

COMMITTEE REPORT

HOUSE

Mr. Speaker:

Date _____

The Committee on FINANCE has had HR 203

under consideration. A Majority of the members of the Committee

() recommends it DO PASS

() recommends it DO NOT PASS

() recommends it DO PASS WITH ATTACHED AMENDMENT(S)

() recommends it BE REPLACED WITH CS FOR _____ AND THAT
CS FOR _____ DO PASS

() "and" recommends it BE REFERRED TO THE _____
COMMITTEE

() reports it back WITHOUT RECOMMENDATION

() "other"

Members signing the Majority report:

[Signature] _____
[Signature] _____
[Signature] _____
[Signature] _____

Members NOT concurring in the Majority report:

[Signature] recommends: DO PASS
[Signature] recommends: DO NOT PASS
_____ recommends:
_____ recommends:
_____ recommends:

[Signature] Chairman

* Sec 7.

AS 43.55. 020 (f) is amended to read:

(f) If oil or gas is sold under circumstances where the ^{sale} ~~sale~~ price does not represent the [CASH PRICE] prevailing value for oil or gas of like kind, character or quality in the field or area from which the product is ~~is~~ produced, the department may require the tax to be paid upon the basis of the value [~~the~~ PREVAILING PRICE THEN PAID AT THE TIME OF PRODUCTION OF ~~the~~ THE OIL OR GAS IN THE FIELD FOR] of oil or gas of the same kind, quality and character, prevailing during the calendar months of production for that field or area.

* Sec. 7. AS 43.55.020(f) is amended to read:

(f) If oil or gas is sold under circumstances where the sale price does not represent the [CASH PRICE] prevailing value for oil or gas of like kind, character or quality in the field or area from which the product is produced, the department may require the tax to be paid upon the basis of the value [PREVAILING PRICE THEN PAID AT THE TIME OF PRODUCTION OF THE OIL OR GAS IN THE FIELD FOR] of oil or gas of the same kind, quality and character prevailing during the calendar month of production for that field or area.

THE LEGISLATURE OF THE STATE OF ALASKA
FISCAL NOTE

Second Session - Ninth Legislature

I. REQUEST

Bill No. House Bill No. 583
 Title: Oil and gas exploration, production and pipeline transportation prop. tax
 Requested by: House Finance Committee Date: 1-21-76
 Return Date Requested: As soon as possible
 Agency: Revenue Program: Petroleum Revenue

II. FISCAL DETAIL

Budget Request Unit(s) Affected: Petroleum Revenue

A. EXPENDITURES: (Thousands of dollars)

OBJECT	FY 76	FY 77	FY 78	FY 79	FY 80	FY 81
100 PERSONAL SERVICES						
200 TRAVEL						
300 CONTRACTUAL						
400 COMMODITIES						
500 EQUIPMENT						
600 LAND & STRUCTURES						
700 GRANTS, CLAIMS, ETC.						
TOTAL	None	None	None	None	None	None

B. FUNDING: (Thousands of dollars)

GENERAL FUND						
FEDERAL FUNDS						
OTHER						

C. POSITIONS:

PERMANENT/TEMPORARY	/	/	/	/	/	/
MAN MONTHS (P./T.)	/	/	/	/	/	/

III. ANALYSIS (See Fiscal Note Preparation Instructions, Section III)

IV. ATTACHMENTS

See attached memorandum dated January 12, 1976 from Frederick P. Boetsch, Deputy Commissioner, Taxation to Sterling Gallagher, Commissioner of Revenue.

V. DATE: January 29, 1976 PREPARED BY: Frederick P. Boetsch

Frederick P. Boetsch, Deputy Commissioner
Taxation, Department of Revenue

Original: Legislative Finance
 cc: Budget and Management
 Prime Sponsor (First Legislator Named)

Original sponsor: Rules Committee by request
of the Governor

1 IN THE HOUSE

BY THE FINANCE COMMITTEE

2 CS FOR HOUSE BILL NO. 583

3 IN THE LEGISLATURE OF THE STATE OF ALASKA

4 NINTH LEGISLATURE - SECOND SESSION

5 A BILL

6 For an Act entitled: "An Act relating to oil and gas taxes; and providing
7 for an effective date."

8 BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF ALASKA:

9 * Section 1. AS 43.56.010(b) is amended to read:

10 (b) A municipality may levy and collect a tax under AS 29.53.045
11 at the rate of taxation that applies to other property taxed by the
12 municipality. The [A] tax [COLLECTED BY A MUNICIPALITY AS AUTHORIZED
13 BY AS 29.53.045 SHALL BE CREDITED AGAINST THE TAX LEVIED UNDER (a) OF
14 THIS SECTION AND] shall be levied at a rate no higher than the rate
15 applicable to other property taxable by the municipality. No municipi-
16 pality may exempt from taxation property authorized to be taxed under
17 this chapter. Exemptions shall be limited to those in AS 29.53.020 and
18 29.53.025 and sec. 20 of this chapter.

19 * Sec. 2. AS 43.56.010 is amended by adding a new subsection to read:

20 (d) A tax paid to a municipality under AS 29.53.045 on or before
21 June 30 of the tax year shall be credited against the tax levied under
22 (a) of this section for that tax year. If, however, a tax is not paid
23 to a municipality until after June 30 of the taxable year, the depart-
24 ment upon application shall refund to the taxpayer the amount of tax
25 paid to the municipality under AS 29.53.045. The credit or refund of
26 taxes paid to a municipality may not exceed the total amount of tax
27 levied by the department upon the taxpayer for the tax year, under (a)
28 of this section.

29 * Sec. 3. AS 43.56.150(a) is amended to read:

1 (a) The tax levied by sec. 10(a) of this chapter is payable to
2 the department on or before June 30 [SEPTEMBER 30] of the taxable year.

3 * Sec. 4. AS 43.56 is amended by adding a new section to read:

4 Sec. 43.56.135. CERTIFICATION. No later than June 1 of each year,
5 the department shall certify the final assessment roll and mail to the
6 owner of the taxable property or his authorized agent a statement of the
7 amount of tax due.

8 * Sec. 5. AS 43.56.130(h) is repealed.

9 * Sec. 6. AS 43.55 is amended by adding a new section to read:

10 Sec. 43.55.150. DETERMINATION OF GROSS VALUE. (a) For the pur-
11 poses of this chapter, the gross value shall be calculated using the
12 reasonable costs of transportation of the oil or gas. The reasonable
13 costs of transportation shall be the actual costs, except

14 (1) when the parties to the transportation of oil or gas are
15 affiliated;

16 (2) when the contract for the transportation of oil or gas is
17 not an arm's length transaction or is not representative of the market
18 value of that transportation;

19 (3) when the method of transportation of oil or gas is not
20 reasonable in view of existing alternative methods of transportation.

21 (b) If the actual costs of transportation exceed the reasonable
22 costs under (a) of this section, the department shall determine the
23 reasonable costs of transportation of the oil or gas.

24 * Sec. 7. AS 43.55.020(f) is amended to read:

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26 price does not represent the [CASH PRICE] prevailing value for oil or
27 gas of like kind, character or quality in the field or area from which
28 the product is produced, the department may require the tax to be paid
29 upon the basis of the value [PREVAILING PRICE THEN PAID AT THE TIME OF

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PRODUCTIVE OF THE OIL OR GAS IN THE FIELD FOR] of oil or gas of the same kind, quality and character prevailing during the calendar month of production for that field or area.

* Sec. 8. This Act is retroactive to January 1, 1976.

* Sec. 9. This Act takes effect immediately in accordance with AS 01.10.-070(c).

HOUSE JOURNAL

CSHB 583
Letter of Intent

House Bill 583, which was introduced by the Rules Committee by request of the Governor, provides that the existing ad valorem tax on pipelines and related equipment shall be collected on June 30 rather than September 30, beginning in 1976. The effect of the bill will be to put revenues which otherwise would have been payable in FY 1977 into FY 1976, thereby relieving a cash flow problem which the State may face in the next three fiscal years.

The bill was amended by the Finance Committee in order to avoid the possibility of certain practices which could adversely affect the State's future revenues.

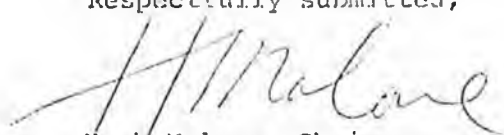
Sec. 6 of the committee substitute for HB 583 adds to Sec. 43.55, which relates to the oil and gas properties production (severance) tax, a section which would allow the Department of Revenue to compute reasonable transportation costs where a taxpayer's actual transportation costs are not the result of a good faith commercial transaction. The gross production tax is based on a percentage of the wellhead value, which is diminished by any increase in transportation costs.

Sec. 7 of the committee substitute revises somewhat the existing language of A.S. 43.55.020(f) in order to allow the Department of Revenue to compute the value of oil or gas produced in the field or area.

The amendments would codify a power which the Department already has, both with respect to A.S. 43.55 and for the purpose of determining the State's royalty share under existing contracts. The purpose of Sec. 6 is to prevent the practice commonly known as "transfer pricing", in which one company charges an affiliated company an amount which is in excess of the market price for transportation, for the purpose of reducing the affiliated company's tax burden. The profit center is merely shifted to the transporting company and state taxation is avoided. Sec. 7 prevents an affiliated purchaser from buying oil or gas at an unrealistically low price, thus allowing the producer to claim a low value for the purposes of taxation.

It should be emphasized that the Committee is of the opinion that the Department already has the powers which are codified in the amendment, and that the words "price" and "value" are not synonymous for the purpose of A.S. 43.55 or for setting state royalties.

Respectfully submitted,


Hugh Malone, Chairman
House Finance Committee

Introduced: 1/15/76
Referred: Finance

1 IN THE HOUSE

BY THE RULES COMMITTEE BY
REQUEST OF THE GOVERNOR

2 HOUSE BILL NO. 583

3 IN THE LEGISLATURE OF THE STATE OF ALASKA

4 NINTH LEGISLATURE - SECOND SESSION

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13 10.070(c).