Fiscal Note

State of Alaska
2016 Legislative Session

Bill Version:	HB 5005
Fiscal Note Number:	1
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Identifier: 0512-DOR-TAX-07-11-16
Title: TAX;CREDITS;PMTS;INTEREST;LEASE;O & G
Sponsor: RLS BY REQUEST OF THE GOVERNOR
Requester: Governor

Department: Department of Revenue
Appropriation: Taxation and Treasury
Allocation: Tax Division
OMB Component Number: 2476

Expenditures/Revenues

Note: Amounts do not include inflation unless otherwise noted below. (Thousands of Dollars)

	FY2017 Appropriation Requested	Included in Governor's FY2017 Request	Out-Year Cost Estimates				
OPERATING EXPENDITURES	**FY 2017**	**FY 2017**	**FY 2018**	**FY 2019**	**FY 2020**	**FY 2021**	**FY 2022**
Personal Services							
Travel							
Services							
Commodities							
Capital Outlay							
Grants & Benefits							
Miscellaneous							
Total Operating	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**

Fund Source (Operating Only)

None							
Total	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**

Positions

Full-time							
Part-time							
Temporary							

Change in Revenues					15,000.0	190,000.0	165,000.0

Estimated SUPPLEMENTAL (FY2016) cost: 0.0 *(separate supplemental appropriation required)*
(discuss reasons and fund source(s) in analysis section)

Estimated CAPITAL (FY2017) cost: 0.0 *(separate capital appropriation required)*
(discuss reasons and fund source(s) in analysis section)

ASSOCIATED REGULATIONS

Does the bill direct, or will the bill result in, regulation changes adopted by your agency? yes
If yes, by what date are the regulations to be adopted, amended or repealed? 01/01/17

Why this fiscal note differs from previous version:

Original version for new bill introduced for 5th special session. The cover page of this document only includes the revenue raising numbers, with any program expenditure savings noted in the detailed impact table attached within the narrative section.

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Division: Tax Division Date: 07/08/2016 04:00 PM
Approved By: Jerry Burnett, Deputy Commissioner Date: 07/08/16
Agency: Department of Revenue

FISCAL NOTE ANALYSIS

STATE OF ALASKA
2016 LEGISLATIVE SESSION

Analysis

Bill Background
This legislation builds upon reforms that were debated during the 2016 regular session and 4th special session and passed as Chapter 4, 4SSLA2016 (HB247). It continues the comprehensive attempt to reform and reduce the cost of Alaska's current program of providing direct tax credit rebates and other advantages to oil and gas companies. Various credits have been added to statute since 2003, with state repurchase beginning in 2007. Through the end of FY 2016, about $8 billion in tax credits were received by companies. This includes both credits used against tax liability and credits repurchased by the state; it also includes activity on both the North Slope and other areas of the state.

A substantial number of companies rely on these credits to support and subsidize their Alaska operations. For work done in 2015, in many cases the state will eventually pay 55%-65% of the cost of a project during the development phase, and up to 85% of exploration costs. These large numbers result from "stacking" multiple credits. With the changes made in this legislation, the state's contribution towards many projects will be reduced by 50% or more.

The major changes that passed in HB247 are as follows:
* Phases out the three major credits available to developers and producers in Cook Inlet (Net Operating Loss, Qualified Capital Expenditure, and Well Lease Expenditure), and reduces them in half in "Middle Earth"
* Adds a cap on how much in repurchased tax credits can be received by a single company in a year, at $70 million which, with required discounts, is effectively a cap of about $61 million
* Adds a sunset or "graduation" provision to the Gross Value Reduction (GVR) for new North Slope oil; after between three seven years of production new oil would be taxed in the same manner as legacy oil.
* Removes several loopholes that artificially increase net operating losses eligible for tax credits;
* Increases the interest rates charged on delinquent or assessed production taxes for the first three years that a tax is delinquent. The interest rate is reduced to zero after three years.
* Provides a waiver of confidentiality so the state can discuss and release information regarding what companies are receiving refunded state tax credits and how much they are receiving;
* Provides for prioritization of credit payments to companies with higher Alaska resident hire percentages in years where there is insufficient appropriations to cover all credit liabilities.
* Allows the department to withhold credit funding if the company has an unresolved obligation to the state

Additional Changes In Current Bill
This bill resolves several major issues identified by the administration that were not addressed in HB247:

1) Phase out the Carry Forward Annual Loss Credit (NOL) on the North Slope
2) Increases the minimum tax "floor" from 4% to 5% at oil prices above $55 / bbl
3) Resolves the "migrating credits" or "monthly true-up" issue in year of high price volatility

The bill also modifies two of the smaller provisions in HB247 that the department is concerned will have issues with implementation:

4) The interest rate change is applied to all tax types rather than just the production tax, but at a lower rate (5% above the federal discount rate). Interest is compounded for the first four years, and simple interest thereafter.
5) Technical correction to the HB247 provision that requires pro-ration of lease expenditures for municipal owned utilities who only sell a portion of their production to a third party.

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Analysis Continued

Summary of Revenue Impact
With the elimination of the NOL credit for North Slope producers, this will increase tax collection during the next several years in which low oil prices are forecasted to result in operating losses for major producers. Under current law, these crediidts can be carried forward and used to reduce tax payments below the minimum tax. The maximum impact of this provision will be in FY2021, at between $125 and $150 million.

THe other major revenue impact will be through the increase in the mimum tax rate itself when the price of oil exceeds $55 / bbl. This threshhold is expected to be met in FY2021.

The savings from the bill will be primarily from the phase out of the NOL, which will reduce the state's obligation to repurchase these credits from developers and small producers.

A detailed fiscal note table is attached to this document.

Implementation Cost
The changes anticipated in this bill will require reprogramming of the Tax Revenue Management System and Revenue Online tax portal. However, there was $1.2 million in FY17 capital funds that were authorized by the fiscal note to HB247. We intend to use these funds to implement the additional changes in this legislation, and to administer the program changes with existing staff.

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Analysis Continued

Fiscal Detail (Revenue and Budget Impacts)

Revised 7-8-16 by Department of Revenue

5th Special Session bill

Provisions in 5th Special Session bill as compared to Spring 2016 Forecast after HB247 ($millions) - Forecast ANS PRICE[1]

Note: this table attempts to value the impact of each of the items independently, except where noted. In some cases, the total value of several impacts will not equal the sum of the individual impact values.

Brief Description of Provision - Includes only provisions anticipated to have a direct fiscal impact	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023	FY 2024	FY 2025
1. For the North Slope, the NOL credit is reduced to 15% on 1/1/17 then eliminated on 1/1/18. Only companies with less than 15,000 barrels per day production are eligible for refunds effective 1/1/17.	$0	$0	$0	$10-$20	$125-$150	$100-$125	$75-$100	$40-$60	$0
2. Only companies with less than 15,000 barrels per day production are eligible for refunds effective 1/1/17.	$0	$0	$0	$0	$0	$0	($10)-$0	($10)-$0	($10)-$0
3. For the North Slope, an additional minimum tax bracket of 5% of GVPP is added when ANS prices exceed $55 per barrel (additional impact to provisions 1 and 2)	$0	$0	$0	$0	$50-$55	$50-$55	$45-$50	$45-$50	$40-$45
4. No true-up of sliding scale per-taxable-barrel credits on annual return	Indeterminate								
5. The interest rate on delinquent taxes is changed to 5% above the Fed Res Discount rate, compounded quarterly for 4 years and then simple interest beyond 4 years	Indeterminate								
Total Revenue Impact	$0	$0	$0	$10 to $20	$175 to $205	$150 to $180	$110 to $150	$75 to $110	$30 to $45
A. Budget impact of changes to North Slope NOL credits (provision 1 above)	$0	$0	$100-$125	$100-$125	$100-$125	$100-$125	$100-$125	$140-$150	$140-$150
B. Budget impact of changes to production limits for refunded credits (provision 2 above)	$0	$0	$0	$0	$0	$10-$20	$10-$20	$0	$0
Total Budget Impact[2]	$0	$0	$100-$125	$100-$125	$100-$125	$110-$145	$110-$145	$140-$150	$140-$150
Total Fiscal Impact - does not include revenue impacts from potential changes in investment[3]	**$0**	**$0**	**$100 to $125**	**$110 to $145**	**$275 to $330**	**$260 to $325**	**$220 to $295**	**$215 to $260**	**$170 to $195**

	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023	FY 2024	FY 2025
Non-refundable carry-forward credits balance at fiscal year end - current law[2,4]	$606	$719	$677	$509	$250	$129	$52	$0	$0
Non-refundable carry-forward credits balance at fiscal year end - proposed[2,4]	$515	$420	$255	$90	$25	$25	$15	$10	$5
Change in year-end balance due to bill	**-$91**	**-$299**	**-$422**	**-$419**	**-$225**	**-$104**	**-$37**	**$10**	**$5**

[1] The impacts listed are based on price, production, and company spending as forecasted in DOR's Spring 2016 revenue forecast, and after accounting for impacts of HB247 which was signed into law in June 2016.

[2] Budget impact and credit estimates are based on the change to credit obligations as adjusted by HB247, assuming full funding of credits in each year. No adjustments have been made for reduced funding levels in budget.

[3] NOTE: "Total Fiscal Impact" includes best estimates of both revenue and operating budget impacts.

[4] These rows include estimates of carried-forward credits for previous calendar years, plus estimates of credits that will be earned on activity through June 30 of the fiscal year.

NOTE: The fiscal impact of this bill is an estimate based on the Spring 2016 revenue forecast, after accounting for impacts of HB247. Estimates shown here are draft / preliminary based on our interpretation of possible changes. We reserve the right to make modifications to estimates for any forthcoming fiscal notes.