



Oil and Gas Tax Credit Reform

Senate CS to CS HB247(FIN)

Department of Revenue

Initial Review of Changes in Senate Finance CS

May 16, 2016

Introduction

- This bill is substantially changed from what passed the House
- We have attempted to describe the changes made in the current CS, but have only had the document for a few hours. We apologize for any oversights
- We're using the same format as we did on Friday and Saturday before this committee, describing the prior two versions of the bill
- To color-code our text:
 - Purple items are as they are in the "House" version
 - Red items are as they are in CSSB130(RES)
 - Black items are current law but not in either version
 - Blue items are new to this version

Major Provisions in SCS-CSHB247(FIN)

1. Exploration Credits

- House bill
 - Allows existing credits to sunset on 7/1/16
 - Keeps “middle earth” extension to 1/1/22
 - Repeals older dormant DNR exploration credits
 - Extends the “Frontier Basin” credit one year to protect ongoing AHTNA investment
- Senate Finance CS
 - Keeps the first three changes from the House
 - Does not include the Frontier Basin extension

Major Provisions in SCS-CSHB247(FIN)

2. Cook Inlet (and Middle Earth) Credits

- House bill
 - NOL kept at 25% in 2017 but only if producing by end of 2016. To 0% in 2018
 - QCE repealed 7/1/16
 - WLE reduced to 20% for 2017 and zero in 2018
 - Middle Earth maintained at 25% NOL if under a POD, along with a 10% QCE
- Senate Finance CS
 - NOL reduced to 15% in 2017 and zero in 2018
 - QCE reduced to 10% in 2017 and zero in 2018
 - WLE reduced to 20% in 2017 and zero in 2018
 - Middle Earth same as Cook Inlet with full elimination of all three credits by 2018

Major Provisions in SCS-CSHB247(FIN)

3. Cook Inlet (and Middle Earth) Taxes

- House bill
 - Moves up 2022 tax cap sunset to 2019, for Cook Inlet gas, Cook Inlet oil, and Gas Used in State (GUIS)
 - Imposes a high underlying tax in 2019; expectation of new system as proposed by “working group”
- Senate Finance CS
 - Eliminates sunset of Cook Inlet Gas and GUIS tax caps
 - This extends indefinitely the Cook Inlet Gas and GUIS tax at an average of 17.5 cents / mcf
 - Adds a new Cook Inlet oil tax cap of \$1.00 / bbl
 - No sunsets, no working group. These are intended to be long term changes

Major Provisions in SCS-CSHB247(FIN)

4. North Slope Credits, Limits, Carry-Forwards

- 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 SCS-CSHB247(FIN)

4. North Slope Credits, Limits, Carry-Forwards

- Senate Finance CS
 - Limit for cashing credits remains 50,000 barrel / day
 - Cap for refunds \$70 million / company / year
 - First half of each credit certificate, up to the cap, is paid at face value. Second half is paid at 75% of face value or, at the company's option, can be carried forward into a future year
 - NOL rate remains 35%
 - In the case of a company with \$70 million in certificates, they will receive \$61.25 million in payment ($\$35 + 75\% \times \35), which equals an effective NOL rate of 30.6%

Major Provisions in SCS-CSHB247(FIN)

5. Minimum Tax Changes

- 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
- Senate Finance CS
 - No increase to minimum tax
 - No hardening of floor against NOLs, new oil per-barrel credits, or other credits

Major Provisions in SCS-CSHB247(FIN)

6. New Oil “GVR” Provisions

- House bill
 - 7-year “graduation” of GVR oil to become legacy oil
 - 5-year graduation for 10% additional GVR for high-royalty fields
 - If the average price of oil exceeds \$70 for any three years, the GVR sunsets early, with the production reverting to legacy oil
- Senate Finance CS
 - 7-year “graduation” of GVR oil to become legacy oil, for all royalty levels
 - 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 SCS-CSHB247(FIN)

7. New Provisions from House Bill

- “Migrating Credits / True-up”: Prevent per-barrel credits not usable in one month, due to minimum tax, from being applied in another month.
- “ARM Board Alternative Purchase Option”: Authorizes Alaska Retirement Management Board to repurchase credits at 60% of face value. DOR mandated to repurchase at full value within 5 years
- Senate Finance CS
 - Neither provision retained

Major Provisions in SCS-CSHB247(FIN)

8. New Provision in Senate Finance CS

- Refinery Credit
 - Refinery credit repealed early.
 - Rate reduced from 40% to 20% in 2017, and eliminated in 2018
 - Credit was scheduled to sunset at end of 2019, so effectively this removes 2 ½ out of the 5 years of initial eligibility and value

Major Provisions in SCS-CSHB247(FIN)

9. Misc. and Technical Provisions

- a) House:** GVR can't be used to increase the size of an NOL
Sen Fin: Same as House
- b) House:** Municipal Utility Lease Expenditure pro-ration
Sen Fin: Same as House
- c) House:** Transparency, can release name of company and amount of refundable credits received
Sen Fin: Amendment provides amounts but not names
- d) House:** Increase to 5% over Fed, compounding, with simple interest after four years
Sen. Fin: Increase to 7% over Fed, compounding, with zero interest after three years (5% in draft text)

Major Provisions in SCS-CSHB247(FIN)

9. Misc. and Technical Provisions (cont'd)

- e) House:** Level of Alaska Hire as prioritization for repurchase given limited funds, including contractors
Sen Fin: Priority for repurchase for companies with Alaska Hire greater than 75%, not including contractors
- f) House:** Credits can be used to offset other delinquent obligations to the state related to oil and gas business
Sen Fin: Same as House, requires notice if credit funds are used to pay liability on company's behalf
- g) House:** \$250k surety bond with local vendor priority
Sen Fin: Same as House

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 HB247 (RLS) amd H	SCS CS HB247 (FIN)	HB247 (GOV)	CS HB247 (RLS) amd H	SCS CS HB247 (FIN)	HB247 (GOV)	CS HB247 (RLS) amd H	SCS CS HB247 (FIN)	HB247 (GOV)	CS HB247 (RLS) amd H	SCS CS HB247 (FIN)
Reduced Spending												
Credits Eliminated or Reduced												
North Slope	\$15	\$0	\$0	\$15	\$30	\$50	\$25	\$60	\$45	\$20	\$55	\$35
Cook Inlet / Mid Earth	\$35	\$15	\$10	\$65	\$50	\$55	\$45	\$50	\$75	\$35	\$50	\$75
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
Budget Subtotal	\$80	\$15	\$10	\$190	\$80	\$105	\$205	\$110	\$120	\$120	\$105	\$110
Increased Revenue												
Floor "Hardening"	\$130	\$0	\$0	\$185	\$0	\$0	\$185	\$0	\$0	\$160	\$65	\$0
Floor Increase to 5%	\$45	\$0	\$0	\$45	\$0	\$0	\$55	\$0	\$0	\$80	\$0	\$0
CI Credit Repeal / Tax	\$15	\$0	\$0	\$10	\$5	\$10	\$15	\$50	\$20	\$15	\$110	\$20
Revenue Subtotal	\$190	\$0	\$0	\$240	\$5	\$10	\$255	\$50	\$20	\$255	\$175	\$20
Total Bill Impact	\$270	\$15	\$10	\$430	\$85	\$115	\$460	\$160	\$140	\$375	\$280	\$130
NOL Carry-Forward	\$773	\$432	\$610	\$1,128	\$280	\$720	\$1,226	\$118	\$680	\$1,223	\$69	\$510



Thank You!

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