

# FISCAL NOTE

**STATE OF ALASKA**  
**2010 LEGISLATIVE SESSION**

Fiscal Note Number: 3 \*\*CORRECTED\*\*  
 Bill Version: SB 271  
 (S) Publish Date: 3/9/10

Identifier (file name): SB271-REV-TAX-02-12-10 Dept. Affected: Revenue  
 Title Oil and Gas Tax Adjustments RDU Taxation and Treasury  
 Component Tax Division  
 Sponsor Rules  
 Requester Request of the Governor Component Number 2476

**Expenditures/Revenues** (Thousands of Dollars)

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

|                               | Appropriation<br>Required | Information |            |            |            |            |            |            |
|-------------------------------|---------------------------|-------------|------------|------------|------------|------------|------------|------------|
|                               |                           | FY 2011     | FY 2011    | FY 2012    | FY 2013    | FY 2014    | FY 2015    | FY 2016    |
| <b>OPERATING EXPENDITURES</b> |                           |             |            |            |            |            |            |            |
| Personal Services             |                           |             |            |            |            |            |            |            |
| Travel                        |                           |             |            |            |            |            |            |            |
| Contractual                   |                           |             |            |            |            |            |            |            |
| Supplies                      |                           |             |            |            |            |            |            |            |
| Equipment                     |                           |             |            |            |            |            |            |            |
| Land & Structures             |                           |             |            |            |            |            |            |            |
| Grants & Claims               |                           |             |            |            |            |            |            |            |
| Miscellaneous                 |                           |             |            |            |            |            |            |            |
| <b>TOTAL OPERATING</b>        |                           | <b>0.0</b>  | <b>0.0</b> | <b>0.0</b> | <b>0.0</b> | <b>0.0</b> | <b>0.0</b> | <b>0.0</b> |
| <b>CAPITAL EXPENDITURES</b>   |                           |             |            |            |            |            |            |            |
| <b>CHANGE IN REVENUES ( )</b> |                           | <b>***</b>  | <b>***</b> | <b>***</b> | <b>***</b> | <b>***</b> | <b>***</b> | <b>***</b> |

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

**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        | 0.0        |
| 1005 GF/Program Receipts   |  |            |            |            |            |            |            |            |
| 1037 GF/Mental Health      |  |            |            |            |            |            |            |            |
| Other Interagency Receipts |  |            |            |            |            |            |            |            |
| <b>TOTAL</b>               |  | <b>0.0</b> | <b>0.0</b> | <b>0.0</b> | <b>0.0</b> | <b>0.0</b> | <b>0.0</b> | <b>0.0</b> |

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

**POSITIONS**

|           |            |      |   |   |   |   |   |
|-----------|------------|------|---|---|---|---|---|
| Full-time | <b>0.0</b> | 0.00 | 0 | 0 | 0 | 0 | 0 |
| Part-time |            |      |   |   |   |   |   |
| Temporary |            |      |   |   |   |   |   |

**ANALYSIS:** (Attach a separate page if necessary)

See Attached.

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 Approved by: Ginger Blaisdell, Director  
Administrative Services Division

Phone: 907-269-1019  
 Date/Time: 2/08/10; 12:13pm  
 Date: 2/12/10; 12:26pm

**STATE OF ALASKA**  
**2010 LEGISLATIVE SESSION**

**BILL NO.** SB 271

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**ANALYSIS CONTINUATION**

**Bill Language:**

This bill makes four refinements to Alaska's oil and gas production tax. The refinements and the revenue impact of each are discussed below:

**1. Increased credits for well related expenditures:** This bill would modify AS 43.55.025 to allow a 30 percent credit against production tax for exploratory well expenditures and most development well expenditures. For wells more than 25 miles outside of existing units (or more than 10 miles outside of Cook Inlet units) the credit is 40 percent of exploratory well expenditures. These credits would also be an increase in credits for well related expenditures. 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 well related operating expenditures as well as capital expenditures. This provision would take effect July 1, 2010.

Under current projected spending and production levels, revenues would be estimated to be reduced by \$325 million in FY 2011, \$335 million in FY 2012, and \$350 million in FY 2013-2016. However, the Department of Revenue provides an indeterminate 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. 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 entire 20 percent credit could be applied in the year it is earned. This is retroactive to January 1, 2010.

There is a revenue reduction for FY 2010 of \$120 million because of the immediate effective date of the changes to spreading of capital credits. For FY 2011-FY 2013, the revenue reduction from changes to the spreading of capital credits will be about \$50 million per year. For FY 2014 and beyond, the revenue impacts will 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.

\*\*\* 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.

**Expenditures:**

The Department will be able to implement the provisions of this bill using existing resources.