THE STATE of ALASKA
GOVERNOR BILL WALKER

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March 2, 2017

The Honorable Andy Josephson and the Honorable Geran Tarr
Alaska State Representatives
Co-Chairs, House Resource Committee
State Capitol Rooms 102 and 126
Juneau, AK 99801

Dear Co-Chairs Josephson and Tarr:

The purpose of this letter is to provide you with responses to the questions asked of the Department of Revenue (DOR) during Commercial Analyst Colleen Glover's presentation to the House Resources Committee on February 22, 2017. Please see questions in italics and our responses immediately below the questions.

1. ***The Fiscal Note for HB111 was included in information presented to the House Resources Committee on February 13, 2017. A question came up during the February 22, 2017 session inquiring if the information in the fiscal note recognized the number of barrels and the increased production we are seeing in the pipeline.***

   The fiscal note table is based on the Fall 2016 forecast. The fiscal note does not include any adjustments for higher-than-forecast production thus far in FY 2017, nor does it include any adjustments for possible changes to investment or production as a result of this bill.

2. ***The question was asked why the State Corporate Income Tax Rate used for the Lifecycle modeling purposes was only 6.5% which is less than the current statute.***

   The State Corporate Income Tax is based on a global apportionment of several income factors. An oil and gas corporation's Alaska income tax liability depends on the relative size of its Alaska and worldwide activities and the corporation's total worldwide net earnings. The corporation's Alaska taxable income is derived by apportioning its worldwide income to Alaska based on the average of three factors as they pertain to the corporation's Alaska operations: (1) tariffs and sales, (2) oil and gas production, and (3) property. The tax rates are graduated according to the schedule in Table 5-3 in the Fall 2016 Revenue Sources Book, with a maximum marginal tax rate of 9.4%.

   The relationship between corporate income tax received (with the maximum statutory 9.4% rate) and production tax value (PTV) in Alaska can vary greatly from year to year depending on the relative profitability of Alaska and worldwide operations, changes in apportionment factors, and company-specific dynamics. An examination of several years of corporate income tax collections and PTV data in 2013 revealed that on average, the corporate income tax payments for the major producers were approximately 6.5% of production tax value after production taxes are subtracted. This modeling convention was also adopted by several consultants for consistency, and appears to remain a reasonable estimate at this time.

I hope you find this information to be useful. Please do not hesitate to contact me if you have further questions.

Sincerely,

Randall J. Hoffbeck

Randall Hoffbeck
Commissioner