

**Corporation Income Tax Credit
Manufacture and Sale of Urea or Ammonia
Produced from Natural Gas from State Leases
HB 100**

Qualification for the credit

- 1) Taxpayer must own the processing facility
- 2) The facility must be in the state
- 3) The primary function of the processing facility is the manufacture and sale of urea or ammonia
- 4) Sale of urea or ammonia must be to a third party
- 5) Sales transactions must be at arm's length
- 6) Gas must be delivered to the processing facility from state leases
- 7) The producers must pay royalty to the state on gas delivered to the processing facility

Calculation of the Amount of Credit

- 1) Identify amount of gas delivered from state leases
- 2) Determine the royalty paid by the producer to the state on the production of that gas
- 3) Taxpayer must be told the amount of the royalty received by the state
- 4) Available tax credit is the amount of royalty paid to the state

Applying the Tax Credit

- 1) Determine amount of corporate income tax due before application of credits
- 2) Determine total amount of all tax credits against the tax
- 3) Deduct the credit for royalty from state leases and other credits from the total tax
- 4) Limitation: The amount of credit for gas from state leases may not reduce the taxpayer's liability for tax under AS 43.20 (Alaska Net Income Tax Act) below zero (the bill is silent as to whether an unused part of the credit may be applied in a subsequent tax year)

Royalty Received from the Producer

- 1) Producer pays royalty to the state either in kind or in value
- 2) Royalty paid to the state in value is a percentage of the value, commonly about 1/8 or 12.5 percent
- 3) Part of the royalty is deposited in the Alaska Permanent Fund—25 percent under art. IX, sec. 15, Constitution of the State of Alaska and possibly up to an additional 25 percent under AS 37.13.010 depending on when leases were issued
- 4) Part of the royalty may be subject to deposit in the mental health trust fund if from mental health trust land (AS 37.14.031), and part may be subject to deposit in the public school trust fund (0.5 percent (one-half of one percent) AS 37.14.150)
- 5) Balance to the general fund unless there is some other required allocation

Effect of Credit for Urea and Ammonia Manufacture and Sale on State Treasury

- 1) Taken as a credit before payment of tax, there is no payment from the State; taxpayer just pays less tax
- 2) There is no direct link between royalty payments and the credit; the credit is based on the amount of royalty paid to the state but is no different than determining the amount of credit as a percentage of what the taxpayer pays for the gas from state leases

Example of Applying Credit on Alaska Corporation Net Income Tax Return (Form 6000)

- 1) Taxpayer determines total tax on line 6
- 2) Taxpayer determines total Alaska Incentive Credits of which the urea or ammonia credit would be one of several on Form 6300
- 3) The total Alaska incentive credits are inserted on line 9
- 4) The total Alaska credits and federal-based credits are subtracted from the total tax
- 5) If the net Alaska income tax is less than zero, not all credits may be taken; some credits may be refundable to the taxpayer if they are eligible as a refundable credit; the credit for urea or ammonia manufacture is not a refundable credit