

PRODUCTION TAX CREDITS

PRESENTED TO THE HOUSE FINANCE COMMITTEE

MARCH 17, 2011

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Alaska State Department of Revenue

Overview

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□ **Types of Production Tax Credits**

- Credits Applied Against Production Tax Liability
- Transferable Tax Credit Certificates
- Cash Refunds History

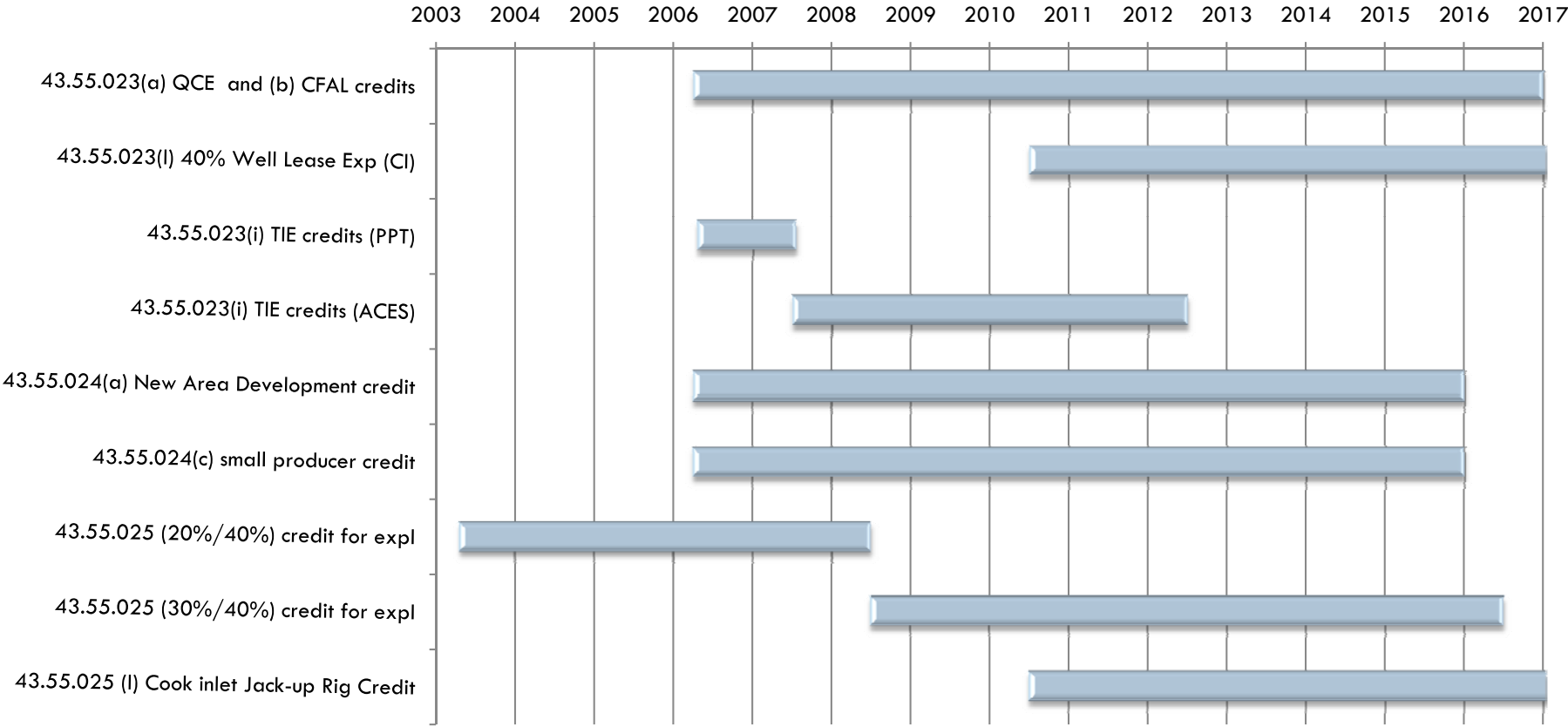
Types of Production Tax Credits

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Credits which may be taken against oil and gas production taxes include:

- Capital Expenditure Credits
- Alternative Tax Credits for Oil and Gas Exploration
- Net Operating Loss (“NOL”) Carry Forward Credits
- Transitional Investment Expenditure (“TIE”) Credit
- Additional Nontransferable Tax Credits
- Well Lease Expenditures Credit
- Cook Inlet Jack-up Rig Credit

Timelines for Production Tax Credits



Overview

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Credits Applied Against Production Tax Liability

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Credits may be redeemed in two ways:

(1) All Credits may be applied against production tax liability

- Capital Expenditure and Capital Exploration Credits split over two years (except south of 68 degree North latitude – eff. July 1, 2010)
- NOL , TIE, Small Producer and Alternative Tax Credits for Oil and Gas Exploration may all be applied against tax liability in total in a single year

(2) Some Credits may be converted into a transferable Tax Credit Certificate

- Capital Expenditure, Capital Exploration, NOL, and Alternative Tax Credits for Oil and Gas Exploration are convertible to tax certificates
- Capital Expenditure, Capital Exploration and NOL Tax Credit Certificates must be applied over two years (except south of 68 degrees North latitude – passed 2010)
- Alternative Tax Credits for Oil and Gas Exploration Certificates can be used in single year

Production Tax Credits Applied Against Tax Liability (Fiscal Year)

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	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010*</u>	<u>2011*</u>	<u>Total</u>
Capital Expenditure Credit	65	227	219	280	349	391	1,535
TIE Credits	33	138	73	0	0	0	243
Small Producer Credits	9	37	30	26	28	40	169
Exploration Credits	1	47	55	28	34	20	185
Totals	<u>107</u>	<u>449</u>	<u>375</u>	<u>333</u>	<u>417</u>	<u>450</u>	<u>2,131</u>

* Estimated

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Transferable Tax Credit Certificates

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Companies may also claim tax credits by applying for a Transferable Tax Credit Certificate (TTCC)

- ▣ Available to companies (explorers) with no tax liability to which credits can be applied
- ▣ Tax Credit Certificates under 43.55.023(a) and (b) must be split or applied over two years (except credits issued for expenditures incurred south of 68 degrees North latitude effective July 1, 2010)
- ▣ May be transferred to another taxpayer or cashed with the state

Production Tax Credits Under AS 43.55 Claimed by FY (\$M)

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Credit Type	Pre-2007	2007	2008	2009	2010	2011*	Total
Capital Expenditure - .023(a)		68.2	91.7	109.6	168.0	72.8	510.3
Net Operating Loss .023(b)		38.1	148.5	153.5	138.7	.2	479.0
Well Lease Expenditure - .023(l)						5.8	5.8
Exploration -.025	<u>48.3</u>	<u>44.9</u>	<u>85.5</u>	<u>56.6</u>	<u>99.5</u>	<u>2.4</u>	<u>337.2</u>
Total	<u>48.3</u>	<u>151.3</u>	<u>325.6</u>	<u>319.7</u>	<u>406.2</u>	<u>81.3</u>	<u>1332.4</u>

* Applications received through January 4, 2011.

Transferable Tax Credit Certificate Activity by Fiscal Year (\$M)

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	Pre-2007	2007	2008	2009	2010	2011*	Total
Issued	16.2	99.9	130.8	308.2	361.3	191.5	1,107.9
Refunded		(54.6)	(54.1)	(193.1)	(250.5)	(299.3)	(851.6)
Transferred/ Applied to Taxes	<u>(12.3)</u>	<u>(40.0)</u>	<u>(46.6)</u>	<u>(20.0)</u>	<u>(1.2)</u>	<u>(62.7)</u>	<u>(182.8)</u>
Activity by year	3.9	5.2	30.1	95.1	109.6	(170.4)	
Transferable Tax Credit Certificates Outstanding	<u>3.9</u>	<u>9.1</u>	<u>39.2</u>	<u>134.2</u>	<u>243.9</u>	<u>73.4</u>	<u>73.4</u>

*Payment activity through February 4, 2011.

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Cash Refunds History

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Cash Refunds Governed by AS 43.55.028:

- To cash must be usable against tax liability
- Must show subsequent (24 months) QCEs or lease bids equal to cash sought **(repealed in 2010)**
- Have a zero tax owed in current and past years
- Have no more than 50,000 BOE/d

Cash Refunds History

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Oil & Gas Tax Credit Fund

Appropriations -	\$ 904	M
Tax Credit Purchases (TC Fund)	(772)	M
Tax Credit Purchases (GF)	(79)	M
Interest Earned	<u>22</u>	M
Balance	<u>\$ 75</u>	M

Impact of Production Tax Credits Total State Stimulus

