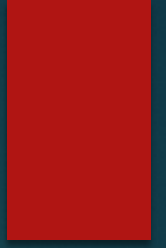


House Bill 111

Sectional

Version O



Section 1

- ▶ In the Corporate Income Tax section of statute (43.05)
- ▶ Specific to 43.55 (oil and gas production tax section of statute)
- ▶ Amends AS 43.05.225 regarding interest on delinquent oil and gas production tax payments to remove a three year limit on accrual of interest.

Section 2

- ▶ In the Oil and Gas Tax Production Tax section of statute (43.55.011)
- ▶ Amends AS 43.55.011(f) to change the North Slope minimum tax from not less than four percent of the gross value to five percent for oil and gas produced after 2018
- ▶ Removes the variable minimum tax that would occur at sustained oil prices at below \$25 per barrel
- ▶ Five percent minimum tax would apply at all prices

Section 3

- ▶ In the Oil and Gas Tax Production Tax section of statute (43.55.011)
- ▶ Hardens the Floor
 - ▶ Adds a new section to AS 43.55.011 to make it clear that any tax credit issued under the oil and gas production tax may not be used to reduce the minimum tax of five percent.

Section 3

- ▶ Fixes Migrating Credit Issue
 - ▶ The second sentence in this subsection relates to fixing a situation where a taxpayer can apply per barrel credits that cannot be used in one month due to the minimum tax to offset a tax liability from a different month in that calendar year.
 - ▶ This issue only occurs in a year where due to oil price fluctuation the tax rate is below the minimum tax in some months and above the minimum tax in other months in a year.

Section 4

- ▶ In the Payment of Tax section of statute (43.55.020)
- ▶ Amends AS 43.55.020, related to monthly installment payments, to reflect the change to the minimum tax in section 2 and the migrating credit issue in section 3.

Section 5

- ▶ In the Tax Credits for Certain Losses and Expenditures section of statute (43.55.023)
- ▶ 023 (b) is Net Operating Loss Credit
- ▶ Changes the carried forward annual loss – the net operating loss – credit rate on the North Slope from 35 percent to 15 percent. After January 1, 2018, a taxpayer will only be able to apply for tax credits up to 15 percent of their net operating loss.

Section 6

- ▶ In the Tax Credits for Certain Losses and Expenditures section of statute (43.55.023)
- ▶ Amends AS 43.55.023(d) to remove the ability for taxpayers to apply for a cash payment for net operating loss credits issued under AS 43.55.023(b).
- ▶ Refers to 028 because that is the fund

Section 7

- ▶ In the Additional Nontransferable Tax Credits section of statute (43.55.024)
- ▶ (j) is the per barrel credit
- ▶ Only good on non-GVR oil
- ▶ Amends AS 43.55.024(j), the per barrel tax credit, from zero to \$8 to zero to \$5 per barrel depending on the price of oil. The most a taxpayer could receive is a credit of \$5 per barrel at prices below \$80.

Section 8

- ▶ In the Oil and Gas Tax Credit Fund section of statute (43.55.028)
- ▶ Section establishes cash payments for purchase of transferable tax credit certificates
- ▶ Amends AS 43.55.028(a) to reflect the section that removes the ability for taxpayers to apply for a cash payment for net operating loss credits
- ▶ By limiting the application in 43.55.023 to (a) and (l) the net operating loss credits earned in (b) are eliminated

Section 8

- ▶ The only credits that may qualify for a cash payment are the qualified capital expenditure (QCE) credits in AS 43.55.023(a) and the well lease expenditure (WLE) credits in AS 43.55.023(I).
- ▶ Under HB 247, for Cook Inlet, the QCE and WLE credits apply only to expenditures incurred before January 1, 2017.

Section 8

- ▶ Once those credits phase out, the only credits that may qualify for cash payments are capital expenditure and well lease expenditure credits acquired by companies operating in the area outside Cook Inlet and the North Slope known as "Middle Earth."

Section 9

- ▶ In the Oil and Gas Tax Credit Fund section of statute (43.55.028)
- ▶ Because in the Oil and Gas Tax Credit Fund this change limits payments rather than who can earn credits
- ▶ Changes AS 43.55.028(e) to limit the state's purchase of credits to \$35 million per company.
- ▶ Only companies with production of not more than 15,000 barrels per day may apply for a cash payment.
- ▶ Current law sets the purchase limit at \$70 million and applies to companies with not more than 50,000 barrels per day.

Section 10

- ▶ In the Determination of Gross Value at the Point of Production section of statute (43.55.150)
- ▶ Adds a new section to AS 43.55.150 to ensure that the gross value at the point of production does not go below zero.
- ▶ The gross value is determined by subtracting tariffs and transportation costs from the West Coast sale price per barrel.
- ▶ The gross value at the point of production is used in various calculations throughout the production tax statute.

Section 11

- ▶ In the Oil and Gas Tax Credit Fund section of statute (43.55.028)
- ▶ Repeals AS 43.55.028(g)(3). The language proposed to be repealed was added in HB 247. If an applicant wanted to apply for the full \$70 million in credits in one year, they would receive 100 percent of the first \$35 million and 75 percent of the other \$35 million.
- ▶ This was to give applicants an incentive to wait and collect credits in a future year and lessen the cash outlay by the state in a single year.

Section 12

- ▶ Uncodified section of law describing the applicability of the changes made in the bill
- ▶ (a) Speaks to Sections 3 and 4 – the five percent minimum tax and resolution of the migrating tax issue – apply to credits applied to reduce a tax liability for the tax year starting on or after January 1, 2018.
- ▶ (b) The changes to the net operating loss credit in section 5 apply to lease expenditures incurred on or after January 1, 2018.

Section 13

- ▶ Uncodified section of law describing the transition to changes made in the bill
- ▶ If a person has applied for cash payment of a net operating loss credit (023 (b)) before January 1, 2018, the department may purchase the credit.

Section 14

- ▶ Change to the interest rate calculation is retroactive to January 1, 2017
- ▶ Taxes are done on the calendar year so want the effective date to be January 1

Section 15

- ▶ The retroactive change to the interest rate and is effective immediately.

Section 16

- ▶ Effective date for all other sections of the bill
- ▶ Changes take effect January 1, 2018