

NEW SUSTAINABLE
ALASKA
PLAN



Pulling Together to Build Our Future

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 - QCE repealed 7/1/16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

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

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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