

ALASKA DEPARTMENT OF REVENUE
News Release

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New Production Tax Nets Increased Revenues For Alaska

\$813 million received by state from tax change made last August.

Yesterday was the deadline for the taxpayers' "true-up" payments for any additional production tax liability for the period of April 1, 2006 through December 31, 2006. The true-up payments received by the Department totaled about \$813 million, which represents the increase in revenues as a result of PPT. Since January 1, 2007, taxpayers have been required to calculate their production tax liability under PPT, and no further "true up" payments will be required.

The Department had anticipated total payments of around \$950 million, however, the Department's job of estimating the PPT "true up" payments required a complex model with multiple moving parts. The model needed to not only forecast the probable PPT tax, including new credits and classes of cost deductions, but to also estimate the ELF payments that would be made. On top of this challenge came the unique complexities of 2006, with the backdrop of unusual production losses and higher costs at Prudhoe Bay Unit. We are now reviewing the tax returns submitted with the payments and will have a better understanding of why the actual payments were lower than anticipated once these have been fully analyzed. Future years will not have the complexity of 2006, in which both the former production tax system (ELF) and the PPT need to be modeled, offset, and their interactions anticipated. Based on the information contained in the PPT tax returns we receive, we will be looking closely at our models to continually improve our revenue forecasting ability. However, because of the nature of a net profits tax, decision makers can anticipate greater volatility in revenue forecasts under the PPT system as compared to the ELF system - perhaps as much as a 5% to 10% error factor.

Production Tax amounts are subject to audit for three years and refund claims for three years after a return is filed. Please note that information about the amounts paid by individual taxpayers is confidential by statute.

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