

SENATE BILL NO. 38

IN THE LEGISLATURE OF THE STATE OF ALASKA
TWENTY-FOURTH LEGISLATURE - FIRST SESSION

BY SENATOR ELTON

Introduced: 1/11/05

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, and to exempt certain kinds of oil from
7 application of the adjustments; requiring separate accounting of the proceeds of the tax
8 as amended, and authorizing appropriation of a portion of tax proceeds subject to price
9 adjustment to support state shared revenue programs; and providing for an effective
10 date."

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

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

1 (a) There is levied upon the producer of oil a tax for all oil produced from
 2 each lease or property in the state, less any oil the ownership or right to which is
 3 exempt from taxation. The tax is equal to either the percentage-of-value amount
 4 calculated under (b) of this section or the cents-per-barrel amount calculated under (c)
 5 of this section, whichever is greater [, MULTIPLIED BY THE ECONOMIC LIMIT
 6 FACTOR DETERMINED FOR THE OIL PRODUCTION OF THE LEASE OR
 7 PROPERTY UNDER AS 43.55.013]. If the amounts calculated under (b) and (c) of
 8 this section are equal, the amount calculated under (b) of this section shall be treated
 9 as if it were the greater for purposes of this section.

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

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

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

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

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

2 (e) Except as provided in (f) of this section for heavy oil, the tax rate is the
3 lesser of

4 (1) 25 percent; or

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

7 (A) this paragraph, the volume adjusted tax rate is the greater
8 of

9 (i) five percent; or

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

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

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

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

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

21 (i) divided by 16 during each month in which the West
22 Coast prevailing value for oil under AS 43.55.020(f) averages less than
23 \$16 per barrel;

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

27 (f) Notwithstanding (e) of this section, the tax rate for heavy oil is the volume
28 adjusted tax rate. The volume adjusted tax rate for heavy oil is determined by
29 multiplying the economic limit factor determined for the oil production of the lease or
30 property under AS 43.55.013 by the nominal tax rate set out in (e)(2)(A)(i) and (ii) of
31 this section. In this subsection, "heavy oil" means oil equal to or less than 20 degrees

1 API gravity.

2 (g) The department shall separately account for the amounts collected and
3 penalty and interest accrued on the amounts collected from the tax levied and collected
4 under (e) of this section. From estimated amounts that are deposited and accounted
5 for during the preceding state fiscal year as required by this subsection, the legislature
6 may annually appropriate to the tax equalization account established in AS 29.60.060,
7 the municipal services account established in AS 29.60.170, and the hospital and
8 health facility construction assistance account described in AS 29.60.280(c) one-half
9 of the revenue that is obtained from levy and collection of taxes under this subsection
10 during each month that the price adjustment factor determined under (e)(2)(C)(ii) of
11 this section exceeds one less the revenue that would have been obtained from the tax
12 determined under (e) of this section without the application of a price adjustment
13 factor.

14 * **Sec. 5.** This Act takes effect July 1, 2005.