

Fiscal Note

State of Alaska
2019 Legislative Session

Bill Version:	SB 111
Fiscal Note Number:	2
(S) Publish Date:	4/15/2019

Identifier: 2019200143-DOR-TAX-4-11-2019
 Title: OIL/GAS LEASE:DNR MODIFY NET PROFIT SHARE
 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)

	FY2020	Included in	Out-Year Cost Estimates				
	Appropriation Requested	Governor's FY2020 Request	FY 2021	FY 2022	FY 2023	FY 2024	FY 2025
OPERATING EXPENDITURES	FY 2020	FY 2020					
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

None	***	***	***	***	***	***	***
Total	***	***	***	***	***	***	***

Estimated SUPPLEMENTAL (FY2019) cost: 0.0 *(separate supplemental appropriation required)*

Estimated CAPITAL (FY2020) cost: 0.0 *(separate capital appropriation required)*

Does the bill create or modify a new fund or account? No
(Supplemental/Capital/New Fund - 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? No
 If yes, by what date are the regulations to be adopted, amended or repealed? n/a

Why this fiscal note differs from previous version/comments:

Not applicable, initial version based on the 2-13-19 Governor's FY2020 request.

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Division:	Tax Division	Date:	04/11/2019 12:00 PM
Approved By:	Brad Ewing, Administrative Services Director	Date:	04/11/19
Agency:	Office of Management and Budget		

FISCAL NOTE ANALYSIS

STATE OF ALASKA
2019 LEGISLATIVE SESSION

Analysis

Background

The proposed bill allows the Commissioner of the Department of Natural Resources (DNR) to adjust the Net Profit Share rate through royalty modification. This bill will incentivize additional resource development which may otherwise be expected uneconomic, potentially generating revenues to the State in the form of royalties, taxes, or net profit share payments that would not otherwise occur. This bill aligns with the priorities of Governor Dunleavy as it incentivizes resource development on net profit share leases, with additional resource bringing positive economic impact and jobs.

This bill is limited to existing leases that are Net Profit Share Leases (NPSLs). Any changes from this bill are assumed to only impact NPSL payments on a going forward basis only, not retroactive.

The proposed bill does not change any programs within the Department of Revenue.

Revenue Impact

***The revenue impacts of this bill are indeterminate. It is unknown at this time, which fields, if any would apply for net profit share rate reduction, so it's difficult to forecast the revenue impact of this bill. This is aligned with DNR's fiscal note.

The revenue impacts to the Tax Division would as follows for an existing Net Profit Share Lease:

- Net profits taxpayer: A positive impact, in that if any fields are able to get a reduced net profit share rate, there would be an increase to the amount of production tax paid.
- Minimum taxpayer: No impact if they are a minimum (i.e. gross) taxpayer unless they have any carry forward lease expenditures. If they do have carry-forward lease expenditures, then there is a positive impact the same as a net profits taxpayer.

Also, if the passage of this bill incentivizes more production, then there will be incremental revenue to State from oil and gas production taxes.

Implementation Cost

This legislation would not require the Department of Revenue to update its Tax Revenue Management System (TRMS). Besides having no implementation costs, this legislation would not cause any administrative burden on the Tax Division.