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In this installment of Alaska Tax: The Last Frontier, Iversen examines Alaska's 2025 legislative session, including legislation concerning corporate tax apportionment, income tax on passthrough entities, reductions in oil and gas production tax credits, and the publication of taxpayer information.

Southcentral Alaska has finally navigated a rather cool, wet spring and we are now enjoying some sunny days. Tourists are arriving, and full buses frequent the area and release excited visitors, including couples in matching rain gear visiting local stores. This time of the year represents a welcome change and a boost to the economy. What's more, fishing season is in full swing.

It's also the end of the first regular session of the 34th Alaska State Legislature, which adjourned May 20. There were many newly elected lawmakers, and while this often meant a steep learning curve when it came to the state's budget and revenue streams, the Legislature approved an operating budget on time and considered several bills of interest to taxpayers.

Reliance on Oil

Alaska's revenues are highly dependent on oil prices and production, and the volatility that accompanies reliance on commodity prices always raises concerns. Unrestricted revenues — which are used to fund the government — are largely driven by royalties for oil produced from state leases and three categories of taxes:

- **Oil and gas production tax:** A production (severance) tax levied on oil and gas produced in the state, with a base tax rate of 35 percent of the net proceeds of production.[1]
- **Petroleum exploration, production, and pipeline transportation property tax:** An ad valorem tax of 20 mills (2 percent) levied on the assessed value of oil and gas exploration, production, and pipeline transportation properties in the state; municipalities and boroughs receive proceeds based on their mill rates, with the remainder allocated to the state.[2]
- **Corporate income tax:** A net income tax of up to 9.4 percent on the Alaska taxable income of an oil and gas corporation (including producers or pipeline transporters), determined by apportioning its worldwide income to Alaska relative to the rest of the world based on (i) tariffs and sales, (ii) oil and gas production, and (iii) oil and gas property.[3] Alaska's nonpetroleum corporate income tax apportions income on a water's-edge basis using standard three-factor apportionment (property, payroll, and sales), whereas the corporate income tax on oil and gas producers and transporters

[1] Alaska Stat. section 43.55.011, et seq.

[2] Alaska Stat. section 43.56.010, et seq.

[3] Alaska Stat. section 43.20.011, et seq.

apportions income on a worldwide basis with modified factors. There are other calculation differences for oil and gas corporations, including intangible drilling and development costs that are deducted for federal taxes under IRC section 613, and that depreciation must be calculated based on IRC section 167 as it existed on June 30, 1981.[4]

Royalties, production taxes, and oil and gas corporate income taxes are all very sensitive to oil prices. While property taxes are not directly sensitive to oil prices, they are based on oil and gas infrastructure in the state — including wells, pipelines, facilities, drilling rigs, machinery, and equipment.

Oil price volatility has been a significant concern this year, as reflected in the Alaska Department of Revenue's fall 2024 and spring 2025 forecast and subsequent prices. In the fall forecast, the DOR predicted that Alaska North Slope (ANS) West Coast oil prices would be $73.86 per barrel for fiscal 2025 and $70 per barrel for fiscal 2026, leveling out at $73 per barrel until fiscal 2035.[5] In the spring forecast, the agency predicted that ANS oil would be at $74.48 per barrel for fiscal 2025 and $68 per barrel in fiscal 2026, declining to $66 in fiscal 2028 and rising to $72 by fiscal 2035.[6] These forecasts were just a few months apart, and ANS West Coast oil prices dipped shortly after the spring forecast to an average of $69 for April and $67 for May.[7] The spring forecast projected a production increase over the fall forecast of 200 barrels per day for fiscal 2025 and a decrease of 5,400 barrels per day for fiscal 2026.[8] The resulting unrestricted revenue forecast for fiscal 2025 was virtually unchanged from the fall forecast, but the fiscal 2026 forecast decreased by $70 million.[9]

[4] Alaska Stat. section 43.20.144.

[5] Alaska Department of Revenue, Tax Division, "Revenue Sources Book, Fall 2024" (Dec. 12, 2024).

[6] Alaska DOR, Tax Division, "Spring 2025 Revenue Forecast" (Mar. 12, 2025).

[7] Alaska DOR, Tax Division, "ANS West Coast Average Spot Price" (June 4, 2025).

[8] Alaska DOR, *supra* note 6.

[9] *Id.*

Tax Legislation

Several tax bills are worth discussing.

S.B. 113: Corporate Tax Apportionment

S.B. 113, which cleared the Legislature and awaits consideration by Gov. Mike Dunleavy (R), modifies apportionment for the corporate income tax. The legislation (i) updates Alaska's version of the Multistate Tax Compact to change the sales factor from cost of performance to market-based, in line with many other states; and (ii) bases apportionment for highly digitized businesses exclusively on the sales factor.

For purposes of the bill, a taxpayer is in a highly digitized business in Alaska when 50 percent or more of its sales are any combination of:

- intangible property delivered by electronic transmission in Alaska;
- services delivered by electronic transmission in Alaska;
- services related to computers, electronic transmissions, and internet technology delivered in Alaska; and
- tangible personal property delivered in Alaska from internet sales if the internet is the primary mode of customer access in the state.

Although the DOR's fiscal note states that the revenue impact of S.B. 113 is indeterminate, the agency estimated that the bill would generate annual revenues of $25 million to $65 million when fully implemented.[10]

S.B. 92: Income Tax on Passthrough Entities

S.B. 92 would apply the corporate income tax on taxable income from the production of oil and gas in the state or from the transportation of oil or gas by pipeline in the state. The tax would apply to any "qualified entity," defined as a sole proprietorship, partnership, limited liability company, or S corporation. The tax would be 9.4 percent on taxable income over $5 million. Although the measure moved out of the Senate Resources and Finance committees, it ended the session in the Senate Rules Committee and will carry over for consideration next session.

[10] Alaska DOR, Tax Division, "Fiscal Note (S.B.113-DOR-TAX-02-28-25)" (Apr. 9, 2025).

S.B. 112: Reductions in Oil and Gas Production Credits

The combination of turnover in the Legislature, the limited focus of many lawmakers, and the perennial debate about Alaska's oil and gas production tax results in considerable misunderstanding and confusion. More recently, this debate has tipped toward production tax credits, and to understand the role of tax credits in Alaska's oil and gas production tax structure and how they encourage investment, a brief review of the tax structure is helpful.

Alaska's production tax is levied on the net revenues of oil and gas production from leases or properties, except for the federal and state royalty share and oil and gas used in drilling or production operations, or for repressuring.[11] The calculation starts with destination value, generally the higher of the sales price or a calculated prevailing value.[12] The costs of pipeline and marine transportation are subtracted from the destination value to obtain the gross value at the point of production (GVPP).[13] Operating and capital costs for oil and gas exploration, development, or production upstream of the point of production (called lease expenditures) are subtracted from the GVPP to reach net revenue, known as production tax value.[14]

It helps to ground this high-level summary in an example that starts with the marketplace and ends with the point of production. Almost all ANS oil is destined for the West Coast of the United States. Working back from that point, start with the sales price of ANS West Coast oil and subtract the costs of transporting it via tanker from Valdez, Alaska, to the West Coast.[15] Then subtract the Trans Alaska Pipeline System (TAPS) tariffs and TAPS quality bank adjustments (to account for differences in crude quality) to reach TAPS pump station No. 1 at the north end of TAPS, which is the point of production for much of ANS crude.[16] That yields the GVPP. Subtract the upstream costs for things like drilling wells and constructing and operating production facilities to find the production tax value. Then multiply the production tax value by the tax rate, and reduce the result by the credits.

At a high level, the calculation can be shown as follows:

Production Tax Liability = [(GVPP – Lease Expenditures) * Tax Rate] – Credits

This structure is different from oil and gas severance tax calculations in other states that levy a severance tax on the GVPP or wellhead value. Likewise, royalties on Alaska state lands are also based on a percentage of wellhead value, which absent royalty modification or a specific statutory exception may not be less than 12.5 percent.[17]

S.B. 112 would increase the tax burden on Alaska's oil and gas producers through reductions in oil and gas production tax credits. Alaska Stat. section 43.55.024(i) provides a credit of $5 per taxable barrel for some taxable ANS oil produced from comparatively newer fields. ANS oil production that does not meet the criteria to qualify for the $5 per barrel credit qualifies for a production tax credit under Alaska Stat. section 43.55.024(j), often referred to as the sliding scale credit. The amount of sliding scale credit decreases as oil prices rise, resulting in higher effective tax rates at higher oil prices. The maximum credit is $8 per barrel of taxable oil if the average GVPP (basically the sales price or prevailing market value less transportation costs to move the oil or gas from the point of production to market) for the month is less than $80 per barrel. If the average GVPP for the month is greater than $80 per barrel but less than $90 per barrel, the credit is $7 per barrel. The amount of credit per barrel continues to drop by $1 for each $10 incremental increase in the GVPP and is zero if the average GVPP for the month is $150 per barrel or higher.

S.B. 112 would reduce the sliding scale credit by $3 per barrel at each increment and would

[11] Alaska Stat. section 43.55.011(e); Alaska Stat. section 43.55.020(e).

[12] Alaska Admin. Code tit. 15, section 55.151.

[13] Alaska Stat. section 43.55.150. The point of production is generally the point at which oil or gas is accurately metered and tendered into a carrier pipeline or other transportation carrier in a condition of pipeline quality. Alaska Stat. section 43.55.900(21).

[14] Alaska Stat. section 43.55.160.

[15] The price of ANS West Coast oil can be found on the Alaska DOR Tax Division website.

[16] There are other points of production for several fields that are upstream of pump station No. 1; this can get complicated.

[17] Alaska Stat. section 38.05.180(f).

limit the use of the $5 per barrel credit and sliding scale credits for the calendar year to the amount of the producer's capital expenditures for the lease, property, or unit from which the oil or gas was produced that was the basis for the credit. The bill did not leave Senate Resources, its committee of first referral. It had several hearings and will carry over for consideration next session.

H.B. 206: Publication of Taxpayer Information

H.B. 206 would require the DOR to publish specific information on oil and gas taxpayers and royalties within 30 days after a request, including:

- oil and gas production by each working interest owner in a unit;
- wellhead value of oil and gas by each working interest owner in a unit;
- transportation costs of oil and gas by each working interest owner in a unit;
- production tax value of oil and gas by each working interest owner in a unit;
- oil and gas production taxes on oil and gas produced by each working interest owner in a unit; and
- state royalty on oil and gas produced by each working interest owner in a unit.

The bill never left House Resources, which is the committee of first referral for it. H.B. 206, which had several hearings and was set aside for future discussion, will carry over for consideration next session.

Discussions about tax and revenue measures — including the bills that carried over — will undoubtedly continue when the Legislature convenes for its next session on January 20, 2026. ■