



Sectional Analysis, CS HB 247(RES) \ I
Oil and Gas Tax Credit Reform Bill
March 23, 2016

- Sec. 1-5.** Conforming language related to the repeal of AS 41.09, an old DNR exploration incentive credit program, in Sec. 29 of the bill.
- Sec. 6.** Changes from simple interest to compound interest for delinquent taxes. The current rate of 3% above the Federal Reserve rate is retained.
- Sec. 7-9.** Amends the Gas Storage Facility, LNG Facility, and In-State Refinery Tax Credits so that these cannot be paid if the taxpayer has any outstanding liability to the state. Currently this is restricted to only a tax liability. Conforms with new language in Sec. 17.
- Sec. 10-11** Conforming language related to the repeal of AS 38.05.180(i) and AS 41.09, old DNR exploration incentive credit programs, in Sec. 29 of the bill.
- Sec. 12.** Reduces the amount of the carried-forward annual loss credit (also known as the NOL credit) for areas outside the North Slope from 25% to 10%.
Modifies the NOL credit so that, for “new” oil production eligible to receive the Gross Value Reduction (GVR), the GVR cannot be used to increase the size of an annual loss.
- Sec. 13.** Effective in 2022, conforming to the change in placement to the definition of “qualified capital expenditure,” related to the repeal of AS 43.55.023(a) in Sec. 30 of the bill.
- Sec. 14.** Effective in 2022, conforming language related to the repeal of AS 43.55.023(a), the Qualified Capital Expenditure Credit, in Sec. 30 of the bill.
- Sec. 15.** Reduces the 40% Well Lease Expenditure (WLE) credit from 40% to 30% in 2017, and to 20% in 2018.
- Sec. 16.** Amends AS 43.55.028(e) to add a limitation of \$200 million per company per year to state repurchase of credit certificates. Provides that a company cannot artificially divide themselves into multiple entities to receive more than the \$200 million cap.
- Sec. 17.** Ensures the state cannot repurchase a credit certificate if the company has an outstanding liability to the state related to their oil and gas activity. The Department may use the withheld amount to satisfy the liability, with the applicant’s consent. Adds a definition of “outstanding liability.”
- Sec. 18.** Effective in 2022, conforming language related to the repeal of AS 43.55.023(a), the Qualified Capital Expenditure Credit, in Sec. 30 of the bill.

- Sec. 19-20.** Effective in 2022, conforming to the change in placement to the definition of “qualified capital expenditure,” related to the repeal of AS 43.55.023(a) in Sec. 30 of the bill.
- Sec. 21.** Effective in 2022, conforming language related to the repeal of AS 43.55.165(j) and (k) in Sec. 30 of the bill. The repeal is the “standard deduction” limitation on lease expenditure inflation that expired in 2010.
- Sec. 22.** Effective in 2022, conforming to the change in placement to the definition of “qualified capital expenditure,” related to the repeal of AS 43.55.023(a) in Sec. 30 of the bill.
- Sec. 23-24.** Effective in 2022, conforming language related to the repeal of AS 43.55.023(a), the Qualified Capital Expenditure Credit, in Sec. 30 of the bill.
- Sec. 25.** Effective in 2022, conforming to the change in placement to the definition of “qualified capital expenditure,” related to the repeal of AS 43.55.023(a) in Sec. 30 of the bill.
- Sec. 26.** In the case where a municipal entity has an interest in oil and gas production, and sells only a portion of that production to an outside party, their ability to deduct lease expenditures and claim credits is limited in proportion to their taxable production.
- Sec. 27.** Effective in 2022, adds a definition for “qualified capital expenditure” to the general definitions section of AS 43.55. This replicates the definition that was in AS 43.55.023 which is repealed because the .023 “qualified capital expenditure” credit is also being repealed in Sec. 30. Most of the conforming sections that currently reference AS 43.55.023(a) use this definition.
- Sec. 28.** Adds a requirement that persons engaged in exploring for and developing oil or gas file a surety bond of \$250,000. The bond will protect unsecured creditors. The bond requirement is waived once the person produces oil or gas in commercial quantities.
- Sec. 29.** Repeals two unused DNR exploration incentive credit programs, AS 38.05.180(i) and AS 41.09.
- Sec. 30.** Effective in 2022, repeals the QCE and WLE programs in AS 43.55.023(a) and (l), as well as the former Standard Deduction provisions in AS 43.55.165(j) and (k), with related sections.
- Sec. 31.** Creates a legislative working group, with co-chairs appointed by the presiding officers, to review the fiscal regime for Cook Inlet and Middle Earth during the interim, and present recommended changes to the legislature during the 2017 regular session.
- Sec. 32.** Applicability language related to the new requirements for purchasing transferable tax credit certificate through the Oil and Gas Tax Credit Fund.
- Sec. 33.** Transition language for the 2022 repeal of the QCE and WLE credits in Sec. 30; ensures that expenditures incurred before the repeal date are eligible for the credits.

Sec. 34. Transition language for the 2022 repeal of the Standard Deduction provisions in Sec. 30.

Sec. 35-36. Transition language enabling DOR and DNR to draft regulations to implement the changes in this Act, and establishing that regulations may be retroactive to the effective date if they are finalized after the effective date.

Sec. 37. Immediate effective date for the legislative working group and the authority for DOR and DNR to write regulations for this bill.

Sec. 38. Delayed effective date of January 1, 2022 for the repeal of the QCE and WLE credits, the Standard Deduction, and various conforming sections related to these repeals.

Sec. 39. Effective date of January 1, 2017 for the remaining sections of the bill.