

FISCAL NOTE

STATE OF ALASKA
2011 LEGISLATIVE SESSION

Fiscal Note Number 6
 Bill Version CSHB 110(FIN)
 (H) Publish Date 3/31/11

Identifier (file name) CSHB110(FIN)-DNR-O&G-3-30-2011 Dept. Affected Natural Resources
 Title Oil & Gas Production Tax Appropriation Resource Development
 Allocation Oil & Gas
 Sponsor Governor
 Requester Rules Committee OMB Component Number 439

Expenditures/Revenues (Thousands of Dollars)

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

	Appropriation Required	Information						
		FY 2012	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017
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								
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CHANGE IN REVENUES								
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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 (FY2011) cost _____

POSITIONS

Full-time								
Part-time								
Temporary								

Why this fiscal note differs from previous version

The analysis for this fiscal note was updated to reflect changes made from the bill as introduced to the committee substitute reported out of House Finance (CSHB 110(FIN)). Changes made involve eliminating a provision relating to the minimum tax, having tax progressivity increments determined on a monthly basis, and extending sunset dates for the "small producer" tax credit program.

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 Approved by Daniel S. Sullivan
Natural Resources

Phone 269-8800
 Date/Time 3/30/11 10:00 AM
 Date 3/30/2011

Analysis

This bill may encourage producers to invest more by allowing them to receive the benefits of credits for that investment more quickly. First, currently under AS 43.55.023(b), only half the 20% qualified capital expenditure (QCE) credit can be taken in any one year. Section 10 of this bill would amend AS 43.55.23(b) to allow the full QCE credit to be taken in one year. Second, under AS 43.55.23(d), a producer that applies to obtain a transferable certificate for expenditures on the North Slope giving rise to a QCE credit or the loss carry-forward credit (AS 43.55.023(a)) will be issued two certificates, each for half the credit amounts, with one of the certificates only good for the next calendar year. This limitation dilutes the incentive the credit provides to the extent that a producer/investor must wait before receiving the full benefit of the credit. Section 11 of this bill would amend AS 43.55.023(d) to allow the certificates received to be for immediate use for North Slope expenditures, just as they are currently for expenditures in Alaska outside the North Slope. Third, Section 22 of the bill makes it easier for a small producer receiving a credit for North Slope expenditures to sell that credit to the State by eliminating the requirement that the producer spend additional money before receiving the credit monies. These provisions become effective retroactive to January 1, 2011. Since DNR's net profit share leasing (NPSL) regulations take into account these provisions when determining the impact of the production tax, DNR should have the ability to retroactively amend their NPSL regulations to account for these changes.

In addition to allowing a quicker monetization of a given amount of credits, the bill extends the current 40% credit provided under 43.55.023(l) for well expenditures in Alaska off the North Slope to well expenditures on the North Slope. Currently, the North Slope producers receive a 20% QCE credit for well expenditure capital. Under the amendments provided in Sections 15 and 16 of the bill, producers would receive a 40% credit for those expenditures. This increased credit amount will encourage investment in wells on the North Slope. This provision becomes effective retroactive to January 1, 2011. Since DNR's NPSL regulations take into account these provisions when determining the impact of the production tax, DNR should have the ability to retroactively amend their NPSL regulations to account for these changes.

Sections six and seven of this bill lower the marginal tax rates for existing and new fields by having progressively higher tax rates only apply to incremental production tax value. A lower base rate of 15% applies to production from new units. To the extent that investments are made as a consequence of these changes to the tax regime, royalty revenue may rise. The fiscal impact on royalty revenue is an indeterminate positive. However, note that by having separate production tax value calculations for "new production" units ("ring-fencing" these new units), the investors in these new units will have less ability to lower tax liability on "old production" units by spending money on new units. Finally, progressivity is calculated on a monthly basis rather than an annual basis as originally proposed. A monthly calculation of progressivity may lead to a slightly higher tax burden than an annual calculation; the degree to which this matters will be a function of oil price volatility. During periods of high price volatility, the monthly calculation should generally generate greater tax revenue than during periods of low price volatility. The new progressivity formula is effective January 1, 2013.

This bill extends the sunset date on "small producer" tax credits under AS 43.55.024. Previously the "small producer" tax credits were set to sunset in the later of 2016 or nine years after first production, as long as first production for the small producer in Alaska is before 2016. This section changes 2016 to 2021. This change to the credit program will allow current explorers more assurance that they will receive the benefits of the small producer credit as they need only start production before 2021, not 2016. Additionally, the dollar amount of the "small producer" tax credit is increased. Previously the amount of the "small producer" tax credit was capped at \$12,000,000 per year. This change increases that amount to as much as \$15,000,000 per producer per year. This amendment will lower the tax burden on small producers in Alaska, and thereby may prompt

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Analysis Continued

more investment by those producers, with a concomitant increase in royalty revenue.

This bill also changes the “exploration” tax credit program under AS 43.55.025 by extending the sunset date on the program. Previously the AS 43.55.025 tax credits were set to sunset in 2016. This section changes the sunset date for the program to 2021. These changes may serve to increase the number of projects receiving “exploration” tax credits as they currently stand in AS 43.55.025 and may increase the administrative burden on DNR to review applications for credits and handle data submissions and ultimate public release of data required.