

SENATE FINANCE COMMITTEE  
March 31, 2023  
9:08 a.m.

9:08:20 AM

CALL TO ORDER

Co-Chair Olson called the Senate Finance Committee meeting to order at 9:08 a.m.

MEMBERS PRESENT

Senator Lyman Hoffman, Co-Chair  
Senator Donny Olson, Co-Chair  
Senator Bert Stedman, Co-Chair  
Senator Click Bishop  
Senator Jesse Kiehl  
Senator Kelly Merrick  
Senator David Wilson

MEMBERS ABSENT

None

ALSO PRESENT

Senator Cathy Giessel; Senator Bill Wielechowski; Dan Stickel, Chief Economist, Economic Research Group, Tax Division, Department of Revenue; Sonja Kawasaki, Staff, Senator Bill Wielechowski.

PRESENT VIA TELECONFERENCE

SUMMARY

SB 114 OIL & GAS PRODUCTION TAX; INCOME TAX

SB 114 was HEARD and HELD in committee for further consideration.

Co-Chair Olson discussed housekeeping.

#sb114

SENATE BILL NO. 114

"An Act establishing an income tax on certain entities producing or transporting oil or gas in the state; relating to the oil and gas production tax; and providing for an effective date."

[9:09:27 AM](#)

SENATOR BILL WIELECHOWSKI, discussed the presentation "SB 114 - Oil Revenue Reform Bill," (copy on file).

Senator Wielechowski looked at slide 2:

"The legislature shall provide for the utilization, development, and conservation of all natural resources belonging to the State, including land and waters, for the maximum benefit of its people."

-Article 8, Section 2, Constitution of Alaska

Senator Wielechowski pondered that Alaska was unique to other oil states because it had been granted subsurface rights upon statehood. He discussed the process for determining royalties paid by producers to oil states.

[9:10:59 AM](#)

Senator Wielechowski spoke to slide 3, "SB 114: Three Common Sense Reforms":

Closes Income Tax Loophole for Highly Profitable Petroleum Business S-Corps

Reduces the Sliding Scale Per-Barrel Credits & Requires Investment Match

Ringfences Losses on Alaska's Most Profitable North Slope Fields

Senator Wielechowski remarked that experts testified that Alaska had the most complex oil tax structure in the world. He said that the first provision would close the "S Corporation" tax status, which was a status that allowed "small business" corporations to pass corporate income credits and deductions to shareholders. To qualify

corporations would have to have less than 100 shareholders and not have any foreign shareholders. He said that over the years there had been no major producers on the North Slope that were S Corporations.

[9:11:53 AM](#)

Senator Wielechowski referenced slide 4, "Closing the S-Corporation Tax Loophole":

"S Corporation" stands for "Subchapter S corporation", or sometimes "Small Business Corporation." It is a special tax status granted by the Internal Revenue Service that lets corporations pass their corporate income, credits and deductions through to their shareholders.

[9:12:36 AM](#)

Senator Wielechowski turned to slide 5, "The S-Corp Loophole":

- Alaska incorporates the federal Internal Revenue Code as its tax code.
- The IRS taxes "pass-through" entities like privately owned S-Corps at the owner level to ensure taxes are collected on profits.
- But in 1980 Alaska repealed the personal income tax with HB 1040.
- This created a loophole for S-Corps to avoid paying taxes in Alaska, unlike regular public Corporations.

[9:13:06 AM](#)

Senator Wielechowski considered slide 6:

**The Nonpartisan Legislative Finance Division  
Recommends Closing this Loophole**

**"Should it be Continued, Modified, or Terminated?"**

"Recommend termination. "S" corporations are exempt from the federal corporate income tax because income from these corporations is taxed under the personal income tax. Without a state personal income tax, these

corporations receive the legal benefits of incorporation without any state tax liability."

-Indirect Expenditure Report, January 2021, Page 144

[9:13:28 AM](#)

Senator Wielechowski displayed slide 7, "

**The Department of Revenue Presented this Concern to the Legislative Fiscal Policy Working Group in 2021**

Existing Revenue: Expand Corporate Income Tax to Oil and Gas Pass-through Entities

**Description:** The option proposes to tax oil and gas through entities at the same rate as the current Corporate Income Tax on C-Corporations. This option defines "entities" to mean sole proprietorships, partnerships, and S-Corporations. This option would apply to any business who files a return, claim for credit or report under AS 43.55 (oil and gas production tax).

**First Full Year Impact: \$67.1 million in FY 2022**

Using our July 2021 ANS price update as the basis, the estimate is that this could increase corporate income revenue by \$47 to \$61 million per year from FY 2022 to FY 2030. The FY 2022 estimate includes retroactive application to 1.1.2021. The range is due to forecasted changes in production, oil prices, and anticipated company profitability this period.

**Costs:** There are no incremental costs to implement this change.

Source: "Comprehensive Fiscal Policy Plan for Alaska" Presented by Commissioner Lucinda Mahoney August 10, 2021.

[9:14:29 AM](#)

Senator Wielechowski highlighted slide 8, "Now is the Time to Close this Loophole":

The Department of Revenue estimated that over just FY22 and FY23, Alaska will have lost \$194 million in revenue due to this defect.

Source: Fiscal Note SB 106-DOR-TAX-4-29-22, 32nd  
Alaska State Legislature

[9:14:44 AM](#)

Senator Wielechowski looked at slide 9, "

**The SB 114 Solution**

Closing this Loophole Levels the Playing Field Between  
Privately Owned S-Corps and Public C-Corporations

Applies only to oil & gas production or pipeline  
transportation passthrough entities

9.4% Tax rate that matches percent  
tax on Alaska's highest tax bracket  
for C-Corps

Applies only to profits over \$4  
million

Senator Wielechowski said that the rationale for the \$4  
million cap was to protect smaller producers.

[9:15:42 AM](#)

Co-Chair Olson asked how many corporations in Alaska fell  
into the category of making less than \$4 million in  
profits.

Senator Wielechowski thought perhaps the Department of  
Revenue could answer the questions. He cited that a problem  
under the state's tax code was a policy of confidentiality  
surrounding profit information. He suggested that the  
committee might want to take up some kind of transparency  
provision. He said that he had just received the fiscal  
note attached to the bill.

[9:17:00 AM](#)

Senator Wielechowski addressed slide 10:

Alaska's S-Corp Shareholders will Receive Federal Tax  
Benefits

The owners of an S-Corp pay federal income taxes as individuals. If they are high income earners, they likely pay at the top marginal tax rate of 37%.

Since the amount of taxes they pay to Alaska is deductible from their federal taxable income, their taxes due to the IRS will be reduced by 37% under this provision.

[9:18:05 AM](#)

Senator Wielechowski advanced to slide 11:

Reducing the Sliding Scale Per-Barrel Credits & Requiring Investment "Match"

[9:18:21 AM](#)

Senator Wielechowski looked at slide 12:

Current Law: For new fields in their first seven years of production, the per-barrel credit is a flat \$5/barrel, unless oil prices exceed \$70 for any three years.

[9:18:42 AM](#)

Senator Wielechowski showed slide 13:

Current Law: For the state's major producing North Slope fields, the credit is based on a sliding-scale of average gross wellhead value:

\$8/barrel at less than \$80;  
\$7/barrel at \$80 to less than \$90;  
\$6/barrel at \$90 to less than \$100;  
\$5/barrel at \$100 to less than \$110;  
\$4/barrel at \$110 to less than \$120;  
\$3/barrel at \$120 to less than \$130;  
\$2/barrel at \$130 to less than \$140;  
\$1/barrel at \$140 to less than \$150;  
\$0/barrel at \$150

[9:19:16 AM](#)

Senator Wielechowski referenced slide 14:

## How the Per-Barrel Credits Evolved During the Legislative Process

- SB 21, the "More Alaska Production Act" (MAPA), was introduced in 2013 with no per-barrel credits.
- The Senate added a flat \$5 per-barrel credit for all producers. When SB 21 passed the Senate on March 21, 2013, the Governor, industry, and others supported just a \$5 credit.
- The House made the \$5 credit apply to the new fields and added the \$8 to \$1 sliding-scale per barrel credits for existing fields.

→As oil prices drop, and production tax revenue decreases, the tax credits increase - amounting to even lower production tax revenue.

Co-Chair Olson asked Senator Wielechowski to cite the reason for putting in the \$5 per barrel tax credit.

Senator Wielechowski thought there was some discussion about increasing investment, and that investment should be tied to the amount of barrels of oil produced. He said that when SB 21 was transmitted back to the senate with the sliding scale per barrel credit, no additional analysis had been done and the senate voted to concur with the changes. He thought that the bill had not been vetted rigorously before final passage. He stated that the fiscal note at the time had modeled oil prices that had not come to fruition.

[9:21:56 AM](#)

Senator Wielechowski turned to slide 15, "

The Senate had little time to analyze the sliding-scale per-barrel credits added by the House

SB 21 was transmitted back to the Senate with the sliding-scale per barrel credit on April 13, 2013—the day before the Legislature adjourned sine die.

Relying on the House committee vetting process, on April 14, 2013 the Senate voted to concur with the changes to SB 21 just hours before adjournment.

[9:22:04 AM](#)

Senator Wielechowski considered slide 16:

The fiscal modeling for the final House Finance version of SB 21 assumed the \$5 tax credit would apply

The fiscal note only modeled revenue differences at \$90, \$100, and \$120 oil prices. But since the per-barrel credits went into effect on January 1, 2014—nearly a decade ago—only nineteen months have seen high enough oil prices to provide the producers with anything less than the full \$8 credit.

Source: Fiscal Note Analysis #14, HCS CCSSB 21(FIN) (4/11/2013); Alaska Department of Revenue - Tax Division, Prevailing Values ANS West Coast Average Spot Price, <http://www.tax.alaska.gov/programs/oil/prevailing/ans.aspx>.

[9:23:23 AM](#)

Co-Chair Bishop asked whether Senator Wielechowski had considered work done by the TAPS Throughput Committee.

Senator Wielechowski said that he could go back and look at the information.

[9:24:19 AM](#)

Senator Wielechowski displayed slide 17:

Since 2014 Alaska has lost \$7.2 billion to the per-barrel credits

Source: Revenue Sources Book Spring 2023

Senator Wielechowski looked at a table showing historical production tax credits.

[9:24:55 AM](#)

Senator Wielechowski highlighted slide 18:

Alaska is projected to lose another \$8.7 billion in the next nine years

In just FY23 and FY24, the credits will cost the state \$2.2 billion.

Source: Revenue Sources Book Spring 2023

Senator Wielechowski looked at a table, which was a continuation of the historical production tax credits detail, FY13 through FY32.

[9:25:19 AM](#)

Senator Wielechowski looked at slide 19, "History of Production Tax Revenue vs. Per-Barrel Credits Deducted," which showed a line graph showing the production tax revenue versus the per-barrel credits from FY14 through FY23. The blue line represented the production tax, and the orange line showed the per-barrel credits.

[9:25:30 AM](#)

Senator Wielechowski addressed slide 20, "The Per-Barrel Credits Have Not Incentivized Investment on the North Slope: Expenditures," which showed a table of reported ANS lease expenditures and capital lease expenditures. He observed that there was a fairly significant loss every year with a slight increase in 2019 and then a drop back down. He pointed out roughly \$3 billion in CAPX had declined by half since 2014.

[9:26:44 AM](#)

Senator Wielechowski advanced to slide 21, "The Per-Barrel Credits Have Not Incentivized Investment on the North Slope: Credits," which showed a table of estimated Prudhoe Bay per-barrel credits. He noted that the data was an estimate and was sourced from the Department of Revenue. He pointed out that the highlighted numbers on the top line reflected the total value of per-taxable-barrel credits used against tax liability. The second line showed the Prudhoe Bay percentage of ANS production, which averaged 55 percent, per year. The last line showed the estimated value of per-taxable barrel credits applicable to Prudhoe Bay - \$399 million in FY21 and \$563 million in FY22.

[9:28:03 AM](#)

Senator Wielechowski went back to slide 20 and compared the numbers on each slide to illustrate his point.

[9:28:44 AM](#)

Senator Wielechowski looked at slide 22:

"Development that actually costs the state remains Alaska's least understood and most pressing economic problem. Few politicians seem concerned that we do not extract enough wealth from new resource development to offset its costs." -Governor Jay Hammond

[9:29:02 AM](#)

Senator Wielechowski spoke to slide 23, "The SB 114 Solution":

SB 114 reduces these credits to a \$5 to \$1 sliding scale and ties the credits to capital investment in Alaska:

- Per-barrel credit ranges from \$5 to \$1 for wellhead value ranges from \$80 to \$110.
- Producers earn the credits only up to the amount matching their qualified capital expenditures from the same tax year.

The new investment caveat encourages investment spending on projects in Alaska that will maintain production, create jobs for Alaskans, and promote industry growth.

[9:29:48 AM](#)

Senator Wielechowski referenced slide 24, "The SB 114 Solution":

SB 114 returns the amount of the per-barrel credit to, at most, the \$5 value that was acceptable to the Senate, the Governor, and industry supporters when SB 21 passed on the Senate Floor on March 21, 2013.

[9:30:05 AM](#)

Senator Wielechowski turned to slide 25, "Ringfencing North Slope Fields":

Ringfencing: Limiting the deduction of lease expenditures to those fields where the expenditure is incurred.

[9:30:20 AM](#)

Co-Chair Olson asked why the per-barrel credit had not incentivized exploration.

Senator Wielechowski turned back to slide 20 and remarked that Prudhoe Bay legacy fields were extremely profitable. H

Co-Chair Olson clarified that he was asking the per-barrel credits had not incentivized investment of the North Slope.

Senator Wielechowski could not answer the question.

[9:31:53 AM](#)

Senator Bishop commented that another component that was difficult to measure was the regulatory process.

Senator Wielechowski thought that what Senator Bishop brought up was more of a federal issue. He admitted that doing business in Alaska was challenging. He said that investment in Alaska was gained back in a magnitude greater than in other oil producing states.

[9:33:39 AM](#)

Senator Kiehl recalled that the sliding-scale credits were less to do exploration or in-field development but were tied to other credits. He asked Senator Wielechowski to remind the committee of what else had passed in SB 21.

Senator Wielechowski recalled that there was a provision for refundable tax credits. He cited the challenge of having only a few producers on the North Slope. He mentioned that Alaska's Clear and Equitable Share (ACES) Act had allowed for refundable oil tax credits. He explained that incumbent producers could write off the cost of development - new producers did not receive the same credits. He said that the refundable tax credits were an attempt to balance the scale. He said that ACES gave large tax credits for more investment which led to industry investing in record levels on the North Slope. He said that SB 114 would tie the tax credits to additional investment. He believed this would lead to an increase in production and development.

[9:36:08 AM](#)

Senator Wielechowski went back to slide 18, and wondered whether the state was getting a good return on investment for the tax credits. He discussed the cost of the Willow Project. He stressed that the promise of SB 21 had been that investment and production would increase with the cutting of taxes, which had not happened. He thought that rolling back the credits or tying them to increased investment would be more beneficial to the state.

[9:37:43 AM](#)

Senator Wielechowski went back to slide 25 and defined ring fencing as "limiting the deduction of lease expenditures to those fields where the expenditures occurred."

[9:37:58 AM](#)

Senator Wielechowski considered slide 26, "Current law Advantages Incumbent Producers":

- The producer with profits from existing fields can save on taxes as expenses are incurred.
- The newcomer must carry forward their "losses" until the field comes into production.
- Both would earn tax offsets for their spending, but the incumbent gets them much sooner.

[9:38:38 AM](#)

Senator Wielechowski displayed slide 27, "Ringfencing: Why is it Needed?":

- Under our tax code, incumbent producers are able to immediately write off their new field expenditures against their existing field production taxes. For every \$1 billion in expenditures, the State generally loses \$350 million in production taxes. This has the potential to cause severe shock to the State's cash flow.
- New producers do not have this same advantage - and must wait until oil production flows before writing off their field expenditures.
- Of particular concern is oil development on federal land, because Alaska subsidizes 35% of the development yet receives no royalties and very little production tax value.

Senator Wielechowski noted that all these figures depended on the price of oil.

[9:40:11 AM](#)

Senator Wielechowski highlighted slide 28, "The SB 114 Solution":

- Ringfence fields on the North Slope. Limits the deduction of lease expenditures to those fields where the expenditure is incurred.
- When new fields start producing oil, the accrued lease expenditures are then taken.
- Incumbent producers will be incentivized to faster development and completion of a project.
- Levels the playing field - Provides equal treatment to incumbent producers and new producers.

[9:40:43 AM](#)

Senator Wielechowski looked at slide 29, "History of Ringfencing":

- 1977-2005 - Ringfencing was standard in Alaska
- 2006-2023 - (North Slope) Comingled net profits
- 2006-2016 - (Cook Inlet Oil): Each field capped at ELF rates (Zero)
- 2007-2023 - (Cook Inlet Oil): Capped at \$1/bbl.

Senator Wielechowski

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Co-Chair Olson referenced the 28-year period of ring fencing. He asked if the practice had achieved the intended goals.

Senator Wielechowski cited tax rates for different fields declining at different rates, which indicated to him that things had not been working. He said that there was no net profits tax at that point. He noted that ringfencing was common in tax structures around the world.

[9:42:50 AM](#)

Senator Wielechowski addressed slide 30, "Ringfencing is a common aspect of oil revenue systems across the world":

"Ring-fencing rules matter for two main reasons:

- Absence of ring-fencing can postpone government tax revenue because a company that undertakes a series of projects will be able to deduct exploration or development expenditures from each new project against the income of projects that are already generating taxable income.
- As an oil and gas area matures, absence of ring-fencing may discriminate against new entrants that have no income against which to deduct exploration or development expenditures." -Emil M. Sunley, Thomas Baunsgaard, and Dominique Simard

Source: International Monetary Fund Publication "Fiscal Policy Formulation and Implementation in Oil-Producing Countries: Chapter 6 Revenue from the Oil and Gas Sector: Issues and Country Experience," August 21, 2023

Senator Wielechowski referenced a publication shown on the slide, "Fiscal Policy Formulation and Implementation in Oil-Producing Countries" from the International Monetary Fund.

Senator Wielechowski stressed the complexity of the state's tax structure and thought that a simple piece of legislation would not solve all problems.

[9:44:51 AM](#)

Senator Wielechowski advanced to slide 31, "Economists have criticized other oil producing jurisdictions for not using ringfencing":

"Governments typically utilize ring-fencing provisions to prevent oil companies from using losses incurred on one site from sheltering the profits from other, more lucrative investments..

"Unfortunately, Guyana has granted the contractor a blank check with regard to future development. The result is that the contractor has a powerful incentive to continue to add costs to the project. The net effect is to push back the point at which Guyana maximizes its cash benefit."

-Tom Sanzillo, Director of Financial Analysis  
Institute for Energy Economics and Financial Analysis

Source: "Lack of Ring-Fencing Provision Means Guyana Won't Realize Oil Gains Before 2 s, if at All,"  
Institute for Energy Economics and Financial Analysis.  
July 2021

Senator Wielechowski commented that one concern of ring fencing was that Alaska was a large participant in the expenses an incumbent incurred. He worried that the position could negatively impact the state's cash flow.

[9:46:01 AM](#)

Senator Kiehl thought there was much attention on the timing of cash flow. He agreed that time was money. He mentioned the complexity of the state's tax structure, and asked if there were situations where implementing ringfencing could change the overall value to the state or producers.

Senator Wielechowski answered "yes," and referenced the time value of money. He thought if 35 percent of a billion dollars could be written off, that was \$350 million that industry could invest elsewhere.

[9:47:41 AM](#)

Senator Kiehl referenced the recent presentation with revised estimates for the Willow Project. He asked about the gross based tax floor. He asked whether ringfencing could limit a company's ability to recoup their investment.

Senator Wielechowski agreed that there could be a situation where that would be true. He noted that DOR had spoken to the topic and reiterated the complexity of the tax structure.

[9:48:41 AM](#)

Senator Wielechowski spoke to slide 32:

"I clearly recognize the need for new revenue for Alaska. In my opinion that new revenue does need to include some additional amount from the oil and gas industry."

-Aaron Schutt, CEO, Doyon, Limited Speaking as a surrogate for OneAlaska - Vote No on 1 Commonwealth North event "Discussion of Ballot Measure 1: The Oil Tax Initiative"

Senator Wielechowski said that opponents of the initiative thought that the legislature should be dealing with oil tax structure changes, which was what the bill was trying to accomplish.

[9:50:02 AM](#)

Senator Wilson pondered that if the resources in the state were so valuable why were oil companies leaving the state.

Senator Wielechowski was not sure which companies Senator Wilson was referring to but thought perhaps BP had left the state due to the cost of a large oil spill off the Gulf of Mexico. He thought that when one corporation left another always took its place.

[9:52:09 AM](#)

Senator Wilson said that when BP had been operating the fields that Hilcorp too over there had been a decline in oil revenue, which had increased. He asked whether the increase in taxable oil revenue would surpass the tax BP would have paid.

Senator Wielechowski was not sure he understood the question. He suggested looking at the production at Prudhoe Bay, which would show that there had not been an increase in production.

Senator Wilson thought that the new producer had increased production over what BP had been producing.

Senator Wielechowski relayed that he had not done the analysis to answer the question. He did not know how much Hilcorp paid in corporate income taxes. He asserted that the state did not have the data necessary to do many such calculations.

[9:54:53 AM](#)

Co-Chair Olson understood that the bill only affected oil companies. He asked whether there were concerns that there were some sort of constitutional protection issues that may arise in the future.

Senator Wielechowski relayed that the courts had a "rational basis test." He said that there was a constitutional mandate to get the maximum amount for resources for the people of Alaska. He thought the bill closed a loophole by treating all companies the same when it came to paying taxes to the state.

[9:56:31 AM](#)

Senator Merrick referenced page 6 of the presentation, and relayed that she had been surprised to find that LFD had made what she considered a policy decision to terminate the S Corporation loophole solely for oil companies.

Senator Wielechowski deferred the question to the committee if it wished to expand on the matter. He reminded that the state had major producers on the North Slope doing similar types of work and paying different types of taxes.

Senator Merrick asked whether Senator Wielechowski had an estimate of potential revenues if all S Corporations were taxed.

Senator Wielechowski understood that oil and gas made up 70 percent of the state's corporate income tax. He did not have an exact number and deferred to DOR.

[9:58:28 AM](#)

Senator Wielechowski referenced slide 33:

"I have no doubt that oil taxes will be part of the conversation in the Legislature... Any proposal needs to be examined and reviewed and the Legislature tends to be a better format for that."

-Kara Moriarty, Campaign Manager, OneAlaska, Vote No on 1 Anchorage Daily News "Oil tax initiative fails, pushing question of where to look for new revenue sources back to Alaska Legislature," November 1, 2 2

Senator Wielechowski asserted that the industry expected that there would be discussions on the tax structure.

Senator Wielechowski showed slide 34, "Questions?"

[9:59:40 AM](#)

Co-Chair Olson expressed appreciation for the quality of the presentation.

[9:59:59 AM](#)

Co-Chair Stedman thought it had been a decade since the state had extensive modelling done on the oil and gas structure and thought that significant changes had been made since that time. He asked whether more modeling had been done.

Senator Wielechowski recalled that the previous year when he had been on the committee, there had been a DOR presentation where he had asked the same question. The testimony at the time was from the deputy commissioner, who had indicated that the state had done the modeling. He had requested the information multiple times yet had not received it. He added that another question was whether the cutting the credit could be done with minimal impact to the state.

Senator Wielechowski addressed corporate tax modelling and did not recall if the questions had been addressed.

Co-Chair Olson invited a representative from DOR to discuss the fiscal note.

[10:03:37 AM](#)

DAN STICKEL, CHIEF ECONOMIST, ECONOMIC RESEARCH GROUP, TAX DIVISION, DEPARTMENT OF REVENUE, reviewed a new fiscal note from the Department of Revenue. He described that the note was four pages in length and the final page included a table depicting the provisions of the bill and the estimated revenue impact for each of the 10 years. He explained that the note contained a more detailed analysis than most fiscal notes, which DOR endeavored to do for oil and gas related fiscal notes.

Mr. Stickel spoke to page 4 of the fiscal note and qualified that the note did not speak to policy decisions but rather to DOR's estimate of revenue impacts of those decisions. He related that everything in the note was based on the spring 2023 revenue forecast and assumed no change in company behavior or investment.

Co-Chair Olson understood that the slide assumed \$73/bbl.

Mr. Stickel responded that the information presumed an oil price of \$73/bbl. for FY24, and then followed the DOR spring forecasts for the remaining 10 years. He mentioned that the analysis was based on the preliminary interpretation of possible policy changes, and the interpretations that were made for modeling purposes.

Mr. Stickel looked at the table at the top of the page, which included descriptions of the 4 provisions outlined in the bill. Line 5 showed the collective impact of implementing the provisions together. He noted that each provision had been modeled independently and then added together to determine total fiscal impact.

Mr. Stickel addressed provision one, which pertained to ring fencing:

Retroactive to 1/1/23, for all units, taxes and per-taxable-barrel credits are calculated and applied separately for each unit.

Mr. Stickel explained that the provision was estimated to generate \$396 million in FY24, including the retroactive payment, \$303 million in FY25, and then remaining at over \$200 million over the next 10 years.

Mr. Stickel spoke to the second provision:

Retroactive to 1/1/23, for all units, the sliding-scale per-taxable-barrel credit is reduced with a maximum value of \$5 per taxable barrel at wellhead values below \$80 per barrel, reducing down to \$1 at wellhead values equal to or greater than \$110 per barrel.

Mr. Stickel noted that some of the analysis had looked at keeping the existing scale, and limiting the credit to \$5/bbl, which meant that the credit would phase out at

gross value point of production greater than \$150/bbl. The bill reduced the value of all the credits by \$3/bbl. which meant that it would phase out at \$120/bbl.

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Mr. Stickel continued to address line 2 of the table on page 4 of the fiscal note. He cited that the gross minimum tax floor in the production tax code was "hard", and companies could not go beneath the minimum tax floor. Having the minimum tax floor in place reduced the potential impact. Mr. Stickel explained that the provision was estimated to generate \$322 million in FY25 and would decrease in the out years.

Mr. Stickel addressed the third provision:

Retroactive to 1/1/23, per-taxable barrel credits applied within a unit during a year may not exceed capital expenditures within that unit during the year.

Mr. Stickel assumed that the provision applied to sliding scale and non-sliding scale per barrel taxable credits. The impacts started out at \$174 million in FY 25, decreasing to under \$100 million at the end of the 10-year time horizon.

Mr. Stickel addressed the fourth provision:

Retroactive to 1/1/23, apply a 9.4 percent tax on income over \$4 million for oil and gas companies not subject to corporate income tax, including S-corporations.

Mr. Stickel shared that the modeling assumed that corporations that were not C-corporations would pay a similar amount of tax as was estimated for C-corporations.

Mr. Stickel addressed line 5 on the table which addressed the total impact of the bill provisions, some of which overlapped and added to each other. The total impact was shown on the yellow line at the bottom of the table.

[10:13:03 AM](#)

Senator Kiehl asked about the out-year numbers on line 2. He asked about the uptick in FY32.

Mr. Stickel explained that there were two factors at work. He explained that the oil price forecast increased in FY2030 and beyond, which allowed for more headroom above the minimum tax floor to use the per barrel tax credits. The other factor was that over time the estimates showed some companies being non-gross value eligible.

[10:14:48 AM](#)

Co-Chair Stedman asked Mr. Stickel to review the breakover point for net tax and gross tax.

Co-Chair Olson agreed that the topic could be confusing.

Mr. Stickel relayed that in the spring revenue forecast for 2024, the crossover point for major companies was in the mid-50s and mid 70s in terms of the price at which companies would go from paying at the gross minimum tax floor to paying some amount above the minimum tax floor. He noted that there were a lot of companies that were very close to the minimum tax floor, which was material to the calculated numbers. By reducing the per-taxable-barrel credits, it would increase the net tax and shift the crossover point. He could not provide exact numbers.

Co-Chair Olson asked whether the number would increase or decrease.

Mr. Stickel thought there would be a little lower crossover point.

[10:16:42 AM](#)

Co-Chair Stedman asked for the department to provide more detailed numbers than what was available in the revenue source book.

Co-Chair Olson asked whether Mr. Stickel could fine-tune the information.

Mr. Stickel agreed to provide the information.

[10:17:34 AM](#)

Senator Bishop pondered that there were many moving parts to the bill, and a change to one part would affect another. He referenced the GVR and expressed that he would need the order of operations at various price ranges in order to comprehend the potential effects of the legislation.

Mr. Stickel was happy to work with the committee to provide a more detailed analysis of the legislation.

[10:18:58 AM](#)

Co-Chair Olson referenced a comment by Senator Kiehl regarding a "donut hole." He asked how the issue measured into the fiscal note.

Mr. Stickel relayed that the donut hole had to do with the ringfencing provisions. He explained that in most cases, the ringfencing represented an overall tax increase for companies because the lease expenditures for new developments were required to be carried forward separately and not applied against the tax liability until the field came into production. There were some cases in which ring fencing provided a tax cut for a company and under current law if a company was under the minimum tax floor level, or very close, they would not benefit from the lease expenditure; Under ringfencing they would earn a carry forward credit that they would not have earned otherwise.

[10:20:17 AM](#)

Senator Wilson requested modelling without the ringfencing provision.

Co-Chair Olson thought that the matter of ringfencing would be addressed.

Mr. Stickel appreciated the time of the committee and the bill sponsor and offered to be available for further analysis.

Co-Chair Olson relayed that the committee had not noticed public testimony for the bill during the meeting and would address it at a later time.

[10:21:25 AM](#)

Senator Wielechowski relayed that he did not have additional comments.

SONJA KAWASAKI, STAFF, SENATOR BILL WIELECHOWSKI, thanked the committee for the opportunity to present the bill.

Co-Chair Olson revealed that a committee substitute that removed the ringfencing provision would be before the committee at the next hearing of the bill.

SB 114 was HEARD and HELD in committee for further consideration.

Co-Chair Olson discussed the agenda for the next meeting.

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ADJOURNMENT

10:23:36 AM

The meeting was adjourned at 10:23 a.m.