

FISCAL NOTE

STATE OF ALASKA
2010 LEGISLATIVE SESSION

Fiscal Note Number: 4
 Bill Version: CSHB 337(RES)
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Identifier (file name): CSHB337(RES)-REV-TAX-04-08-10 Dept. Affected: Revenue
 Title Oil and Gas Tax Adjustments RDU Taxation and Treasury
 Component Tax Division
 Sponsor Rules by Request of the Governor
 Requester House Finance Committee 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	100.0						
Supplies							
Equipment							
Land & Structures							
Grants & Claims							
Miscellaneous							
TOTAL OPERATING	100.0	0.0	0.0	0.0	0.0	0.0	0.0
CAPITAL EXPENDITURES							
CHANGE IN REVENUES ()	***	***	***	***	***	***	***

*** See Analysis Section for Additional Information ***

FUND SOURCE (Thousands of Dollars)

1002 Federal Receipts							
1003 GF Match							
1004 GF	100.0	0.0	0.0	0.0	0.0	0.0	0.0
1005 GF/Program Receipts							
1037 GF/Mental Health							
Other Interagency Receipts							
TOTAL	100.0	0.0	0.0	0.0	0.0	0.0	0.0

Estimate of any current year (FY2010) cost: ***

POSITIONS

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

ANALYSIS: (Attach a separate page if necessary)

*** We cannot currently make a determination of the revenue impacts of the bill. For this reason, asterisks are included in our revenue estimates for this fiscal note.

See Attached for additional analysis.

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 Date/Time: 04-08-10; 1:06pm
 Date: 04-08-10; 1:44pm

ANALYSIS CONTINUATION**Bill Language:**

This bill makes three changes to the credit provisions of Alaska's oil and gas production tax and two changes to interest as applied to tax payments. These changes and the potential revenue impact of each are discussed below:

1. Increased credits for well related expenditures: This bill would modify AS 43.55.023 to allow a 30 percent credit against production tax for the amount of well-related expenditures that represent an increase in well-related expenditures over an average of well-related expenditures in calendar years 2008 and 2009. Currently, companies are allowed a 20 percent credit for well related qualified capital expenditures under the provisions of AS 43.55.023. There are no current provisions for credits against operating expenditures and this bill would extend the 30% credit to the increase in well-related operating expenditures from 2008 and 2009 as well as capital expenditures. This provision would take effect July 1, 2010.

Our ability to place a reasonable estimate on this provision is limited by our lack of data specific to these types of expenditures. Our best estimate of this provision under current projected spending and production levels, is that revenues would be reduced by \$50 to \$100 million dollars per year through our current projections of FY 2013. However, the Department of Revenue provides an indeterminant fiscal impact to revenues because the new incentives will likely spur higher spending levels on development activity, which would result in more credits being earned, but would also be expected to increase production, thus providing an offsetting increase in revenue.

2. Removing reinvestment requirement for state purchase of capital credits: For companies applying for state purchase of capital credits, this bill would remove the requirement that the companies reinvest an amount equal to the amount of the credit purchased within 24 months after applying for a credit certificate. This provision would take effect July 1, 2010.

This provision is expected to be revenue neutral as the credits will reduce revenue whether the state purchases the credits or other companies purchase and subsequently apply the credits against a tax liability.

3. Capital credits no longer required to be spread over two years: Producers and explorers receive a capital expenditure credit in the amount of 20 percent of the qualified capital expenditure, 25% of a loss carryforward, and up to 40% of an exploration expenditure. This bill would remove the provision that no more than half of the tax credit may be applied for in a single calendar year. As a result, the entirety of credits could be applied in the year they are earned. This provision is retroactive to January 1, 2010.

The calculation of the revenue impact for this provision is difficult for two reasons: (1) the timing of the revenue impact will depend upon when the bill is signed into law; and (2) the amount the state may potentially be expected to pay to purchase credits is conditioned in part on removing the reinvestment requirement discussed in #2 above, and the timing of the payment will depend on whether companies will immediately seek reimbursement for their credits.

We assume for this provision a worse-case scenario where all credits held by companies with production tax liabilities are used in FY 2010 or FY 2011. This would cost the state approximately \$225 million in reduced taxes between the two years.

For companies that are holding credit certificates and are not expected to incur a tax liability in FY 2010 or FY 2011, we estimate an additional liability of up to \$150 million over previous expectations for the two fiscal years. These impacts could spill into FY 2012, should companies delay seeking reimbursement.

Beyond FY 2012, revenue impacts are expected to be negligible.

4. Interest waived for changes in tax liability as a result of retroactive regulations changes: Following adoption of retroactive regulations to the oil and gas production tax under AS 43.55, the Department of Revenue is required to determine whether the retroactive application of the regulation caused an overpayment or underpayment of the amount due in tax. For an underpayment, interest is waived as long as the underpayment was due to the regulation and the producer made a good faith estimation and payment of its tax obligation under regulations in place when the payment was due. For an overpayment, interest does not accrue until either the first day of the second month following the regulation taking effect, or 90 days after the Department receives an amended annual production tax return with request for refund. The interest provisions are retroactive to February 2007. At this time it is uncertain whether there would be any revenue impact from this change, since it is unclear whether there was any underpayment or overpayment due to the retroactive regulations. The Department of Revenue does not include interest payments in our revenue projections, therefore this change would not affect our revenue forecast.

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FISCAL NOTE #4

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BILL NO. CSHB 337(RES)

ANALYSIS CONTINUATION

5. Change the rates for calculating interest for most tax types. This bill would change the way interest is calculated for most tax types administered by the Department of Revenue, including the production tax. Under current law, the interest rate is the greater of 11 percent or 5 percentage points above the discount rate at the 12th Federal Reserve Bank. Under this bill, the interest rate would be 5 percentage points above the discount rate. If this provision were in place today, the interest rate on taxes would fall from 11 percent to 5.75 percent.

The revenue reduction from this provision is indeterminate because the Department does not have a management information system capable of tracking interest for all taxes. Producing a revenue estimate would require manually compiling information from hundreds of tax returns. Since oil and gas settlements go to the Constitutional Budget Reserve Fund (CBRF), this provision would reduce revenue to both the general fund and the CBRF. This provision would require additional costs for the Department which are described below.

This provision is effective July 1, 2010.

Expenditures:

The changes in interest rates and other provisions of this bill would result in one-time costs of \$100,000 in FY 2011 for changes to the accounting and tax examination system.