



THE STATE
of **ALASKA**
GOVERNOR BILL WALKER

Department of Revenue

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February 17, 2016

Honorable Kurt Olson
Alaska State Representative
State Capitol, Room 24
Juneau, Alaska 99801

Dear Representative Olson,

Thank you for your letter regarding oil and gas production tax audits. In response to your concern over the progress of past and future audits I want to make it clear that the Tax Division is diligently working through the outstanding audits and that I am comfortable with the ability and capacity of the Tax Division's audit staff to complete audits within statutory time frames. That being said we are not satisfied with just meeting statutory deadlines and have begun multi-year audits (two year) of taxpayers, as well as anticipate benefitting from the efficiencies and granularity of data available through the department's new GenTax system. It is the plan of the Department to gain one year against the statutory deadlines each year for the next three years at which time audits will be completed within three years of initial filing of the tax returns. Because of the timing of the receipt of information requests and the time necessary to fully audit complex tax returns it would be difficult to commit to an audit process that could guarantee audit completions in less than three years. I don't believe that it is necessary or in the best interests of the state to contract with an independent audit firm at this time.

In regards to the special audit report from 2014. We had an exit interview with the Leg Audit on the FY 15 statewide audit and many of the concerns in the 2014 report have already been addressed.

Concerning the revenue from future audits; while it may be possible to make an estimate based on historical data, selecting a single year and extrapolating based on a single data point is fraught with peril and I would not be willing to agree that your estimate of \$1.25 - \$1.75 billion result is conservative or even likely. Changing tax structures and tax rates over the period in question adds additional complexity to any estimation leaving little basis upon which to make a projection. Finally it is important to recognize that any audit function should be seen as an exercise in maintaining compliance rather than an avenue to revenue generation. It is expected that over time, and as taxpayers have become more familiar with the current tax structure that they will likely begin to file more accurately, bringing audit assessments down over time.

RE: Request from Representative Kurt Olson
February 11, 2016
Page 2

Your final concern related to the number of Audit Masters currently employed within DOR. The audit staff working on the production tax audits has not changed, the audit masters who were lost in budget reductions in FY 16 and FY 17 budgets were working on AGIA, AKLNG and in Economic Research. The remaining three audit masters are those that have always been focused on production taxes.

Sincerely,

A handwritten signature in blue ink, appearing to read "Randall Hoffbeck", written in a cursive style.

Randall Hoffbeck