are allowed as a credit against the state tax, so that the total tax paid by the taxpayer does not exceed 20 mills. The state manages the appraisal process for all oil and gas property in the state.

Under current law, certain aspects of the project are eligible for tax benefits. Some of the project property would be exempt from state and local property tax prior to commercial sales if the Alaska Gasline Development Corporation (AGDC) is part of the project ownership. However, under current law, the property may become taxable before the full project is operational if in-state gas sales start first. Under current law, the LNG export facility component of the project is exempt from state property tax, but would be subject to local property tax.

This bill would exempt the entire Alaska LNG project from state and local property taxes. This exemption would repeal and revert to current law if pipeline construction does not commence prior to January 1, 2028 or if commercial operations do not commence prior to January 1, 2032.

**2. Creates a new Alternative Volumetric Tax (AVT), which would apply to the project.** The provisions would apply to the major components of the Alaska LNG project, but would specifically not apply to a spur line. Along with the property tax exemption, the AVT would repeal if pipeline construction does not commence prior to January 1, 2028 or if commercial operations do not commence prior to January 1, 2032.

The AVT would apply beginning the day after commencement of commercial operations at rates of \$0.15/mcf for gas treatment plant throughput, \$0.15/mcf for pipeline throughput, and \$0.25/mcf for LNG plant throughput. Rates would be fixed for 10 years then adjusted annually based for inflation, based on CPI for Urban Alaska.

The AVT would be levied by the state and may be shared 50% with municipalities for property located within a municipality. The remaining 50% of pipeline related AVT would be shared per capita with all municipalities via community revenue sharing; the state would retain the 50% of gas treatment plant and LNG plant related AVT.

**3. Creates a new community impact fee, which would apply to the project.** The fee would be \$1 million for each mile of the main pipeline installed during construction. The fee would be based on the amount of pipeline installed during the previous calendar year and only prior to commercial operations. The project envisions a 739 mile pipeline during the first phase of construction prior to commercial operations, and a total of 807 miles of pipeline for the full project.

The community impact fee would be levied by the state and separately accounted for. The associated revenue may be appropriated to the Department of Commerce, Community, and Economic Development to fund a grant program for impacted communities.

**4. Creates a new pass-through entity tax for oil and gas companies.** 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 involved in producing, treating, supplying, transporting, or processing oil and gas - including sole proprietorships, partnerships, limited liability companies, and S-corporations. The tax would include brackets starting at 5 percent of taxable income

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between \$1 and \$2 million and ranging to 9.4 percent of taxable income over \$5 million. Pass-through entities not involved in oil and gas activities would continue to be exempt. It is likely that only a handful of companies would be impacted by the new tax. This provision would apply retroactive to January 1, 2026.

**5. 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% gross tax, with a 17.7 cent/mcf ceiling for gas used in-state, while oil is subject to a 35% net profits tax. A 4% 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, lease expenditures on the North Slope relating to both oil and gas are allowed to be applied in the oil tax calculation. Under this bill, lease expenditures for gas would be disallowed. DOR would need to develop and implement a methodology for breaking out these costs. This provision would apply retroactive to January 1, 2026.

**6. Creates new valuation and reporting requirements for DOR.** This provision would require that oil or gas sold at no or low value to 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 would be required to publish a written report and related Internet information with information about determination of value for oil and gas by field, unit, or area by month.

**7. 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.

### 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, and estimates represent a preliminary interpretation of bill provisions. The 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 potential revenue impacts of the major tax changes. A range is provided for each provision reflecting the impacts if the project does or does not proceed with or without this bill. Estimates are based on the Spring 2026 version of the AKLNG model which assumes a \$46.2 construction cost in 2026 dollars (\$46.4 billion with spur line added), a \$1.50 per thousand cubic feet gas purchase price, first in-state gas in 2029, first export gas in 2031, and full 3.5 billion cubic feet per day throughput in 2033, among numerous other assumptions.

**1. Exempting AKLNG project from state and municipal property taxes.** The AKLNG project is not included in the official Spring 2026 revenue forecast. For informational purposes, if the project proceeds without tax modifications, current law property tax revenue to the state is estimated at \$25 million initially following start of in-state commercial operations in 2029, ramping up to \$244 million upon full capacity export operations in 2033.

**2. Creating a new Alternative Volumetric Tax (AVT).** This provision would only have impacts if the project proceeds. If the project proceeds, there would be no revenue impact prior to commercial operations, and an increase to state revenue estimated at \$9.8 million initially following the start of in-state commercial operations in 2029, ramping up to \$620 million upon full capacity export operations in 2033. The state would share 81% of the AVT revenue for the pipeline component and half of the revenue for the other project components with municipalities, shown as designated general fund revenue. Unrestricted general fund revenue to the state would be \$1.85 million initially increasing to \$255 million per year upon full capacity export operations. Revenues would increase with inflation adjustments thereafter.

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**3. Creating a new community impact fee, which would apply to the project.** This provision would only have impacts if the project proceeds. If the project proceeds, the amount of revenue from this fee would depend on the mileage of pipe installed in years prior to commencement of commercial operations. The maximum total revenue would be \$807 million, but likely some fraction of this amount would be received depending on construction timing, installation schedule, and a definition of "installed" to be prescribed in regulation. Revenue from this fee would be shared entirely with municipalities and would be considered designated general fund.

**4. Creating a new pass-through entity tax for oil and gas companies.** This provision would have material impacts regardless of if the project proceeds, impacting both tax liability and project economics for new exploration and development. DOR has estimated a range of \$0-100 million per year for a tax of this type applied to oil and gas companies holding all else equal per the Spring 2026 forecast - currently about two-thirds of oil and gas companies pay corporate income tax and this tax would apply to the remaining companies. With AKLNG, this tax would potentially apply to incremental upstream income from qualifying oil and gas producers as well as to the midstream operator which is assumed not to be subject to corporate income tax in DOR's Spring 2026 AKLNG model. Incremental AKLNG project revenue from this provision would be deferred until after the fiscal note time horizon due to expected net operating losses during construction and depreciation. Revenue could exceed \$60 million annually in the late 2030's, increasing substantially in the 2040s once all net operating loss balances are used up and capital expenditures are fully depreciated. Revenue from this tax would be unrestricted general fund. It is expected that, should the project and this bill proceed, qualifying upstream producers would require a higher gas price to commit gas to the project as a result of this provision.

**5. Disallowing "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 would have material impacts regardless of if the project proceeds, impacting both tax liability and project economics for new exploration and development. Allocation of costs would require complex allocations and policymaking via regulation. Disallowing gas related costs would have an impact on current producers and explorers as well as on the AKLNG project. As just one scenario, if we assume 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 \$50 million per year during most years of 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. It is expected that, should the project and this bill proceed, upstream producers would require a higher gas price to commit gas to the project as a result of this provision. Revenue impacts from this tax change would be unrestricted general fund.

Note, revenue estimates and impacts are based on the Spring 2026 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. Overall, this bill represents a slight tax decrease initially but a slight tax increase over the life of the project.

In addition to the revenue discussed in this fiscal note, the AKLNG project would also impact production tax, corporate income tax, and royalty revenue both from the Alaska LNG project and associated new development. Municipalities would be impacted through property tax exclusion, shared AVT revenue, shared community impact fee revenue, and increased property tax revenue from associated new developments. Further, there would be economic benefits and impacts for the state and municipalities far beyond the direct impacts of oil and gas revenue.

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#### Implementation Cost

The Tax Division would need to add eleven 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.
- A Tax Auditor 3 in the Excise Tax group, to administer the new AVT and community impact fee. Even though the expected taxpayer base is small, these new tax types would create additional workload which could not be absorbed.
- An Oil & Gas Revenue Specialist, and two Oil & Gas Revenue Auditor 4 positions in the Oil & Gas Production Tax group, to administer and implement 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 requirements, increases 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.
- An Appeals Officer 2 in the Appeals group to manage additional expected appeals, litigation, and complexity.

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 cost for issuing a computer, cubicle, and related equipment to the new position.

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 highly complex regulations to implement the gas cost disallowance provisions of this bill, significant amendments to existing regulations to fully implement and make current regulations consistent with the changes, and for outside expertise to assist with the fiscal analysis of state purchase options for gas projects.