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Governor, legislators grapple with lower tax collections as they seek more production

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Oil tax reductions might hit $2B annually
Governor, legislators grapple with lower tax collections as they seek more production

By Pat Forgey | JUNEAU EMPIRE

Gov. Sean Parnell said he still believes his oil tax cut proposal is good for the state, but there are new indications it may cost the state as much as $2 billion a year, more than first reported.

Rep. Berta Gardner, D-Anchorage, a member of the House Resources Committee reviewing the tax cut bill, called it “the governor’s enormous giveaway.”

But Parnell remained firm the state needed to lower taxes in the belief the lure of higher profits would bring crucial oil industry investment to Alaska.

Alaska’s oil production is declining, which Parnell and industry representatives testifying before the Legislature blame on Alaska’s Clear and Equitable Share oil tax law.

Parnell said companies are also “voting with their feet,” and moving their jobs and investment to places such as North Dakota.

“That says to me we can do a better job of making Alaska more competitive,” Parnell said.

Tax break skeptics, however, said testimony from the administration and others show there’s no proven link between ACES and declining investment, and no evidence lower taxes will fill the trans-Alaska oil pipeline.

During the last week, Parnell administration officials have acknowledged the ACES revisions the governor is proposing will likely result in more lost revenue than first thought.

The governor’s proposal would reduce ACES’ top tax rate, but also have a number of more difficult to assess changes as well. In the official “fiscal note” assessing the bill’s financial impact on the state, Department of Revenue officials said many of those amounts were simply not estimated.

Some of them, such as taxing on the average value of oil during the year rather than on the value each month could cost the state hundreds of millions, depending on the volatility of oil prices in future years.

That allows the state to capture more of the “windfall” profits, which Resources Committee Co-chairman Paul Seaton, R-Homer, said was, by definition, caused by luck and not new investment.

Had Parnell's proposal been in effect when prices spiked in 2008 "We would have lost out on that," said Rep. Scott Kawasaki, D-Fairbanks.

Adding the cost of lower tax rates, how taxes are calculated and new tax credits, the total annual reduction comes to more than $2 billion a year, he said.

Department of Revenue Commissioner Bryan Butcher said Alaska should do what Alberta did after it raised its taxes and found investment declining. Alberta lowered its taxes, just as Parnell is proposing Alaska do.

Butcher said there isn't data yet to show how that's working, but reports from the oil industry indicate it is having the desired effect, he said.

"We've heard anecdotal information that there is more development," Butcher said.

Parnell said Tuesday he wanted to bring more of that investment to Alaska, and didn't dispute Kawasaki's $2 billion.

The state's budget is close to being balanced now, and Parnell acknowledged cutting taxes will initially result in spending much more than the state takes in, which he said would come from savings.

"That's what savings are for," he said.

Kawasaki, however, said the Resources Committee had not heard convincing evidence a tax reduction will have the result the oil companies suggest, and Parnell expects.

"They are basing a $2 billion potential gamble on oil company information and anecdotal info," he said.

Parnell said he hoped the tax reductions would convince oil companies to invest enough money in Alaska to boost production enough to eventually make up the lost revenue.

• Contact reporter Pat Forgey at 586-4816 or patrick.forgey@juneauempire.com.

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