

COMMITTEE REPORT

SENATE

Mr. President:

Date 5/18/76

The Committee on Finance has had CS 381

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:

Members NOT concurring in the Majority report:

_____ recommends:
_____ recommends:
_____ recommends:
_____ recommends:
_____ recommends:

Chairman

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)

JAN 15 1976

14B593

The Honorable Mike Bradner
Speaker of the House
Alaska State Legislature
Juneau, Alaska 99811

Dear Mr. Speaker:

In accordance with AS 24.30.060(b) and the Uniform Rules of the Alaska State Legislature, I am transmitting a bill which amends the oil and gas exploration, production and pipeline transportation property tax contained in AS 43.56. This bill changes the due date for payment of the oil and gas property tax from September 30 to June 30. It also adds a new section which requires the Department of Revenue to certify the final assessment roll and to notify the owners of the taxable property of the amount due on or before June 1 of each year instead of July 1 (the date presently specified in AS 43.56.130(h) which is being repealed in sec. 5 of the bill) in order that payment may be required by June 30.

This bill is proposed in response to the financial crisis presently confronting the State government which is expected to remain critical during the next few fiscal years. The bill is designed to bring the revenues to be derived from the collection of the tax into the State treasury sooner than the original enactment otherwise provides.

The State's need for money over the next few years may necessitate borrowing in anticipation of its revenues. Under Article IX, Section 10, of the Alaska Constitution, the State "may borrow money to meet appropriations for any fiscal year in anticipation of the collection of the revenues for that year." Therefore, it is important that our large sources of revenue for a particular fiscal year be received before the end of that year. This change in payment dates will parallel the payment date for the State's oil and gas reserves ad valorem tax.

Presently the amount of tax paid to the municipality is credited against the amount of tax due to the State, and the taxpayer only remits the net amount to the State. If the tax payment date is moved up to June 30, a straight credit system will not work in many cases since the municipal tax may not be due and payable until after June 30, the Department will refund the amount of municipal tax paid since a credit would no longer be possible.

The bill is made retroactive to January 1, 1976 so that there can be no question that the new payment date will apply to tax year 1976.

Sincerely,

Jay S. Hammond
Governor

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.

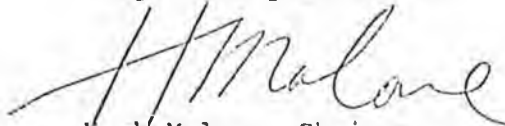
Sec. 6 of the committee substitute for HB 583 adds to Sec. 43.55, which relates to the oil and gas properties production (severance) tax, a section which would allow the Department of Revenue to compute reasonable transportation costs where a taxpayer's actual transportation costs are not the result 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

MEMORANDUM

State of Alaska

TO: Sterling Gallagher
Commissioner
Department of Revenue

DATE: January 12, 1976

FILE NO:

TELEPHONE NO:

FROM: Frederick P. Boetsch *F.P.B.*
Deputy Commissioner, Taxation
Department of Revenue

SUBJECT: Governor's Bill Changing
Due Date of Property Tax
Payments to June 30

This bill changes the payment date for the property tax (AS 43.55) on petroleum properties from September 30 of the year following the date of assessment to June 30. The effect of this change in dates will be to move the receipt of money up by one fiscal year. For fiscal year 1976 this means additional revenues of \$70,100,000 and for fiscal year 1977 this means additional revenues of \$58,100,000. In total this will mean an additional \$128,200,000 will be available to the General Fund to meet expenditures during the so-called "crunch" period. This will have a significant positive effect on our ability to balance the budget and get through this critical period.

Because of the credit provision for municipal property taxes paid on the same property, additional language has been inserted which covers some of the timing problems raised by changing the date from September 30 to June 30. In some instances, it will be necessary to refund to taxpayers amounts paid to municipalities after the June 30 payment date required under the bill for state purposes. While this will involve some additional accounting work on the part of the state, this additional work is so minor that it does not result in significant increased costs.

cc: Tom Williams, Director
Petroleum Revenue Division

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

5 A BILL

6 For an Act entitled: "An Act relating to the oil and gas exploration,
7 production and pipeline transportation property
8 taxes; and providing for an effective date."

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

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

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

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

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

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

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

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

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

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

11 * Sec. 6. This Act is retroactive to January 1, 1976.

12 * Sec. 7. This Act takes effect immediately in accordance with AS 01.-
13 10.070(c).

Original sponsor: Rules Committee by request
of the Governor

Offered: 3/11/76
Referred: Rules

1 IN THE HOUSE

BY THE FINANCE COMMITTEE

2 CS FOR HOUSE BILL NO. 583 am

3 IN THE LEGISLATURE OF THE STATE OF ALASKA

4 NINTH LEGISLATURE - SECOND SESSION

5 A BILL

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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 department finds that the conditions in (a)(1),(2),(3),
22 of this section are present, the department shall determine the reasonable
23 costs of transportation, using the fair market value of like transporta-
24 tion, the fair market value of equally efficient and available alternative
25 modes of transportation, or other reasonable methods. Transportation
26 costs fixed by tariff rates properly on file with the Alaska Pipeline
27 Commission or other regulatory agency shall be deemed prima facie
28 reasonable.

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

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

9 * Sec. 8. This Act is retroactive to January 1, 1970.

10 * Sec. 9. This Act takes effect immediately in accordance with AS 01.10.-
11 070(c).