FISCAL NOTE

STATE OF ALASKA
2010 LEGISLATIVE SESSION

Fiscal Note Number:
Bill Version: **HB 414**
() Publish Date:

Identifier (file name): HB414-REV-TAX-03-20-10
Title: Separate Oil & Gas Production Tax
Sponsor: (H) Resources Committee
Requester: (H) Resources Committee

Dept. Affected: Revenue
RDU: Taxation and Treasury
Component: Tax Division
Component Number: 2476

Expenditures/Revenues (Thousands of Dollars)

Note: Amounts do not include inflation unless otherwise noted below.

	Appropriation Required	Information					
OPERATING EXPENDITURES	**FY 2011**	**FY 2011**	**FY 2012**	**FY 2013**	**FY 2014**	**FY 2015**	**FY 2016**
Personal Services							
Travel							
Contractual	230.0						
Supplies							
Equipment							
Land & Structures							
Grants & Claims							
Miscellaneous							
TOTAL OPERATING	**230.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
CAPITAL EXPENDITURES							
CHANGE IN REVENUES ( )	**	**0.0**	**	**	**	**	**

***** Significant Impact Beyond FY 2016 - See Analysis Section for Additional Information *****

FUND SOURCE (Thousands of Dollars)

1002 Federal Receipts							
1003 GF Match							
1004 GF	230.0	0.0	0.0	0.0	0.0	0.0	0.0
1005 GF/Program Receipts							
1037 GF/Mental Health							
Other Interagency Receipts							
TOTAL	**230.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**

Estimate of any current year (FY2010) cost: 0.0

POSITIONS

Full-time	**0.0**	0.00	0	0	0	0	0
Part-time							
Temporary							

ANALYSIS: *(Attach a separate page if necessary)*

Bill Language

This bill separates oil and natural gas for purposes of calculating the progressivity portion of the production tax under AS 43.55. Under this bill, the progressivity surcharge is calculated on oil only instead of on oil and gas combined. The progressivity surcharge remains unchanged at 0.4% per $1 of production tax value over $30 per barrel, then 0.1% per $1 of production tax value over $92.50. Under this bill, natural gas is always taxed at 25% of production tax value with no progressivity surcharge.

Currently some companies have both oil sales from the North Slope and gas sales from Cook Inlet and elsewhere, both of which are included in their progressivity calculations that are applied to oil. By removing gas from the progressivity calculation these companies will likely face a higher tax rate and therefore an increase in tax liability. This bill does not contain provisions to offset any increase in tax from removing gas from the progressivity calculation. (continued)

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Division: Tax Division — Date/Time 03-20-10; 6:27pm
Approved by: Ginger Blaisdell, Director, Administrative Services Division — Date 03-20-10; 6:52pm

(Revised 11/6/2009 OMB)

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STATE OF ALASKA **BILL NO.** HB 414
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ANALYSIS CONTINUATION

Revenues
Removing gas from the progressivity calculation could potentially raise tax rates and increase tax for companies that currently produce both oil and gas (from Cook Inlet or elsewhere). The impact will vary from year to year, driven largely by oil and gas prices. Analysis of data from confidential tax returns yields estimates of what the revenue impact might have been in recent years. For CY 2008, removing gas from the progressivity calculation would have increased production tax revenue by about $140 million. For CY 2009, the production tax increase would have been about $20 million, and for CY 2010 the production tax increase would be about $50 million. At current prices (around $80 per barrel for North Slope oil, $7 per million cubic feet for Cook Inlet gas, $0.942 per million cubic feet for North Slope gas sold for in-state use) and assuming costs and production levels similar to 2009, removing gas from the progressivity calculation would cause an increase in tax liability of about $50-60 million per year. These estimates assume that costs are allocated on a British Thermal Unit (BTU) equivalency basis; other allocation methods would yield different estimates.

The revenue impact is presented as indeterminate because of the high degree of uncertainty regarding the impact of removing gas from the progressivity calculation, as well as the material impact of regulations yet to be developed for allocating costs between oil and gas.

Once major gas sales begin, applying progressivity to oil only is generally expected to result in higher state revenues than a combined tax. This effect occurs for two reasons: first, oil has historically commanded a price premium to natural gas on an energy equivalency basis; and second, transportation costs are lower in percentage terms for oil than for natural gas, resulting in a higher wellhead value. The revenue impact will be a function of numerous variables including oil and gas prices and production, lease expenditures, and the method chosen for allocating lease expenditures between oil and natural gas.

There are some scenarios under which the state could see a reduction in revenues from this bill. Without a progressivity surcharge on natural gas, this bill could reduce state revenue if the price relationship between oil and natural gas normalized (on an energy equivalency basis) at a time when natural gas was selling at a relatively high price. Also, since this bill will generally increase taxes on the major producers, it is possible that the tax change could be viewed as a disincentive to oil and gas exploration and development.

Expenditures
With the change in tax structure the Department will need to change its monthly reporting forms, annual tax returns, and databases. The contractual services costs for programming changes to the online tax information system and the monthly reporting system are estimated at $230,000. Aside from one-time costs, the provisions of this bill can be implemented using existing staff and resources.

Other Issues
This bill provides for an immediate effective date. Since the production tax is levied on an annual basis (payable in monthly installments), changing the tax calculations for only a portion of the tax year would create an additional burden with additional complexity for both the Department and the taxpayers for the 2010 tax year. Applying the tax change retroactive to January 1, 2010 would be preferred from a tax administration standpoint.