FISCAL NOTE

STATE OF ALASKA
2011 LEGISLATIVE SESSION

Fiscal Note Number	1
Bill Version	**HB 110**
(H) Publish Date	**1/18/11**

Identifier (file name)	LL0007-DOR-TAX-1-13-11	Dept. Affected	Revenue
Title	Oil and Gas Production Tax	Appropriation	Treasury and Taxation
		Allocation	Tax Division
Sponsor	Rules Committee		
Requester	By Request of the Governor	OMB Component Number	2476

Expenditures/Revenues (Thousands of Dollars)

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

	Appropriation Required	Information					
OPERATING EXPENDITURES	**FY 2012**	**FY 2012**	**FY 2013**	**FY 2014**	**FY 2015**	**FY 2016**	**FY 2017**
Personal Services				267.0	267.0	267.0	267.0
Travel				10.0	10.0	10.0	10.0
Contractual	115.0			9.4	9.4	9.4	9.4
Supplies				1.0	1.0	1.0	1.0
Equipment							
Land & Structures							
Grants & Claims							
Miscellaneous							
TOTAL OPERATING	**115.0**	**0.0**	**0.0**	**287.4**	**287.4**	**287.4**	**287.4**
CAPITAL EXPENDITURES							
CHANGE IN REVENUES	***	***	***	***	***	***	***

FUND SOURCE (Thousands of Dollars)

1002 Federal Receipts							
1003 GF Match							
1004 GF	115.0	0.0	0.0	287.4	287.4	287.4	287.4
1005 GF/Program Receipts							
1037 GF/Mental Health							
Other Interagency Receipts							
TOTAL	**115.0**	**0.0**	**0.0**	**287.4**	**287.4**	**287.4**	**287.4**

Estimate of any current year (FY2011) cost ____________

POSITIONS

Full-time	**0.0**	0.00	0	2	2	2	2
Part-time							
Temporary							

Why this fiscal note differs from previous version

This is the first version of the bill.

Prepared by	Cherie Nienhuis, Economist and Bruce Tangeman, Dep. Commissioner	Phone	269-1019
Division	Tax Division	Date/Time	1/13/2011; 12:07pm
Approved by	Ginger Blaisdell, Director Administrative Services Division	Date	1/13/11; 12:16pm
	Department of Revenue		

(Revised 12/29/2010 OMB)

FISCAL NOTE #1

STATE OF ALASKA   BILL NO. HB 110
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Analysis

***The revenue impact of this bill is indeterminate.
This bill makes several changes to the oil and gas production tax system. Each of the major changes, along with their potential revenue impact, are discussed below.

1. **The interest rate on delinquent taxes is changed** from the greater of 5 percentage points above the annual rate of interest charged by the 12th Federal Reserve District or 11 percent, to the lesser of 3 percent points above the annual rate of interest charged by the 12th Federal Reservice District or 11 percent. The effective date of this provision is 7/1/11. The Department of Revenue (DOR) does not forecast interest on taxes; therefore this provision has no quantifiable revenue impact. There will be $100,000 in one-time contractor costs to implement this change in our accounting system.

2. **The ANS WC oil price thresholds for the minimum tax are lowered** from the range of $15 to $25 to the range of $12.50 to $20 per barrel. The effective date of this provision is 1/1/2013. The DOR expects no revenue impact from this change since oil prices are forecasted to be above these amounts.

3. **The tax rate is changed and it is calculated annually rather than monthly for production in unitized areas or areas where there has been commercial production.** The tax rates under the bill are bracketed and only the increment of production tax value (PTV) within each bracket is taxed at that bracket's rate. The brackets range from 25% for PTV up to $30 per barrel to 50% for PTV over $92.50 per barrel. The maximum total production tax rate is 50%. The effective date of this provision is 1/1/2013. Using the Fall 2010 forecast assumptions, this provision is expected to result in revenue impacts as follows:
FY 2013: -$382 million
FY 2014: -$961 million
FY 2015: -$1,126 million
FY 2016: -$1,341 million
FY 2017: -$1,423 million

4. **For areas that are not unitized as of 1/1/2011 and where there has been no commercial production, the tax rate has changed and the lease expenditures in those areas may not be applied outside those areas.** The tax rates under the bill are bracketed and only the increment of PTV within each bracket is taxed at that bracket's rate. The brackets range from 15% for PTV up to $30 per barrel to 40% for PTV over $92.50 per barrel. The maximum total production tax rate is 40%. The effective date of this provision is 1/1/2013. Using the Fall 2010 forecast assumptions, this provision is expected to increase revenue slightly in amounts less than $20 million in FY 2013 through FY 2017.

5. **The provision requiring that credits be taken over two years is eliminated**. This provision would result in companies using credits earlier than they would without this change, and except for time value of money impact, it is revenue neutral. The effective date of this provision is 1/1/2012. Using the Fall 2010 forecast assumptions, this provision is expected to decrease revenue in the amount of $250 million in CY 2012 (taken over FY 2012 and FY 2013). Another $100 million in refunds would also be likely sought for credit certificates in FY 2012.

6. **The 40% credit for well lease expenditures is expanded to include qualified expenditures incurred north of 68 degrees North Latitude**. The effective date of this provision is 1/1/2012. The DOR has very limited data upon which to estimate the revenue impact of this provision. We estimate this provision will decrease revenue in the amount of $200 million to $400 million annually. No additional positions will be required, however, there will be a one-time contractual cost of $15,000 for auditor training on well lease expenditures.

7. **The statute of limitations on the assessment of taxes is changed from six to four years after the annual return is filed**. The effective date of this provision is 1/1/2014. The DOR does not forecast assessments of tax upon audit; therefore this provision has no quantifiable revenue impact. Two additional oil and gas auditor IV positions will be required beginning in FY 2014 to implement this provision. These positions are expected to cost $287,400 annually.