Fiscal Note

State of Alaska
2017 Legislative Session

Bill Version: HB 133
Fiscal Note Number:
() Publish Date:

Identifier: HB133-DOR-TAX-03-03-17
Title: OIL & GAS: TAXES; CREDITS; GROSS VALUE
Sponsor: GARA
Requester: (H) Resources

Department: Department of Revenue
Appropriation: Taxation and Treasury
Allocation: Tax Division
OMB Component Number: 2476

Expenditures/Revenues

Note: Amounts do not include inflation unless otherwise noted below. (Thousands of Dollars)

	FY2018 Appropriation Requested	Included in Governor's FY2018 Request	Out-Year Cost Estimates				
OPERATING EXPENDITURES	**FY 2018**	**FY 2018**	**FY 2019**	**FY 2020**	**FY 2021**	**FY 2022**	**FY 2023**
Personal Services							
Travel							
Services							
Commodities							
Capital Outlay							
Grants & Benefits							
Miscellaneous							
Total Operating	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**

Fund Source (Operating Only)

None							
Total	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**

Positions

Full-time							
Part-time							
Temporary							

Change in Revenues

1250 UGF Rev (UGF)	70,000.0		195,000.0	190,000.0	190,000.0	290,000.0	310,000.0
Total	**70,000.0**	**0.0**	**195,000.0**	**190,000.0**	**190,000.0**	**290,000.0**	**310,000.0**

Estimated SUPPLEMENTAL (FY2017) cost: 0.0 *(separate supplemental appropriation required)*
(discuss reasons and fund source(s) in analysis section)

Estimated CAPITAL (FY2018) cost: 1,200.0 *(separate capital appropriation required)*
(discuss reasons and fund source(s) in analysis section)

ASSOCIATED REGULATIONS

Does the bill direct, or will the bill result in, regulation changes adopted by your agency? yes
If yes, by what date are the regulations to be adopted, amended or repealed? 01/01/18

Why this fiscal note differs from previous version:

Not applicable, initial version.

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Division: Tax Division
Date: 03/03/2017 12:00 PM
Approved By: Jerry Burnett, Deputy Commissioner
Date: 03/03/17
Agency: Department of Revenue

FISCAL NOTE ANALYSIS

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Analysis

Analysis
This legislation would make multiple changes to Alaska's oil and gas production tax and tax credit statutes by increasing the states take at a range of oil prices.

With the changes made in this legislation, the state would expect to collect substantially more revenue from oil and gas production given current production estimates. The revenue estimates in this fiscal note assume no changes in production from this tax change. The Department has not attempted to quantify the effects on production that may result from a tax change of this magnitude.

Summary of Revenue Impact
The analysis format used by the Tax Division for oil and gas production tax bills divides the bill's fiscal impacts into two categories: increases to revenue (taxes), and reductions in the demand for tax credit repurchases (appropriations). The cover page table only includes the revenue items as it is impossible to predict future appropriations. Savings due to reductions in demand for future appropriations to purchase tax credits are noted in the summary table on page 4. For this legislation there are no changes to credits which are paid with a state appropriation; the entire impact is encompassed on the Revenue side. In addition to the impact at forecasted oil prices, the bar chart on the bottom of page 4 also examines the impact at a range of possible oil prices.

Detail of Specific Provisions
1) Adds a series of steps of bracketed "progressivity," which increases the tax rate on that portion of PTV above various price thresholds. The first $40 per taxable barrel of PTV are always taxed at the current 35%. That portion of PTV between $40 and $50 is taxed at 45%; that portion of PTV between $50 and $60 is taxed at 50%; that portion of PTV between $60 and $70 is taxed at 55%; and that portion of PTV above $70 per taxable barrel is taxed at 60%. Gas remains taxed at 35%, which will require a regulatory "decoupling" of oil and gas expenditures so as to establish separate production tax values for oil and gas. The progressive steps are a monthly calculation.

2) The tax cap for Cook Inlet oil, currently $1 per barrel, is eliminated. The tax on Cook Inlet oil is set at 22.5% of Production Tax Value, plus the progressive surcharge which raise the maximum tax rate to 47.5% of the share of PTV above $70 per barrel. Middle Earth oil is taxed at 35% of PTV, without progressivity.

3) The minimum tax "floor" is hardened, so no credits can be used to reduce payments below the minimum tax. At extremely low prices, where major producers could have operating losses, this could result in up to $200 million in added revenue.

(Revised 1/11/17 OMB/LFD)

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4) Increases the minimum tax, or "floor", on oil and gas produced on the North Slope. Currently this is 4% of the gross value at the point of production (GVPP) for all oil prices above $25 / bbl. The bill replaces this with a sliding scale that increases along with the price of oil. The minimum tax would be 5% at prices above $50; 6% at prices above $58; 7% at prices above $66; 8% at prices above $74; 9% at prices above $82, and 10% at prices above $90. The price triggers for the various minimum tax "steps" are adjusted for inflation every two years.

5) An alternative minimum tax is added, of 22.5% of Production Tax Value (PTV) of taxable oil. This in effect creates a tax system that is the "highest of" three different calculations: the SB21-based net profits tax (35% of PTV less the per-barrel credit); the gross minimum tax, and the flat net tax (22.5% of PTV without credits).

6) Additional restrictions are placed on oil production from the North Slope eligible for the Gross Value Reduction (GVR) "new oil" reduced tax treatment. If a field produces over 50,000 barrels a day, that production is not eligible. The maximum amount of time a field is eligible to receive the GVR is reduced from 7 years to 5 years. Also, the 30% GVR for high royalty fields is eliminated, reducing the maximum GVR to 20%.

7) A separate sliding scale minimum tax is established for heavy oil produced on the North Slope, defined as oil with an API gravity of less than 18 degrees. The minimum tax for heavy oil is 4.5% above $50; 5% above $58; 5.5% above $66; 6% above $74; 6.5% above $82, and 7% above $90. The 22.5% of PTV alternative minimum tax also applies to heavy oil.

Implementation Cost
The changes anticipated in this bill will require somewhat substantial reprogramming of the Tax Revenue Management System and Revenue Online tax portal. We currently anticipate a one-time cost of about $1,200,000 to accomplish this. We do not anticipate any additional costs to administer the tax program.

There will also be a need for substantial amendments to existing regulations to fully implement the changes.

FISCAL NOTE ANALYSIS

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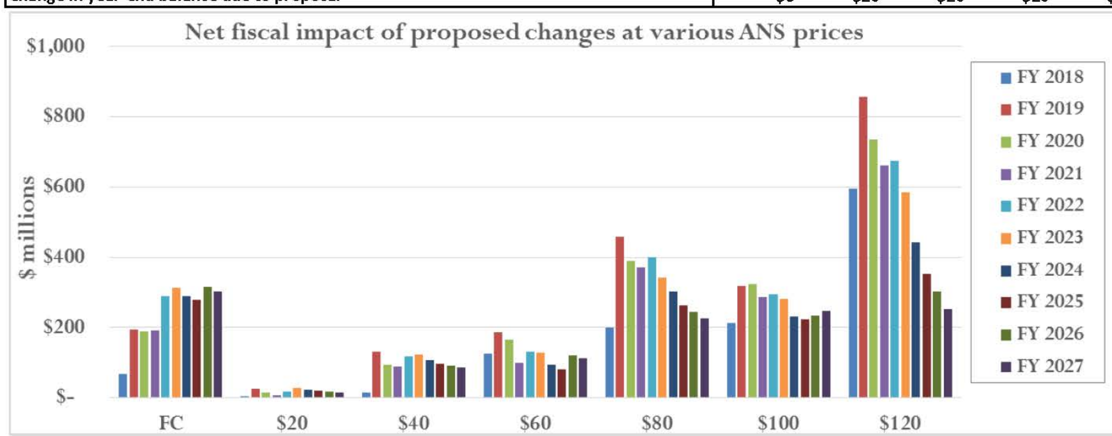
Analysis

Provisions in HB 133\J and their Estimated Fiscal Impact based on Fall 2016 Forecast ($millions) - Fall 2016 FORECAST PRICE

Revised 3-3-17 by Department of Revenue

Description of Provision	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023	FY 2024	FY 2025	FY 2026	FY 2027
1. Effective 1/1/18, establish a progressive surcharge based on PTV for North Slope oil production. The surcharge ranges from 10% of the portion of PTV per barrel between $40 and $50 up to 25% of PTV per barrel above $70.	$0	$0	$0	$0	$0	$0	$0	$5	$5	$10
2. Effective 1/1/18 for Cook Inlet oil: Repeal tax ceiling; reduce base tax rate to 22.5% of PTV; establish a progressive surcharge based on PTV. The surcharge ranges from 10% of the portion of PTV per barrel between $40 and $50 up to 25% of PTV per barrel above $70.	$10	$20	$20	$20	$5	$0	$0	$0	$0	$0
3. No credits can reduce tax below the minimum tax effective 1/1/18.	$20	$15	$0	$0	$0	$0	$0	-$10	-$25	-$5
4. Effective 1/1/18, replace current gross minimum tax brackets for North Slope oil with new brackets starting at 3% of gross at prices below $25, 4% of gross at prices between $25 and $50, then increasing by 1% for each $8 increase in price up to 10% of gross at prices above $90. Price triggers for brackets are adjusted for inflation biennially.	$20	$125	$120	$125	$195	$200	$200	$200	$255	$245
5. Effective 1/1/18, establish an additional minimum tax calculation based on production tax value. The production tax may not fall below 22.5% of PTV.	$20	$95	$80	$90	$145	$180	$220	$270	$270	$265
6. Effective 1/1/18, changes to Gross Value Reduction (GVR) including repeal of 30% GVR option, disallowing GVR for **fields with >50,000 barrels per day production, and reducing the length of time a field can receive GVR to 5 years or 3 year of ANS prices >$70.**	$0	$0	$0	$0	$20	$40	$15	$0	$0	$0
7. Effective 1/1/18, provisions for qualifying North Slope "heavy oil" including a separate gross minimum tax scale ranging from 4% to 7% of gross, and a longer time horizon for receiving GVR.	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
Additional impact of implementing above provisions together vs standalone	$0	-$60	-$30	-$45	-$75	-$110	-$145	-$185	-$190	-$210
Total Revenue Impact	**$70**	**$195**	**$190**	**$190**	**$290**	**$310**	**$290**	**$280**	**$315**	**$305**
Total Budget Impact	**$0**	**$0**	**$0**	**$0**	**$0**	**$0**	**$0**	**$0**	**$0**	**$0**
Total Fiscal Impact - (does not include potential changes in investment)	**$70**	**$195**	**$190**	**$190**	**$290**	**$310**	**$290**	**$280**	**$315**	**$305**
Non-refundable carry-forward credits balance at fiscal year end - current law	$14	$0	$0	$0	$0	$0	$0	$0	$0	$0
Non-refundable carry-forward credits balance at fiscal year end - proposed	$20	$20	$20	$20	$20	$20	$20	$20	$20	$20
Change in year-end balance due to proposal	**$6**	**$20**	**$20**	**$20**	**$20**	**$20**	**$20**	**$20**	**$20**	**$20**



NOTE: The fiscal impact of this proposal is an estimate based on the Fall 2016 revenue forecast. **Estimates shown here are draft / preliminary based on our interpretation of possible changes, and do not include any changes in company behavior as a result of this proposal. We reserve the right to make modifications to estimates for any forthcoming fiscal notes.**