FISCAL NOTE

STATE OF ALASKA
2012 LEGISLATIVE SESSION

cost ≠ codes

Bill Version	**HB 328**
Fiscal Note Number	1
Publish Date	

Identifier (file name)	HB328-DOR-TAX-02-27-12	Dept. Affected	Revenue
Title	Oil and Gas Corporate Taxes	Appropriation	Taxation and Treasury
		Allocation	Tax Division
Sponsor	Representatives Seaton and Gardner		
Requester	(H) RES	OMB Component Number	2476

Expenditures/Revenues (Thousands of Dollars)

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

	FY13 Appropriation Requested	Included in Governor's FY13 Request	Out-Year Cost Estimates				
OPERATING EXPENDITURES	**FY13**	**FY13**	**FY14**	**FY15**	**FY16**	**FY17**	**FY18**
Personal Services			246.6	493.2	493.2	493.2	493.2
Travel				25.0	25.0	25.0	25.0
Services			2.3	4.7	4.7	4.7	4.7
Commodities							
Capital Outlay			5.0				
Grants, Benefits							
Miscellaneous							
TOTAL OPERATING	**0.0**	**0.0**	**253.9**	**522.9**	**522.9**	**522.9**	**522.9**

FUND SOURCE		(Thousands of Dollars)						
1002	Federal Receipts							
1003	GF Match							
1004	GF			253.9	522.9	522.9	522.9	522.9
1005	GF/Prgm (DGF)							
1037	GF/MH (UGF)							
1178	temp code (UGF)							
TOTAL		**0.0**	**0.0**	**253.9**	**522.9**	**522.9**	**522.9**	**522.9**

POSITIONS							
Full-time			4	4	4	4	4
Part-time							
Temporary							

CHANGE IN REVENUES	**0.0**	**0.0**	***	***	***	***	***

Estimated SUPPLEMENTAL (FY12) operating costs ____ *(separate supplemental appropriation required)*
(discuss reasons and fund source(s) in analysis section)

Estimated CAPITAL (FY13) costs ____ *(separate capital appropriation required)*
(discuss reasons and fund source(s) in analysis section)

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

Initial fiscal note.

Prepared by	Johanna Bales, Deputy Director	Phone	(907) 269-6628
Division	Tax	Date/Time	2/27/2012 3:30 p.m.
Approved by	Jerry Burnett, Director Administrative Services	Date	2/28/2012
	Department of Revenue		

(Revised 8/17/2011 OMB)

STATE OF ALASKA **BILL NO.** HB 328
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Analysis

Bill Language:
This bill would repeal the current corporate income tax on oil and gas corporations under AS 43.20.072 (worldwide combination and apportionment) and replace it with a corporate income tax based on separate accounting. Current oil and gas corporate income tax is based on a formula where total worldwide income of a corporation's unitary group is apportioned to Alaska based on the amount of property, extraction and sales attributable to Alaska. This bill would require Alaska oil and gas corporations to calculate income tax for their oil and gas producing and transportation companies based on income earned solely in Alaska. If oil and gas companies are also engaged in activities other than oil and gas production and transportation, this bill would require those companies to calculate and pay tax on those other activities based on worldwide combination and apportionment. This bill would require oil and gas corporations to file a return by April 15 each year providing information the department needs to calculate each corporation's taxable income and income tax. This bill requires the department to calculate each corporation's income tax and send an assessment by August 15 each year to each company subject to the tax. Corporations must then pay the amount of tax as calculated by the department by September 30 of each year. This bill also requires the department to prepare a report each year showing the aggregate amount of income and deductions by category reported by all oil and gas corporate income tax taxpayers. The department would also be required to disclose specific information about a taxpayer if the taxpayer is a publicly traded company and if the information was included in a report filed with the US Securities Exchange Commission (SEC) and the SEC publicly disclosed the information.

Revenues:
The department does not have enough information to accurately and fully estimate the change in oil and gas corporate income tax as a result of this legislation. Preliminary estimates show that under separate accounting, oil and gas corporations would have paid approximately $250 million more during each of the last 5 fiscal years in corporate income tax if this legislation had been in effect. This bill has an effective date of January 1, 2013. Oil and gas corporations would report under the new method beginning in April 2014 and tax would not be due until September 30, 2014. Therefore, we do not expect to see a change in corporate income tax as a result of this legislation until FY 2015.

Expenditures:
As stated above, this bill would require the Department of Revenue to calculate the amount of tax due by each oil and gas corporation operating in the state based on information each company provided the department. The department would have approximately 4 months to make the calculation of corporate income tax and send assessments to each taxpayer. In addition, the department would be required under this legislation to prepare a report showing aggregate information of all taxpayers and specific information of publicly traded companies. Under the current oil and gas corporate income tax, the calculation of taxable income starts with federal taxable income and then is adjusted for certain Alaska modifications. Currently, the department relies on federal corporate income tax audits as an additional audit resource. As such, the department does not audit down to the invoice level. The calculation of taxable income under separate accounting does not start with federal taxable income and, as such, the department will not be able to rely on federal audits to ensure that taxpayers are properly reporting and must conduct full scale audits including auditing down to the invoice level. There are currently 26 oil and gas corporate income tax filers. The department will have to calculate each taxpayers tax liability each year and conduct more comprehensive audits as well as provide a report each year to the legislature. The department believes it will need four additional corporate income tax auditor III's to handle the increased work as a result of this legislation. In addition, the department will need increased travel funds of approximately $25,000 each year to spend enough time at a corporation's place of business to conduct in depth audits.