

MEMORANDUM

State of Alaska

DEPARTMENT OF REVENUE

Tax Division

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DATE: April 5, 2017

TO: Ken Alper
Director, Tax Division

FROM: Jenny L. Rogers *JLR*
Audit Master, Tax Division

SUBJECT: 2010 Audit Assessments

The audits of the 2010 oil and gas production tax returns are complete. Audit assessments were issued prior to the expiration of the statute of limitations as provided for in AS 43.55.075. Twelve taxpayers' 2010 production tax returns were audited and audits of three 2011 returns were completed over the last year. The audits resulted in additional assessments totaling \$193,658,919:

Production Tax Assessed under AS 43.55.011(e) & (i)	\$125,088,547
Interest Assessed under AS 43.55.020(g)	<u>5,791,793</u>
Total Production Tax Assessed	130,880,340
Interest Assessed under AS 43.05	<u>62,652,322</u>
Total Production Tax and Interest Assessed	<u>193,532,662</u>
Conservation Surcharges Assessed under AS 43.55.201	14,934
Conservation Surcharges Assessed under AS 43.55.300	<u>59,688</u>
Total Conservation Surcharges Assessed	74,622
Interest Assessed under AS 43.05	<u>51,635</u>
Total Conservation Surcharges & Interest Assessed	<u>126,257</u>
Total Assessments (Tax, Conservation Surcharges & Interest)	<u>\$193,658,919</u>

Alternative Tax Credits taken under AS 43.55.025 were audited and adjusted in the amount of \$2,906,654 during 2016. Those adjustments are not included in the total above.

The 2010 and 2011 audits were opened simultaneously in early 2016. The 2011 audits are on track to be completed in mid-May to June 2016. The 2012 and 2013 audits are in the pre-planning stages and work will begin in earnest when the 2011 audits are in final stages of internal review.

The current monthly (estimated) reports and annual return data resides in TRMS and is reportable through the system. Periods prior to 2014 are considered “converted” periods and the tax returns are in non-standard Excel format. Audits of the 2012 and 2013 annual returns will be the final “converted” audits. Those audits are time consuming because the auditors manually enter high level tax return information in TRMS, conduct the audits, and then post the results in the system. I anticipate greater efficiency for the group in conducting the 2014 tax return audits.

In addition to the group’s regular audit duties, the audit staff participated in a regulations project and testing changes to TRMS in 2016. Amendments to the production tax were enacted with the passage of HB 247 in 2016. The bill made changes to interest applicable to delinquent tax, the oil and gas tax credit system and other aspects of the production tax. The audit group assisted in writing regulations to implement the statutory changes resulting from HB 247. Changes to the law also required revisions to the tax revenue management system (TRMS). The audit staff actively participated in that effort over the last six months: writing solution requests, testing the solutions in the “lower” test environments, and verifying that the solutions work as they should in production. Some of that testing is ongoing.

TRMS has changed the way we perform our work and how taxpayers conduct business with the Tax Division. Oil and Gas Production Tax is now as paperless as possible (we may have one paper form on the Division’s internet site). Through Revenue Online, taxpayers are able to view account balances, submit monthly reports and other required information, submit data to the Economic Research Group, and file appeals.