

NOTICE OF
PROPOSED CHANGES IN THE REGULATIONS OF THE
DEPARTMENT OF REVENUE

The Department of Revenue proposes to adopt regulation changes in Title 15, Chapter 55 of the Alaska Administrative Code, concerning the oil and gas production tax. Some of the proposed regulation changes that are the subject of this notice are the same or similar to proposed regulation changes that were previously the subject of a NOTICE OF PROPOSED CHANGES that was issued on April 21, 2008. Because of revisions and additions to certain of these proposed regulation changes, the Department of Revenue is providing another opportunity for public comment on these regulation changes. However, the Department of Revenue will continue to consider comments previously made in response to the April 21, 2008, notice, and interested persons need not resubmit previously submitted comments on proposed regulation changes that were the subject of the April 21, 2008 notice.

In addition to proposed regulation changes that were previously the subject of the April 21, 2008, notice, the Department is now proposing significant additional regulation changes on subjects beyond those described in the April 21, 2008, notice. The following summary includes both categories of proposed regulation changes.

The regulation changes that the Department of Revenue proposes to adopt include the following:

15 AAC 05.300, dealing with the period in which the amount of tax is assessed, is proposed to be amended to conform to AS 43.55.075.

15 AAC 55.021(a), dealing with the submittal of well data, is proposed to be amended to apply to all operators.

15 AAC 55.205, dealing with the calculation of production tax values, is proposed to be amended to limit application of the regulation to oil and gas produced before July 1, 2007.

A new section, 15 AAC 55.206, is proposed, dealing with the calculation of production tax values for oil and gas produced after June 30, 2007.

15 AAC 55.215, dealing with the applicability of lease expenditures, is proposed to be amended to provide additional rules governing the allocation of lease expenditures.

15 AAC 55.223, dealing with lease expenditures for Cook Inlet, is proposed to be amended to limit application of the regulation to expenditures incurred before July 1, 2007.

A new section, 15 AAC 55.224, is proposed, dealing with accounting for lease expenditures and with limitations on carried-forward annual losses relating to Cook Inlet oil and gas and other gas that is used in the state, for expenditures incurred after June 30, 2007.

15 AAC 55.275, dealing with exclusions from lease expenditures, is proposed to be amended to include conforming changes incorporating references to 15 AAC 55.206.

15 AAC 55.280, dealing with adjustments to lease expenditures, is proposed to be amended to include conforming changes incorporating references to 15 AAC 55.206.

15 AAC 55.290, dealing with when a cost is incurred, is proposed to be amended to provide for determining whether a cost is incurred before July 1, 2007, or after June 30, 2007.

15 AAC 55.305(b), dealing with the application of tax credits, is proposed to be amended to limit application of the regulation to oil and gas produced before July 1, 2007.

15 AAC 55.320(b), dealing with transferable tax credit certificates, is proposed to be amended to conform to amendments to AS 43.55.023 made by ch. 1, SSSLA 2007.

15 AAC 55.325, dealing with cash refunds for credit certificates, is proposed to be amended to conform to statutory changes made by ch. 1 SSSLA 2007, repealing former AS 43.55.023(f) and enacting AS 43.55.028.

15 AAC 55.335(c), dealing with non-transferable tax credits, is proposed to be amended to conform its statutory references to changes made by ch. 1, SSSLA 2007.

15 AAC 55.340, dealing with Cook Inlet tax credit provisions, is proposed to be amended to limit application of the regulation to oil and gas produced and expenditures incurred before July 1, 2007.

A new section, 15 AAC 55.341, is proposed, dealing with the allocation of and limitations on the use of tax credits related to Cook Inlet oil and gas and other gas that is used in the state, in the case of oil and gas produced and expenditures incurred after June 30, 2007.

15 AAC 55.345, dealing with procedures for applying for certain tax credits, is proposed to be amended to conform to amendments to AS 43.55.023 made by ch. 1, SSSLA 2007, and to update cross-references to include proposed new 15 AAC 55.381.

15 AAC 55.380, dealing with tax credits and the installment payment of estimated tax, is proposed to be amended to limit application of the regulation to oil and gas produced before July 1, 2007.

A new section, 15 AAC 55.381, is proposed, dealing with tax credits and installment payment of estimated tax for oil and gas produced after June 30, 2007.

15 AAC 55.410(b), dealing with the comparison of certain tax calculations under AS 43.55.011(e) and AS 43.55.011(f) before their amendment by ch. 1, SSSLA 2007, is a proposed to be amended to limit application of the regulation to oil and gas produced before July 1, 2007.

15 AAC 55.420, dealing with the minimum amount of tax, is proposed to be amended to limit application of the regulation to oil and gas produced before July 1, 2007.

A new section, 15 AAC 55.421, is proposed, dealing with the minimum amount of tax applicable to oil and gas produced after June 30, 2007.

15 AAC 55.430, dealing with production tax based on price index, is proposed to be amended to limit application of the regulation to oil and gas produced before July 1, 2007.

A new section, 15 AAC 55.431, is proposed, dealing with calculation of monthly tax amounts under AS 43.55.011(g) and AS 43.55.011(e)(2) for oil and gas produced after June 30, 2007.

15 AAC 55.440, dealing with tax ceilings, is proposed to be amended to include gas used in the state subject to AS 43.55.011(o).

15 AAC 55.510, dealing with installment payments of estimated tax, is proposed to be amended to limit application of the regulation to oil and gas produced before July 1, 2007.

A new section, 15 AAC 55.511, is proposed, dealing with installment payments of estimated tax for oil and gas produced after June 30, 2007.

15 AAC 55.800, dealing with retroactive application of regulations, is proposed to be amended to include certain of the proposed regulation changes referred to in this notice.

A new section, 15 AAC 55.805, is proposed, to provide rules to implement the mid-year (July 1, 2007) application of certain statutory changes enacted in ch. 1, SSSLA 2007, including changes in tax rates and other tax calculations; tax ceilings and minimum tax; tax credit rates; deduction of transportation costs; deduction of, allocation of, accounting for, and exclusion from lease expenditures; and limitations on the use of tax credits.

15 AAC 55.820, dealing with retroactive changes, is proposed to be repealed.

15 AAC 55.840, dealing with penalties, is proposed to be repealed and readopted, to address additional penalties enacted by ch. 1, SSSLA 2007, and to establish criteria for determining the amount of certain penalties.

15 AAC 55.850, dealing with the calculation of average daily production, is proposed to be amended to update statutory references and clarify certain statutory terms.

15 AAC 55.900, dealing with definitions, is proposed to be amended to change certain definitions and to repeal the definition of “unit,” which is now defined in statute.

Current copies of the proposed regulation changes may be obtained on the division’s website, at: <http://www.tax.alaska.gov/programs/programs/index.aspx?60652>.

You may comment on the proposed regulation changes, including the potential costs to private persons of complying with the proposed changes, by submitting written comments to:

John Larsen
Alaska Department of Revenue, Tax Division
550 W. 7th Ave. Ste. 500, Anchorage, AK 99501.

Or, via email to: john.larsen@alaska.gov, or by fax to: (907) 269-6644. Written comments must be received no later than 5:00 p.m. on Wednesday, October 22, 2008. Written comments received are public records and are subject to public inspection.

Oral or written comments also may be submitted at a hearing to be held on Thursday, October 9, 2008, in the East Hearing Conference Room of the Regulatory Commission of Alaska, located at 701 West 8th Avenue, Suite 300, Anchorage, Alaska. The hearing will be held from 2:00 p.m. to

3:00 p.m. and might be extended to accommodate those present before 3:00 p.m. who did not have an opportunity to comment. If you are unable to attend the public hearing, you may participate by teleconference by dialing, 1-800-315-6338, and entering 1003# when prompted.

If you are a person with a disability who needs a special accommodation in order to participate in this process, please contact Deborah Brooks at (907) 269-6620 no later than Friday, October 3, 2008 for the public hearing, and, no later than Tuesday, October 14, 2008 for the written comment period, to ensure that any necessary accommodations can be provided.

For a copy of the proposed regulation changes, contact the Tax Division at (907) 269-6620 or go to <http://www.tax.alaska.gov/programs/programs/index.aspx?60652>.

After the public comment period ends, the Department of Revenue will either adopt these or other provisions dealing with the same subject, without further notice, or decide to take no action on them. 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.**

Statutory Authority: AS 43.05.080; AS 43.55.011; AS 43.55.023; AS 43.55.030; AS 43.55.040; AS 43.55.110; AS 43.55.160; AS 43.55.165; Sec. 37, ch. 2, TSSLA 2006; Sec. 72, ch. 1, SSSLA 2007; Sec. 73, ch. 1, SSSLA 2007.

Statutes Being Implemented, Interpreted, or Made Specific: AS 43.05.220; AS 43.05.245; AS 43.05.260; AS 43.20.160; AS 43.20.200; AS 43.55.011; AS 43.55.020; AS 43.55.023; AS 43.55.024; AS 43.55.025; AS 43.55.028; AS 43.55.030; AS 43.55.040; AS 43.55.075; AS 43.55.110; AS 43.55.150; AS 43.55.160; AS 43.55.165; AS 43.55.170; AS 43.55.180; AS 43.55.900; Sec. 37, ch. 2, TSSLA 2006; Sec. 72, ch. 1, SSSLA 2007; Sec. 73, ch. 1, SSSLA 2007; Sec. 74, ch.1, SSSLA 2007.

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

DATE: September 19, 2008

/s/ Jonathan Iversen
Director, Tax Division
Department of Revenue

ADDITIONAL REGULATIONS NOTICE INFORMATION
(AS 44.62.190(d))

1. Adopting Agency: Department of Revenue
2. General subject of regulation: Alaska Oil and Gas Production Tax
3. Citation of regulations: 15 AAC 05.300; 15 AAC 55.021(a); 15 AAC 55.205; 15 AAC 55.206; 15 AAC 55.215; 15 AAC 55.223; 15 AAC 55.224; 15 AAC 55.275; 15 AAC 55.280; 15 AAC 55.290; 15 AAC 55.305(b); 15 AAC 55.320(b); 15 AAC 55.325; 15 AAC 55.335(c); 15 AAC 55.340; 15 AAC 55.341; 15 AAC 55.345; 15 AAC 55.380; 15 AAC 55.381; 15 AAC 55.410(b); 15 AAC 55.420; 15 AAC 55.421; 15 AAC 55.430; 15 AAC 55.431; 15 AAC 55.440; 15 AAC 55.510; 15 AAC 55.511; 15 AAC 55.805; 15 AAC 55.820; 15 AAC 55.840; 15 AAC 55.850; 15 AAC 55.900.
4. Reason for the proposed action:
 - () compliance with federal law
 - (x) compliance with new or changed state statutes
 - () compliance with court order
 - (x) development of program standards
5. RDU/component affected: Tax Division, Revenue Operations
6. Cost of implementation to the state agency and available funding (in thousands of dollars):

	Initial Year FY 2009	Subsequent Years
Operating Cost	\$ <u>0</u>	\$ <u>0</u>
Capital Cost	\$ <u>0</u>	\$ <u>0</u>
Federal receipts	\$ <u>0</u>	\$ <u>0</u>
General fund match	\$ <u>0</u>	\$ <u>0</u>
General fund	\$ <u>0</u>	\$ <u>0</u>
General fund/ program receipts	\$ <u>0</u>	\$ <u>0</u>
General fund/ mental health	\$ <u>0</u>	\$ <u>0</u>
Other funds (specify)	\$ <u>0</u>	\$ <u>0</u>

7. The name of the contact person for the regulations:
 - Name: John Larsen
 - Title: Oil & Gas Revenue Specialist
 - Address: 550 W. 7th Ave., Ste. 500, Anchorage, AK 99501
 - Telephone: (907) 269-8436
 - FAX: (907) 269-6644
 - E-mail: john.larsen@alaska.gov

8. The origin of the proposed action:
 - staff of state agency
 - federal government
 - general public
 - petition for regulation change
 - other (please list) _____

9. DATE: September 19, 2008

Prepared by: /s/Jonathan Iversen
Director, Tax Division
(907) 269-6620

The Department of Revenue, Tax Division, keeps a list of individuals and organizations interested in its regulations. Those on the list will automatically be sent a copy of all of the Tax Division's Notices of Proposed Regulation Changes. To be added to or removed from the list, send a request to:

Deborah Brooks
Department of Revenue, Tax Division
550 W. 7th Ave., Ste. 500
Anchorage, AK 99501-3566

giving your name, and either your e-mail address or mailing address, as you prefer for receiving such notices.

You may also add or unsubscribe yourself to the Department of Revenue (DOR) Tax Division Interested Parties List Server, by the following:

1. go to <http://list.state.ak.us/guest/RemoteAvailableLists>
2. click on "D" in the Mailing List Directory
3. Scroll down and click on DOR-Tax-Division-Regs@list.state.ak.us
4. A new window will open up – in the "Your E-mail address" box, type in the e-mail address you wish to receive the DOR Tax notices.
5. Click the button "Immediate Delivery" or "Unsubscribe". Immediate Delivery will add the e-mail address you entered into the list server immediately.
6. Click the "Submit" button.

The e-mail address you entered will immediately receive the DOR Tax Division "Welcome" notice explaining how the list serve works and also advises that you are now a member of the list serve. Please read this "Welcome" advisory – it contains important information regarding the list serve.

You may also unsubscribe, by following steps 1-6 above, except in step 5, please select the button "Unsubscribe". You will immediately receive an e-mail advisory stating that you will no longer receive e-mail notifications regarding the DOR Tax Division.

If you do not receive a welcome notice or unsubscribe notice, please contact Deborah Brooks at (907) 269-6620.