

**CSSB 305 (RES):
The Rest of the Story**

**Before the Senate Finance
Committee**

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April 3, 2006

Sections 1 & 11

- Clarify AS 43.55.020 (f) to reflect consistent department interpretation, upheld in formal hearing decision in 1996
- Prevailing Value is used to set a taxable value for internally refined barrels
- May be moot for a taxpayer using “DNR” or formulaic valuation

Sections 2 & 17

- Amends current statute (AS 43.05.230 and 43.55.040) to clarify rules for using one taxpayer's information to determine another taxpayer's tax
- Generally limited to Prevailing value calculation, which may be moot for taxpayer electing alternative valuation formula
- Taxpayer recipients of information are brought under confidentiality provisions of AS 43.05.230

Sections 3 & 4

- Clarify state income tax code that production tax is not a tax “based on or measured by net income”
- Ensures that the PPT is deductible for state income tax purposes.

Section 6

- Amends AS 43.55.017 (a) to conform language to the Internal Revenue Code provision to which it refers

Sections 9, 19, 20

Conforming amendments for language consistency and modernization.

Sections 10, 24, 26

- Repeals and Reenacts AS 43.55.020 (e)
- Simplifies three tiered system where flared gas was either tax free, taxed, or subject to tax and a penalty.
- Now gas and oil are not taxed or subject to conservation surcharges if used for necessary lease operations. (If AOGCC determines they have been wasted, then they are taxed.)

Section 14 and 15

- Conforming changes to 43.55.030(a) (dealing with tax returns)
- Gross/net, and/or, simplified reporting
- Repeals the \$25 a day filing penalty which predated the 43.05 civil penalties

Section 18

Amends AS 43.55.080

- Conforms statute to constitution
- Namely: recognizes that money from resolved disputes goes into Budget Reserve Fund and not into the general fund

Sections 27, 29

- New definition of “gas”
- Point of production moved downstream
- Gas processing now included in Upstream

- New definition of “oil”
- Liquid hydrocarbons recovered by mechanical separation or gas processing

Section 28

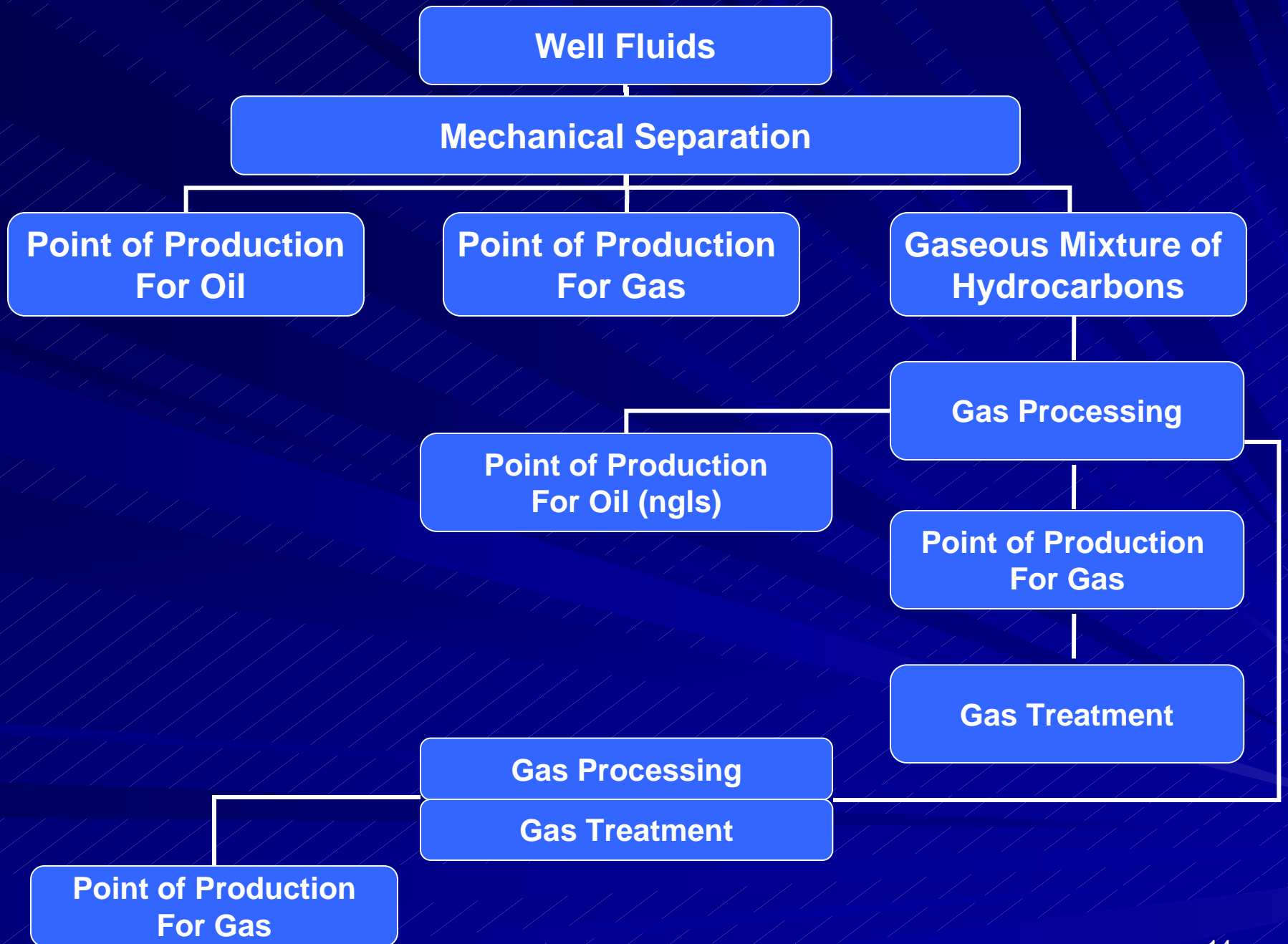
- Redefine “gross value at the point of production”
- Oil pt.-of-prod. definition essentially unchanged (but if there is gas processing, the pt.-of-prod. for extracted liquids is downstream of processing)
- Gas pt.-of-prod. is downstream of any gas processing
- If there is a combined processing/ treatment plant facility, pt.-of-prod. is further upstream point where processing ends or treatment begins

Section 30 (part 1)

- New definition of “Cook Inlet Basin”
- For purposes of the 1.5 percent tax on lessor’s royalty share (outside of Cook Inlet Basin the tax is 5 percent)

Section 30 (cont.)

- Define “gas processing” and define “gas treatment”
- Gas processing: physical processes that extract liquid hydrocarbons, upstream of a sales line or gas treatment plant
- Gas Treatment: removing non-hydrocarbon substances and conditioning gas for sales line



Section 31

- Repeal of superseded provisions, including individual gas and oil taxes, ELF, and some definitions

Sections 32, 33

- **Applicability:** Sections pertinent to taxing oil and gas under the PPT apply to oil and gas produced starting April 1, 2006
- **Applicability:** Prevailing value clarification of existing law applies to all oil and gas
- **Part-year conventions for 2006**
- **ELF based safe harbor for 6 months**

Section 34

- Transition provisions --
- Department may develop PPT implementing regulations immediately
- Implementing regulations may have retroactive effect to April 1, 2006

Section 35

- Conform headings of statutory provisions

Sections 36, 37, 38

- Effective dates –
- PPT provisions take effect April 1, 2006
 - but if they take effect after April 1, they are retroactive to April 1
- Other provisions take effect immediately