FISCAL NOTE

STATE OF ALASKA
2010 LEGISLATIVE SESSION

Fiscal Note Number:
Bill Version: **HCS CSSB 305 (FIN)**
() Publish Date:

Identifier (file name): HCS CSSB305(FIN)-REV-TAX-04-15-10
Title: Separate Oil & Gas Production Tax
Sponsor: Senate Finance Committee
Requester: House Finance 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	330.0						
Supplies							
Equipment							
Land & Structures							
Grants & Claims							
Miscellaneous							
TOTAL OPERATING	**330.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
CAPITAL EXPENDITURES							
CHANGE IN REVENUES ( )	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**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	330.0	0.0	0.0	0.0	0.0	0.0	0.0
1005 GF/Program Receipts							
1037 GF/Mental Health							
Other Interagency Receipts							
TOTAL	**330.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**

Estimate of any current year (FY2010) cost: 330.0

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. Currently all oil and gas are combined for purposes of calculating a single progressivity rate. Under this bill, two progressivity rates would be calculated. The first progressivity surcharge would be based on oil, Cook Inlet gas, and gas used in the state. The second progressivity surcharge would be calculated based on gas other than Cook Inlet gas and gas used in the state (export gas).

For purposes of tax calculation, exploration expenditures and development expenditures for non-producing leases or units would be allocated within geographic segments based on the gross value at point of production of existing oil and gas production.

The base tax rate remains unchanged at 25%, and the progressivity structure remains unchanged at 0.4% per $1 of production tax value over $30 per barrel of oil equivalent, then 0.1% per $1 of production tax value over $92.50.

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Division: Tax Division — Date/Time 04-15-10; 2:24pm

Approved by: Ginger Blaisdell, Director — Date 04-15-10; 2:45pm
Administrative Services Division, Department of Revenue

(Revised 11/6/2009 OMB)

ANALYSIS CONTINUATION

Revenues
This bill would effectively maintain the status quo in terms of progressivity calculation until major gas sales begin. Currently, all gas sold and taxed under AS 43.55 is either Cook Inlet gas or gas sold for use in the state; such gas would continue to be grouped with oil for calculating progressivity as is currently the case.

Once major North Slope gas sales begin, exported gas will be subject to the separate progressivity calculation. Our modeling suggests that under most oil and gas price scenarios, this bill will either have no impact on revenue or will increase state revenue versus the status quo. In some scenarios, the revenue increase is over $1 billion per year. On the other hand, there are also scenarios where revenue could be decreased, but these scenarios are more limited in both number and magnitude of revenue decrease. The exact impact will be dependent on numerous variables including oil and gas prices and production, and lease expenditures. This bill dictates that lease expenditures shall be allocated between oil and gas based on gross value at the point of production "to the extent possible."

Since this bill will likely result in an overall increase in tax due for the major producers, it is possible that the tax change could be viewed by producers as a disincentive to oil and gas exploration and development.

Expenditures
With the change in tax structure the Department will need to develop complex regulations, requiring an additional $430,000 for regulatory work and public participation in regulations. Aside from these one-time costs, the provisions of this bill can be implemented using existing staff and resources. Specific costs include the following:
$50,000 for contracted professional services for regulation consulting
$180,000 for regulations costs including Department of Law, public notice and registry
$100,000 for public forums for education of taxpayers and public participation includes preparation materials and legal support; could include travel

The funding is needed immediately (in FY10) as all of the regulation drafting and public review work must be complete by June 30, 2010 in order to become effective on July 30, 2010. The Department respectfully requests FY10 supplemental funding for this item.