

FISCAL NOTE

STATE OF ALASKA
2010 LEGISLATIVE SESSION

Fiscal Note Number: 2
 Bill Version: CSHB 217(RES)
 (H) Publish Date: 3/17/10

Identifier (file name): CSHB217-REV-TAX-02-14-10 Dept. Affected: Revenue
 Title: Tax on gas for in state manufacturing RDU: Taxation and Treasury
 Sponsor: Representative Neuman Component: Tax Division
 Requester: (H) Resources Component Number: 2476

Expenditures/Revenues (Thousands of Dollars)

Note: Amounts do not include inflation unless otherwise noted below.

	Appropriation Required	Information					
		FY 2011	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015
OPERATING EXPENDITURES							
Personal Services							
Travel							
Contractual							
Supplies							
Equipment							
Land & Structures							
Grants & Claims							
Miscellaneous							
TOTAL OPERATING		0.0	0.0	0.0	0.0	0.0	0.0
CAPITAL EXPENDITURES							
CHANGE IN REVENUES ()		***	0.0	***	***	***	***

FUND SOURCE (Thousands of Dollars)

1002 Federal Receipts							
1003 GF Match							
1004 GF		0.0	0.0	0.0	0.0	0.0	0.0
1005 GF/Program Receipts							
1037 GF/Mental Health							
Other Interagency Receipts							
TOTAL		0.0	0.0	0.0	0.0	0.0	0.0

Estimate of any current year (FY2010) cost: 0.0

POSITIONS

Full-time	0.0	0.00	0	0	0	0	0
Part-time							
Temporary							

ANALYSIS: (Attach a separate page if necessary)

See Attached.

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 Date: 2/14/10; 4:11pm

ANALYSIS CONTINUATION

Bill Language: This bill makes two changes to the oil and gas production tax under AS 43.55:

(1) Election of tax treatment for gas used in state. This bill creates an election allowing producers to choose whether to have natural gas used in state taxed at the Cook Inlet tax rate of \$0.177 per thousand cubic feet (mcf) with credits and lease expenditures allocated to gas used in state, or to have the gas taxed under the 25% net profits tax without the allocation of credits and lease expenditures. Under current law, the \$0.177 per mcf tax rate for Cook Inlet and gas used in state will expire after 2022.

(2) Manufacturing added to definition of gas used in state. This bill expands the definition under AS 43.55.900 (24) of natural gas used in the state to include gas "used as fuel or feedstock in a manufacturing process creating and end product in the state, regardless of the final disposition of the manufactured end product." Manufacturing is not currently defined in the bill and this may create uncertainty for the Department and taxpayers.

Revenues:

Revenues from this bill are indeterminate because we do not know the quantity of natural gas that would qualify for the election. Further, the revenue effect would be influenced significantly by the economics of the producer supplying the gas and its relation to other oil and gas produced by the company. This legislation could result in either an increase or a decrease in state revenue from companies providing gas for in state use. Without a development plan for a specific in state gas or manufacturing project, it is not possible to provide detailed revenue projections for this bill at this time.

The revenue impact could be viewed as a reduction in state revenue because this bill provides for a potentially lower tax liability for gas used in state, including manufacturing. If the gas would be provided regardless of the tax preference, then state revenue would be decreased by the value of the tax preference.

The revenue impact could be viewed as an increase in state revenue if the tax preference helps to incentivize gas sales and manufacturing facilities. Revenue would increase by the amount of production tax received from the gas, and there would also be increased corporate income tax and property tax revenues. Additionally, there could be economic development potentially creating thousands of jobs and millions of dollars in payroll.

If producers believe that the current 2022 expiration date will eventually be extended or lifted, the election for a lower tax rate for gas used in state may affect a producer's decision about whether to sell North Slope gas in state as opposed to an export gas pipeline. The range of production tax revenue impacts may be illustrated with three examples:

In one scenario, if sales of gas used in state are relatively small, there may be only a minimal impact on production tax revenue because there would also be sufficient gas for a major export gas pipeline. In this case, in-state manufacturing projects complement a major gas export pipeline.

In a second scenario, there could be more substantial volumes of gas used in state. This could reduce the amount of gas that would otherwise be available to be shipped in a major gas export pipeline, thereby increasing the pipeline's tariff costs which are deducted in calculating production tax values. The reduced production tax revenues would not be made up for through revenues from the gas used in state incentivized by this bill.

In a third scenario, the potential for a lower tax rate for gas used in state coupled with the addition of manufacturing to the definition of gas used in state could cause taxpayers to abandon a gas export pipeline in favor of in-state sales. In that case, the impact on production tax revenue would be substantial because the volume of gas that would likely be developed could be as little as one-quarter of the volume developed in conjunction with a major gas export pipeline.

Expenditures:

The provisions of this bill can be implemented using existing resources.