

SB

5005

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Governor Bill Walker
STATE OF ALASKA

July 8, 2016

The Honorable Kevin Meyer
President of the Senate
Alaska State Legislature
State Capitol, Room 111
Juneau, AK 99801-1182

Dear President Meyer:

Under the authority of Article III, Section 18, of the Alaska Constitution, I am transmitting a bill relating to oil and gas production taxes and tax credit reform.

This bill would build off the substantial work by this Legislature in both regular and special session to put the State on a path for a sustainable fiscal future. While I recognize that Chapter 4, 4SSLA 2016, represents hard won compromises, difficult choices, and significant steps towards a sustainable fiscal future, it is simply not enough. More work must be done to correct the State's unsustainable system of oil and gas production tax credits.

First, in the recent and potentially future oil price climate, oil and gas producers and explorers are incurring losses. This has resulted in large tax credits for use against oil and gas production tax liability and hefty requests for purchase from the oil and gas tax credit fund. This bill would reduce, in 2017, the amount of tax credits available for a company incurring a net operating loss for expenditures incurred north of 68 degrees North latitude ("North Slope"). In 2018, the tax credit would be eliminated for North Slope expenditures.

Second, the bill would increase the minimum tax amount for certain oil and gas produced on the North Slope beginning in 2017. When the price for North Slope oil is above \$55, the bill would provide that the minimum tax amount may not be less than five percent of the gross value at the point of production.

Third, the bill includes provisions designed to promote good governance practices. The bill would also enable the Department of Natural Resources to release seismic data, obtained through oil and gas tax credits, if a lease is terminated or relinquished. Finally, the bill would institute reasonable and time sensitive changes to the interest rate applicable to delinquent taxes.

This bill builds on the Legislature's commendable work on Chapter 4, 4SSLA 2016. I do not lightly suggest these changes. But, the changes in this bill, along with critical changes to the administration

The Honorable Kevin Meyer
Transmittal Oil and Gas Production Tax Credits
July 8, 2016
Page 2

of the Permanent Dividend Fund, would help protect the State's fiscal future from the volatility of oil prices. I urge your prompt and favorable action on this measure.

Sincerely,

A handwritten signature in black ink that reads "Bill Walker". The signature is written in a cursive style with a large, prominent initial "B".

Bill Walker
Governor

Enclosure

Fiscal Note

State of Alaska
2016 Legislative Session

Bill Version:	SB 5005
Fiscal Note Number:	1
(S) Publish Date:	7/11/2016

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	Included in	Out-Year Cost Estimates				
	Appropriation Requested	Governor's FY2017 Request	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022
OPERATING EXPENDITURES	FY 2017	FY 2017					
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
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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.

Prepared By:	Ken Alper, director	Phone:	(907)465-8221
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.

STATE OF ALASKA
2016 LEGISLATIVE SESSION

BILL NO. 0 _____

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 credits 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 minimum tax rate itself when the price of oil exceeds \$55 / bbl. This threshold 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.

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 PRICE¹

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 Impact²	\$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 investment³	\$0	\$0	\$100 to \$125	\$110 to \$145	\$275 to \$330	\$260 to \$325	\$220 to \$295	\$215 to \$260	\$170 to \$195
Non-refundable carry-forward credits balance at fiscal year end - current law ⁴	\$606	\$719	\$677	\$509	\$250	\$129	\$52	\$0	\$0
Non-refundable carry-forward credits balance at fiscal year end - proposed 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

¹The 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.

²Budget 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.

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

⁴These 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.

ALASKA STATE LEGISLATURE

SENATE FINANCE COMMITTEE

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Official Business

AGENDA

Schedule June 6, 2016

All Senate Finance Committee hearings will be teleconferenced

Monday, June 6, 2016

Bill Ray Center Room 230 - 3:00 PM

SB 128 PERM. FUND:DEPOSITS;DIVIDEND;EARNINGS

Bills previously heard or scheduled

Estimated Tax credit payments, with impacts of FY17 budget and HB247, \$millions

Title:

Preparer:

Dan Stickel, Chief Economist, 465-3279

Date:

7/12/2016

History:

Initial version included FY2017 appropriation as passed Legislature; this version updated to reflect veto of most credit funding for FY2017. Initial version included HB247 impacts based on fiscal note midpoint estimate; this version updates for modeled impacts using final version of bill incorporated into Spring 2016 forecast model.

Purpose:

To provide an estimate of appropriations that would be needed to fully fund refundable tax credits for FY18 and beyond, with the final FY17 budget after vetoes and final version of HB247.

Data Source:

Spring 2016 forecast; FY2017 budget after vetoes and HB 247 as enacted.

Key Assumptions:

Price, production, and company investment are assumed to be as forecast in the Spring 2016 forecast.

Disclaimer:

The Department of Revenue is in the process of reviewing and updating the data on which this analysis is based. As a result, future analysis could have different results.

Estimated Tax credit payments, with impacts of FY17 budget and HB247, \$millions

Revised 7/12/16 by Dan Sticklel

	Spring 2016 forecast	HB 247 adjustment ¹	Spring 2016 FC w/ HB 247	Impact of FY 17 appropriation ²	Credit payments after HB 247 and FY 17 budget
FY 2017	\$ 775.0	\$ (15.0)	\$ 760.0	\$ (730.0)	\$ 30.0
FY 2018	\$ 500.0	\$ (55.0)	\$ 445.0	\$ 730.0	\$ 1,175.0
FY 2019	\$ 375.0	\$ (90.0)	\$ 285.0		\$ 285.0
FY 2020	\$ 270.0	\$ (80.0)	\$ 190.0		\$ 190.0
FY 2021	\$ 250.0	\$ (100.0)	\$ 150.0		\$ 150.0
FY 2022	\$ 250.0	\$ (100.0)	\$ 150.0		\$ 150.0
FY 2023	\$ 250.0	\$ (100.0)	\$ 150.0		\$ 150.0
FY 2024	\$ 250.0	\$ (100.0)	\$ 150.0		\$ 150.0
FY 2025	\$ 250.0	\$ (100.0)	\$ 150.0		\$ 150.0

¹ Based on comprehensive modeling of final version of HB247 per Spring 2016 forecast. Amount shown is only the impact on credits paid through appropriation; HB 247 impacts also include additional revenues which are not shown here.

² For FY 2017, appropriations in the FY 2017 budget after vetoes total \$300 million, which is less than total credits estimated to be eligible for refund. Assumes that FY 2017 credits are paid up to the appropriation, and excess credits roll forward into FY 2018.

Data source: Spring 2016 forecast; FY2017 budget after vetoes and HB 247 as passed Legislature. Price, production, and company investment are assumed to be as forecast in the Spring 2016 forecast.



Oil and Gas Tax Credit Reform
SB5005

Presentation to Senate Finance Committee
July 13, 2016

Bill Title

"An Act relating to the oil and gas production tax, tax payments, and credits; relating to oil and gas lease expenditures and production tax credits for municipal entities; relating to the interest applicable to delinquent tax; and providing for an effective date."

Purpose of Bill

SB5005 is a smaller, more targeted credit reform and minimum tax package than HB247

- Addresses “North Slope NOL” issue
- Re-introduces several smaller parts of HB247 that did not pass
- Increases the minimum tax at certain prices
- Technical fixes to HB247 sections that may have implementation issues

History of Oil and Gas Production Tax Credits

Update: FY 2007 thru '16, \$8.0 Billion in Credits

North Slope

- \$4.4 billion credits against tax liability
 - Major producers; mostly 20% capital credit in ACES and per-taxable-barrel credit in SB21
- \$2.3 billion refunded credits
 - New producers and explorers developing new fields

Non-North Slope (Cook Inlet & Middle Earth)

- \$0.1 billion credits against tax liability
 - Another \$500 to \$800 million Cook Inlet tax reductions (through 2013) due to the tax cap still tied to ELF
- \$1.2 billion refunded credits (most since 2013)

Work Done Since January

- Spring 2016 Revenue Forecast includes large expected operating losses from major producers, which would offset minimum tax payments for several years
- Forecast also updates FY17 demand for refunded credits to \$775 million (includes \$200 million that had been vetoed from the FY16 budget, carried forward)
- HB247 passes after over 60 hearings with substantial reforms in Cook Inlet credits and how North Slope “Gross Value Reduction” is treated
 - FY17 budget passes with \$30 million GF funding for credits via statutory formula, plus \$430 million from other funding sources in the HB247 fiscal note
 - Governor Walker vetoes the additional \$430 million, leaving only the \$30 million from the formula

Potential NOL Carry-Forward Liability

Oil and Gas Tax Credit Fund: Budgeted vs. Actual vs. Statutory Tax Credit Fund Transfer Cap

(Beginning with the first budget cycle after the passage of ACES in November 2007)

Credit Claims and Carried-Forward Liability for FY17 and Beyond Include Program Changes Made in HB247

Fiscal Year	Original Appropriation (\$million)	Actual Claimed Credits (\$million)	Actual Production Tax (\$million)	Plus Credits Against Liab (\$million)	AS 43.55.011 Revenue (\$million)	Oil Price Per Spring 16 Forecast	Credit Cap per AS 43.55.028(c)	End Year Fund Balance	Non-Cashable Carried-Forward Liability	Total Credit Oblig
Actual										
FY09	not to exceed \$175	\$193	\$3,101	\$334	\$3,435	\$85.73	\$343	\$150	\$0.0	n/a
FY10	unspec **	\$250	\$2,861	\$412	\$3,273	\$65.70	\$327	\$228	\$0.0	n/a
FY11	est. \$180	\$450	\$4,543	\$361	\$4,904	\$73.32	\$490	\$268	\$0.0	n/a
FY12	est. \$400	\$353	\$6,137	\$363	\$6,500	\$94.70	\$650	\$565	\$0.0	n/a
FY13	est. \$400	\$369	\$4,043	\$550	\$4,593	\$110.44	\$459	\$655	\$0.0	n/a
FY14	est. \$400	\$593	\$2,589	\$919	\$3,508	\$109.61	\$351	\$413	\$0.0	n/a
FY15	est. \$450	\$628	\$363	\$664	\$1,027	\$95.24	\$103	(\$112)	\$0.0	(\$112)
FY16	est. \$700	\$500	\$144	\$70	\$214	\$39.99	\$32	(\$580)	(\$357)	(\$937)
Forecasted										
FY16	est. \$700	\$500	\$144	\$70	\$214	\$39.99	\$500	\$0	(\$357)	(\$357)
FY17	\$460	\$760	\$59	\$135	\$194	\$38.89	\$30	(\$730)	(\$605)	(\$1,335)
FY18	n/a	\$445	\$16	\$205	\$221	\$43.79	\$33	(\$1,142)	(\$715)	(\$1,857)
FY19	n/a	\$285	\$11	\$250	\$261	\$48.89	\$39	(\$1,388)	(\$690)	(\$2,078)
FY20	n/a	\$190	\$13	\$305	\$318	\$54.48	\$48	(\$1,530)	(\$515)	(\$2,045)
FY21	n/a	\$150	\$33	\$325	\$358	\$60.29	\$36	(\$1,644)	(\$245)	(\$1,889)
FY22	n/a	\$150	\$110	\$275	\$385	\$61.64	\$39	(\$1,756)	(\$130)	(\$1,886)
FY23	n/a	\$150	\$217	\$205	\$422	\$63.05	\$42	(\$1,864)	(\$50)	(\$1,914)
FY24	n/a	\$150	\$212	\$170	\$382	\$64.45	\$38	(\$1,975)	\$0	(\$1,975)
FY25	n/a	\$150	\$275	\$95	\$370	\$65.90	\$37	(\$2,088)	\$0	(\$2,088)

Regional Impacts of HB247

Cook Inlet

- Complete phase-out of NOL, QCE, and WLE by 2018
- Extends “tax caps” on gas indefinitely and adds a \$1 / bbl “tax cap” on oil
- Municipal utility pro-ration of costs

Middle Earth

- Reduces the NOL, QCE, and WLE credit rates
- Extends “Frontier Basin” exploration credit for one year to July 2017

North Slope

- GVR “Graduation” provision after three to seven years
- GVR can’t be used to increase an NOL

Statewide

- \$70 million per company per year cap (\$61 with discount)
- Interest rates increased for 3 years, then drops to zero
- Transparency, local hire, state obligation offsets, surety bond ⁷

Fiscal Impact of HB247

Revenue

- \$0 to \$25 million increase through FY21 due to loss of Cook Inlet credits used against tax liability, plus new \$1 / bbl oil tax
- \$40 to \$115 million tax cut beginning FY22 due to above combined with up to \$20 million from sunset of GVR tax break, but offset by extension of Cook Inlet gas tax caps

Spending

- Full impact of credit cuts won't be seen until FY19
- Annual savings \$65 to \$115 million. Largest portion is Cook Inlet cuts, less from the per-company cap and the fix to the GVR / NOL interaction issue

Original HB247 Components Not Passed

- Minimum tax increase to 5%
- Floor “hardening” against various credits
- Per-barrel credit migration (“true up”) issue
- GVPP cannot go below zero for a field
- Restrict repurchase to companies with < \$10 billion revenue and sunset NOLs after 10 years
- Interest rate increase limited to three years, and then reduced to below current rate after that

House-Passed HB247 Components Not Passed

(in addition to components of Governor's original bill)

- Cash payments limited to companies with less than 15,000 bbl / day
- NOL credit rate ramps down to 25%
- No NOLs earned by companies with production over 15,000 bbl / day
- Cook Inlet tax cap sunset moved up to 2019
- ARM Board alternative purchase option

Major Features of SB5005

1. North Slope Operating Loss (NOL) credit phased out: 35% today to 15% in 2017 and zero in 2018
 - Effectively sets a tax rate that can't go below zero for non-profitable companies
 - Impacts major producers by preventing credits from carrying forward, indirectly “hardening” the minimum tax floor
 - Impacts independents by eliminating credits earned during the development stage prior to a company's profitability

New language not in any version of HB247

Major Features of SB5005

2. Reduces eligibility for cash credits from 50,000 bbl / day to 15,000

Was in House-passed HB247

3. Minimum tax increased to 5% when the price of oil is greater than \$55 / bbl
 - Current 4% rate is at all prices above \$25; would remain in effect between \$25 and \$55
 - Current “crossover” between minimum tax and SB21 profits tax is about \$75-\$80 / bbl

**Gov orig. bill had a 5% minimum tax at all prices.
House-passed HB247 had a 5% minimum above \$65**

Major Features of SB5005

4. “Migrating Credits” fix preventing per-barrel credits from being used in another month than the month they were earned

- Important volatility protection for the state

In both the Gov. Orig. and House versions of HB247

5. Gross Value at the Points of Production can't go below zero for a lease or property

- Protects the state from effective negative taxation at high-transportation cost fields

In both the Gov. Orig. and House versions of HB247

Major Features of SB5005

6. Interest Rate on delinquent taxes changed from HB247 amendments

- Change from 7% + Fed compounding, for three years and then zero after that; to 5% + Fed compounding, for four years and 5% + Fed, with simple interest after that
- Substantial concern that zero interest rate will make it difficult to settle tax cases. Also it may kick in immediately even if a delinquency has paid only the 3%-4% “SB21” rate for three years
- Changes applied to all taxes rather than carving out the O&G Production Tax

Language was in House-passed HB247

Major Features of SB5005

7. Technical correction to Sec. 30 of HB247.
Fixes error in the municipal entity / only a portion of production is sold / proration of costs issue.

New language

8. Allows for seismic and geophysical data to be released in less than 10 years if the lease for which the data was acquired is terminated.

New language

Implementation Cost

- The changes anticipated in this bill will require additional reprogramming of the Tax Revenue Management System (TRMS) and Revenue Online (ROL) which allows a taxpayer to file a return online and update the current tax return forms
- The fiscal note from HB247 included \$1.2 million in capital funds for this purpose
- We are not requesting any additional funds with this bill
- We do not anticipate any additional costs to administer the tax program
- We are beginning the scoping process for the major regulatory changes to implement HB247

Sectional Analysis

- Sec. 1.** Amends interest rate language changes in Sec. 8 of HB247. Changes apply to all tax types. Rate is set at 5% over federal discount rate, compounding, for four years after a tax becomes delinquent, and 5% simple interest thereafter.
- Sec. 2.** Increases the minimum tax rate in AS 43.55.011(f) to 5% at oil prices greater than \$55. Currently it is 4% at any oil price above \$25 per barrel, stepping down at lower prices. The minimum tax applies only to production from the North Slope.
- Sec. 3.** Changes the description of monthly installment payments in AS 43.55.020(a), to conform with the higher minimum tax rate in Sec. 2. and the per-barrel credit monthly calculation in Sec. 6. (*long technical section*).
- Sec. 4.** Conforming change related to underpayments caused by a regulation change.

Sectional Analysis (continued)

Sec. 5. Modifies the carried-forward annual loss credit (NOL) in AS 43.55.023(b) so that the North Slope rate is reduced from 35% to 15% in 2017, and to zero thereafter.

Sec. 6. Modifies the calculation of the per-taxable barrel credit for North Slope production, so that the credits claimed against production taxes in a given month cannot exceed the credits earned in that month.

Sec. 7. Allows for seismic and geophysical data to be released in less than 10 years if the lease for which the data was acquired is terminated.

Sec. 8. Reduces the threshold for a company to eligible for cash repurchase of tax credits from 50,000 bbl / day to 15,000 bbl / day.

Sectional Analysis (continued)

- Sec. 9.** New section specifying that the Gross Value at the Point of Production, defined as sales price less eligible transportation costs, may not be less than zero
- Sec. 10.** Technical correction to Sec. 30 of HB247. This section fixed the circumstance in which a municipal entity has an interest in oil and gas production, and sells only a portion of that production to an outside party, ensuring that their ability to deduct lease expenditures and claim credits is limited in proportion to their taxable production.
- Sec. 11.** Applicability language related to data sharing changes in Sec. 7.
- Sec. 12.** Applicability language related to interest rate changes in Sec. 1. and company size threshold in Sec. 8.

Sectional Analysis (continued)

- Sec. 13-14.** Transition language enabling DOR and DNR to draft regulations to implement the changes in this Act, and establishing that regulations may be retroactive to the effective date if they are finalized after the effective date.
- Sec. 15.** Immediate effective date for the data sharing, transition and regulatory language.
- Sec. 16-21.** Effective dates maintained for changes to sections that were also amended in HB247 (Sec. 1, 3, 5, 6, 8, and 10).
- Sec. 22.** Effective date of January 1, 2017 for the rest of the Act (limited to the minimum tax change in Sec. 2).

NEW SUSTAINABLE

ALASKA

PLAN



Pulling Together to Build Our Future

Thank You!

Contact Information

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Commissioner
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Randall.Hoffbeck@Alaska.gov
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