

CS FOR HOUSE BILL NO. 247(FIN)

IN THE LEGISLATURE OF THE STATE OF ALASKA

TWENTY-NINTH LEGISLATURE - SECOND SESSION

BY THE HOUSE FINANCE COMMITTEE

Offered: 4/9/16

Referred: Today's Calendar

Sponsor(s): HOUSE RULES COMMITTEE BY REQUEST OF THE GOVERNOR

A BILL

FOR AN ACT ENTITLED

1 "An Act relating to interest applicable to delinquent tax; relating to the oil and gas
2 production tax, tax payments, and credits; relating to the minimum oil and gas
3 production tax; relating to refunds for the gas storage facility tax credit, the liquefied
4 natural gas storage facility tax credit, and the qualified in-state oil refinery
5 infrastructure expenditures tax credit; relating to the assessment of an oil and gas
6 production tax imposed; relating to oil and gas lease expenditures and production tax
7 credits for municipal entities; relating to a bond or cash deposit required for an oil or
8 gas business; establishing a legislative working group to study the tax structure for oil
9 and gas produced south of 68 degrees North latitude; and providing for an effective
10 date."

11 **BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF ALASKA:**

12 * **Section 1.** AS 38.05.036(a) is amended to read:

1 (a) The department may conduct audits regarding royalty and net profits under
 2 oil and gas contracts, agreements, or leases under this chapter and regarding costs
 3 related to exploration licenses entered into under AS 38.05.131 - 38.05.134 and
 4 exploration incentive credits under this chapter [OR UNDER AS 41.09]. For purposes
 5 of an audit under this section,

6 (1) the department may examine the books, papers, records, or
 7 memoranda of a person regarding matters related to the audit; and

8 (2) the records and premises where a business is conducted shall be
 9 open at all reasonable times for inspection by the department.

10 * **Sec. 2.** AS 38.05.036(b) is amended to read:

11 (b) The Department of Revenue may obtain from the department information
 12 relating to royalty and net profits payments and to exploration incentive credits under
 13 this chapter [OR UNDER AS 41.09], whether or not that information is confidential.
 14 The Department of Revenue may use the information in carrying out its functions and
 15 responsibilities under AS 43, and shall hold that information confidential to the extent
 16 required by an agreement with the department or by AS 38.05.035(a)(8) [,
 17 AS 41.09.010(d),] or AS 43.05.230.

18 * **Sec. 3.** AS 38.05.036(c) is amended to read:

19 (c) The department may obtain from the Department of Revenue all
 20 information obtained under AS 43 relating to royalty and net profits and to exploration
 21 incentive credits. The department may use the information for purposes of carrying out
 22 its responsibilities and functions under this chapter [AND AS 41.09]. Information
 23 made available to the department that was obtained under AS 43 is confidential and
 24 subject to the provisions of AS 43.05.230.

25 * **Sec. 4.** AS 38.05.036(f) is amended to read:

26 (f) Except as otherwise provided in this section or in connection with official
 27 investigations or proceedings of the department, it is unlawful for a current or former
 28 officer, employee, or agent of the state to divulge information obtained by the
 29 department as a result of an audit under this section that is required by an agreement
 30 with the department or by AS 38.05.035(a)(8) [OR AS 41.09.010(d)] to be kept
 31 confidential.

1 * **Sec. 5.** AS 38.05.036(g) is amended to read:

2 (g) Nothing in this section prohibits the publication of statistics in a manner
3 that maintains the confidentiality of information to the extent required by an
4 agreement with the department or by AS 38.05.035(a)(8) [OR AS 41.09.010(d)].

5 * **Sec. 6.** AS 43.05.225 is amended to read:

6 **Sec. 43.05.225. Interest.** Unless otherwise provided,

7 (1) a delinquent tax under this title,

8 (A) before January 1, 2014, bears interest in each calendar
9 quarter at the rate of five percentage points above the annual rate charged
10 member banks for advances by the 12th Federal Reserve District as of the first
11 day of that calendar quarter, or at the annual rate of 11 percent, whichever is
12 greater, compounded quarterly as of the last day of that quarter; [OR]

13 (B) on and after January 1, 2014, **and before January 1, 2017,**
14 bears interest in each calendar quarter at the rate of three percentage points
15 above the annual rate charged member banks for advances by the 12th Federal
16 Reserve District as of the first day of that calendar quarter;

17 **(C) on and after January 1, 2017, bears interest**

18 **(i) for the first four years after a tax becomes**
19 **delinquent, in each calendar quarter at the rate of five percentage**
20 **points above the annual rate charged member banks for advances**
21 **by the 12th Federal Reserve District as of the first day of that**
22 **calendar quarter, compounded quarterly as of the last day of that**
23 **quarter; and**

24 **(ii) after the first four years after a tax becomes**
25 **delinquent, in each calendar quarter at a rate of five percentage**
26 **points above the annual rate charged member banks for advances**
27 **by the 12th Federal Reserve District as of the first day of that**
28 **calendar quarter;**

29 (2) the interest rate is 12 percent a year for

30 (A) delinquent fees payable under AS 05.15.095(c); and

31 (B) unclaimed property that is not timely paid or delivered, as

1 allowed by AS 34.45.470(a).

2 * **Sec. 7.** AS 43.20.046(e) is amended to read:

3 (e) **Subject to the requirements in AS 43.55.028(j), the** [THE] department
4 may use available money in the oil and gas tax credit fund established in AS 43.55.028
5 to make the refund applied for under (d) of this section in whole or in part if the
6 department finds that, [(1) THE CLAIMANT DOES NOT HAVE AN
7 OUTSTANDING LIABILITY TO THE STATE FOR UNPAID DELINQUENT
8 TAXES UNDER THIS TITLE; AND (2)] after application of all available tax credits,
9 the claimant's total tax liability under this chapter for the calendar year in which the
10 claim is made is zero. [IN THIS SUBSECTION, "UNPAID DELINQUENT TAX"
11 MEANS AN AMOUNT OF TAX FOR WHICH THE DEPARTMENT HAS ISSUED
12 AN ASSESSMENT THAT HAS NOT BEEN PAID AND, IF CONTESTED, HAS
13 NOT BEEN FINALLY RESOLVED IN THE TAXPAYER'S FAVOR.]

14 * **Sec. 8.** AS 43.20.047(e) is amended to read:

15 (e) **Subject to the requirements in AS 43.55.028(j), the** [THE] department
16 may use money available in the oil and gas tax credit fund established in AS 43.55.028
17 to make a refund or payment under (d) of this section in whole or in part if the
18 department finds that, [(1) THE CLAIMANT DOES NOT HAVE AN
19 OUTSTANDING LIABILITY TO THE STATE FOR UNPAID DELINQUENT
20 TAXES UNDER THIS TITLE; AND (2)] after application of all available tax credits,
21 the claimant's total tax liability under this chapter for the calendar year in which the
22 claim is made is zero. [IN THIS SUBSECTION, "UNPAID DELINQUENT TAX"
23 MEANS AN AMOUNT OF TAX FOR WHICH THE DEPARTMENT HAS ISSUED
24 AN ASSESSMENT THAT HAS NOT BEEN PAID AND, IF CONTESTED, HAS
25 NOT BEEN FINALLY RESOLVED IN THE TAXPAYER'S FAVOR.]

26 * **Sec. 9.** AS 43.20.053(e) is amended to read:

27 (e) **Subject to the requirements in AS 43.55.028(j), the** [THE] department
28 may use money available in the oil and gas tax credit fund established in AS 43.55.028
29 to make a refund or payment under (d) of this section in whole or in part if the
30 department finds that,

31 [(1) THE CLAIMANT DOES NOT HAVE AN OUTSTANDING

1 LIABILITY TO THE STATE FOR UNPAID DELINQUENT TAXES UNDER THIS
2 TITLE; AND

3 (2)] after application of all available tax credits, the claimant's total tax
4 liability under this chapter for the calendar year in which the claim is made is zero.

5 * **Sec. 10.** AS 43.55.011(f) is amended to read:

6 (f) The levy of tax under (e) of this section for

7 (1) oil and gas produced before **January 1, 2017** [JANUARY 1,
8 2022], from leases or properties that include land north of 68 degrees North latitude,
9 other than gas subject to (o) of this section, may not be less than

10 (A) four percent of the gross value at the point of production
11 when the average price per barrel for Alaska North Slope crude oil for sale on
12 the United States West Coast during the calendar year for which the tax is due
13 is more than \$25;

14 (B) three percent of the gross value at the point of production
15 when the average price per barrel for Alaska North Slope crude oil for sale on
16 the United States West Coast during the calendar year for which the tax is due
17 is over \$20 but not over \$25;

18 (C) two percent of the gross value at the point of production
19 when the average price per barrel for Alaska North Slope crude oil for sale on
20 the United States West Coast during the calendar year for which the tax is due
21 is over \$17.50 but not over \$20;

22 (D) one percent of the gross value at the point of production
23 when the average price per barrel for Alaska North Slope crude oil for sale on
24 the United States West Coast during the calendar year for which the tax is due
25 is over \$15 but not over \$17.50; or

26 (E) zero percent of the gross value at the point of production
27 when the average price per barrel for Alaska North Slope crude oil for sale on
28 the United States West Coast during the calendar year for which the tax is due
29 is \$15 or less; [AND]

30 (2) oil **and gas** produced on and after **January 1, 2017, and before**
31 January 1, 2022, from leases or properties that include land north of 68 degrees North

1 latitude, other than gas subject to (o) of this section, may not be less than [(A)] four
 2 percent of the gross value at the point of production, except that a credit authorized
 3 under this chapter may reduce the tax under this subsection to less than four
 4 percent, but not to less than two percent of the gross value at the point of
 5 production;

6 (3) oil produced on and after January 1, 2022, from leases or
 7 properties that include land north of 68 degrees North latitude may not be less
 8 than four percent of the gross value at the point of production, except that a
 9 credit authorized under this chapter may reduce the tax under this subsection to
 10 less than four percent, but not to less than two percent of the gross value at the
 11 point of production [WHEN THE AVERAGE PRICE PER BARREL FOR
 12 ALASKA NORTH SLOPE CRUDE OIL FOR SALE ON THE UNITED STATES
 13 WEST COAST DURING THE CALENDAR YEAR FOR WHICH THE TAX IS
 14 DUE IS MORE THAN \$25;

15 (B) THREE PERCENT OF THE GROSS VALUE AT THE
 16 POINT OF PRODUCTION WHEN THE AVERAGE PRICE PER BARREL
 17 FOR ALASKA NORTH SLOPE CRUDE OIL FOR SALE ON THE UNITED
 18 STATES WEST COAST DURING THE CALENDAR YEAR FOR WHICH
 19 THE TAX IS DUE IS OVER \$20 BUT NOT OVER \$25;

20 (C) TWO PERCENT OF THE GROSS VALUE AT THE
 21 POINT OF PRODUCTION WHEN THE AVERAGE PRICE PER BARREL
 22 FOR ALASKA NORTH SLOPE CRUDE OIL FOR SALE ON THE UNITED
 23 STATES WEST COAST DURING THE CALENDAR YEAR FOR WHICH
 24 THE TAX IS DUE IS OVER \$17.50 BUT NOT OVER \$20;

25 (D) ONE PERCENT OF THE GROSS VALUE AT THE
 26 POINT OF PRODUCTION WHEN THE AVERAGE PRICE PER BARREL
 27 FOR ALASKA NORTH SLOPE CRUDE OIL FOR SALE ON THE UNITED
 28 STATES WEST COAST DURING THE CALENDAR YEAR FOR WHICH
 29 THE TAX IS DUE IS OVER \$15 BUT NOT OVER \$17.50; OR

30 (E) ZERO PERCENT OF THE GROSS VALUE AT THE
 31 POINT OF PRODUCTION WHEN THE AVERAGE PRICE PER BARREL

1 FOR ALASKA NORTH SLOPE CRUDE OIL FOR SALE ON THE UNITED
2 STATES WEST COAST DURING THE CALENDAR YEAR FOR WHICH
3 THE TAX IS DUE IS \$15 OR LESS].

4 * **Sec. 11.** AS 43.55.011(m) is amended to read:

5 (m) Notwithstanding any contrary provision of [AS 38.05.180(i),
6 AS 41.09.010,] AS 43.55.024 [,] or 43.55.025, the department shall provide by
7 regulation a method to ensure that, for a calendar year for which a producer's tax
8 liability is limited by (j), (k), or (o) of this section, tax credits based on a lease
9 expenditure incurred before January 1, 2011, that are otherwise available under
10 [AS 38.05.180(i), AS 41.09.010,] AS 43.55.024 [,] or 43.55.025 and allocated to gas
11 subject to the limitations in (j), (k), and (o) of this section are accounted for as though
12 the credits had been applied first against a tax liability calculated without regard to the
13 limitations under (j), (k), and (o) of this section so as to reduce the tax liability to the
14 maximum amount provided for under (j) or (o) of this section for the production of gas
15 or (k) of this section for the production of oil. The regulation must provide for a
16 reasonable method to allocate tax credits to gas subject to (j) and (o) of this section.
17 Only the amount of a tax credit remaining after the accounting provided for under this
18 subsection may be used for a later calendar year, transferred to another person, or
19 applied against a tax levied on the production of oil or gas not subject to (j), (k), or (o)
20 of this section to the extent otherwise allowed.

21 * **Sec. 12.** AS 43.55.019(e) is amended to read:

22 (e) The credit under this section may not reduce a person's tax liability **for the**
23 **calendar year** under AS 43.55.011(e) to below **the amount calculated under**
24 **AS 43.55.011(f)** [ZERO FOR ANY TAX YEAR]. An unused credit or portion of a
25 credit not used under this section for a tax year may not be sold, traded, transferred, or
26 applied in a subsequent tax year.

27 * **Sec. 13.** AS 43.55.020(a) is amended to read:

28 (a) For a calendar year, a producer subject to tax under AS 43.55.011 shall pay
29 the tax as follows:

30 (1) for oil and gas produced before January 1, 2014, an installment
31 payment of the estimated tax levied by AS 43.55.011(e), net of any tax credits applied

1 as allowed by law, is due for each month of the calendar year on the last day of the
2 following month; except as otherwise provided under (2) of this subsection, the
3 amount of the installment payment is the sum of the following amounts, less 1/12 of
4 the tax credits that are allowed by law to be applied against the tax levied by
5 AS 43.55.011(e) for the calendar year, but the amount of the installment payment may
6 not be less than zero:

7 (A) for oil and gas not subject to AS 43.55.011(o) or (p)
8 produced from leases or properties in the state outside the Cook Inlet
9 sedimentary basin, other than leases or properties subject to AS 43.55.011(f),
10 the greater of

11 (i) zero; or

12 (ii) the sum of 25 percent and the tax rate calculated for
13 the month under AS 43.55.011(g) multiplied by the remainder obtained
14 by subtracting 1/12 of the producer's adjusted lease expenditures for the
15 calendar year of production under AS 43.55.165 and 43.55.170 that are
16 deductible for the oil and gas under AS 43.55.160 from the gross value
17 at the point of production of the oil and gas produced from the leases or
18 properties during the month for which the installment payment is
19 calculated;

20 (B) for oil and gas produced from leases or properties subject
21 to AS 43.55.011(f), the greatest of

22 (i) zero;

23 (ii) zero percent, one percent, two percent, three
24 percent, or four percent, as applicable, of the gross value at the point of
25 production of the oil and gas produced from the leases or properties
26 during the month for which the installment payment is calculated; or

27 (iii) the sum of 25 percent and the tax rate calculated for
28 the month under AS 43.55.011(g) multiplied by the remainder obtained
29 by subtracting 1/12 of the producer's adjusted lease expenditures for the
30 calendar year of production under AS 43.55.165 and 43.55.170 that are
31 deductible for the oil and gas under AS 43.55.160 from the gross value

1 at the point of production of the oil and gas produced from those leases
2 or properties during the month for which the installment payment is
3 calculated;

4 (C) for oil or gas subject to AS 43.55.011(j), (k), or (o), for
5 each lease or property, the greater of

6 (i) zero; or

7 (ii) the sum of 25 percent and the tax rate calculated for
8 the month under AS 43.55.011(g) multiplied by the remainder obtained
9 by subtracting 1/12 of the producer's adjusted lease expenditures for the
10 calendar year of production under AS 43.55.165 and 43.55.170 that are
11 deductible under AS 43.55.160 for the oil or gas, respectively,
12 produced from the lease or property from the gross value at the point of
13 production of the oil or gas, respectively, produced from the lease or
14 property during the month for which the installment payment is
15 calculated;

16 (D) for oil and gas subject to AS 43.55.011(p), the lesser of

17 (i) the sum of 25 percent and the tax rate calculated for
18 the month under AS 43.55.011(g) multiplied by the remainder obtained
19 by subtracting 1/12 of the producer's adjusted lease expenditures for the
20 calendar year of production under AS 43.55.165 and 43.55.170 that are
21 deductible for the oil and gas under AS 43.55.160 from the gross value
22 at the point of production of the oil and gas produced from the leases or
23 properties during the month for which the installment payment is
24 calculated, but not less than zero; or

25 (ii) four percent of the gross value at the point of
26 production of the oil and gas produced from the leases or properties
27 during the month, but not less than zero;

28 (2) an amount calculated under (1)(C) of this subsection for oil or gas
29 subject to AS 43.55.011(j), (k), or (o) may not exceed the product obtained by
30 carrying out the calculation set out in AS 43.55.011(j)(1) or (2) or 43.55.011(o), as
31 applicable, for gas or set out in AS 43.55.011(k)(1) or (2), as applicable, for oil, but

1 substituting in AS 43.55.011(j)(1)(A) or (2)(A) or 43.55.011(o), as applicable, the
2 amount of taxable gas produced during the month for the amount of taxable gas
3 produced during the calendar year and substituting in as 43.55.011(k)(1)(A) or (2)(A),
4 as applicable, the amount of taxable oil produced during the month for the amount of
5 taxable oil produced during the calendar year;

6 (3) an installment payment of the estimated tax levied by
7 AS 43.55.011(i) for each lease or property is due for each month of the calendar year
8 on the last day of the following month; the amount of the installment payment is the
9 sum of

10 (A) the applicable tax rate for oil provided under
11 AS 43.55.011(i), multiplied by the gross value at the point of production of the
12 oil taxable under AS 43.55.011(i) and produced from the lease or property
13 during the month; and

14 (B) the applicable tax rate for gas provided under
15 AS 43.55.011(i), multiplied by the gross value at the point of production of the
16 gas taxable under AS 43.55.011(i) and produced from the lease or property
17 during the month;

18 (4) any amount of tax levied by AS 43.55.011, net of any credits
19 applied as allowed by law, that exceeds the total of the amounts due as installment
20 payments of estimated tax is due on March 31 of the year following the calendar year
21 of production;

22 (5) for oil and gas produced on and after January 1, 2014, and before
23 January 1, 2022, an installment payment of the estimated tax levied by
24 AS 43.55.011(e), net of any tax credits applied as allowed by law, is due for each
25 month of the calendar year on the last day of the following month; except as otherwise
26 provided under (6) **and (10)** of this subsection, the amount of the installment payment
27 is the sum of the following amounts, less 1/12 of the tax credits that are allowed by
28 law to be applied against the tax levied by AS 43.55.011(e) for the calendar year, but
29 the amount of the installment payment may not be less than zero:

30 (A) for oil and gas not subject to AS 43.55.011(o) or (p)
31 produced from leases or properties in the state outside the Cook Inlet

1 sedimentary basin, other than leases or properties subject to AS 43.55.011(f),
2 the greater of

3 (i) zero; or

4 (ii) 35 percent multiplied by the remainder obtained by
5 subtracting 1/12 of the producer's adjusted lease expenditures for the
6 calendar year of production under AS 43.55.165 and 43.55.170 that are
7 deductible for the oil and gas under AS 43.55.160 from the gross value
8 at the point of production of the oil and gas produced from the leases or
9 properties during the month for which the installment payment is
10 calculated;

11 (B) for oil and gas produced from leases or properties subject
12 to AS 43.55.011(f), the greatest of

13 (i) zero;

14 (ii) zero percent, one percent, two percent, three
15 percent, or four percent, as applicable, of the gross value at the point of
16 production of the oil and gas produced from the leases or properties
17 during the month for which the installment payment is calculated; or

18 (iii) 35 percent multiplied by the remainder obtained by
19 subtracting 1/12 of the producer's adjusted lease expenditures for the
20 calendar year of production under AS 43.55.165 and 43.55.170 that are
21 deductible for the oil and gas under AS 43.55.160 from the gross value
22 at the point of production of the oil and gas produced from those leases
23 or properties during the month for which the installment payment is
24 calculated, except that, for the purposes of this calculation, a reduction
25 from the gross value at the point of production may apply for oil and
26 gas subject to AS 43.55.160(f) or (g);

27 (C) for oil or gas subject to AS 43.55.011(j), (k), or (o), for
28 each lease or property, the greater of

29 (i) zero; or

30 (ii) 35 percent multiplied by the remainder obtained by
31 subtracting 1/12 of the producer's adjusted lease expenditures for the

1 calendar year of production under AS 43.55.165 and 43.55.170 that are
2 deductible under AS 43.55.160 for the oil or gas, respectively,
3 produced from the lease or property from the gross value at the point of
4 production of the oil or gas, respectively, produced from the lease or
5 property during the month for which the installment payment is
6 calculated;

7 (D) for oil and gas subject to AS 43.55.011(p), the lesser of

8 (i) 35 percent multiplied by the remainder obtained by
9 subtracting 1/12 of the producer's adjusted lease expenditures for the
10 calendar year of production under AS 43.55.165 and 43.55.170 that are
11 deductible for the oil and gas under AS 43.55.160 from the gross value
12 at the point of production of the oil and gas produced from the leases or
13 properties during the month for which the installment payment is
14 calculated, but not less than zero; or

15 (ii) four percent of the gross value at the point of
16 production of the oil and gas produced from the leases or properties
17 during the month, but not less than zero;

18 (6) an amount calculated under (5)(C) of this subsection for oil or gas
19 subject to AS 43.55.011(j), (k), or (o) may not exceed the product obtained by
20 carrying out the calculation set out in AS 43.55.011(j)(1) or (2) or 43.55.011(o), as
21 applicable, for gas or set out in AS 43.55.011(k)(1) or (2), as applicable, for oil, but
22 substituting in AS 43.55.011(j)(1)(A) or (2)(A) or 43.55.011(o), as applicable, the
23 amount of taxable gas produced during the month for the amount of taxable gas
24 produced during the calendar year and substituting in AS 43.55.011(k)(1)(A) or
25 (2)(A), as applicable, the amount of taxable oil produced during the month for the
26 amount of taxable oil produced during the calendar year;

27 (7) for oil and gas produced on or after January 1, 2022, an installment
28 payment of the estimated tax levied by AS 43.55.011(e), net of any tax credits applied
29 as allowed by law, is due for each month of the calendar year on the last day of the
30 following month; **except as provided in (10) of this subsection**, the amount of the
31 installment payment is the sum of the following amounts, less 1/12 of the tax credits

1 that are allowed by law to be applied against the tax levied by AS 43.55.011(e) for the
2 calendar year, but the amount of the installment payment may not be less than zero:

3 (A) for oil produced from leases or properties that include land
4 north of 68 degrees North latitude, the greatest of

5 (i) zero;

6 (ii) zero percent, one percent, two percent, three
7 percent, or four percent, as applicable, of the gross value at the point of
8 production of the oil produced from the leases or properties during the
9 month for which the installment payment is calculated; or

10 (iii) 35 percent multiplied by the remainder obtained by
11 subtracting 1/12 of the producer's adjusted lease expenditures for the
12 calendar year of production under AS 43.55.165 and 43.55.170 that are
13 deductible for the oil under AS 43.55.160(h)(1) from the gross value at
14 the point of production of the oil produced from those leases or
15 properties during the month for which the installment payment is
16 calculated, except that, for the purposes of this calculation, a reduction
17 from the gross value at the point of production may apply for oil
18 subject to AS 43.55.160(f) or 43.55.160(f) and (g);

19 (B) for oil produced before or during the last calendar year
20 under AS 43.55.024(b) for which the producer could take a tax credit under
21 AS 43.55.024(a), from leases or properties in the state outside the Cook Inlet
22 sedimentary basin, no part of which is north of 68 degrees North latitude, other
23 than leases or properties subject to AS 43.55.011(p), the greater of

24 (i) zero; or

25 (ii) 35 percent multiplied by the remainder obtained by
26 subtracting 1/12 of the producer's adjusted lease expenditures for the
27 calendar year of production under AS 43.55.165 and 43.55.170 that are
28 deductible for the oil under AS 43.55.160(h)(2) from the gross value at
29 the point of production of the oil produced from the leases or properties
30 during the month for which the installment payment is calculated;

31 (C) for oil and gas produced from leases or properties subject

1 to AS 43.55.011(p), except as otherwise provided under (8) of this subsection,
2 the sum of

3 (i) 35 percent multiplied by the remainder obtained by
4 subtracting 1/12 of the producer's adjusted lease expenditures for the
5 calendar year of production under AS 43.55.165 and 43.55.170 that are
6 deductible for the oil under AS 43.55.160(h)(3) from the gross value at
7 the point of production of the oil produced from the leases or properties
8 during the month for which the installment payment is calculated, but
9 not less than zero; and

10 (ii) 13 percent of the gross value at the point of
11 production of the gas produced from the leases or properties during the
12 month, but not less than zero;

13 (D) for oil produced from leases or properties in the state, no
14 part of which is north of 68 degrees North latitude, other than leases or
15 properties subject to (B) or (C) of this paragraph, the greater of

16 (i) zero; or

17 (ii) 35 percent multiplied by the remainder obtained by
18 subtracting 1/12 of the producer's adjusted lease expenditures for the
19 calendar year of production under AS 43.55.165 and 43.55.170 that are
20 deductible for the oil under AS 43.55.160(h)(4) from the gross value at
21 the point of production of the oil produced from the leases or properties
22 during the month for which the installment payment is calculated;

23 (E) for gas produced from each lease or property in the state,
24 other than a lease or property subject to AS 43.55.011(p), 13 percent of the
25 gross value at the point of production of the gas produced from the lease or
26 property during the month for which the installment payment is calculated, but
27 not less than zero;

28 (8) an amount calculated under (7)(C) of this subsection may not
29 exceed four percent of the gross value at the point of production of the oil and gas
30 produced from leases or properties subject to AS 43.55.011(p) during the month for
31 which the installment payment is calculated;

1 (9) for purposes of the calculation under (1)(B)(ii), (5)(B)(ii), and
 2 (7)(A)(ii) of this subsection, the applicable percentage of the gross value at the point
 3 of production is determined under AS 43.55.011(f) [AS 43.55.011(f)(1) OR (2)] but
 4 substituting the phrase "month for which the installment payment is calculated" in
 5 [AS 43.55.011(f)(1) AND (2)] for the phrase "calendar year for which the tax is due";

6 **(10) after December 31, 2016, for the purposes of a calculation**
 7 **under (5)(B)(ii) or (7)(A)(ii) of this subsection, a credit under this chapter may**
 8 **not be applied to reduce an installment payment to less than the applicable**
 9 **percentage under AS 43.55.011(f).** [""]

10 * **Sec. 14.** AS 43.55.023(a) is amended to read:

11 (a) A producer or explorer may take a tax credit for a qualified capital
 12 expenditure as follows:

13 (1) notwithstanding that a qualified capital expenditure may be a
 14 deductible lease expenditure for purposes of calculating the production tax value of oil
 15 and gas under AS 43.55.160(a), unless a credit for that expenditure is taken under
 16 [AS 38.05.180(i), AS 41.09.010,] AS 43.20.043 [,] or AS 43.55.025, a producer or
 17 explorer that incurs a qualified capital expenditure may also elect to apply a tax credit
 18 against a tax levied by AS 43.55.011(e) in the amount of **10** [20] percent of that
 19 expenditure;

20 (2) a producer or explorer may take a credit for a qualified capital
 21 expenditure incurred in connection with geological or geophysical exploration or in
 22 connection with an exploration well only if the producer or explorer

23 (A) agrees, in writing, to the applicable provisions of
 24 AS 43.55.025(f)(2); and

25 (B) submits to the Department of Natural Resources all data
 26 that would be required to be submitted under AS 43.55.025(f)(2);

27 (3) a credit for a qualified capital expenditure incurred to explore for,
 28 develop, or produce oil or gas deposits located north of 68 degrees North latitude may
 29 be taken only if the expenditure is incurred before January 1, 2014.

30 * **Sec. 15.** AS 43.55.023(b) is amended to read:

31 (b) Before January 1, 2014, a producer or explorer may elect to take a tax

1 credit in the amount of 25 percent of a carried-forward annual loss. For lease
 2 expenditures incurred on and after January 1, 2014, and before January 1, 2016, to
 3 explore for, develop, or produce oil or gas deposits located north of 68 degrees North
 4 latitude, a producer or explorer may elect to take a tax credit in the amount of 45
 5 percent of a carried-forward annual loss. For lease expenditures incurred on and after
 6 January 1, 2016, to explore for, develop, or produce oil or gas deposits located north
 7 of 68 degrees North latitude, a producer or explorer may elect to take a tax credit in
 8 the amount of 35 percent of a carried-forward annual loss. For lease expenditures
 9 incurred on or after January 1, 2014, **and before January 1, 2017,** to explore for,
 10 develop, or produce oil or gas deposits located south of 68 degrees North latitude, a
 11 producer or explorer may elect to take a tax credit in the amount of 25 percent of a
 12 carried-forward annual loss. **For lease expenditures incurred after December 31,**
 13 **2016, to explore for, develop, or produce oil or gas deposits located south of 68**
 14 **degrees North latitude and outside of the Cook Inlet sedimentary basin, a**
 15 **producer or explorer may elect to take a tax credit in the amount of 25 percent of**
 16 **a carried-forward annual loss. For lease expenditures incurred after**
 17 **December 31, 2016, to explore for, develop, or produce oil or gas deposits located**
 18 **in the Cook Inlet sedimentary basin, a producer or explorer may elect to take a**
 19 **credit in the amount of 10 percent of a carried-forward annual loss.** A credit under
 20 this subsection may be applied against a tax levied by AS 43.55.011(e). For purposes
 21 of this subsection,

22 (1) a carried-forward annual loss is the amount of a producer's or
 23 explorer's adjusted lease expenditures under AS 43.55.165 and 43.55.170 for a
 24 previous calendar year that was not deductible in calculating production tax values for
 25 that calendar year under AS 43.55.160;

26 (2) **for lease expenditures incurred on or after January 1, 2017,**
 27 **any reduction under AS 43.55.160(f) or (g) is added back to the calculation of**
 28 **production tax values for that calendar year under AS 43.55.160 for the**
 29 **determination of a carried-forward annual loss.**

30 * **Sec. 16.** AS 43.55.023(c) is amended to read:

31 (c) A credit or portion of a credit under this section may not be used to reduce

1 a person's tax liability under AS 43.55.011(e) for any calendar year below **the amount**
 2 **calculated under AS 43.55.011(f)** [ZERO], and any unused credit or portion of a
 3 credit not used under this subsection may be applied in a later calendar year.

4 * **Sec. 17.** AS 43.55.023(d) is amended to read:

5 (d) A person that is entitled to take a tax credit under this section that wishes
 6 to transfer the unused credit to another person or obtain a cash payment under
 7 AS 43.55.028 may apply to the department for a transferable tax credit certificate. An
 8 application under this subsection must be in a form prescribed by the department and
 9 must include supporting information and documentation that the department
 10 reasonably requires. The department shall grant or deny an application, or grant an
 11 application as to a lesser amount than that claimed and deny it as to the excess, not
 12 later than 120 days after the latest of (1) March 31 of the year following the calendar
 13 year in which the [QUALIFIED CAPITAL EXPENDITURE OR] carried-forward
 14 annual loss for which the credit is claimed was incurred; (2) the date the statement
 15 required under AS 43.55.030(a) or (e) was filed for the calendar year in which the
 16 [QUALIFIED CAPITAL EXPENDITURE OR] carried-forward annual loss for which
 17 the credit is claimed was incurred; or (3) the date the application was received by the
 18 department. If, based on the information then available to it, the department is
 19 reasonably satisfied that the applicant is entitled to a credit, the department shall issue
 20 the applicant a transferable tax credit certificate for the amount of the credit. A
 21 certificate issued under this subsection does not expire.

22 * **Sec. 18.** AS 43.55.023(e) is amended to read:

23 (e) A person to which a transferable tax credit certificate is issued under (d) of
 24 this section may transfer the certificate to another person, and a transferee may further
 25 transfer the certificate. Subject to the limitations set out in **former (a) of this section**
 26 **and (b) - (d)** [(a) - (d)] of this section, and notwithstanding any action the department
 27 may take with respect to the applicant under (g) of this section, the owner of a
 28 certificate may apply the credit or a portion of the credit shown on the certificate only
 29 against a tax levied by AS 43.55.011(e). However, a credit shown on a transferable tax
 30 credit certificate may not be applied to reduce a transferee's total tax liability under
 31 AS 43.55.011(e) for oil and gas produced during a calendar year to less than 80

1 percent of the tax that would otherwise be due without applying that credit. Any
2 portion of a credit not used under this subsection may be applied in a later period.

3 * **Sec. 19.** AS 43.55.023(l) is amended to read:

4 (l) A producer or explorer may apply for a tax credit for a well lease
5 expenditure incurred in the state [SOUTH OF 68 DEGREES NORTH LATITUDE]
6 after June 30, 2010, as follows:

7 (1) notwithstanding that a well lease expenditure incurred in the state
8 [SOUTH OF 68 DEGREES NORTH LATITUDE] may be a deductible lease
9 expenditure for purposes of calculating the production tax value of oil and gas under
10 AS 43.55.160(a), unless a credit for that expenditure is taken under (a) of this section,
11 [AS 38.05.180(i), AS 41.09.010,] AS 43.20.043, or AS 43.55.025, a producer or
12 explorer that incurs a well lease expenditure in the state [SOUTH OF 68 DEGREES
13 NORTH LATITUDE] may elect to apply a tax credit against a tax levied by
14 AS 43.55.011(e) in the amount of

15 (A) 40 percent of that expenditure incurred south of 68
16 degrees North latitude before January 1, 2017;

17 (B) 30 percent of that expenditure incurred south of 68
18 degrees North latitude after December 31, 2016, and before January 1,
19 2018;

20 (C) 20 percent of that expenditure incurred inside the Cook
21 Inlet sedimentary basin after December 31, 2017;

22 (D) 30 percent of that expenditure incurred outside the
23 Cook Inlet sedimentary basin and south of 68 degrees North latitude after
24 December 31, 2017, and before January 1, 2019 [; A TAX CREDIT
25 UNDER THIS PARAGRAPH MAY BE APPLIED FOR A SINGLE
26 CALENDAR YEAR];

27 (2) a producer or explorer may take a credit for a well lease
28 expenditure incurred in the state south of 68 degrees North latitude in connection with
29 geological or geophysical exploration or in connection with an exploration well only if
30 the producer or explorer

31 (A) agrees, in writing, to the applicable provisions of

1 AS 43.55.025(f)(2); and

2 (B) submits to the Department of Natural Resources all data
3 that would be required to be submitted under AS 43.55.025(f)(2).

4 * **Sec. 20.** AS 43.55.024(f) is amended to read:

5 (f) A tax credit authorized by (a) of this section may not be applied to reduce a
6 producer's tax liability for any calendar year under AS 43.55.011(e) on oil and gas
7 produced from leases or properties outside the Cook Inlet sedimentary basin, no part
8 of which is north of 68 degrees North latitude, below **the amount calculated under**
9 **AS 43.55.011(f)** [ZERO].

10 * **Sec. 21.** AS 43.55.024(g) is amended to read:

11 (g) A tax credit authorized by (c) of this section may not be applied to reduce
12 a producer's tax liability for any calendar year under AS 43.55.011(e) below **the**
13 **amount calculated under AS 43.55.011(f)** [ZERO].

14 * **Sec. 22.** AS 43.55.024(i) is amended to read:

15 (i) A producer may apply against the producer's tax liability for the calendar
16 year under AS 43.55.011(e) a tax credit of \$5 for each barrel of oil taxable under
17 AS 43.55.011(e) that meets one or more of the criteria in AS 43.55.160(f) or (g) and
18 that is produced during a calendar year after December 31, 2013. A tax credit
19 authorized by this subsection may not reduce a producer's tax liability for a calendar
20 year under AS 43.55.011(e) below **the amount calculated under AS 43.55.011(f)**
21 [ZERO].

22 * **Sec. 23.** AS 43.55.024(j) is amended to read:

23 (j) A producer may apply against the producer's tax liability for the calendar
24 year under AS 43.55.011(e) a tax credit in the amount specified in this subsection for
25 each barrel of oil taxable under AS 43.55.011(e) that does not meet any of the criteria
26 in AS 43.55.160(f) or (g) and that is produced during a calendar year after
27 December 31, 2013, from leases or properties north of 68 degrees North latitude.
28 **Notwithstanding AS 43.55.011(f)(2) and (3), a** [A] tax credit under this subsection
29 may not reduce a producer's tax liability for a calendar year under AS 43.55.011(e)
30 below **four percent of the gross value at the point of production for oil produced**
31 **on and after January 1, 2017** [THE AMOUNT CALCULATED UNDER

1 AS 43.55.011(f)]. The amount of the tax credit for a barrel of taxable oil subject to this
2 subsection produced during a month of the calendar year is

3 (1) \$8 for each barrel of taxable oil if the average gross value at the
4 point of production for the month is less than \$80 a barrel;

5 (2) \$7 for each barrel of taxable oil if the average gross value at the
6 point of production for the month is greater than or equal to \$80 a barrel, but less than
7 \$90 a barrel;

8 (3) \$6 for each barrel of taxable oil if the average gross value at the
9 point of production for the month is greater than or equal to \$90 a barrel, but less than
10 \$100 a barrel;

11 (4) \$5 for each barrel of taxable oil if the average gross value at the
12 point of production for the month is greater than or equal to \$100 a barrel, but less
13 than \$110 a barrel;

14 (5) \$4 for each barrel of taxable oil if the average gross value at the
15 point of production for the month is greater than or equal to \$110 a barrel, but less
16 than \$120 a barrel;

17 (6) \$3 for each barrel of taxable oil if the average gross value at the
18 point of production for the month is greater than or equal to \$120 a barrel, but less
19 than \$130 a barrel;

20 (7) \$2 for each barrel of taxable oil if the average gross value at the
21 point of production for the month is greater than or equal to \$130 a barrel, but less
22 than \$140 a barrel;

23 (8) \$1 for each barrel of taxable oil if the average gross value at the
24 point of production for the month is greater than or equal to \$140 a barrel, but less
25 than \$150 a barrel;

26 (9) zero if the average gross value at the point of production for the
27 month is greater than or equal to \$150 a barrel.

28 * **Sec. 24.** AS 43.55.025(m) is amended to read:

29 (m) The persons that drill the first four exploration wells in the state and
30 within the areas described in (o) of this section on state lands, private lands, or federal
31 onshore lands for the purpose of discovering oil or gas that penetrate and evaluate a

1 prospect in a basin described in (o) of this section are eligible for a credit under (a)(6)
2 of this section. A credit under this subsection may not be taken for more than two
3 exploration wells in a single area described in (o)(1) - (6) of this section. Exploration
4 expenditures eligible for the credit in this subsection must be incurred for work
5 performed after June 1, 2012, and before July 1, 2016, **except that expenditures to**
6 **complete an exploration well that was spudded but not completed before July 1,**
7 **2016, are eligible for the credit under this subsection.** A person planning to drill an
8 exploration well on private land and to apply for a credit under this subsection shall
9 obtain written consent from the owner of the oil and gas interest for the full public
10 release of all well data after the expiration of the confidentiality period applicable to
11 information collected under (f) of this section. The written consent of the owner of the
12 oil and gas interest must be submitted to the commissioner of natural resources before
13 approval of the proposed exploration well. In addition to the requirements in (c)(1),
14 (c)(2)(A), and (c)(2)(C) of this section and submission of the written consent of the
15 owner of the oil and gas interest, a person planning to drill an exploration well shall
16 obtain approval from the commissioner of natural resources before the well is
17 spudded. The commissioner of natural resources shall make a written determination
18 approving or rejecting an exploration well within 60 days after receiving the request
19 for approval or as soon as is practicable thereafter. Before approving the exploration
20 well, the commissioner of natural resources shall consider the following: the location
21 of the well; the proximity to a community in need of a local energy source; the
22 proximity of existing infrastructure; the experience and safety record of the explorer in
23 conducting operations in remote or roadless areas; the projected cost schedule;
24 whether seismic mapping and seismic data sufficiently identify a particular trap for
25 exploration; whether the targeted and planned depth and range are designed to
26 penetrate and fully evaluate the hydrocarbon potential of the proposed prospect and
27 reach the level below which economic hydrocarbon reservoirs are likely to be found,
28 or reach 12,000 feet or more true vertical depth; and whether the exploration plan
29 provides for a full evaluation of the wellbore below surface casing to the depth of the
30 well. Whether the exploration well for which a credit is requested under this
31 subsection is located within an area and a basin described under (o) of this section

1 shall be determined by the commissioner of natural resources and reported to the
 2 commissioner. A taxpayer that obtains a credit under this subsection may not claim a
 3 tax credit under AS 43.55.023 or another provision in this section for the same
 4 exploration expenditure.

5 * **Sec. 25.** AS 43.55.025 is amended by adding a new subsection to read:

6 (q) A credit or portion of a credit under this section may not be used to reduce
 7 a person's tax liability under AS 43.55.011(e) for any calendar year below the amount
 8 calculated under AS 43.55.011(f).

9 * **Sec. 26.** AS 43.55.028(e) is amended to read:

10 (e) The department, on the written application of a person to whom a
 11 transferable tax credit certificate has been issued under AS 43.55.023(d) or former
 12 AS 43.55.023(m) or to whom a production tax credit certificate has been issued under
 13 AS 43.55.025(f), may use available money in the oil and gas tax credit fund to
 14 purchase, in whole or in part, the certificate. **The department may not purchase a**
 15 **total of more than \$100,000,000 in tax credit certificates from a person in a**
 16 **calendar year. Before purchasing a certificate or part of a certificate,** [IF] the
 17 department **shall find** [FINDS] that

18 (1) the calendar year of the purchase is not earlier than the first
 19 calendar year for which the credit shown on the certificate would otherwise be allowed
 20 to be applied against a tax;

21 (2) the **application is not the result of the division of a single entity**
 22 **into multiple entities that would reasonably be expected to apply as a single entity**
 23 **if the \$100,000,000 limitation in this subsection did not exist** [APPLICANT DOES
 24 NOT HAVE AN OUTSTANDING LIABILITY TO THE STATE FOR UNPAID
 25 DELINQUENT TAXES UNDER THIS TITLE];

26 (3) the applicant's total tax liability under AS 43.55.011(e), after
 27 application of all available tax credits, for the calendar year in which the application is
 28 made is zero;

29 (4) the applicant's average daily production of oil and gas taxable
 30 under AS 43.55.011(e) during the calendar year preceding the calendar year in which
 31 the application is made was not more than 50,000 BTU equivalent barrels; and

1 (5) the purchase is consistent with this section and regulations adopted
2 under this section.

3 * **Sec. 27.** AS 43.55.028 is amended by adding a new subsection to read:

4 (j) If an applicant or claimant has an outstanding liability to the state directly
5 related to the applicant's or claimant's oil or gas exploration, development, or
6 production and the department has not previously reduced the amount paid to that
7 applicant or claimant for a certificate or refund because of that outstanding liability,
8 the department may purchase only that portion of a certificate or pay only that portion
9 of a refund that exceeds the outstanding liability. With the applicant's or claimant's
10 consent, the department may apply the amount by which the department reduced its
11 purchase of a certificate or payment for a refund because of an outstanding liability to
12 satisfy the outstanding liability. Satisfaction of an outstanding liability under this
13 subsection does not affect the applicant's ability to contest that liability. The
14 department may enter into contracts or agreements with another department to which
15 the outstanding liability is owed. In this subsection, "outstanding liability" means an
16 amount of tax, interest, penalty, fee, rental, royalty, or other charge for which the state
17 has issued a demand for payment that has not been paid when due and, if contested,
18 has not been finally resolved against the state.

19 * **Sec. 28.** AS 43.55.029(a) is amended to read:

20 (a) An explorer or producer that has applied for a production tax credit under
21 **former** AS 43.55.023(a) [, (b),] or (l) **or under AS 43.55.023(b)** or 43.55.025(a) may
22 make a present assignment of the production tax credit certificate expected to be
23 issued by the department to a third-party assignee. The assignment may be made either
24 at the time the application is filed with the department or not later than 30 days after
25 the date of filing with the department. Once a notice of assignment in compliance with
26 this section is filed with the department, the assignment is irrevocable and cannot be
27 modified by the explorer or producer without the written consent of the assignee
28 named in the assignment. If a production tax credit certificate is issued to the explorer
29 or producer, the notice of assignment remains effective and shall be filed with the
30 department by the explorer or producer together with any application for the
31 department to purchase the certificate under AS 43.55.028(e).

1 * **Sec. 29.** AS 43.55.030(a) is amended to read:

2 (a) A producer that produces oil or gas from a lease or property in the state
3 during a calendar year, whether or not any tax payment is due under AS 43.55.020(a)
4 for that oil or gas, shall file with the department on March 31 of the following year a
5 statement, under oath, in a form prescribed by the department, giving, with other
6 information required, the following:

7 (1) a description of each lease or property from which oil or gas was
8 produced, by name, legal description, lease number, or accounting codes assigned by
9 the department;

10 (2) the names of the producer and, if different, the person paying the
11 tax, if any;

12 (3) the gross amount of oil and the gross amount of gas produced from
13 each lease or property, separately identifying the gross amount of gas produced from
14 each oil and gas lease to which an effective election under AS 43.55.014(a) applies,
15 the amount of gas delivered to the state under AS 43.55.014(b), and the percentage of
16 the gross amount of oil and gas owned by the producer;

17 (4) the gross value at the point of production of the oil and of the gas
18 produced from each lease or property owned by the producer and the costs of
19 transportation of the oil and gas;

20 (5) the name of the first purchaser and the price received for the oil and
21 for the gas, unless relieved from this requirement in whole or in part by the
22 department;

23 (6) the producer's qualified capital expenditures, [AS DEFINED IN
24 AS 43.55.023,] other lease expenditures under AS 43.55.165, and adjustments or other
25 payments or credits under AS 43.55.170;

26 (7) the production tax values of the oil and gas under AS 43.55.160(a)
27 or of the oil under AS 43.55.160(h), as applicable;

28 (8) any claims for tax credits to be applied; and

29 (9) calculations showing the amounts, if any, that were or are due
30 under AS 43.55.020(a) and interest on any underpayment or overpayment.

31 * **Sec. 30.** AS 43.55.030(e) is amended to read:

1 (e) An explorer or producer that incurs a lease expenditure under
2 AS 43.55.165 or receives a payment or credit under AS 43.55.170 during a calendar
3 year but does not produce oil or gas from a lease or property in the state during the
4 calendar year shall file with the department, on March 31 of the following year, a
5 statement, under oath, in a form prescribed by the department, giving, with other
6 information required, the following:

7 (1) the explorer's or producer's qualified capital expenditures, [AS
8 DEFINED IN AS 43.55.023,] other lease expenditures under AS 43.55.165, and
9 adjustments or other payments or credits under AS 43.55.170; and

10 (2) if the explorer or producer receives a payment or credit under
11 AS 43.55.170, calculations showing whether the explorer or producer is liable for a
12 tax under AS 43.55.160(d) or 43.55.170(b) and, if so, the amount.

13 * **Sec. 31.** AS 43.55.160(f) is amended to read:

14 (f) On and after January 1, 2014, in the calculation of an annual production tax
15 value of a producer under (a)(1)(A) or (h)(1) of this section, the gross value at the
16 point of production of oil or gas produced from a lease or property north of 68 degrees
17 North latitude meeting one or more of the following criteria is reduced by 20 percent:
18 (1) the oil or gas is produced from a lease or property that does not contain a lease that
19 was within a unit on January 1, 2003; (2) the oil or gas is produced from a
20 participating area established after December 31, 2011, that is within a unit formed
21 under AS 38.05.180(p) before January 1, 2003, if the participating area does not
22 contain a reservoir that had previously been in a participating area established before
23 December 31, 2011; (3) the oil or gas is produced from acreage that was added to an
24 existing participating area by the Department of Natural Resources on and after
25 January 1, 2014, and the producer demonstrates to the department that the volume of
26 oil or gas produced is from acreage added to an existing participating area. This
27 subsection does not apply to gas produced before 2022 that is used in the state or to
28 gas produced on and after January 1, 2022. **For oil or gas first produced after**
29 **December 31, 2016, the reduction under this subsection shall apply to oil or gas**
30 **produced from a lease or property for the first five years after the**
31 **commencement of production in commercial quantities of oil or gas from that**

1 **lease or property. For oil or gas first produced before January 1, 2017, the**
 2 **reduction under this subsection for a lease or property shall expire January 1,**
 3 **2021.** A reduction under this subsection may not reduce the gross value at the point of
 4 production below zero. In this subsection, "participating area" means a reservoir or
 5 portion of a reservoir producing or contributing to production as approved by the
 6 Department of Natural Resources.

7 * **Sec. 32.** AS 43.55.160(g) is amended to read:

8 (g) On and after January 1, 2014, in addition to the reduction under (f) of this
 9 section, in the calculation of an annual production tax value of a producer under
 10 (a)(1)(A) or (h)(1) of this section, the gross value at the point of production of oil or
 11 gas produced from a lease or property north of 68 degrees North latitude that does not
 12 contain a lease that was within a unit on January 1, 2003, is reduced by 10 percent if
 13 the oil or gas is produced from a unit made up solely of leases that have a royalty
 14 share of more than 12.5 percent in amount or value of the production removed or sold
 15 from the lease as determined under AS 38.05.180(f). This subsection does not apply if
 16 the royalty obligation for one or more of the leases in the unit has been reduced to 12.5
 17 percent or less under AS 38.05.180(j) for all or part of the calendar year for which the
 18 annual production tax value is calculated. This subsection does not apply to gas
 19 produced before 2022 that is used in the state or to gas produced on and after
 20 January 1, 2022. **For oil or gas first produced after December 31, 2016, the**
 21 **reduction under this subsection shall apply to oil or gas produced from a lease or**
 22 **property for the first five years after the commencement of production in**
 23 **commercial quantities of oil or gas from that lease or property. For oil or gas first**
 24 **produced before January 1, 2017, the reduction under this subsection for a lease**
 25 **or property shall expire January 1, 2021.** A reduction under this subsection may not
 26 reduce the gross value at the point of production below zero.

27 * **Sec. 33.** AS 43.55.165(a) is amended to read:

28 (a) **For** [EXCEPT AS PROVIDED IN (j) AND (k) OF THIS SECTION,
 29 FOR] purposes of this chapter, a producer's lease expenditures for a calendar year are
 30 (1) costs, other than items listed in (e) of this section, that are
 31 (A) incurred by the producer during the calendar year after

1 March 31, 2006, to explore for, develop, or produce oil or gas deposits located
 2 within the producer's leases or properties in the state or, in the case of land in
 3 which the producer does not own an operating right, operating interest, or
 4 working interest, to explore for oil or gas deposits within other land in the
 5 state; and

6 (B) allowed by the department by regulation, based on the
 7 department's determination that the costs satisfy the following three
 8 requirements:

9 (i) the costs must be incurred upstream of the point of
 10 production of oil and gas;

11 (ii) the costs must be ordinary and necessary costs of
 12 exploring for, developing, or producing, as applicable, oil or gas
 13 deposits; and

14 (iii) the costs must be direct costs of exploring for,
 15 developing, or producing, as applicable, oil or gas deposits; and

16 (2) a reasonable allowance for that calendar year, as determined under
 17 regulations adopted by the department, for overhead expenses that are directly related
 18 to exploring for, developing, or producing, as applicable, the oil or gas deposits.

19 * **Sec. 34.** AS 43.55.165(e) is amended to read:

20 (e) For purposes of this section, lease expenditures do not include

21 (1) depreciation, depletion, or amortization;

22 (2) oil or gas royalty payments, production payments, lease profit
 23 shares, or other payments or distributions of a share of oil or gas production, profit, or
 24 revenue, except that a producer's lease expenditures applicable to oil and gas produced
 25 from a lease issued under AS 38.05.180(f)(3)(B), (D), or (E) include the share of net
 26 profit paid to the state under that lease;

27 (3) taxes based on or measured by net income;

28 (4) interest or other financing charges or costs of raising equity or debt
 29 capital;

30 (5) acquisition costs for a lease or property or exploration license;

31 (6) costs arising from fraud, wilful misconduct, gross negligence,

1 violation of law, or failure to comply with an obligation under a lease, permit, or
2 license issued by the state or federal government;

3 (7) fines or penalties imposed by law;

4 (8) costs of arbitration, litigation, or other dispute resolution activities
5 that involve the state or concern the rights or obligations among owners of interests in,
6 or rights to production from, one or more leases or properties or a unit;

7 (9) costs incurred in organizing a partnership, joint venture, or other
8 business entity or arrangement;

9 (10) amounts paid to indemnify the state; the exclusion provided by
10 this paragraph does not apply to the costs of obtaining insurance or a surety bond from
11 a third-party insurer or surety;

12 (11) surcharges levied under AS 43.55.201 or 43.55.300;

13 (12) an expenditure otherwise deductible under (b) of this section that
14 is a result of an internal transfer, a transaction with an affiliate, or a transaction
15 between related parties, or is otherwise not an arm's length transaction, unless the
16 producer establishes to the satisfaction of the department that the amount of the
17 expenditure does not exceed the fair market value of the expenditure;

18 (13) an expenditure incurred to purchase an interest in any corporation,
19 partnership, limited liability company, business trust, or any other business entity,
20 whether or not the transaction is treated as an asset sale for federal income tax
21 purposes;

22 (14) a tax levied under AS 43.55.011 or 43.55.014;

23 (15) costs incurred for dismantlement, removal, surrender, or
24 abandonment of a facility, pipeline, well pad, platform, or other structure, or for the
25 restoration of a lease, field, unit, area, tract of land, body of water, or right-of-way in
26 conjunction with dismantlement, removal, surrender, or abandonment; a cost is not
27 excluded under this paragraph if the dismantlement, removal, surrender, or
28 abandonment for which the cost is incurred is undertaken for the purpose of replacing,
29 renovating, or improving the facility, pipeline, well pad, platform, or other structure;

30 (16) costs incurred for containment, control, cleanup, or removal in
31 connection with any unpermitted release of oil or a hazardous substance and any

1 liability for damages imposed on the producer or explorer for that unpermitted release;
2 this paragraph does not apply to the cost of developing and maintaining an oil
3 discharge prevention and contingency plan under AS 46.04.030;

4 (17) costs incurred to satisfy a work commitment under an exploration
5 license under AS 38.05.132;

6 (18) that portion of expenditures, that would otherwise be qualified
7 capital expenditures, [AS DEFINED IN AS 43.55.023,] incurred during a calendar
8 year that are less than the product of \$0.30 multiplied by the total taxable production
9 from each lease or property, in BTU equivalent barrels, during that calendar year,
10 except that, when a portion of a calendar year is subject to this provision, the
11 expenditures and volumes shall be prorated within that calendar year;

12 (19) costs incurred for repair, replacement, or deferred maintenance of
13 a facility, a pipeline, a structure, or equipment, other than a well, that results in or is
14 undertaken in response to a failure, problem, or event that results in an unscheduled
15 interruption of, or reduction in the rate of, oil or gas production; or costs incurred for
16 repair, replacement, or deferred maintenance of a facility, a pipeline, a structure, or
17 equipment, other than a well, that is undertaken in response to, or is otherwise
18 associated with, an unpermitted release of a hazardous substance or of gas; however,
19 costs under this paragraph that would otherwise constitute lease expenditures under (a)
20 and (b) of this section may be treated as lease expenditures if the department
21 determines that the repair or replacement is solely necessitated by an act of war, by an
22 unanticipated grave natural disaster or other natural phenomenon of an exceptional,
23 inevitable, and irresistible character, the effects of which could not have been
24 prevented or avoided by the exercise of due care or foresight, or by an intentional or
25 negligent act or omission of a third party, other than a party or its agents in privity of
26 contract with, or employed by, the producer or an operator acting for the producer, but
27 only if the producer or operator, as applicable, exercised due care in operating and
28 maintaining the facility, pipeline, structure, or equipment, and took reasonable
29 precautions against the act or omission of the third party and against the consequences
30 of the act or omission; in this paragraph,

31 (A) "costs incurred for repair, replacement, or deferred

1 maintenance of a facility, a pipeline, a structure, or equipment" includes costs
 2 to dismantle and remove the facility, pipeline, structure, or equipment that is
 3 being replaced;

4 (B) "hazardous substance" has the meaning given in
 5 AS 46.03.826;

6 (C) "replacement" includes renovation or improvement;

7 (20) costs incurred to construct, acquire, or operate a refinery or crude
 8 oil topping plant, regardless of whether the products of the refinery or topping plant
 9 are used in oil or gas exploration, development, or production operations; however, if
 10 a producer owns a refinery or crude oil topping plant that is located on or near the
 11 premises of the producer's lease or property in the state and that processes the
 12 producer's oil produced from that lease or property into a product that the producer
 13 uses in the operation of the lease or property in drilling for or producing oil or gas, the
 14 producer's lease expenditures include the amount calculated by subtracting from the
 15 fair market value of the product used the prevailing value, as determined under
 16 AS 43.55.020(f), of the oil that is processed;

17 (21) costs of lobbying, public relations, public relations advertising, or
 18 policy advocacy.

19 * **Sec. 35.** AS 43.55.165(f) is amended to read:

20 (f) For purposes of AS 43.55.023(b) [AS 43.55.023(a) AND (b)] and only as
 21 to expenditures incurred to explore for an oil or gas deposit located within land in
 22 which an explorer does not own a working interest, the term "producer" in this section
 23 includes "explorer."

24 * **Sec. 36.** AS 43.55.170(c) is amended to read:

25 (c) For purposes of AS 43.55.023(b) [AS 43.55.023(a) AND (b)] and only as
 26 to expenditures incurred to explore for an oil or gas deposit located within land in
 27 which an explorer does not own a working interest, the term "producer" in this section
 28 includes "explorer."

29 * **Sec. 37.** AS 43.55.890 is amended to read:

30 **Sec. 43.55.890. Disclosure of tax information.** Notwithstanding any contrary
 31 provision of AS 40.25.100, and regardless of whether the information is considered

1 under AS 43.05.230(e) to constitute statistics classified to prevent the identification of
 2 particular returns or reports, the department may publish the following information
 3 under this chapter, if aggregated among three or more producers or explorers, showing
 4 by month or calendar year and by lease or property, unit, or area of the state:

- 5 (1) the amount of oil or gas production;
 6 (2) the amount of taxes levied under this chapter or paid under this
 7 chapter;
 8 (3) the effective tax rates under this chapter;
 9 (4) the gross value of oil or gas at the point of production;
 10 (5) the transportation costs for oil or gas;
 11 (6) qualified capital expenditures [, AS DEFINED IN AS 43.55.023];
 12 (7) exploration expenditures under AS 43.55.025;
 13 (8) production tax values of oil or gas under AS 43.55.160;
 14 (9) lease expenditures under AS 43.55.165;
 15 (10) adjustments to lease expenditures under AS 43.55.170;
 16 (11) tax credits applicable or potentially applicable against taxes levied
 17 by this chapter.

18 * **Sec. 38.** AS 43.55.895(b) is amended to read:

- 19 (b) A municipal entity subject to taxation because of this section
 20 (1) is eligible for [ALL] tax credits **proportionate to its production**
 21 **taxable under AS 43.55.011(e); and**
 22 **(2) shall allocate its lease expenditures in proportion to its**
 23 **production taxable under AS 43.55.011(e)** [UNDER THIS CHAPTER TO THE
 24 SAME EXTENT AS ANY OTHER PRODUCER].

25 * **Sec. 39.** AS 43.55.900 is amended by adding a new paragraph to read:

- 26 (26) "qualified capital expenditure"
 27 (A) means, except as otherwise provided in (B) of this
 28 paragraph, an expenditure that is a lease expenditure under AS 43.55.165 and
 29 is
 30 (i) incurred for geological or geophysical exploration;
 31 (ii) treated as a capitalized expenditure under 26 U.S.C.

1 (Internal Revenue Code), as amended, regardless of elections made
 2 under 26 U.S.C. 263(c) (Internal Revenue Code), as amended, and is
 3 treated as a capitalized expenditure for federal income tax reporting
 4 purposes by the person incurring the expenditure; or

5 (iii) treated as a capitalized expenditure under 26 U.S.C.
 6 (Internal Revenue Code), as amended, regardless of elections made
 7 under 26 U.S.C. 263(c) (Internal Revenue Code), as amended, and is
 8 eligible to be deducted as an expense under 26 U.S.C. 263(c) (Internal
 9 Revenue Code), as amended;

10 (B) does not include an expenditure incurred to acquire an asset
 11 the cost of previously acquiring which was a lease expenditure under
 12 AS 43.55.165 or would have been a lease expenditure under AS 43.55.165 if it
 13 had been incurred after March 31, 2006, or that has previously been placed in
 14 service in the state; an expenditure to acquire an asset is not excluded under
 15 this subparagraph if not more than an immaterial portion of the asset meets a
 16 description under this subparagraph; for purposes of this subparagraph, "asset"
 17 includes geological, geophysical, and well data and interpretations.

18 * **Sec. 40.** AS 43.70 is amended by adding new sections to read:

19 **Sec. 43.70.025. Bond or cash deposit required for an oil or gas business.** (a)

20 At the time of applying for a license under this chapter, an applicant engaged in the
 21 business of oil or gas exploration, development, or production shall file a surety bond
 22 in the amount of \$250,000 running to the state, conditioned upon the applicant's
 23 promise to pay all

24 (1) taxes and contributions due the state and political subdivisions;

25 (2) persons furnishing labor or material or renting or supplying
 26 equipment to the applicant; and

27 (3) amounts that may be adjudged against the applicant because of
 28 negligent or improper work or breach of contract while engaged in the business of oil
 29 or gas exploration, development, or production.

30 (b) In lieu of the surety bond required under this section, the applicant may
 31 file with the commissioner a cash deposit or other negotiable security acceptable to the

1 commissioner in the amount of \$250,000.

2 (c) The bond required by this section remains in effect until cancelled by
3 action of the surety, the principal, or if the commissioner finds that the business is
4 producing oil or gas in commercial quantities, by the commissioner.

5 **Sec. 43.70.028. Claims against an oil or gas business.** (a) A person having a
6 claim against a person required to file a surety bond under AS 43.70.025 because of
7 the failure to pay a liability described in AS 43.70.025(a) may bring suit upon the
8 bond. A copy of the complaint shall be served by registered or certified mail on the
9 commissioner at the time suit is filed, and the commissioner shall maintain a record,
10 available for public inspection, of all suits commenced. This service on the
11 commissioner shall constitute service on the surety, and the commissioner shall
12 transmit the complaint or a copy of it to the surety within 72 hours after it is received.
13 The surety on the bond is not liable in an aggregate amount in excess of that named in
14 the bond, but if claims pending at any one time exceed the amount of the bond, the
15 claims shall be satisfied from the bond in the following order:

16 (1) labor, including employee benefits;

17 (2) taxes and contributions due the state, city, and borough, in that
18 order;

19 (3) material and equipment;

20 (4) claims for negligent or improper work or breach of contract;

21 (5) repair of public facilities.

22 (b) If a judgment is entered against a cash deposit, the commissioner, upon
23 receipt of a certified copy of a final judgment, shall pay the judgment from the amount
24 of the deposit in accordance with the priorities set out in (a) of this section.

25 (c) An action described in (a) of this section may not be commenced on the
26 bond more than three years after the bond's cancellation.

27 * **Sec. 41.** AS 38.05.180(i); AS 41.09.010, 41.09.020, 41.09.030, 41.09.090; and
28 AS 43.20.053(j)(4) are repealed January 1, 2017.

29 * **Sec. 42.** AS 43.55.023(a), 43.55.023(l), 43.55.023(n), 43.55.023(o), 43.55.028(i),
30 43.55.075(d)(1), 43.55.165(j), and 43.55.165(k) are repealed January 1, 2022.

31 * **Sec. 43.** The uncodified law of the State of Alaska is amended by adding a new section to

1 read:

2 LEGISLATIVE WORKING GROUP. (a) A legislative working group is established
3 to analyze the Cook Inlet fiscal regime for oil and gas, review the state's tax structure and
4 rates on oil and gas produced south of 68 degrees North latitude, recommend changes to the
5 legislature for consideration during the First Regular Session of the Thirtieth Alaska State
6 Legislature, and develop terms for a comprehensive fiscal regime for the area south of 68
7 degrees North latitude including,

8 (1) a tax structure that accounts for the unique circumstances for each oil and
9 gas producing area south of 68 degrees North latitude;

10 (2) incentives for the exploration, development, and production of oil and gas
11 south of 68 degrees North latitude;

12 (3) consideration of the competitiveness of the area to attract new oil and gas
13 development;

14 (4) consideration of the unique market considerations of the Cook Inlet
15 sedimentary basin and the need to support energy supply security for communities in
16 Southcentral Alaska;

17 (5) alternative means of state support for the exploration, development, and
18 production of oil and gas in this area, including through the Alaska Industrial Export and
19 Development Authority;

20 (6) analysis of whether refundable state tax credits are still necessary for a
21 new regime;

22 (7) evaluation of the need for disclosure of some confidential information to
23 help legislators shape policy, including an evaluation of the associated state and federal
24 constitutional issues related to statutory waivers of taxpayer confidentiality.

25 (b) The working group consists of

26 (1) two co-chairs, one of whom is a member of the house appointed by the
27 speaker of the house of representatives, and one of whom is a member of the senate appointed
28 by the president of the senate; and

29 (2) members appointed by the co-chairs; members must be legislators and
30 must include members of the majority and minority caucuses.

31 (c) The co-chairs of the working group may form an advisory group to the working

1 group, composed of members who are not legislators and who have expertise and skills to
2 assist in the review and development of a new plan for the tax structure and rates on oil and
3 gas produced south of 68 degrees North latitude. The members of an advisory group may
4 include commissioners or employees of state departments, members of the oil and gas
5 industry or trade associations, and economists.

6 (d) The working group is to be supported by legislative consultants under contract
7 through the Legislative Budget and Audit Committee.

8 * **Sec. 44.** The uncodified law of the State of Alaska is amended by adding a new section to
9 read:

10 APPLICABILITY. Sections 7 - 9, 26, and 27 of this Act apply to a refund or payment
11 applied for on or after January 1, 2017.

12 * **Sec. 45.** The uncodified law of the State of Alaska is amended by adding a new section to
13 read:

14 TRANSITION: QUALIFIED CAPITAL EXPENDITURES AND WELL LEASE
15 EXPENDITURES. (a) Notwithstanding the repeal of AS 43.55.023(a), (l), (n), and (o) by sec.
16 42 of this Act, and the amendments to AS 43.55.023(d) and (e), 43.55.029(a), 43.55.165(f),
17 and 43.55.170(c) by secs. 17, 18, 28, 35, and 36 of this Act, a taxpayer who incurs

18 (1) a qualified capital expenditure before the effective date of sec. 42 of this
19 Act that qualifies for a qualified capital expenditure credit under AS 43.55.023(a) may apply
20 for a credit or transferable tax credit certificate under AS 43.55.023 and assign the tax credit
21 under AS 43.55.029, as those sections read on the day before the effective date of sec. 42 of
22 this Act;

23 (2) a well lease expenditure before the effective date of sec. 42 of this Act that
24 qualifies for a well lease expenditure credit under AS 43.55.023(l) may apply for a credit or
25 transferable tax credit certificate under AS 43.55.023 and assign the tax credit under
26 AS 43.55.029, as those sections read on the day before the effective date of sec. 42 of this
27 Act.

28 (b) The Department of Revenue may continue to apply and enforce AS 43.55.023 and
29 43.55.029, as those sections read on the day before the effective date of sec. 42 of this Act, for
30 qualified capital expenditures and well lease expenditures incurred before the effective date of
31 sec. 42 of this Act.

1 * **Sec. 46.** The uncodified law of the State of Alaska is amended by adding a new section to
2 read:

3 TRANSITION: LEASE EXPENDITURES FOR A CALENDAR YEAR AFTER
4 2006 AND BEFORE 2010. Notwithstanding AS 43.55.165(a), as amended by sec. 33 of this
5 Act, and the repeal of AS 43.55.165(j) and (k) by sec. 42 of this Act, AS 43.55.165(j) and (k)
6 apply to a producer's total lease expenditures for a calendar year after 2006 and before 2010
7 under AS 43.55.165, as that section read on the day before the effective date of sec. 42 of this
8 Act.

9 * **Sec. 47.** The uncodified law of the State of Alaska is amended by adding a new section to
10 read:

11 TRANSITION: REGULATIONS. The Department of Revenue and the Department of
12 Natural Resources may adopt regulations necessary to implement the changes made by this
13 Act. The regulations take effect under AS 44.62 (Administrative Procedure Act), but not
14 before the effective date of the law implemented by the regulation. The Department of
15 Revenue shall adopt regulations governing the use of tax credits under AS 43.55 for a
16 calendar year for which the applicable tax credit provisions of AS 43.55 differ as between
17 parts of the year as a result of this Act.

18 * **Sec. 48.** The uncodified law of the State of Alaska is amended by adding a new section to
19 read:

20 TRANSITION: RETROACTIVITY OF REGULATIONS. Notwithstanding any
21 contrary provision of AS 44.62.240,

22 (1) if the Department of Revenue expressly designates in a regulation that the
23 regulation applies retroactively, a regulation adopted by the Department of Revenue to
24 implement, interpret, make specific, or otherwise carry out this Act may apply retroactively to
25 the effective date of the law implemented by the regulation;

26 (2) if the Department of Natural Resources expressly designates in the
27 regulation that the regulation applies retroactively, a regulation adopted by the Department of
28 Natural Resources to implement, interpret, make specific, or otherwise carry out the statutory
29 amendments in this Act affecting the administration of oil and gas leases issued under
30 AS 38.05.180(f)(3)(B), (D), or (E), to the extent the regulation relates to the treatment of oil
31 and gas production taxes in determining net profits under those leases, may apply

1 retroactively to the effective date of the law implemented by the regulation.

2 * **Sec. 49.** Sections 24, 43, and 47 of this Act take effect immediately under
3 AS 01.10.070(c).

4 * **Sec. 50.** Sections 17, 18, 28 - 30, 33 - 37, 39, 42, 45, and 46 of this Act take effect
5 January 1, 2022.

6 * **Sec. 51.** Except as provided in secs. 49 and 50 of this Act, this Act takes effect January 1,
7 2017.