

SENATE BILL NO. 305

IN THE LEGISLATURE OF THE STATE OF ALASKA
TWENTY-SIXTH LEGISLATURE - SECOND SESSION

BY THE SENATE FINANCE COMMITTEE

Introduced: 3/8/10
Referred: Finance

A BILL

FOR AN ACT ENTITLED

1 **"An Act relating to the tax on oil and gas production; and providing for an effective**
2 **date."**

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

4 *** Section 1.** AS 43.55.011(e) is amended to read:

5 (e) There is levied on the producer of oil or gas a tax for all oil and gas
6 produced each calendar year from each lease or property in the state, less any oil and
7 gas the ownership or right to which is exempt from taxation or constitutes a
8 landowner's royalty interest. Except as otherwise provided under (f), (j), (k), and (o) of
9 this section, the tax is equal to the sum of

10 (1) the annual production tax value of the taxable oil and gas as
11 calculated under AS 43.55.160(a)(1) multiplied by 25 percent; and

12 (2) the sum, over all months of the calendar year, of the tax amounts
13 determined under (g) of this section **on the production of oil.**

14 *** Sec. 2.** AS 43.55.011(g) is amended to read:

1 (g) For each month of the calendar year for which the producer's average
 2 monthly production tax value under AS 43.55.160(a)(2) of a [PER BTU
 3 EQUIVALENT] barrel of [THE] taxable oil [AND GAS] is more than \$30, the
 4 amount of tax for purposes of (e)(2) of this section is determined by multiplying the
 5 monthly production tax value of the taxable oil [AND GAS] produced during the
 6 month by the tax rate calculated as follows:

7 (1) if the producer's average monthly production tax value of a [PER
 8 BTU EQUIVALENT] barrel of [THE] taxable oil [AND GAS] for the month is not
 9 more than \$92.50, the tax rate is 0.4 percent multiplied by the number that represents
 10 the difference between the producer's [THAT] average monthly production tax value
 11 of a [PER BTU EQUIVALENT] barrel of oil and \$30; or

12 (2) if the producer's average monthly production tax value of a [PER
 13 BTU EQUIVALENT] barrel of [THE] taxable oil [AND GAS] for the month is more
 14 than \$92.50, the tax rate is the sum of 25 percent and the product of 0.1 percent
 15 multiplied by the number that represents the difference between the producer's
 16 average monthly production tax value of a [PER BTU EQUIVALENT] barrel of oil
 17 and \$92.50, except that the sum determined under this paragraph may not exceed 50
 18 percent.

19 * **Sec. 3.** AS 43.55.011(j) is amended to read:

20 (j) For a calendar year before 2022, the tax levied by (e)(1) [(e)] of this section
 21 for gas produced from a lease or property in the Cook Inlet sedimentary basin may not
 22 exceed

23 (1) for a lease or property that first commenced commercial production
 24 of gas before April 1, 2006, the product obtained by multiplying (A) the amount of
 25 taxable gas produced during the calendar year from the lease or property, times (B) the
 26 average rate of tax that was imposed under this chapter for taxable gas produced from
 27 the lease or property for the 12-month period ending on March 31, 2006, times (C) the
 28 quotient obtained by dividing the total gross value at the point of production of the
 29 taxable gas produced from the lease or property during the 12-month period ending on
 30 March 31, 2006, by the total amount of that gas;

31 (2) for a lease or property that first commences commercial production

1 of gas after March 31, 2006, the product obtained by multiplying (A) the amount of
 2 taxable gas produced during the calendar year from the lease or property, times (B) the
 3 average rate of tax that was imposed under this chapter for taxable gas produced from
 4 all leases or properties in the Cook Inlet sedimentary basin for the 12-month period
 5 ending on March 31, 2006, times (C) the average prevailing value for gas delivered in
 6 the Cook Inlet area for the 12-month period ending March 31, 2006, as determined by
 7 the department under AS 43.55.020(f).

8 * **Sec. 4.** AS 43.55.011(o) is amended to read:

9 (o) Notwithstanding other provisions of this section, for a calendar year before
 10 2022, the tax levied under (e)(1) [(e)] of this section for each 1,000 cubic feet of gas
 11 for gas produced from a lease or property outside the Cook Inlet sedimentary basin
 12 and used in the state may not exceed the amount of tax for each 1,000 cubic feet of gas
 13 that is determined under (j)(2) of this section.

14 * **Sec. 5.** AS 43.55.020(a) is amended to read:

15 (a) For a calendar year, a producer subject to tax under AS 43.55.011(e) - (i)
 16 shall pay the tax as follows:

17 (1) an installment payment of the estimated tax levied by
 18 AS 43.55.011(e), net of any tax credits applied as allowed by law, is due for each
 19 month of the calendar year on the last day of the following month; except as otherwise
 20 provided under (2) of this subsection, the amount of the installment payment is the
 21 sum of the following amounts, less 1/12 of the tax credits that are allowed by law to be
 22 applied against the tax levied by AS 43.55.011(e) for the calendar year, but the amount
 23 of the installment payment may not be less than zero:

24 (A) for oil and gas produced from leases or properties in the
 25 state outside the Cook Inlet sedimentary basin but not subject to
 26 AS 43.55.011(o), other than leases or properties subject to AS 43.55.011(f),
 27 [THE GREATER OF]

28 (i) [ZERO; OR

29 (ii)] the sum of 25 percent and the tax rate calculated
 30 for the month under AS 43.55.011(g) multiplied by the remainder
 31 obtained by subtracting 1/12 of the producer's adjusted lease

1 expenditures for the calendar year of production **applicable to the oil**
 2 **produced by the producer from those leases and properties** under
 3 AS 43.55.165 and 43.55.170 that are deductible for the leases or
 4 properties under AS 43.55.160 from the gross value at the point of
 5 production of the oil [AND GAS] produced from the leases or
 6 properties during the month for which the installment payment is
 7 calculated; **and**

8 **(ii) 25 percent of the remainder obtained by**
 9 **subtracting 1/12 of the producer's adjusted lease expenditures for**
 10 **the calendar year of production applicable to the gas produced by**
 11 **the producer from those leases and properties under AS 43.55.165**
 12 **and 43.55.170 that are deductible for the leases or properties under**
 13 **AS 43.55.160 from the gross value at the point of production of the**
 14 **gas produced from the leases or properties during the month for**
 15 **which the installment payment is calculated;**

16 (B) for oil and gas produced from leases or properties subject
 17 to AS 43.55.011(f), the **greater** [GREATEST] of

18 (i) [ZERO];

19 (ii)] zero percent, one percent, two percent, three
 20 percent, or four percent, as applicable, of the gross value at the point of
 21 production of the oil and gas produced from all leases or properties
 22 during the month for which the installment payment is calculated; or

23 **(ii) 25 percent of the remainder obtained by**
 24 **subtracting 1/12 of the producer's adjusted lease expenditures for**
 25 **the calendar year of production applicable to the gas produced by**
 26 **the producer from those leases and properties under AS 43.55.165**
 27 **and 43.55.170 that are deductible for those leases or properties**
 28 **under AS 43.55.160 from the gross value at the point of production**
 29 **of the gas produced from those leases or properties during the**
 30 **month for which the installment payment is calculated and**

31 [(iii)] the sum of 25 percent and the tax rate calculated

1 for the month under AS 43.55.011(g) multiplied by the remainder
 2 obtained by subtracting 1/12 of the producer's adjusted lease
 3 expenditures for the calendar year of production **applicable to the oil**
 4 **produced by the producer from those leases and properties** under
 5 AS 43.55.165 and 43.55.170 that are deductible for those leases or
 6 properties under AS 43.55.160 from the gross value at the point of
 7 production of the oil [AND GAS] produced from those leases or
 8 properties during the month for which the installment payment is
 9 calculated;

10 (C) for oil and gas produced from each lease or property
 11 subject to AS 43.55.011(j), (k), or (o), **25 percent of the remainder obtained**
 12 **by subtracting 1/12 of the producer's adjusted lease expenditures for the**
 13 **calendar year of production applicable to the gas produced by the**
 14 **producer from those leases and properties under AS 43.55.165 and**
 15 **43.55.170 that are deductible for those leases or properties under**
 16 **AS 43.55.160 from the gross value at the point of production of the gas**
 17 **produced from those leases or properties during the month for which the**
 18 **installment payment is calculated and** [THE GREATER OF

19 (i) ZERO; OR

20 (ii)] the sum of 25 percent and the tax rate calculated
 21 for the month under AS 43.55.011(g) multiplied by the remainder
 22 obtained by subtracting 1/12 of the producer's adjusted lease
 23 expenditures for the calendar year of production **applicable to the oil**
 24 **produced by the producer from those leases and properties** under
 25 AS 43.55.165 and 43.55.170 that are deductible under AS 43.55.160
 26 for oil [OR GAS, RESPECTIVELY,] produced from the lease or
 27 property from the gross value at the point of production of the oil [OR
 28 GAS, RESPECTIVELY,] produced from the lease or property during
 29 the month for which the installment payment is calculated;

30 (2) an amount calculated under (1)(C) of this subsection for oil or gas
 31 produced from a lease or property subject to AS 43.55.011(j), (k), or (o) may not

1 exceed the product obtained by carrying out the calculation set out in
 2 AS 43.55.011(j)(1) or (2) or 43.55.011(o), as applicable, for gas or set out in
 3 AS 43.55.011(k)(1) or (2), as applicable, for oil, but substituting in
 4 AS 43.55.011(j)(1)(A) or (2)(A) or 43.55.011(o), as applicable, the amount of taxable
 5 gas produced during the month for the amount of taxable gas produced during the
 6 calendar year and substituting in AS 43.55.011(k)(1)(A) or (2)(A), as applicable, the
 7 amount of taxable oil produced during the month for the amount of taxable oil
 8 produced during the calendar year;

9 (3) an installment payment of the estimated tax levied by
 10 AS 43.55.011(i) for each lease or property is due for each month of the calendar year
 11 on the last day of the following month; the amount of the installment payment is the
 12 sum of

13 (A) the applicable tax rate for oil provided under
 14 AS 43.55.011(i), multiplied by the gross value at the point of production of the
 15 oil taxable under AS 43.55.011(i) and produced from the lease or property
 16 during the month; and

17 (B) the applicable tax rate for gas provided under
 18 AS 43.55.011(i), multiplied by the gross value at the point of production of the
 19 gas taxable under AS 43.55.011(i) and produced from the lease or property
 20 during the month;

21 (4) any amount of tax levied by AS 43.55.011(e) or (i), net of any
 22 credits applied as allowed by law, that exceeds the total of the amounts due as
 23 installment payments of estimated tax is due on March 31 of the year following the
 24 calendar year of production.

25 * **Sec. 6.** AS 43.55.160(a) is amended to read:

26 (a) Except as provided in (b) of this section, for the purposes of

27 (1) AS 43.55.011(e), the annual production tax value of the taxable

28 (A) oil and gas produced during a calendar year from leases or
 29 properties in the state that include land north of 68 degrees North latitude is the
 30 gross value at the point of production of the oil and gas taxable under
 31 AS 43.55.011(e) and produced by the producer from those leases or properties,

1 less the producer's lease expenditures under AS 43.55.165 for the calendar year
2 applicable to the oil and gas produced by the producer from those leases or
3 properties, as adjusted under AS 43.55.170; this subparagraph does not apply
4 to gas subject to AS 43.55.011(o);

5 (B) oil and gas produced during a calendar year from leases or
6 properties in the state outside the Cook Inlet sedimentary basin, no part of
7 which is north of 68 degrees North latitude, is the gross value at the point of
8 production of the oil and gas taxable under AS 43.55.011(e) and produced by
9 the producer from those leases or properties, less the producer's lease
10 expenditures under AS 43.55.165 for the calendar year applicable to the oil and
11 gas produced by the producer from those leases or properties, as adjusted under
12 AS 43.55.170; this subparagraph does not apply to gas subject to
13 AS 43.55.011(o);

14 (C) oil produced during a calendar year from a lease or
15 property in the Cook Inlet sedimentary basin is the gross value at the point of
16 production of the oil taxable under AS 43.55.011(e) and produced by the
17 producer from that lease or property, less the producer's lease expenditures
18 under AS 43.55.165 for the calendar year applicable to the oil produced by the
19 producer from that lease or property, as adjusted under AS 43.55.170;

20 (D) gas produced during a calendar year from a lease or
21 property in the Cook Inlet sedimentary basin is the gross value at the point of
22 production of the gas taxable under AS 43.55.011(e) and produced by the
23 producer from that lease or property, less the producer's lease expenditures
24 under AS 43.55.165 for the calendar year applicable to the gas produced by the
25 producer from that lease or property, as adjusted under AS 43.55.170;

26 (E) gas produced during a calendar year from a lease or
27 property outside the Cook Inlet sedimentary basin and used in the state is the
28 gross value at the point of production of that gas taxable under
29 AS 43.55.011(e) and produced by the producer from that lease or property, less
30 the producer's lease expenditures under AS 43.55.165 for the calendar year
31 applicable to that gas produced by the producer from that lease or property, as

1 adjusted under AS 43.55.170;

2 (2) AS 43.55.011(g), the monthly production tax value of the taxable

3 (A) oil [AND GAS] produced during a month from leases or
4 properties in the state that include land north of 68 degrees North latitude is the
5 gross value at the point of production of the oil [AND GAS] taxable under
6 AS 43.55.011(e) and produced by the producer from those leases or properties,
7 less 1/12 of the producer's lease expenditures under AS 43.55.165 for the
8 calendar year applicable to the oil [AND GAS] produced by the producer from
9 those leases or properties, as adjusted under AS 43.55.170; [THIS
10 SUBPARAGRAPH DOES NOT APPLY TO GAS SUBJECT TO
11 AS 43.55.011(o);]

12 (B) oil [AND GAS] produced during a month from leases or
13 properties in the state outside the Cook Inlet sedimentary basin, no part of
14 which is north of 68 degrees North latitude, is the gross value at the point of
15 production of the oil [AND GAS] taxable under AS 43.55.011(e) and produced
16 by the producer from those leases or properties, less 1/12 of the producer's
17 lease expenditures under AS 43.55.165 for the calendar year applicable to the
18 oil [AND GAS] produced by the producer from those leases or properties, as
19 adjusted under AS 43.55.170; [THIS SUBPARAGRAPH DOES NOT APPLY
20 TO GAS SUBJECT TO AS 43.55.011(o);]

21 (C) oil produced during a month from a lease or property in the
22 Cook Inlet sedimentary basin is the gross value at the point of production of
23 the oil taxable under AS 43.55.011(e) and produced by the producer from that
24 lease or property, less 1/12 of the producer's lease expenditures under
25 AS 43.55.165 for the calendar year applicable to the oil produced by the
26 producer from that lease or property, as adjusted under AS 43.55.170 [;

27 (D) GAS PRODUCED DURING A MONTH FROM A
28 LEASE OR PROPERTY IN THE COOK INLET SEDIMENTARY BASIN IS
29 THE GROSS VALUE AT THE POINT OF PRODUCTION OF THE GAS
30 TAXABLE UNDER AS 43.55.011(e) AND PRODUCED BY THE
31 PRODUCER FROM THAT LEASE OR PROPERTY, LESS 1/12 OF THE

1 PRODUCER'S LEASE EXPENDITURES UNDER AS 43.55.165 FOR THE
2 CALENDAR YEAR APPLICABLE TO THE GAS PRODUCED BY THE
3 PRODUCER FROM THAT LEASE OR PROPERTY, AS ADJUSTED
4 UNDER AS 43.55.170;

5 (E) GAS PRODUCED DURING A MONTH FROM A
6 LEASE OR PROPERTY OUTSIDE THE COOK INLET SEDIMENTARY
7 BASIN AND USED IN THE STATE IS THE GROSS VALUE AT THE
8 POINT OF PRODUCTION OF THAT GAS TAXABLE UNDER
9 AS 43.55.011(e) AND PRODUCED BY THE PRODUCER FROM THAT
10 LEASE OR PROPERTY, LESS 1/12 OF THE PRODUCER'S LEASE
11 EXPENDITURES UNDER AS 43.55.165 FOR THE CALENDAR YEAR
12 APPLICABLE TO THAT GAS PRODUCED BY THE PRODUCER FROM
13 THAT LEASE OR PROPERTY, AS ADJUSTED UNDER AS 43.55.170].

14 * **Sec. 7.** AS 43.55.160(c) is amended to read:

15 (c) Notwithstanding any contrary provision of AS 43.55.150, for purposes of
16 calculating a monthly production tax value under (a)(2) of this section, the gross value
17 at the point of production of the oil [AND GAS] is calculated under regulations
18 adopted by the department that provide for using an appropriate monthly share of the
19 producer's costs of transportation for the calendar year.

20 * **Sec. 8.** This Act takes effect immediately under AS 01.10.070(c).