

PUBLIC NOTICE OF
PROPOSED CHANGES ON OIL & GAS PRODUCTION TAX IN THE REGULATIONS
OF THE DEPARTMENT OF REVENUE

BRIEF DESCRIPTION: The Department of Revenue proposes to change existing regulations regarding the administration of the Oil and Gas Production Tax and Oil Surcharge under 15 AAC 55 regarding depreciation and the weighted average cost of capital (WACC) for transportation of oil by a vessel and for LNG transportation facilities.

Existing regulations regarding the return on investment or cost of capital for transportation costs at 15 AAC 55.195 and 15 AAC 55.196 are extremely complex and the calculation model requires in excess of 2,000 inputs. The changes proposed by the department restructures the cost of capital calculation by eliminating calculations over multiple time periods in calculating the cost of capital allowance. As a result, the scope of the input data is reduced and the calculation is simplified. This should also work to reduce the administrative burden on both taxpayers and the state. Additionally, the weighted average cost of capital rate previously obtained from third-party sources has been replaced with a U.S. Treasury yield rate coupled with a set risk premium.

The Department of Revenue proposes to adopt regulation changes to 15 AAC 55 of the Alaska Administrative Code, dealing with the oil and gas production tax, including the following:

- (1) **15 AAC 55.193. Calculation of costs of transportation for oil and gas produced after June 30, 2007**, is proposed to be amended to change the reference from 15 AAC 55.195 to 15 AAC 55.196 in regards to the cost of transportation of oil by a vessel, or for LNG transportation facilities, that are owned or effectively owned by a taxpayer;
- (2) **15 AAC 55.195. Return on investment or cost of capital allowance to be used in calculation of costs of transportation for oil or gas, other than certain LNG or vessel transportation costs for oil or gas produced on or after January 1, 2003**, is proposed to be repealed;
- (3) **15 AAC 55.196. Cost of capital allowance to be used in calculation of costs of vessel transportation for oil or gas produced on or after January 1, 2003, other than certain costs pertaining to vessels placed in service before January 1, 1995, and in calculation of transportation costs for gas by an LNG transportation facility placed in service after December 31, 2010**, is proposed to be amended to replace and simplify the current model which is used to calculate a Cost of Capital Allowance that incorporates both the depreciation cost and the after-tax return on capital for vessels transporting oil, or for LNG transportation facilities, that are owned or effectively owned by a taxpayer;
- (4) **15 AAC 55.192. Monthly share of annual transportation costs; and 15 AAC 55.800. Retroactive application of regulations**, are proposed to be amended to make conforming changes to references to other regulations affected by this notice.

Department of Revenue Notice of Proposed Regulations

You may comment on the proposed regulation changes, including the costs to private persons of complying with the proposed changes, by submitting written comments to: John Larsen, Audit Master, Alaska Department of Revenue, 550 W. 7th Ave., Ste. 500, Anchorage, AK 99501. Additionally, the Department of Revenue will accept comments by electronic mail to john.larsen@alaska.gov, or by facsimile at (907) 269-6644. **Written comments must be received no later than 4:00 p.m., on Thursday, November 7, 2019.** If you would like to be added to the department's "Interested Parties" list server to receive email notification of any proposed action you may do so at the following link:
<http://tax.alaska.gov/programs/documentviewer/viewer.aspx?77n>

You may submit written questions relevant to the proposed action to: John Larsen at john.larsen@alaska.gov via email, or to: John Larsen, Audit Master, Alaska Department of Revenue, 550 W. 7th Ave., Ste. 500, Anchorage, AK 99501. The questions must be received at least 10 days before the end of the public comment period. The Department of Revenue will aggregate its response to substantially similar questions and make the questions and responses available on the Alaska Online Public Notice System and Tax Division website at (<http://www.tax.alaska.gov>).

If you are a person with a disability who needs a special accommodation in order to participate in this process, please contact John Larsen at john.larsen@alaska.gov or (907) 269-8436 no later than Monday, November 4, 2019 to ensure that any necessary accommodations can be provided.

A copy of the proposed regulation changes and *Edition 4.0 of the Department's Computation of a Cost-of-Capital Allowance under 15 AAC 55.196, Incorporating Depreciation and Return on Invested Capital for Marine Vessels and Improvements* are available on the Alaska Online Public Notice System and the Tax Division website, and by contacting John Larsen at (907) 269-8436 or john.larsen@alaska.gov.

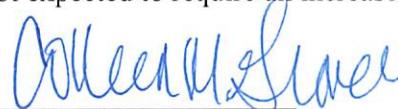
After the public comment period ends on Thursday, November 7, 2019, the Department of Revenue will either adopt the proposed regulation changes or other provisions dealing with the same subject, without further notice, or decide to take no action. The language of the final regulations may be different from that of the proposed regulations. **You should comment during the time allowed if your interests could be affected.** Written comments received are public records and are subject to public inspection.

Statutory Authority: AS 43.05.080; AS 43.55.110.

Statutes Being Implemented, Interpreted, or Made Specific: AS 43.55.011; AS 43.55.020; AS 43.55.030; AS 43.55.040; and AS 43.55.150.

Fiscal Information: The proposed regulation changes are not expected to require an increased appropriation.

DATE: October 4, 2019
Anchorage, Alaska



Colleen Glover
Director, Tax Division
(907) 269-6620