

FISCAL NOTE

STATE OF ALASKA
2010 LEGISLATIVE SESSION

Fiscal Note Number: 1
 Bill Version: CSSB 228(RES)
 (S) Publish Date: 3/23/10

Identifier (file name): SB228-REV-TAX-02-06-10 Dept. Affected: Revenue
 Title: Tax Incentives for Gas-to-Liquid RDU: Taxation and Treasury
 Component: Tax Division
 Sponsor: Senator McGuire
 Requester: (S) 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	FY 2016
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	0.0
CAPITAL EXPENDITURES								
CHANGE IN REVENUES ()		0.0	0.0	***	***	***	***	***

FUND SOURCE (Thousands of Dollars)

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

Estimate of any current year (FY2010) cost: _____

POSITIONS

Full-time								
Part-time								
Temporary								

ANALYSIS: (Attach a separate page if necessary)

Changes in revenue are indeterminate. See attached analysis.

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 Date/Time 2-5-10; 6:44pm
 Date 2-6-10; 1:36pm

ANALYSIS CONTINUATION**Bill Language:**

This bill will allow an incentive tax credit for investment in a facility constructed to produce liquids from gas, coal, or biomass against a taxpayer's corporate income tax (CIT) liability. The credit would be 100 percent on the first \$50 million of investment; 80 percent on the second \$50 million of investment; 70 percent on the third \$50 million of investment; 60 percent on the fourth \$50 million of investment; and 40 percent of investment over \$200 million but not more than \$1 billion.

A taxpayer could only claim the credit on a project which begins operation and production after December 31, 2010 and on investments made after December 31, 2010 and before January 1, 2021. The maximum credit that a taxpayer could claim for its investment in such a facility would be \$475 million. However, the credit could not offset more than 60 percent of a taxpayer's CIT liability in any given tax year and any unused credit could be carried forward through tax years prior to January 1, 2026 (15 years). The first tax credits that could be claimed under the provisions of this bill would be in fiscal year 2012.

For Example: The State currently receives about \$600 million a year in corporate income tax from our oil and gas taxpayers. If 10 taxpayers pay, an average of \$60 million a year each, and two of those taxpayers build a GTL plant, the maximum credit they can claim is \$475 million. That credit is limited to 60% of their current tax liability. So, if their tax liability increased to say \$70 million due to sales from the facility, they could tax a maximum credit of \$42 million each year for up to 15 years or until the full \$475 million credit has been taken. Based on two taxpayers doing this, the effect would be \$84 million in reduced corporate income tax for approximately 11.5 tax years.

Additionally, Section 7 of this bill would amend the definition of gas used in state to include gas used as raw material for producing liquids or petrochemicals.

Revenues:

Corporate income tax revenue would decline as a result of this bill by as much as \$475 million per facility. However, since a taxpayer could not offset more than 60 percent of its current CIT liability in any given year, the decline in revenue would be limited each year as recoupment of the investment would be spread over several tax years. It is difficult to determine how many taxpayers would take advantage of this tax credit and invest in constructing a facility of this type in Alaska. Therefore, total affect on corporate income tax revenue as a result of this bill is indeterminate.

The provision in Section 7 of this bill would broaden the production tax treatment provided in AS 43.55.011(o) to include gas manufactured or otherwise converted to liquids or petrochemicals. The tax impact of this provision is also indeterminate for several reasons, including the uncertainty as to whether companies will take advantage of the provision, and if so, the magnitude of the project to be undertaken, the amount of gas to be committed, the price of the gas, and other factors.

Expenditures:

The provisions of this bill would most likely require the hiring of additional audit staff. It is not known at this time the number of position(s) that would be needed. Additional administrative work required of the Department would be dictated by the number of taxpayers who take advantage of the credit and the associated work required to validate those credits.