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HB 411 – *An Act relating to the Oil and Gas Production tax, tax payments, and credits; and providing for an effective date.*

HB 411 was introduced to reform and stabilize the oil and gas production tax. It is built on the methodology of HB 111 from last session. HB 411 has three major components.

First, it repeals the per barrel credits for Gross Value Reduction (GVR) and non-GVR oil. These credits significantly reduce the effective production tax rate on oil to well below the 35% as set in statute. The credits change the effective tax rate depending on the price of oil. As oil prices decrease the proportional tax reduction increases. This acts as an exaggerated form of reverse progressivity. Repeal of the credit simplifies the tax system and is more transparent and consistent with other regimes.

Secondly, to adjust for the repeal of the per barrel credits, the tax rate is lowered to 25% of net profits. This applies to both GVR and non-GVR oil.

Lastly, the bill adds three supplemental tax brackets, with 5% increases each, at production tax values (PTV) of $40, $50 and $60 to reach 40% for the portion of PTV over $60 (PTV = the price minus expenses). At $100 per barrel Alaska North Slope (ANS) the production tax value (PTV) is approximately $60. This stepped increase approximates the same revenue of the current tax structure at high revenue oil prices. This calculation automatically recognizes different cost structures of various fields.

Since 2015 the production tax has been almost entirely based on the 4% gross tax, due largely to the per barrel credits and low oil prices. Currently this 4% minimum tax that the State is collecting generates only about half of even the lowest value at comparative prices under any previous oil and tax structure in the history of Alaska. At current prices HB 411 will increase revenue by approximately $600 million.