



ALASKA STATE LEGISLATURE HOUSE RULES COMMITTEE

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2d CS for House Bill 247 () Version \Q

- Section 1 Adds a new subsection to AS 31.05.030, Alaska Oil and Gas Conservation Act. Requires the Alaska Oil and Gas Conservation Commission to determine the start of regular production of new oil. Effective Jan. 1, 2017.
- Secs. 2-6 Amend AS 38.05.036 (a), (b), (c), (f) and (g), Alaska Land Act, Audit of royalty and net profit payments and costs. Conforming to the Section 50 repeal of AS 41.09, an old Department of Natural Resources exploration credit program. Effective Jan. 1, 2017.
- Section 7 Amends AS 40.25.100(a), Public Record Disclosures, Disposition of tax information. Conforming to Section 9, which requires the Department of Revenue to make public some taxpayer information. Effective Jan. 1, 2017.
- Section 8 Amends AS 43.05.225, Administration of Revenue Laws, Interest. The interest rate on delinquent taxes is five points above the 12th Federal Reserve District rate, compounded quarterly. Effective Jan. 1, 2017.
- Section 9 Adds a new subsection to AS 43.05.230, Administration of Revenue Laws, Disclosure of tax returns and reports. Requires the Department of Revenue to make public by April 30 of each year, the name of a company from whom the department purchases a tax credit certificate and the total amount of tax credit certificates purchased from each company. Effective Jan. 1, 2017.
- Section 10 Amends AS 43.20.046(e), Alaska Net Income Tax Act, Gas storage facility tax credit. The Department of Revenue will no longer use the Oil and Gas Tax Credit Fund to refund gas storage facility credits. The credits remain refundable by DOR. Also, definition of "unpaid delinquent taxes" is removed, as a new definition applicable to AS 43.20, Alaska Net Income Tax Act, is added in Section 13. Effective Jan. 1, 2017.
- Section 11 Amends AS 43.20.047(e), Alaska Net Income Tax Act, Liquefied natural gas storage facility tax credit. The Department of Revenue will no longer use the Oil and Gas Tax Credit Fund to refund LNG storage facility credits. The credits remain refundable by DOR. Also, definition of "unpaid delinquent taxes" is removed, as a new definition applicable to AS 43.20, Alaska Net Income Tax Act, is added in Section 13. Effective Jan. 1, 2017.

- Section 12 Amends AS 43.20.053(e), Alaska Net Income Tax Act, Qualified in-state oil refinery infrastructure expenditures tax credit. The Department of Revenue will no longer use the Oil and Gas Tax Credit Fund to refund instate refinery credits. The credits remain refundable by DOR. Effective Jan. 1, 2017.
- Section 13 Adds a new paragraph to AS 43.20.340, Alaska Net Income Tax Act, Definitions. Adds a definition of ‘unpaid delinquent tax’ to the income tax statutes, to be applied in refunding income tax credits including the gas storage facility, LNG storage facility, and instate refinery credits. Effective Jan. 1, 2017.
- Section 14 Amends AS 43.55.011(m), Oil and Gas Production Tax. Conforming to the Section 50 repeal of the DNR credit programs in AS 38.05.180(i) and AS 41.09. Effective Jan. 1, 2017.
- Section 15 Amends AS 43.55.023(a), Oil and Gas Production Tax, Tax credits for certain losses and expenditures. For work done outside of the North Slope, a qualified capital expenditure credit of 30% is available in 2017, reducing to 20% in 2018. For Cook Inlet, a company must have oil or gas production in Cook Inlet by the end of 2016 in order to be eligible for this credit. Also, conforming to the Section 50 repeal of the DNR credit programs in AS 38.05.180(i) and AS 41.09. Effective Jan. 1, 2017.
- Section 16 Amends AS 43.55.023(b), Oil and Gas Production Tax, Tax credits for certain losses and expenditures. The 35% net operating loss credit on the North Slope terminates at the end of 2016, except for companies producing oil or gas on the North Slope by the end of 2016, the 35% credit (refundable) is available through 2019, providing the company produces more than zero and less than 20,000 barrels per day in 2016. The 25% net operating loss credit in areas other than the North Slope remains at 25% in 2017, then terminates. To receive the credit in Cook Inlet, a company must have oil or gas production in Cook Inlet by the end of 2016. Effective Jan. 1, 2017.
- Section 17 Amends AS 43.55.023(d), Oil and Gas Production Tax, Tax credits for certain losses and expenditures. Allows nontransferable tax credit certificates only, for credits earned under AS 43.55.023. Effective Jan. 1, 2017.
- Section 18 Amends AS 43.55.023(g), Oil and Gas Production Tax, Tax credits for certain losses and expenditures. Conforms to the Section 17 change ending the issuance of transferrable tax certificates for AS 43.55.023 credits. Effective Jan. 1, 2017.
- Section 19 Amends AS 43.55.023(k), Oil and Gas Production Tax, Tax credits for certain losses and expenditures. Conforms to the end of transferrable tax certificates for AS 43.55.023 credits. Effective Jan. 1, 2017.

- Section 20 Amends AS 43.55.024(i), Oil and Gas Production Tax, Additional nontransferable tax credits. Companies may apply the \$5 per-barrel new oil credit only for oil receiving the 10-year gross value reduction for new oil. Effective Jan. 1, 2017.
- Section 21 Amends AS 43.55.024(j), Oil and Gas Production Tax, Additional nontransferable tax credits. Once new oil is no longer eligible for new oil benefits and is being taxed as normal oil, the oil is also eligible for the sliding-scale per-barrel credit. Effective Jan. 1, 2017.
- Section 22 Amends AS 43.55.025(m), Oil and Gas Production Tax, Alternative tax credit for oil and gas exploration. Extends a Middle Earth credit to a company that has spudded but not completed a well by July 1, 2016. The AS 43.55.025(a)(6) credit covers 80% of eligible costs, up to \$25 million. Effective immediately.
- Section 23 Amends AS 43.55.025(m), Oil and Gas Production Tax, Alternative tax credit for oil and gas exploration, as amended by Section 22. Conforming to the Section 51 repeal of AS 43.55.023. Effective Jan. 1, 2020.
- Section 24 Amends AS 43.55.025(o), Oil and Gas Production Tax, Alternative tax credit for oil and gas exploration. Conforms to the Section 50 repeal of AS 43.55.025 (a)(5), (a)(7), (l), and (n). Effective Jan. 1, 2017.
- Section 25 Amends AS 43.55.028(a), Oil and Gas Production Tax, Oil and gas tax credit fund. Conforms to Section 17 related to transferrable tax credits; and, removes the authority to use the fund to pay refunds for the income tax credits related to the instate refinery, LNG storage facility, and gas storage facility. Effective Jan. 1, 2017.
- Section 26 Amends As 43.55.028(a), Oil and Gas Production Tax, Oil and gas tax credit fund, as amended by Sec. 25. Conforming to the Section 52 repeal of AS 43.55.023. Effective Jan. 1, 2020.
- Section 27 Amends AS 43.55.028(e), Oil and Gas Production Tax, Oil and gas tax credit fund. Limits the maximum state repurchase of tax credits to \$85 million per company, per year. Requires the Department of Revenue to, before purchasing credit certificates, find that the applicant is not the result of the division of a single entity into multiple entities that would reasonably have been expected to apply as a single entity. Also, conforms to Section 17 related to transferrable tax certificates. Effective Jan. 1, 2017.
- Section 28 Amends AS 43.55.028(e), Oil and Gas Production Tax, Oil and gas tax credit fund, as amended by Sec. 27. Conforms to the Section 52 repeal of AS 43.55.023. Effective Jan. 1, 2020.

- Section 29 Amends AS 43.55.028(g), Oil and Gas Production Tax, Oil and gas tax credit fund. Requires the Department of Revenue to adopt regulations granting preference to companies with at least 80% Alaska hire, in case there is not enough money in the Oil and Gas Tax Credit Fund to cover all applicants. Also, as credits for LNG storage facilities, gas storage facilities and instate refineries would no longer be refunded through the fund, makes conforming adjustments. Effective Jan. 1, 2017.
- Section 30 Adds a new subsection to AS 43.55.028, Oil and Gas Production Tax, Oil and gas tax credit fund. Ensures an outstanding liability to the state related to oil and gas activity is withheld from the amount of a tax certificate purchased by the Department of Revenue using the Oil and Gas Tax Credit Fund. The department may use the withheld amount to satisfy an outstanding liability, providing the liability is not being contested, without the taxpayer's consent. Satisfying a liability in this manner would not affect the applicant's ability to contest a liability. Effective Jan. 1, 2017.
- Section 31 Amends AS 43.55.029(a), Oil and Gas Production Tax, Assignment of tax credit certificate. Conforming to the Section 50 repeal of the well lease expenditure credit in AS 43.55.023(l); and ensuring both transferrable or nontransferable certificates can be assigned to a third party. Effective Jan. 1, 2017.
- Section 32 Amends AS 43.55.029(a), Oil and Gas Production Tax, Assignment of tax credit certificate, as amended by Sec. 31. Conforms to the Sec. 51 repeal of the qualified capital expenditure credit in AS 43.55.023(a). Effective Jan. 1, 2019.
- Section 33 Amends AS 43.55.029(a), Oil and Gas Production Tax, Assignment of tax credit certificate, as amended by Secs. 31 and 32. Conforms to the repeal of the net operating loss credit in AS 43.55.023(b). Effective Jan. 1, 2020.
- Section 34 Amends AS 43.55.030(a), Oil and Gas Production Tax, Filing of statements. Conforms to the repeal of the qualified capital expenditure credit in Section 51. Effective Jan. 1, 2019.
- Section 35 Amends AS 43.55.030(e), Oil and Gas Production Tax, Filing of statements. Conforms to the Section 51 repeal of the qualified capital expenditure credit, AS 43.55.023(a). Effective Jan. 1, 2019.
- Section 36 Amends AS 43.55.075(b), Oil and Gas Production Tax, Limitation on assessment and amended returns. Conforms to the Section 51 repeal of the qualified capital expenditure credit, AS 43.55.023(a). Effective Jan. 1, 2019.
- Section 37 Amends AS 43.55.160(d), Oil and Gas Production Tax, Determination of production tax value of oil and gas. Conforms to Sec. 17 related to transferrable credits. Effective Jan. 1, 2017.

- Section 38 Amends AS 43.55.160(d), Oil and Gas Production Tax, Determination of production tax value of oil and gas, as amended by Section 37. Conforms to the Section 52 repeal of AS 43.55.023. Effective Jan. 1, 2020.
- Section 39 Amends AS 43.55.160(e,) Oil and Gas Production Tax, Determination of production tax value of oil and gas. Requires that, for the purposes of calculating a carried-forward annual loss, any reduction due to the Gross Value Reduction for new oil is added back to the tax calculation. This prevents the GVR from increasing the amount of a loss Also, conforms to the new lease expenditure provisions in Section 44. Effective Jan. 1, 2017.
- Section 40 Amends AS 43.55.160(e), Oil and Gas Production Tax, Determination of production tax value of oil and gas, as amended by Sec. 39. Conforming to Section 52 repeal of AS 43.55.023. Effective Jan. 1, 2020.
- Secs. 41-42 Amends AS 43.55.160(f), Oil and Gas Production Tax, Determination of production tax value of oil and gas. For the gross value reduction for new oil, reduces the period in which the reduction applies from a lifetime benefit in current statute, to a 10-year benefit, beginning once regular production starts from a lease or property. The Alaska Oil and Gas Conservation Commission will determine when regular production begins. For new oil already receiving the gross value reduction, the benefit terminates Jan. 1, 2026. Effective Jan. 1, 2017.
- Section 43 Adds a new subsection to AS 43.55.160, Oil and Gas Production Tax, Determination of production tax value of oil and gas. Applies the AS 31.05.170 definition of ‘regular production’. Effective Jan. 1, 2017.
- Section 44 Amends AS 43.55.165(a), Oil and Gas Production Tax, Lease expenditures. For the North Slope, lease expenditures include lease expenditures incurred in a prior year that have not been previously deducted in determining oil and gas taxes and were not the basis of a credit. This section allows lease expenditures to carry over from a prior year. Also, conforming to the Section 50 repeal of AS 43.55.165(j) and (k). Effective Jan. 1, 2017.
- Section 45 Amends AS 43.55.165(f), Oil and Gas Production Tax, Lease expenditures. Conforming to the Section 51 repeal of the qualified capital expenditure credit, 43.55.023(a). Effective Jan. 1, 2019.
- Section 46 Amends AS 43.55.170(c), Oil and Gas Production Tax, Adjustments to lease expenditures. Conforming to the Section 51 repeal of the qualified capital expenditure credit, AS 43.55.023(a). Effective Jan. 1, 2019.
- Section 47 Amends AS 43.55.180(a), Oil and Gas Production Tax, Required report. Conforms to the Section 52 repeal of 43.55.023. Effective Jan. 1, 2020.

- Section 48 Amends AS 43.55.895(b), Oil and Gas Production Tax, Applicability to municipal entities. Requires allocation of lease expenditures and tax credits between taxable and exempt production for a municipal entity. Effective Jan. 1, 2017.
- Section 49 Adds new sections to AS 43.70, Alaska Business License Act. Requires a \$250,000 surety bond for oil and gas businesses, allowing the Department of Revenue commissioner to cancel the requirement once a business is producing oil or gas in commercial quantities. Provides a framework for people with claims against a business required to post the surety bond; prioritizes satisfaction of types of claims. Effective Jan. 1, 2017.
- Section 50 On Jan. 1, 2017, repeals multiple sections of statute, including the old DNR exploration credit programs; the well lease expenditure credit; and pre-2010 tax statutes. (See attached ‘Summary of Repeals’)
- Section 51 On Jan. 1, 2019, repeals the qualified capital expenditure credit. (See attached “Summary of Repeals”)
- Section 52 On Jan. 1, 2020, repeals all credits remaining in 43.55.023. (See attached “Summary of Repeals”)
- Section 53 Adds a new section to uncodified law creating a Legislative Working Group to develop a comprehensive tax regime for oil and gas in Cook Inlet and Middle Earth, to take effect Jan. 1, 2019, once the current credits are phased out. The working group’s proposal is to be presented to the Legislature in the 2017 regular session, and should include evaluation of incentives other than direct monetary support, including loan guarantees. Effective immediately.
- Section 54 Applicability language.
- Section 55 Transition language related to the Jan. 1, 2017, repeal of the well lease expenditure credits, AS 43.55.023(l) and (n). Effective Jan. 1, 2017.
- Section 56 Transition language related to credit certificates. Effective Jan. 1, 2017.
- Section 57 Transition language related to the repeal of the qualified capital expenditure credit. Effective Jan. 1, 2019.
- Section 58 Transition language related to the repeal of the carry-forward annual loss credit. Effective Jan. 1, 2020.
- Section 59 Transition language related to credits. Effective Jan. 1, 2020.
- Section 60 Transition language related to lease expenditures and the repeal of AS 43.55.165(j) and (k). Effective Jan. 1, 2017.

- Section 61 Transition language related to exploration and seismic expenditures. Effective Jan. 1, 2017.
- Section 62 Transition language authorizing the Department of Revenue and Department of Natural Resources to adopt regulations for this act. Effective immediately.
- Section 63 Transition language authorizing the Department of Revenue and Department of Natural Resources to adopt retroactive regulations for this act.
- Section 64 Immediate effective date for sections 22 (extension of Middle Earth credit for a well spudded but not completed), 53 (Legislative Working Group) and 62 (authority to adopt regulations).
- Section 65 Jan. 1, 2019, effective date for sections 32, 34-36, 45, 46 and 57.
- Section 66 Jan. 1, 2020, effective date for sections 23, 26, 28, 33, 38, 40, 47, 58 and 59.
- Section 67 Jan. 1, 2017, effective date for all other sections.