



## **Oil and Gas Tax Credit Reform**

**CS HB247(RLS)\C amended H**

Department of Revenue

**Overview of House-passed CS for Senate Finance**

May 14, 2016

# *Introduction*

## **Thank you for welcoming us back**

- This bill is substantially changed from what we presented yesterday
- The major amendment which rewrote much of the bill, from Reps. Seaton and Wilson, was largely based on the House Finance CS
- We're using the same format as yesterday. Changes from the House Rules version, as we described it in our prior presentation, are *indicated with purple italics*
- ❖ *Major new items are also indicated with a different form of bullet*

# *Major Provisions in House-Passed Bill*

## **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
- House bill
  - Also keeps the change made in several earlier versions to extend the “Frontier Basin” credit to protect ongoing AHTNA investment
  - Extends this language *one year* due to additional delay in acquiring a rig

# *Major Provisions in House-Passed Bill*

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

- Governor's bill
  - Eliminated 20% QCE and 40% WLE, kept 25% NOL
  - Kept 2022 "tax cap" sunset
- House bill
  - NOL kept at 25% in 2017 but only if producing by end of 2016. To 0% in 2018
  - QCE repealed 1/1/17
  - WLE reduced to 20% for 2017 and repealed in 2018
  - ❖ *Moves up 2022 tax cap sunset to 2019. This imposes the high underlying tax in 2019* with expectation of new system as proposed by "working group"
  - *Maintains Middle Earth 25% NOL if under a plan of development, along with 10% QCE*

# *Major Provisions in House-Passed Bill*

## **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
- House bill
  - ❖ *No NOL credit or carry-forwards after 2016 for companies producing over 15,000 barrels / day*
  - Smaller producers still eligible for refunded NOLs with cap of *\$70 million / company / year.*
  - ❖ *Must be from a lease from which the state receives a royalty, under a plan of development, and in which the producer has a working interest*
  - ❖ *NOL rate ramps down: 32% in 2017; 29% in 2019; 26% in 2021; 25% in 2023*

# *Major Provisions in House-Passed Bill*

## **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
- House bill
  - ❖ *Adds a 5% “floor” but only if yearly price is over \$70 / bbl.* Doesn't harden against additional credits
  - *Because NOLs are no longer carried forward by large producers,* floor indirectly hardened
  - Revenue impact delayed to 2020 because pre-effective date NOLs can still be used to go below floor

# *Major Provisions in House-Passed Bill*

## **5. New Oil “GVR” Provisions**

- Governor’s bill
  - No changes
- House bill
  - *7-year* “graduation” of GVR oil to become legacy oil
  - ❖ *If the average price of oil exceeds \$70 for any three years, the GVR sunsets early, with the production reverting to legacy oil*

# *Major Provisions in House-Passed Bill*

## **6. New Provisions**

- ❖ ***“Migrating Credits”:*** *(Provision from Governor’s original bill.) Prevent per-barrel credits not usable in one month, due to minimum tax, from being applied in another month.*  
*No impact unless substantial price volatility within a year*
- ❖ ***“ARM Board Alternative Purchase Option”:***  
*Authorizes Alaska Retirement Management Board to repurchase credits at 60% of face value. DOR mandated to repurchase these credits at full value, notwithstanding any per-company limits, within 5 years*



# *Major Provisions in House-Passed Bill*

## **7. Misc. and Technical Provisions**

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

# *Major Provisions in House-Passed Bill*

## **7. Misc and Technical Provisions (con't)**

- e) Gov:** Alaska Hire tied to percentage of credit that can be refunded
  - ❖ **House:** *Level of* Alaska Hire as prioritization for repurchase given limited funds, *including contractors*
- f) Gov:** Credits can be used to offset other delinquent obligations to the state such as royalties
  - House:** Credits can be held back *if obligation is related to company's oil and gas business*
- g) Gov:** No bonding or other formal means to protect local vendors from bankruptcy
  - House:** \$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) amd H	HB247 (GOV)	CS SB130 (RES)	CS HB247 (RLS) amd H	HB247 (GOV)	CS SB130 (RES)	CS HB247 (RLS) amd H	HB247 (GOV)	CS SB130 (RES)	CS HB247 (RLS) amd H
<b>Reduced Spending</b>												
<b>Credits Eliminated or Reduced</b>												
North Slope	\$15	\$0	\$0	\$15	\$15	\$30	\$25	\$25	\$60	\$20	\$20	\$55
Cook Inlet / Mid Earth	\$35	\$10	\$15	\$65	\$40	\$50	\$45	\$50	\$50	\$35	\$50	\$50
<b>Credits Deferred</b>												
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>\$15</b>	<b>\$190</b>	<b>\$55</b>	<b>\$80</b>	<b>\$205</b>	<b>\$75</b>	<b>\$110</b>	<b>\$120</b>	<b>\$70</b>	<b>\$105</b>
<b>Increased Revenue</b>												
Floor "Hardening"	\$130	\$0	\$0	\$185	\$0	\$0	\$185	\$0	\$0	\$160	\$0	\$65
Floor Increase to 5%	\$45	\$0	\$0	\$45	\$0	\$0	\$55	\$0	\$0	\$80	\$0	\$0
CI Credit Repeal	\$15	\$0	\$0	\$10	\$0	\$5	\$15	\$0	\$50	\$15	\$0	\$110
<b>Revenue Subtotal</b>	<b>\$190</b>	<b>\$0</b>	<b>\$0</b>	<b>\$240</b>	<b>\$0</b>	<b>\$5</b>	<b>\$255</b>	<b>\$0</b>	<b>\$50</b>	<b>\$255</b>	<b>\$0</b>	<b>\$175</b>
<b>Total Bill Impact</b>	<b>\$270</b>	<b>\$10</b>	<b>\$15</b>	<b>\$430</b>	<b>\$55</b>	<b>\$85</b>	<b>\$460</b>	<b>\$75</b>	<b>\$160</b>	<b>\$375</b>	<b>\$70</b>	<b>\$280</b>
<b>NOL Carry-Forward</b>	<b>\$773</b>	<b>\$605</b>	<b>\$432</b>	<b>\$1,128</b>	<b>\$718</b>	<b>\$280</b>	<b>\$1,226</b>	<b>\$677</b>	<b>\$118</b>	<b>\$1,223</b>	<b>\$508</b>	<b>\$69</b>



**Thank You!**

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