

SPONSOR SUBSTITUTE FOR SENATE BILL NO. 321

IN THE LEGISLATURE OF THE STATE OF ALASKA

TWENTY-THIRD LEGISLATURE - SECOND SESSION

BY SENATORS FRENCH, Hoffman, Elton

Introduced: 2/16/04

Referred: Resources, Finance

A BILL

FOR AN ACT ENTITLED

1 "An Act amending the oil and gas properties production (severance) tax as it relates to
2 oil to require payment of a tax of at least five percent of the gross value at the point of
3 production before any price adjustments authorized by this Act, to modify the
4 mechanism for calculating the effective tax rate, to provide for adjustments to the tax
5 when the prevailing value of the oil exceeds \$20 per barrel or falls below \$16 per barrel
6 and to limit the effect of the adjustments, to exempt certain kinds of oil from application
7 of the adjustments, and to waive and defer payment of portions of the tax on oil when its
8 prevailing value falls below \$10 per barrel; and providing for an effective date."

9 **BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF ALASKA:**

10 * Section 1. AS 43.55.011(a) is amended to read:

11 (a) There is levied upon the producer of oil a tax for all oil produced from
12 each lease or property in the state, less any oil the ownership or right to which is

1 exempt from taxation. The tax is equal to either the percentage-of-value amount
 2 calculated under (b) of this section or the cents-per-barrel amount calculated under (c)
 3 of this section, whichever is greater [, MULTIPLIED BY THE ECONOMIC LIMIT
 4 FACTOR DETERMINED FOR THE OIL PRODUCTION OF THE LEASE OR
 5 PROPERTY UNDER AS 43.55.013]. If the amounts calculated under (b) and (c) of
 6 this section are equal, the amount calculated under (b) of this section shall be treated
 7 as if it were the greater for purposes of this section.

8 * **Sec. 2.** AS 43.55.011(b) is amended to read:

9 (b) The percentage-of-value amount equals **the tax rate set out in (e) of this**
 10 **section multiplied by** [12.25 PERCENT OF THE GROSS VALUE AT THE POINT
 11 OF PRODUCTION OF TAXABLE OIL PRODUCED ON OR BEFORE JUNE 30,
 12 1981, FROM THE LEASE OR PROPERTY AND 15 PERCENT OF THE GROSS
 13 VALUE AT THE POINT OF PRODUCTION OF TAXABLE OIL PRODUCED
 14 FROM THE LEASE OR PROPERTY AFTER JUNE 30, 1981; EXCEPT THAT FOR
 15 A LEASE OR PROPERTY COMING INTO COMMERCIAL OIL PRODUCTION
 16 AFTER JUNE 30, 1981, THE PERCENTAGE-OF-VALUE AMOUNT EQUALS
 17 12.25 PERCENT OF THE GROSS VALUE AT THE POINT OF PRODUCTION OF
 18 TAXABLE OIL PRODUCED FROM THE LEASE OR PROPERTY IN THE FIRST
 19 FIVE YEARS AFTER THE START OF COMMERCIAL OIL PRODUCTION AND
 20 EQUALS 15 PERCENT OF] the gross value at the point of production of taxable oil
 21 produced [THEREAFTER] from the lease or property.

22 * **Sec. 3.** AS 43.55.011(c) is amended to read:

23 (c) The cents-per-barrel amount equals [\$0.60 PER BARREL OF TAXABLE
 24 OLD CRUDE OIL PRODUCED FROM THE LEASE OR PROPERTY, AND] \$0.80
 25 per barrel **of taxable crude oil** [FOR ALL OTHER TAXABLE OIL] produced from
 26 the lease or property, [BOTH] as adjusted by AS 43.55.012, **multiplied by the**
 27 **economic limit factor determined for the oil production of the lease or property**
 28 **under AS 43.55.013 and by the price adjustment factor set out in (e)(2)(C) of this**
 29 **section.**

30 * **Sec. 4.** AS 43.55.011 is amended by adding new subsections to read:

31 (e) Except as provided in (h) of this section for heavy oil, the tax rate is the

1 lesser of

2 (1) 25 percent; or

3 (2) the product of the volume adjusted tax rate multiplied by the price
4 adjustment factor; for purposes of

5 (A) this paragraph, the volume adjusted tax rate is the greater

6 of

7 (i) five percent; or

8 (ii) the economic limit factor determined for the oil
9 production of the lease or property under AS 43.55.013 multiplied by
10 the nominal tax rate;

11 (B) subparagraph (A) of this paragraph, the nominal tax rate is

12 (i) 12.25 percent during the first five years from the
13 date that is the start of commercial oil production; and

14 (ii) 15 percent after the first five years from the date
15 that is the start of commercial oil production; and

16 (C) this paragraph and for the purpose of determining the cents-
17 per-barrel amount under (c) of this section, the price adjustment factor is one,
18 except that the price adjustment factor is the West Coast prevailing value

19 (i) divided by 16 during each month in which the West
20 Coast prevailing value for oil under AS 43.55.020(f) averages less than
21 \$16 per barrel;

22 (ii) divided by 20 during each month in which the West
23 Coast prevailing value for oil under AS 43.55.020(f) averages more
24 than \$20 per barrel;

25 (f) During a month in which the West Coast prevailing value for oil
26 determined under AS 43.55.020(f) on which tax is due under this chapter averages less
27 than \$10 per barrel, the payment of

28 (1) one-half of the tax due and payable under this chapter is waived;

29 and

30 (2) the remaining one-half of the tax due and payable under this
31 chapter is deferred, subject to the following:

1 (A) the amount of tax payment that is deferred under this
2 paragraph is payable by the taxpayer

3 (i) during each month in which the West Coast
4 prevailing value for oil on which tax is due under this chapter averages
5 at least \$16 per barrel; and

6 (ii) sequentially on a month-for-month basis in the
7 order in which the tax payment was deferred based on payment of one
8 month's deferred tax during each month that the West Coast prevailing
9 value for oil on which tax is due under this chapter averages at least
10 \$16 per barrel; and

11 (B) amounts due and payable by reason of a payment deferral
12 under this paragraph bear interest at the rate of a 10-year note of the United
13 States treasury at the time of the deferral.

14 (g) On and after July 1, 2005, the commissioner shall

15 (1) annually revise the dollar prices described in (e) and (f) of this
16 section and the related denominators set out in (e)(2)(C)(i) and (ii) of this section to
17 reflect inflation as defined by regulation adopted by the department; and

18 (2) promptly report the application of the revisions to all taxpayers
19 subject to the tax levied and collected under this chapter.

20 (h) Notwithstanding (e) of this section, the tax rate for heavy oil is the volume
21 adjusted tax rate. The volume adjusted tax rate for heavy oil is determined by
22 multiplying the economic limit factor determined for the oil production of the lease or
23 property under AS 43.55.013 by the nominal tax rate set out in (e)(2)(A)(i) and (ii) of
24 this section. In this subsection, "heavy oil" means oil equal to or less than 20 degrees
25 API gravity.

26 * **Sec. 5.** This Act takes effect July 1, 2004.