FISCAL NOTE

STATE OF ALASKA
2011 LEGISLATIVE SESSION

Fiscal Note Number	
Bill Version	**CSHB110(RES)**
() Publish Date	

Identifier (file name)	CSHB110(RES)-DOR-TAX-03-04-11	Dept. Affected	Revenue
Title	Production Tax on Oil and Gas	Appropriatioı	Treasury and Taxation
		Allocation	Tax Division
Sponsor	Rules Committee by Request of the Governor		
Requester	House Finance Committee	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	267.0
Travel			10.0	10.0	10.0	10.0	10.0
Services	115.0		9.4	9.4	9.4	9.4	9.4
Commodities			1.0	1.0	1.0	1.0	1.0
Capital Outlay							
Grants							
Miscellaneous							
TOTAL OPERATING	**115.0**	**0.0**	**287.4**	**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		287.4	287.4	287.4	287.4	287.4
1005 GF/Program Receipts							
1037 GF/Mental Health							
Other (please identify)							
TOTAL	**115.0**	**0.0**	**287.4**	**287.4**	**287.4**	**287.4**	**287.4**

Estimate of any current year (FY2011) cost

POSITIONS

Full-time			2	2	2	2	2
Part-time							
Temporary							

Why this fiscal note differs from previous version (if initial version, please note as such)

This fiscal note adds the amendments adopted in the House Resources committee.
See analysis section for detail on these amendments.

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Division	Tax Division	Date/Time	3/10/11; 8:47am
Approved by	Ginger Blaisdell, Director Administrative Services Division	Date	3/10/11; 8:52am
	Department of Revenue		

STATE OF ALASKA **BILL NO.** CSHB110(RES)
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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 were not unitized on 12/31/2008 and where there has been no commercial production, the tax rate is 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. The fiscal impact of this provision is indeterminate.

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 1/1/2011. Using the Fall 2010 forecast assumptions, this provision is expected to decrease revenue in the amount of $200 million in CY 2011 (taken over FY 2011 and FY 2012). Another $100 million in refunds would also be likely sought for credit certificates in FY 2011 and 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. **A 30% credit was added for exploration expenditures north of 68 degrees North Latitude for wells that are (a) outside of a unit; (b) or for those areas in units after June 30, 2008, for expenditures incurred before the later of the date that is four years after the date of unitization or the first exploration well is drilled within the unit.** This credit applies to expenditures incurred after December 31, 2011. The fiscal impact of this provision is indeterminate.

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Analysis Continued

8. **Small producer, new area development, and alternative tax credit for exploration programs were extended from their current sunset date of 2016 to a sunset date of 2021.** These credits are in current law at AS 43.55.024 and AS 43.55.025. The effective date of this provision is 7/1/2011. Within the timeframes of the fiscal note, the extension of these credits is likely to have a fiscal impact, but the amount is indeterminate.

9. **The small producer credit is increased from a maximum of $12 million per year to $15 million per year per producer.** The effective date of this provision is 7/1/2011. This provision will decrease production tax revenue in amounts of less than $20 million per year.

10. **A credit has been added in an amount that equals the percentage that a producer's wages and compensation paid to Alaska residents exceeds 80 percent of all wages and compensation paid by the company in the state.** The effective date of this provision is January 1, 2012. The fiscal impact of this provision is indeterminate.

11. **The tax information disclosure statute was expanded to include the disclosure of types of credits claimed and types of expenditures for which the credits were claimed.** The effective date of this provision is January 1, 2012. This provision has no fiscal impact.

The department will require the addition of two auditor positions to administer the additional credit and reporting provisions of this bill, beginning in FY 2013. These positions would be oil and gas auditor IV positions, and expected to cost $287,400 annually.