

NEW SUSTAINABLE  
**ALASKA**  
PLAN



*Pulling Together to Build Our Future*

## **Oil and Gas Tax Credit Reform CS HB247(RLS)\C**

Department of Revenue  
**Overview of House Rules CS for Senate Finance**  
May 13, 2016

# ***Major Provisions in Rules Committee Substitute***

## **1. Exploration Credits**

- Governor's bill
  - Allows existing credits to sunset on 7/1/16
  - Keeps "middle earth" extension to 1/1/22
  - Repeals older dormant DNR exploration credits
- Rules CS
  - Also keeps the change made in several earlier versions to extend the "Frontier Basin" credit to protect ongoing AHTNA investment
  - Extends this language six months due to additional delay in acquiring a rig

# ***Major Provisions in Rules Committee Substitute***

## **2. Cook Inlet (and Middle Earth) Credits**

- Governor's bill
  - Eliminated 20% QCE and 40% WLE, kept 25% NOL
  - Kept 2022 "tax cap" sunset
- Rules CS
  - NOL kept at 25% in 2017 but only if producing by 1/1
  - QCE repealed 1/1/17
  - WLE reduced to 20% for 2017-18 and repealed in 2019
  - Keeps 2022 tax cap sunset but "working group" section explicitly calls for new tax system to take effect in 2019

# ***Major Provisions in Rules Committee Substitute***

## **3. North Slope Credits, Limits, Carry-Forwards**

- Governor's bill
  - Kept 35% NOL rate (not current administration policy)
  - Capped repurchase at \$25 million / company / year, large company exclusion, 10 year sunset
- Rules CS
  - 35% NOL for 2017-19 transition period, only for small producers and pre-production developers
  - Capped at \$75 million / company / year
  - After 2020 all companies must "carry forward" lease expenditures to use against future revenue
  - Effectively keeps the 35% tax value for carry-forward

# *Major Provisions in Rules Committee Substitute*

## **4. Minimum Tax Changes**

- Governor's bill
  - Increased "floor" to 5%
  - "Hardened" minimum tax against NOLs, \$5 per-barrel credit for new (GVR) oil, small producer, and exploration credits
- Rules CS
  - Keeps current 4% floor and doesn't harden against additional credits
  - Because NOLs end (2017 for majors, 2020 for others), floor indirectly hardened because no NOLs to use
  - Revenue impact delayed to 2020 because pre-effective date NOLs can still be used to go below floor

# ***Major Provisions in Rules Committee Substitute***

## **5. New Oil “GVR” Provisions**

- Governor’s bill
  - No changes
- Rules CS
  - 10-year “graduation” of GVR oil to become legacy oil
  - (Note- concept of “graduation” started with House Finance CS; various versions in the 5-7 year range)

# *Major Provisions in Rules Committee Substitute*

## 6. Misc and Technical Provisions

- a) **Gov:** GVR can't be used to increase the size of an NOL  
**Rules:** Kept as written
- b) **Gov:** Municipal Utility Lease Expenditure pro-ration  
**Rules:** Kept as written
- c) **Gov:** Transparency, can release amount of credits received and the work done to earn them  
**Rules:** Limited to refunded credits, and dollar total only
- d) **Gov:** Interest Rate increase from 3% over Federal Reserve, simple to 7% over Fed, compounding  
**Rules:** Increase to 5% over Fed, compounding

# *Major Provisions in Rules Committee Substitute*

## 6. Misc and Technical Provisions (con't)

- e) **Gov:** Alaska Hire tied to percentage of credit that can be refunded  
**Rules:** Alaska Hire as prioritization for repurchase given limited funds
- f) **Gov:** Credits can be used to offset other delinquent obligations to the state such as royalties  
**Rules:** Credits can be held back, but if contested must get company's consent to use to pay obligation
- g) **Gov:** No bonding or other formal means to protect local vendors from bankruptcy  
**Rules:** \$250k surety bond with local vendor priority

# Summary of Fiscal Impact

## Summary Analysis of Bill Versions (\$millions) (based on Spring 2016 Forecast)

	FY 2017			FY 2018			FY 2019			FY 2020		
	HB247 (GOV)	CS SB130 (RES)	CS HB247 (RLS)									
<b>Reduced Spending</b>												
Credits Eliminated or Reduced												
North Slope	\$15	\$0	\$0	\$15	\$15	\$15	\$25	\$25	\$30	\$20	\$20	\$45
Cook Inlet / Mid Earth	\$35	\$10	\$5	\$65	\$40	\$30	\$45	\$50	\$45	\$35	\$50	\$45
Credits Deferred												
North Slope	\$30	\$0	\$0	\$80	\$0	\$0	\$95	\$0	\$0	\$45	\$0	\$0
Cook Inlet / Mid Earth	\$0	\$0	\$0	\$30	\$0	\$0	\$40	\$0	\$0	\$20	\$0	\$0
<b>Budget Subtotal</b>	<b>\$80</b>	<b>\$10</b>	<b>\$5</b>	<b>\$190</b>	<b>\$55</b>	<b>\$45</b>	<b>\$205</b>	<b>\$75</b>	<b>\$75</b>	<b>\$120</b>	<b>\$70</b>	<b>\$90</b>
<b>Increased Revenue</b>												
Floor "Hardening"	\$130	\$0	\$0	\$185	\$0	\$0	\$185	\$0	\$0	\$160	\$0	\$70
Floor Increase to 5%	\$45	\$0	\$0	\$45	\$0	\$0	\$55	\$0	\$0	\$80	\$0	\$0
CI Credit Repeal	\$15	\$0	\$0	\$10	\$0	\$0	\$15	\$0	\$10	\$15	\$0	\$15
<b>Revenue Subtotal</b>	<b>\$190</b>	<b>\$0</b>	<b>\$0</b>	<b>\$240</b>	<b>\$0</b>	<b>\$0</b>	<b>\$255</b>	<b>\$0</b>	<b>\$10</b>	<b>\$255</b>	<b>\$0</b>	<b>\$85</b>
<b>Total Bill Impact</b>	<b>\$270</b>	<b>\$10</b>	<b>\$5</b>	<b>\$430</b>	<b>\$55</b>	<b>\$45</b>	<b>\$460</b>	<b>\$75</b>	<b>\$85</b>	<b>\$375</b>	<b>\$70</b>	<b>\$175</b>
<b>NOL Carry-Forward</b>	<b>\$773</b>	<b>\$605</b>	<b>\$610</b>	<b>\$1,128</b>	<b>\$718</b>	<b>\$720</b>	<b>\$1,226</b>	<b>\$677</b>	<b>\$660</b>	<b>\$1,223</b>	<b>\$508</b>	<b>\$685</b>



# Thank You!

## Contact Information

**Randall Hoffbeck**  
Commissioner  
Department of Revenue  
[Randall.Hoffbeck@Alaska.gov](mailto:Randall.Hoffbeck@Alaska.gov)  
(907) 465-2300

**Ken Alper**  
Director, Tax Division  
Department of Revenue  
[Ken.Alper@Alaska.gov](mailto:Ken.Alper@Alaska.gov)  
(907) 465-8221