THE STATE
of ALASKA
GOVERNOR BILL WALKER

Department of Revenue
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February 20, 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 Tax Director Ken Alper's presentations to the House Resources Committee on January 30 and February 1, 2017. Please see questions in italics and our responses immediately below the questions.

Monday, January 30, 2107

1. ***Provide the comparison of Corporate Income Tax (CIT) rates to other states.***

   Please see the attached document:

   I. Range of State Corporate Income Tax Rates (for tax year 2016). This document was compiled by the Federation of Tax Administrators and shows that at the top bracket, Alaska has one of the highest state corporate income tax rates.

2. ***Provide information about the costs to the state of litigating the Economic Limit Factor (ELF) Aggregation issue.***

   DOR requested and received information from the Department of Law regarding the costs to the State of Alaska to litigate the ELF Aggregation Issue. The total cost was about $486,000, of which $50,000 was for outside counsel. The remaining costs were for internal resources and incidentals. This work by the Department of Law resulted in about $500,000,000 in savings to the State Treasury.

3. ***Provide analysis of declining ELF tax rates and the impact on state revenue.***

   Please see the attached document:

   II. Estimated Lost ELF Production Tax Revenue (FY 1998-2006). Our analysis was based on the average ELF multiplier for the years 1995-1997, which resulted in an average production tax rate of 11.1%. Had that multiplier been used in the calculation of actual production taxes during the subsequent years 1998-2006, and assuming no changes to industry activity, the hypothetical additional production tax revenue would have been $2,957.7 million over the nine years in question.

4. ***Update Slides 33 and 34 with the Fall 2016 Forecast information.***

Please see the attached document:

III. Statewide Tax Credit Charts (FY 2007-2026). The key change between these graphs and what was initially presented is that the carried-forward balance of Net Operating Loss credits is much lower under the Fall 2016 Forecast, due to a higher price forecast and reduced company spending. Additionally, the changes reflect the governor's veto of funds for repurchase of tax credits in FY2017, with the resulting balance of outstanding credits carrying forward into FY2018.

5. ***Provide credit liability information by tax fiscal system.***

Please see the attached document:

IV. New Credits for Repurchase by System (FY 2007-2026). This chart shows the total amount of "new" credits that become eligible for repurchase in a given fiscal year. Additionally, the effective dates of the different tax systems are indicated on the bottom of the chart.

Wednesday, February 1, 2017

6. ***Provide data table for the Slide 43 graph.***

Please see the attached document:

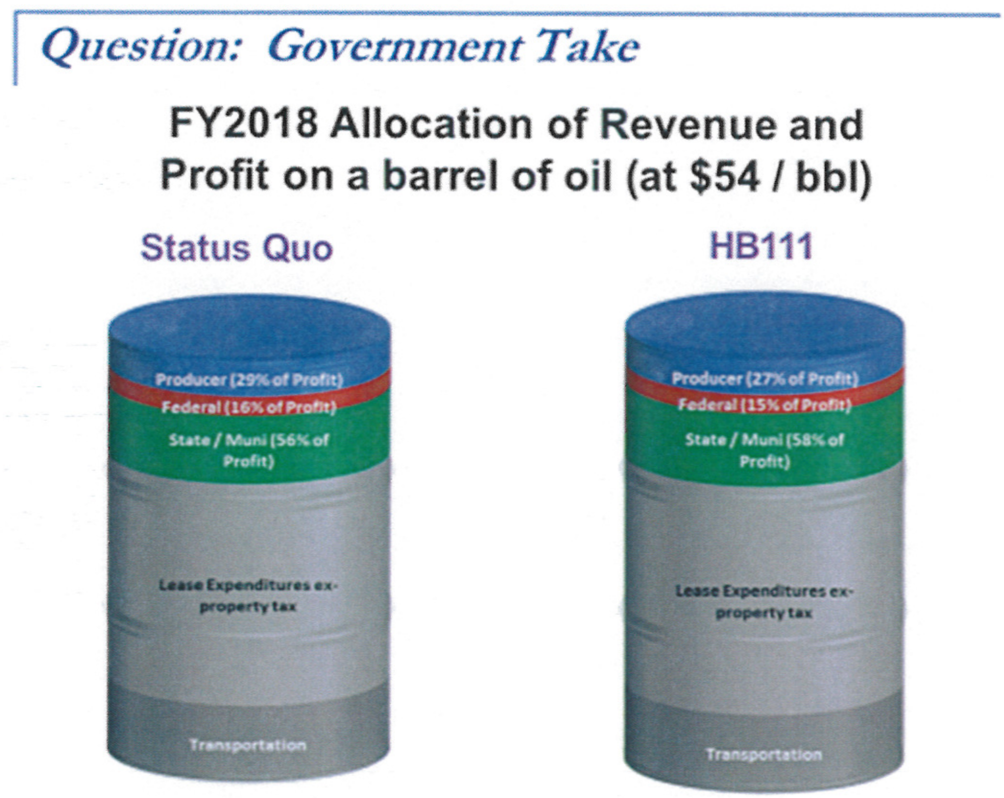
V. Estimated Production Tax under PPT, ACES and SB21 (FY 2007-2018)

7. ***Provide modeling information for the Caelus Smith Bay field and compare to the information they provided on 1/30/17.***

DOR requested and received information from Caelus regarding anticipated lifecycle cash flows from development of the Smith Bay field. The information provided was aggregated, based on what appears to be a $70 nominal oil price. It assumes nearly 2.4 billion barrels of production over a 40 year project life, and a number of large assumptions. Upon review, there are a number of places where we could find disagreement with the assumptions. Most notably we believe they are underestimating the eventual transportation cost it will take to get this production to market. They are also using lower per-barrel assumptions for capital and operating expenditures than we are in our "large field" lifecycle modeling. Also, Caelus includes both municipal and state property tax revenue in their analysis. In general, adjusting Caelus's assumptions to match DORs would somewhat reduce overall revenue flow to the state. With these caveats, after reviewing their modeling data, the information they presented to the House Resources Committee on February 1, 2017 is reasonable.

8. ***Provide information based on Fall 2016 Forecast on government take.***

DOR presented this information in a follow-up House Resources Committee Meeting on February 17, 2017. Using the price, transportation cost, production, and lease expenditure assumptions from the Fall 2016 Forecast for FY 2018, government take on profit for a typical barrel of oil increases to approximately 73% under HB11 compared to 71% under the Status Quo (HB247). Producer profit decreases from 29% to 27% under the same assumptions.



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

Sincerely,

Randall Hoffbeck
Commissioner

Attachments:

I. Range of State Corporate Income Tax Rates (for tax year 2016)
II. Estimated Lost ELF Production Tax Revenue (FY 1998-2006)
III. Statewide Tax Credit Charts (FY 2007-2026)
IV. New Credits for Repurchase by System (FY 2007-2026)
V. Estimated Production Tax under PPT, ACES and SB21 (FY 2007-2018)

RANGE OF STATE CORPORATE INCOME TAX RATES

(For tax year 2016 -- as of January 1, 2016)

STATE	TAX RATE (percent)	TAX BRACKETS LOWEST	TAX BRACKETS HIGHEST	NUMBER OF BRACKETS	TAX RATE (a) (percent) FINANCIAL INST.	FEDERAL INCOME TAX DEDUCTIBLE
ALABAMA	6.5	----Flat Rate----		1	6.5	Yes
ALASKA	0 - 9.4	25,000	222,000	10	0 - 9.4	
ARIZONA	5.5 (b)	----Flat Rate----		1	5.5 (b)	
ARKANSAS	1.0 - 6.5	3,000	100,001	6	1.0 - 6.5	
CALIFORNIA	8.84 (c)	----Flat Rate----		1	10.84 (c)	
COLORADO	4.63	----Flat Rate----		1	4.63	
CONNECTICUT	7.5 (d)	----Flat Rate----		1	7.5 (d)	
DELAWARE	8.7	----Flat Rate----		1	8.7-1.7 (e)	
FLORIDA	5.5 (f)	----Flat Rate----		1	5.5 (f)	
GEORGIA	6.0	----Flat Rate----		1	6.0	
HAWAII	4.4 - 6.4 (g)	25,000	100,001	3	7.92 (g)	
IDAHO	7.4 (h)	----Flat Rate----		1	7.4 (h)	
ILLINOIS	7.75 (i)	----Flat Rate----		1	7.75 (i)	
INDIANA	6.5 (j)	----Flat Rate----		1	8.5 (j)	
IOWA	6.0 - 12.0	25,000	250,001	4	5.0	Yes (k)
KANSAS	4.0 (l)	----Flat Rate----		1	2.25 (l)	
KENTUCKY	4.0 - 6.0	50,000	100,001	3	--- (a)	
LOUISIANA	4.0 - 8.0	25,000	200,001	5	4.0 - 8.0	Yes
MAINE	3.5 - 8.93	25,000	250,000	4	1.0 (m)	
MARYLAND	8.25	----Flat Rate----		1	8.25	
MASSACHUSETTS	8.0 (n)	----Flat Rate----		1	9.0 (n)	
MICHIGAN	6.0	----Flat Rate----		1	--- (a)	
MINNESOTA	9.8 (o)	----Flat Rate----		1	9.8 (o)	
MISSISSIPPI	3.0 - 5.0	5,000	10,001	3	3.0 - 5.0	
MISSOURI	6.25	----Flat Rate----		1	7.0	Yes (k)
MONTANA	6.75 (p)	----Flat Rate----		1	6.75 (p)	
NEBRASKA	5.58 - 7.81	100,000		2	--- (a)	
NEVADA	--	No corporate income tax				
NEW HAMPSHIRE	8.5 (q)	----Flat Rate----		1	8.5 (q)	
NEW JERSEY	9.0 (r)	----Flat Rate----		1	9.0 (r)	
NEW MEXICO	4.8 - 6.6 (s)	500,000	1 million	3	4.8 - 6.6 (s)	
NEW YORK	6.5 (t)	----Flat Rate----		1	6.5 (t)	
NORTH CAROLINA	4.0 (u)	----Flat Rate----		1	6.0 (t)	
NORTH DAKOTA	1.41 - 4.31 (z)	25,000	50,001	3	--- (a)	
OHIO	(v)				--- (v)	
OKLAHOMA	6.0	----Flat Rate----		1	6.0	
OREGON	6.6 - 7.6 (w)	1 million		2	6.6 - 7.6 (w)	
PENNSYLVANIA	9.99	----Flat Rate----		1	--- (a)	
RHODE ISLAND	7.0 (c)	----Flat Rate----		1	7.0 (c)	
SOUTH CAROLINA	5.0	----Flat Rate----		1	4.5 (x)	
SOUTH DAKOTA	--	No corporate income tax			6.0-0.25% (b)	
TENNESSEE	6.5	----Flat Rate----		1	6.5	
TEXAS	(y)				(y)	
UTAH	5.0 (c)	----Flat Rate----			5.0 (c)	
VERMONT	6.0 - 8.5 (c)	10,000	25,000	3	--- (a)	
VIRGINIA	6.0	----Flat Rate----		1	6.0	
WASHINGTON	--	No corporate income tax				
WEST VIRGINIA	6.5	----Flat Rate----		1	6.5	
WISCONSIN	7.9	----Flat Rate----		1	7.9	
WYOMING	--	No corporate income tax				
DIST. OF COLUMBIA	9.4 (c)	----Flat Rate----		1	9.4 (c)	

Source: Compiled by FTA from various sources.

Footnotes on next page.

RANGE OF STATE CORPORATE INCOME TAX RATES (footnotes)

Source: Compiled by FTA from various sources

(a) Rates listed are the corporate income tax rate applied to financial institutions or excise taxes based on income. Some states have other taxes based upon the value of deposits or shares.

(b) Arizona minimum tax is $100. Tax rate is scheduled to decrease to 4.9% in tax years 2017.

(c) Minimum tax is $800 in California, $100 in District of Columbia, $50 in North Dakota (banks), $500 in Rhode Island, $200 per location in South Dakota (banks), $100 in Utah, $250 in Vermont.

(d) Connecticut's tax is the greater of the 7.5% tax on net income, a 0.31% tax on capital stock and surplus (maximum tax of $1 million), or $250 (the minimum tax). Plus, an additional 20% surtax applies for tax years 2012 and 2016.

(e) The Delaware Bank marginal rate decreases over 4 brackets ranging from $20 to $650 million in taxable income. Building and loan associations are taxed at a flat 8.7%.

(f) An exemption of $50,000 is allowed. Florida's Alternative Minimum Tax rate is 3.3%.

(g) Hawaii taxes capital gains at 4%. Financial institutions pay a franchise tax of 7.92% of taxable income (in lieu of the corporate income tax and general excise taxes).

(h) Idaho's minimum tax on a corporation is $20. The $10 Permanent Building Fund Tax must be paid by each corporation in a unitary group filing a combined return. Taxpayers with gross sales in Idaho under $100,000, and with no property or payroll in Idaho, may elect to pay 1% on such sales (instead of the tax on net income).

(i) The Illinois rate of 7.75% is the sum of a corporate income tax rate of 5.25% plus a replacement tax of 2.5%.

(j) The Indiana tax rate is scheduled to decrease to 6.25% on July 1, 2016.

(k) 50% of the federal income tax is deductible.

(l) In addition to the flat 4% corporate income tax, Kansas levies a 3.0% surtax on taxable income over $50,000. Banks pay a privilege tax of 2.25% of net income, plus a surtax of 2.125% (2.25% for savings and loans, trust companies, and federally chartered savings banks) on net income in excess of $25,000.

(m) The state franchise tax on financial institutions is either (1) the sum of 1% of the Maine net income of the financial institution for the taxable year, plus 8¢ per $1,000 of the institution's Maine assets as of the end of its taxable year, or (2) 39¢ per $1,000 of the institution's Maine assets as of the end of its taxable year.

(n) Business and manufacturing corporations pay an additional tax of $2.60 per $1,000 on either taxable Massachusetts tangible property or taxable net worth allocable to the state (for intangible property corporations). The minimum tax for both corporations and financial institutions is $456.

(o) In addition, Minnesota levies a 5.8% tentative minimum tax on Alternative Minimum Taxable Income.

(p) Montana levies a 7% tax on taxpayers using water's edge combination. The minimum tax per corporation is $50; the $50 minimum applies to each corporation included on a combined tax return. Taxpayers with gross sales in Montana of $100,000 or less may pay an alternative tax of 0.5% on such sales, instead of the net income tax.

(q) New Hampshire's 8.5% Business Profits Tax is imposed on both corporations and unincorporated associations with gross income over $50,000. In addition, New Hampshire levies a Business Enterprise Tax of 0.75% on the enterprise base (total compensation, interest and dividends paid) for businesses with gross income over $150,000 or base over $75,000. The Business Profits Tax is scheduled to decrease to 8.2% for tax years beginning on or after 2017.

(r) In New Jersey small businesses with annual entire net income under $100,000 pay a tax rate of 7.5%; businesses with income under $50,000 pay 6.5%. The minimum Corporation Business Tax is based on New Jersey gross receipts. It ranges from $500 for a corporation with gross receipts less than $100,000, to $2,000 for a corporation with gross receipts of $1 million or more.

(s) New Mexico tax rates are scheduled to decrease for tax year 2017.

(t) New York's General business corporate rate shown. Corporations may also be subject to a capital stocks tax, which is being phased out through 2021. A minimum tax ranges from $25 to $200,000, depending on receipts ($250 minimum for banks). Certain qualified New York manufacturers pay 0%.

(u) In North Carolina financial institutions are also subject to a tax equal to $30 per one million in assets. Tax rate is scheduled to decrease to 3% in tax year 2017, if certain revenue targets are met.

(v) Ohio no longer levies a tax based on income (except for a particular subset of corporations), but instead imposes a Commercial Activity Tax (CAT) equal to $150 for gross receipts sitused to Ohio of between $150,000 and $1 million, plus 0.26% of gross receipts over $1 million. Banks continue to pay a franchise tax of 1.3% of net worth. For those few corporations for whom the franchise tax on net worth or net income still applies, a litter tax also applies.

(w) Oregon's minimum tax for C corporations depends on the Oregon sales of the filing group. The minimum tax ranges from $150 for corporations with sales under $500,000, up to $100,000 for companies with sales of $100 million or above.

(x) South Carolina taxes savings and loans at a 6% rate.

(y) Texas imposes a Franchise Tax, otherwise known as margin tax, imposed on entities with more than $1,110,000 total revenues at rate of 0.75%, or 0.375% for entities primarily engaged in retail or wholesale trade, on lesser of 70% of total revenues or 100% of gross receipts after deductions for either compensation or cost of goods sold.

(z) North Dakota imposes a 3.5% surtax for filers electing to use the water's edge method to apportion income.

Title:	**Estimated "Lost" ELF Production Tax Revenue FY1998 - FY2006**
Preparer:	Department of Revenue, Tax Division Tim Harper, Petroleum Economist II
Date:	2/1/2017
Purpose:	Estimate of ELF production tax revenue forgone because of the declining effective tax rate.
Data Source:	Historical Revenue Sources Books and internal DOR documents.
Key Assumptions:	The ELF effective tax rate estimate is based on the average 1995-1997 production tax revenues divided by the estimated Gross Value at the Point of Production (GVPP) of ANS crude. The estimated average effective tax rate is 11.1% for 1995-1997. The difference between the 11.1% and each year's effective tax rate for 1998-2006 was calculated. This differential was then multiplied by the GVPP for each year. Estimated revenue is then calculated for what was "lost" under the ELF production tax policy.
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 analyses could have different results. The information contained in this workbook may be privileged, confidential or otherwise protected from disclosure. If you are not the intended recipient, any use, dissemination, disclosure, distribution or copying is strictly prohibited.

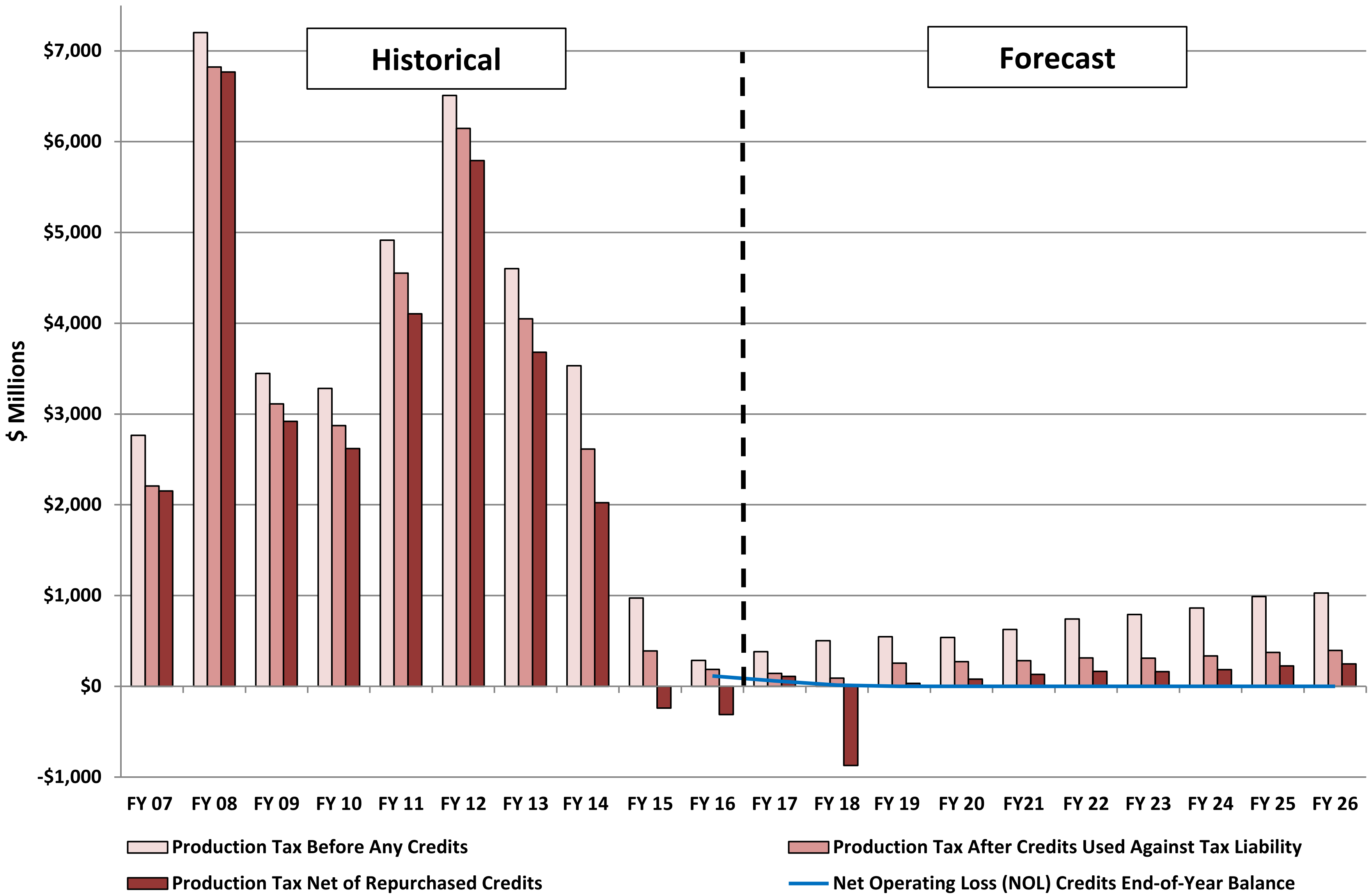
Fiscal Year	Estimated ANS Taxable Barrels	Wellhead Value ($ / bbl)	GVPP ($ millions)	ANS / CI Production Ratio	Statewide Production Tax ($ millions)	Estimated ANS ELF Production Tax ($ millions)	Estimated ANS ELF Effective Tax % of GVPP	Estimated ANS Production Tax based on Avg 1995-97 Effective ELF Tax Rate	"Lost" ELF Production Tax Revenue ($ millions)
1995	573,780,000	$ 11.04	6,336.1	97.4%	769.8	749.9	11.8%		
1996	539,484,000	$ 12.77	6,891.5	97.3%	771.7	750.5	10.9%		
1997	512,460,000	$ 16.28	8,345.2	97.4%	907.0	883.5	10.6%		
1998	465,375,000	$ 11.23	5,227.9	97.5%	564.4	550.3	10.5%	580.5	30.2
1999	424,860,000	$ 8.88	3,772.6	97.3%	358.6	348.8	9.2%	418.9	70.1
2000	378,810,000	$ 19.87	7,526.5	97.2%	693.2	673.5	8.9%	835.7	162.2
2001	361,715,000	$ 22.56	8,158.8	97.2%	694.4	674.7	8.3%	906.0	231.3
2002	368,650,000	$ 17.04	6,282.6	96.8%	486.7	471.2	7.5%	697.6	226.4
2003	361,715,000	$ 23.42	8,471.3	97.1%	589.8	572.8	6.8%	940.7	367.9
2004	356,484,000	$ 27.46	9,789.7	97.5%	642.7	626.5	6.4%	1,087.1	460.5
2005	332,515,000	$ 40.12	13,341.9	97.8%	854.9	836.2	6.3%	1,481.5	645.3
2006	306,600,000	$ 56.69	17,382.4	97.9%	1,191.7	1,166.3	6.7%	1,930.2	763.9

ELF Effective Tax Rate Average 1995-1997	11.1%
ELF Effective Tax Rate Average 1998-2006	7.8%
"Lost" Average ELF Production Tax Rate Differential	3.3%
"Lost" ELF Production Tax Revenue ($ millions)	$ 2,957.7

ANS = Alaska North Slope
CI = Cook Inlet

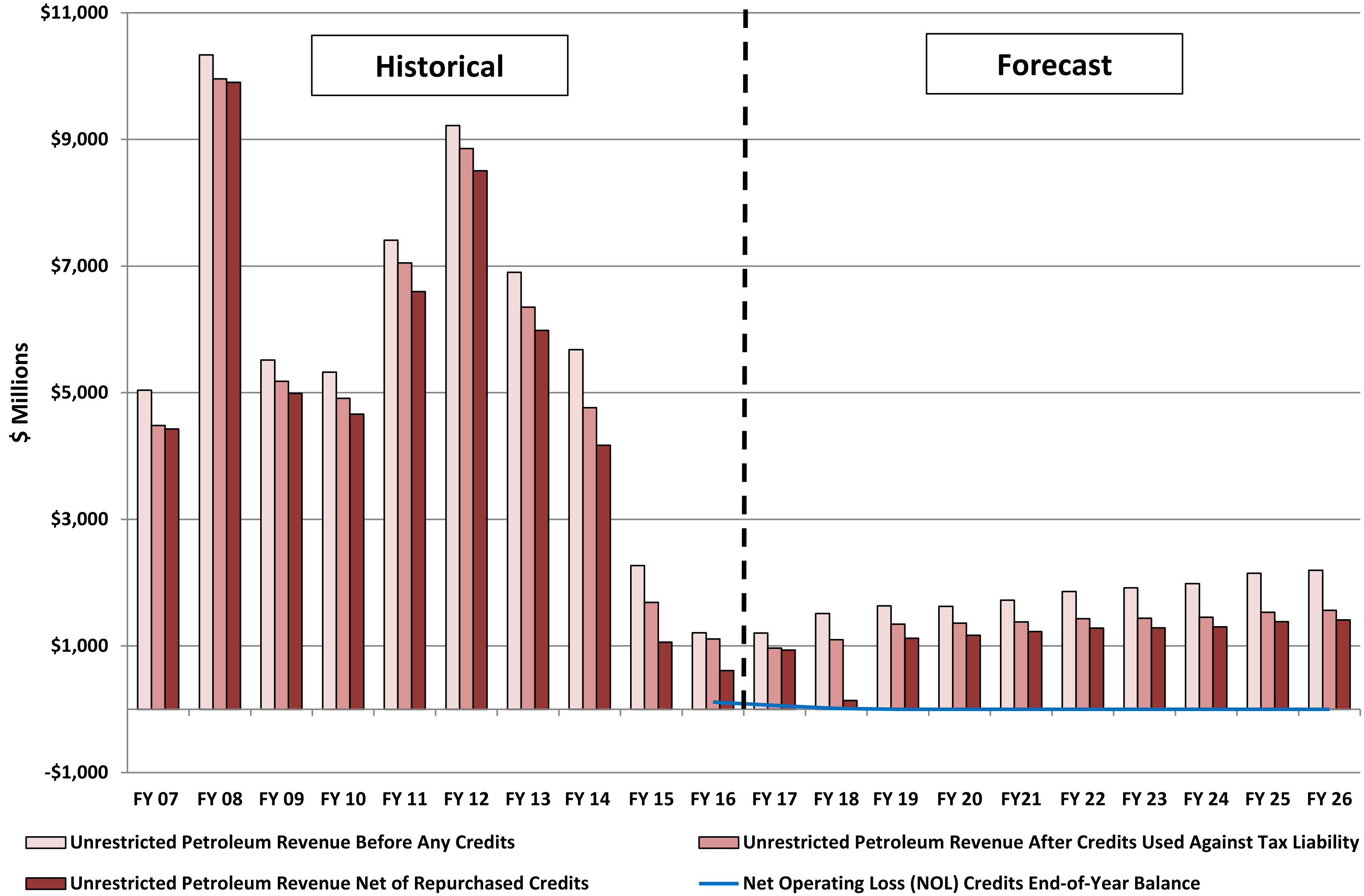
Title:	**Statewide Tax Credits Compared to Production Tax and Unrestricted Revenue, FY 2007 - FY 2026**
Preparer:	Ky Clark, Economist, 465-8222
Date:	2/10/2017
Purpose:	To show the amount of production tax and unrestricted petroleum revenue against tax credits, updated using the Fall 2016 Revenue Sources Book (RSB), as requested by the House Resources Committee.
Data Source:	Fall 2016 Revenue Sources Book, pgs. 79-80, and supporting data/analysis
Key Assumptions:	All assumptions in Fall 2016 Revenue Sources Book
History:	Charts were prepared using the Spring 2016 Revenue Sources Book and those charts were used in a presentation for the House Resources Committee. The included new charts have been updated using the Fall 2016 Revenue Sources Book.
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. The information contained in this workbook may be privileged, confidential or otherwise protected from disclosure. If you are not the intended recipient, any use, dissemination, disclosure, distribution or copying is strictly prohibited.

Statewide Tax Credits and Unrestricted Petroleum Revenue



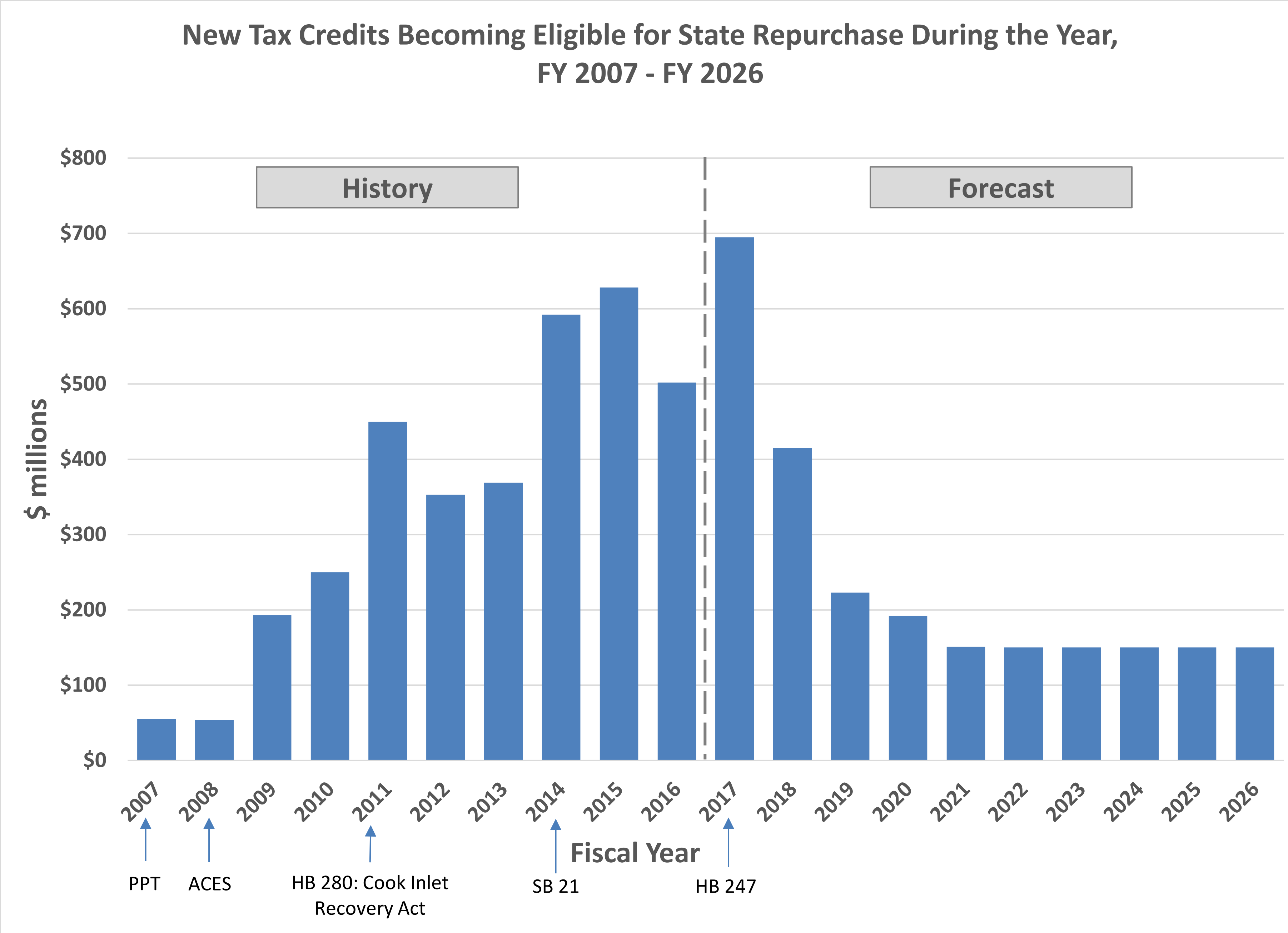
Note: Repurchased credits in the Fall 2016 RSB assume that all credits available for repurchase are funded in FY 18 and beyond.

Statewide Tax Credits and Unrestricted Petroleum Revenue



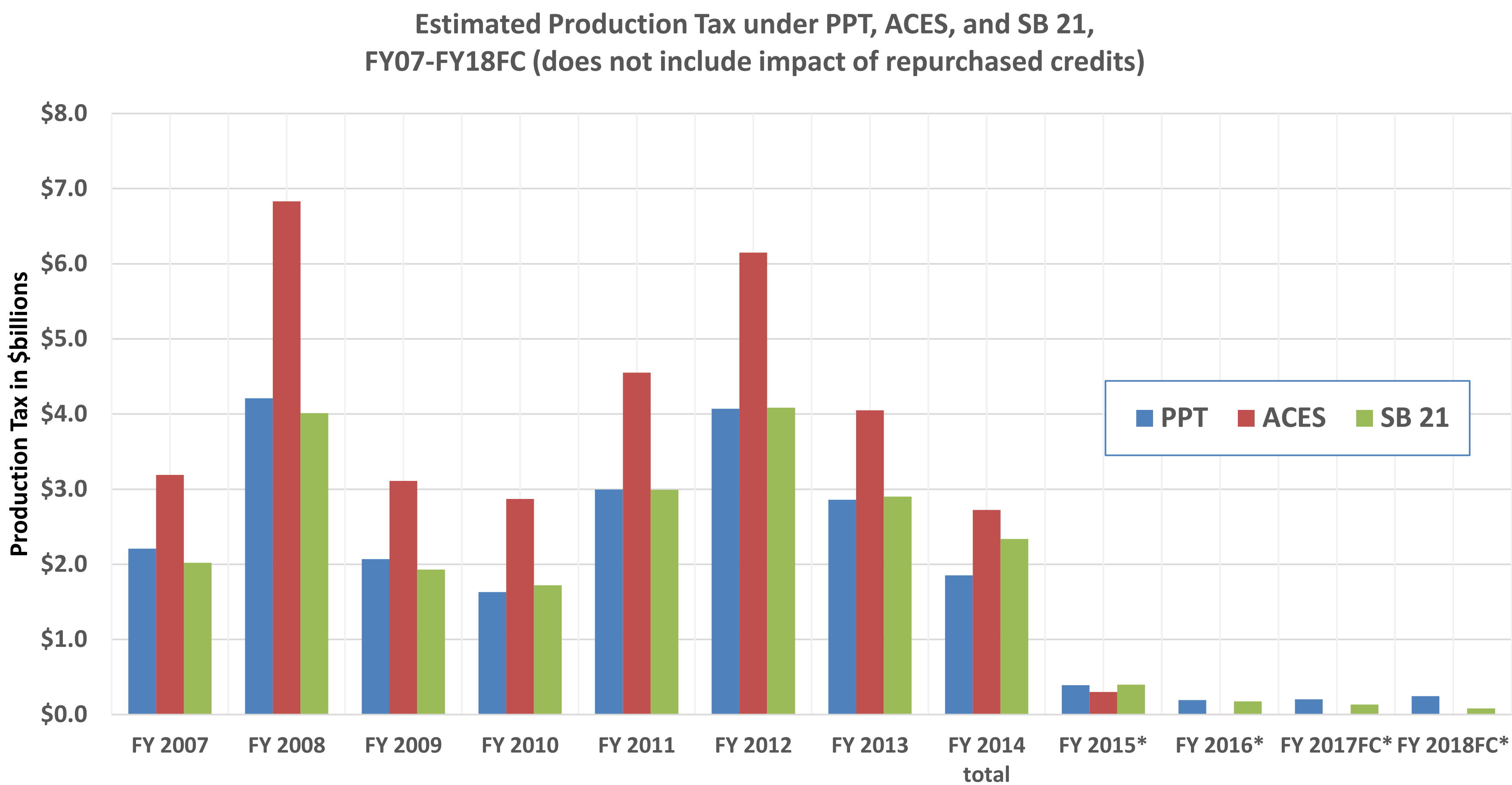
Note: Repurchased credits in the Fall 2016 RSB assume that all credits available for repurchase are funded in FY 18 and beyond.

Title:	**New Tax Credits Becoming Eligible for State Repurchase During the Year, FY 2007- FY 2026**
Preparer:	Ky Clark, Economist, 465-8222 and Dan Stickel, Chief Economist, 465-3279
Date:	2/13/2017
Purpose:	To show the amount of historical and forecasted new tax credits becoming eligible for state repurchase during the fiscal year, regardless of whether the full amount of credits were actually repurchased. Also includes a denotation of when tax systems took effect.
Data Source:	Fall 2016 Revenue Sources Book, pgs. 77-78, and supporting data/analysis
Key Assumptions:	From FY 2007 to FY 2016, appropriations to the Oil and Gas Tax Credit Fund were sufficient to fulfill all new repurchase requests. For FY 2017 to FY 2026, the amount shown here represents the total amount of new credits that are expected to become eligible for state repurchase during the fiscal year. For FY 2017 and FY 2018, as proposed by the Governor, appropriations to the Oil and Gas Tax Credit Fund are not sufficient to fulfill all new repurchase requests. Also, of the credits shown, the Fall 2016 Forecast assumes that $20 million of credits in FY 2017 and $100 million of credits in FY 2018 will be transferred to producers with a tax liability; those amounts are included in this chart. Credits eligible for state repurchase consist primarily of production tax credits purchased, but also include corporate income tax credits available for state repurchase from the Oil & Gas Tax Credit Fund; these include the Gas Storage Facility Credit, LNG Storage Facility Credit and Refinery Credits.
History:	This is the first version of this chart, as requested by the House Resources Committee.
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. The information contained in this workbook may be privileged, confidential or otherwise protected from disclosure. If you are not the intended recipient, any use, dissemination, disclosure, distribution or copying is strictly prohibited.



Source: Department of Revenue - Revenue Sources Book Fall 2016

Title:	**Estimated Production Tax under PPT, ACES, and SB21** **FY07-FY18FC (does not include impact of repurchased credits)**
Preparer:	Dan Stickel, Chief Economist
Date:	26-Jan-17
Purpose:	To compare production tax impact of three production tax systems since the passage of PPT through the fall 2016 forecast of FY18.
Data Source:	DOR historical forecast models for FY07-16 and Fall 2016 forecast model for FY17-18.
Key Assumptions:	All assumptions in historical forecasts
	Fall 2016 forecast assumes transferred credits applied against liability of $20 million in FY17 and $100 million in FY18; this analysis assumes the same transfers would take place under PPT and ACES and be applied to the extent allowable.
History:	This is an annual update to a regular analysis. This is the first version with FY16 actual data and Fall 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.
	The information contained in this workbook may be privileged, confidential or otherwise protected from disclosure. If you are not the intended recipient, any use, dissemination, disclosure, distribution or copying is strictly prohibited.



*In FY15 - FY 18, all 3 tax systems would have generated excess credits; some of these credits could be refunded and some would be carried forward to be applied in a future period.

FY14 actual production tax revenues were approximately $2.6 billion, due to half the year being under ACES and one half the year being under SB 21 tax systems.

Source: DOR historical forecast models for FY07-16 and Fall 2016 forecast model for FY17-18.

Estimated Production Tax under PPT, ACES, and SB 21 FY07-FY18FC (does not include repurchased credits)			
Fiscal Year	PPT	ACES	SB 21
	Production Tax in $billions		
FY 2007	$2.2	$3.2	$2.0
FY 2008	$4.2	$6.8	$4.0
FY 2009	$2.1	$3.1	$1.9
FY 2010	$1.6	$2.9	$1.7
FY 2011	$3.0	$4.6	$3.0
FY 2012	$4.1	$6.2	$4.1
FY 2013	$2.9	$4.1	$2.9
FY 2014 1H	$1.0	$1.5	$1.3
FY 2014 2H	$0.8	$1.2	$1.1
FY 2014 total	$1.9	$2.7	$2.3
FY 2015*	$0.4	$0.3	$0.4
FY 2016*	$0.2	$0.0	$0.2
FY 2017FC*	$0.2	$0.0	$0.1
FY 2018FC*	$0.2	$0.0	$0.1
Totals FY07-FY18FC*	**$22.9**	**$33.8**	**$22.8**

*In FY15 - FY 18, all 3 tax systems would have generated excess credits; some of these credits could be refunded and some would be carried forward to be applied in a future period.

FY14 actual production tax revenues were approximately $2.6 billion, due to half the year being under ACES and one half the year being under SB 21 tax systems.

Source: DOR historical forecast models for FY07-16 and Fall 2016 forecast model for FY17-18.