

Example of Cook Inlet exploration well costs vs. state tax credits under current law and proposed legislation

	Current - law no EIC	Current law - with 40% EIC	SB 309 - #1 Jack up	SB 309 - #2 Jack-up	SB 309 - #3 Jack up	SB 309 /CIT Credit	HB 280-CI Well credit	SB 271 / HB 337	Notes
Exploration Well Capital Cost	\$20,000,000	\$20,000,000	\$20,000,000	\$20,000,000	\$20,000,000	\$20,000,000	\$20,000,000	\$20,000,000	Capital cost assumed for example purposes only
.025 Exploration Credit or .023 Capital Expenditure Credit									
.025 Exploration Tax Credit Rate Amount	NA NA	40% \$8,000,000	100% \$20,000,000	90% \$18,000,000	80% \$16,000,000	40% \$8,000,000	40% \$8,000,000	40% \$8,000,000	Assumes well qualifies for exploration tax credit. Current law allows for a 30% or 40% credit when certain parameters are met. SB 309 would increase this rate for qualifying wells.
.023 (a) Cap Ex Credit Rate Amount	20% \$4,000,000	20% \$4,000,000	20% \$4,000,000	20% \$4,000,000	20% \$4,000,000	20% \$4,000,000	40% \$8,000,000	30% \$6,000,000	Current law allows for a 20% production tax credit for qualifying capital costs. SB 271 / HB 337 would increase this amount to 30% for well-related expenditures. HB 280 would allow a .023(m) credit of 40% for Cook Inlet.
Higher of ETC or CapEx Credit	\$4,000,000	\$8,000,000	\$20,000,000	\$18,000,000	\$16,000,000	\$8,000,000	\$8,000,000	\$8,000,000	Company can take the exploration tax credit OR the capital credit but not both.
Lease Expense deduction or .023 (b) NOL credit	\$5,000,000	\$5,000,000	\$5,000,000	\$5,000,000	\$5,000,000	\$5,000,000	\$5,000,000	\$5,000,000	Assumes 25% tax rate (or NOL credit) No NOL allowed for Jack up drill rig credit (SB 309)
Exploration Incentive Credit - against Corporate Income Tax									
Rate Amount	10% \$2,000,000	10% \$2,000,000	10% \$2,000,000	10% \$2,000,000	10% \$2,000,000	25% \$5,000,000	10% \$2,000,000	10% \$2,000,000	A company claiming the EIC may not "claim a tax credit or royalty modification provided for under any other title" -AS 43.20.043 (g). We assume another tax credit under title 43 would also be disallowed. In most cases the exploration incentive credit will NOT be claimed because production tax credits provide greater benefit.
.024 Small Producer Credit	Can provide up to a \$12 million / year benefit against production tax; cannot be used to reduce liability below zero. Applied on a company - wide basis.								
Other	Capital, exploration and NOL credits for production tax may be eligible for state purchase under AS 43.55.028						CIT credit for gas storage facilities		
Total State Tax Credits	\$9,000,000	\$13,000,000	\$20,000,000	\$18,000,000	\$16,000,000	\$13,000,000	\$13,000,000	\$13,000,000	State contribution is Exploration tax credit for Jack up drill rigs, and for all others, Capital or exploration credit + Lease expenditure or NOL credit
State tax credits % of cost	45%	65%	100%	90%	80%	65%	65%	65%	
Credits Taken by Company	CapEx credit, NOL credit	ETC, NOL credit	ETC only	ETC only	ETC only	EIC, NOL credit	ETC / CapEx, NOL credit	ETC, NOL credit	

Note: Existing producers also receive some offset to their progressivity rate as a result of additional spending.