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MEMORANDUM February 16, 2017

SUBJECT: Sectional summary (Work Order No. 30-LS0234\J)

TO: Representative Les Gara
Attn: Molly Carver

FROM: Susie Shutts Susie Shutts
Legislative Counsel

You requested a sectional summary of 30-LS0234\J. As a preliminary matter, note that a sectional summary of a bill should not be considered an authoritative interpretation of the bill, and the bill itself is the best statement of its contents.

Section 1. Provides a short title.

Section 2. Amends AS 31.05.030(n) to delete a reference to AS 43.55.160(g) to conform to the repeal of AS 43.55.160(g).

Section 3. Amends AS 43.55.011(e) to provide that for oil produced on and after January 1, 2018, from a lease or property in the Cook Inlet sedimentary basin or from a lease or property that includes land north of 68 degrees North latitude, the annual production tax is the sum of the amounts determined for that year under AS 43.55.011(g) and 22.5 percent (Cook Inlet) or 35 percent (North Slope) of the annual production tax value as calculated under AS 43.55.160(a)(1) or (h)(1), as applicable.

Section 4. Amends AS 43.55.011(f) to add two new paragraphs. Under paragraph (3), the minimum tax for oil, other than heavy oil, produced from a lease or property that includes land north of 68 degrees North latitude on and after January 1, 2018, is the greater of 22.5 percent of the annual production tax value of the taxable oil or a gross minimum tax of 10 percent when the average price per barrel is $90 or more, 9 percent when the price is $82 or more but less than $90, 8 percent when the price is $74 or more but less than $82, 7 percent when the price is $66 or more but less than $74, 6 percent when the price is $58 or more but less than $66, 5 percent when the price is $50 or more but less than $58, 4 percent when the price is $25 or more but less than $50, and 3 percent when the price is less than $25. Under paragraph (4), the minimum tax for heavy oil produced from a lease or property that includes land north of 68 degrees North latitude on and after January 1, 2018, is the greater of 22.5 percent of the annual production tax value of the taxable oil or a gross minimum tax of 7 percent when the average price per barrel is $90 or more, 6.5 percent when the price is $82 or more but less than $90, 6 percent when the price is $74 or more but less than $82, 5.5 percent when the price is $66 or more but less than $74, 5 percent when the price is $58 or more but less than $66, 4.5 percent when the price is $50 or more but less than $58, or 4 percent when the price is less than $50.

Section 5. Amends AS 43.55.011(g) to add two new paragraphs, (2) and (3), which provide a "progressive tax" for oil produced on or after January 1, 2018, from a lease or property in the Cook Inlet sedimentary basin or that includes land north of 68 degrees North latitude. For each month of a calendar year for which a producer's production tax value of a BTU equivalent barrel of taxable oil is (A) more than $70, this tax is the difference between the monthly production tax value of a BTU equivalent barrel and $70, multiplied by the volume of oil produced by the producer for the month multiplied by 25 percent; (B) more than $60 but not more than $70, this tax is the difference between the monthly production tax value of a BTU equivalent barrel and $60, multiplied by the volume of oil produced by the producer for the month multiplied by 20 percent; (C) more than $50 but not more than $60, this tax is the difference between the monthly production tax value of a BTU equivalent barrel and $50, multiplied by the volume of oil produced by the producer for the month multiplied by 15 percent; and (D) more than $40 but not more than $50, this tax is the difference between the monthly production tax value of a BTU equivalent barrel and $40, multiplied by the volume of oil produced by the producer for the month multiplied by 10 percent.

Section 6. Adds two new subsections to AS 43.55.011. New subsection (q) requires the Department of Revenue (DOR) to adjust the dollar amounts used for the gross minimum tax under AS 43.55.011(f) every other year for inflation. New subsection (r) "hardens" the minimum tax floor by stating that a credit under AS 43.55 may not be used to reduce the minimum amount of tax determined under AS 43.55.011(f).

Section 7. Makes a change to AS 43.55.014(b) to conform a reference to the new paragraphs added to AS 43.55.011(e).

Section 8. Amends AS 43.55.020(a), which relates to the payment of production tax, to conform to the repeal of the production tax cap for Cook Inlet oil in AS 43.55.011(k), the amendment of AS 43.55.011(e) and (f), and the amendment of AS 43.55.160. Adds a new paragraph, (9), to conform to the minimum tax floor hardening provision in new subsection 43.55.011(r).

Sections 9 - 11. Amends AS 43.55.020(g) - (i) to conform to the renumbering of paragraphs in AS 43.55.020(a).

Sections 12 - 13. Amends AS 43.55.020(k) - (l) to conform to the amendments to AS 43.55.011(e).

Section 14. Amends AS 43.55.023(b), the net operating loss credit, to conform to the repeal of AS 43.55.160(g).

Section 15 - 16. Amends AS 43.55.024(i), the "per barrel" credit for oil receiving a gross value reduction, to remove the prohibition against the use of a tax credit under this subsection to reduce a producer's tax liability for a calendar year under AS 43.55.011(e) below zero. Amends AS 43.55.024(j), which provides a "sliding scale" per-barrel credit for oil that does not receive a gross value reduction, to remove the prohibition against the use of a tax credit under this subsection to reduce a producer's tax liability for a calendar year under AS 43.55.011(e) below the amount calculated under AS 43.55.011(f). These amendments conform to the hardening of the floor by new subsection AS 43.55.011(r), which prohibits the use of a credit under AS 43.55 to reduce the minimum amount of tax determined under AS 43.55.011(f).

Section 17 - 19. Amends AS 43.55.160, under which the production tax value of oil and gas is determined. Amends (a) to conform to the amendments to AS 43.55.011(e) and (g), amends (c) to conform to the addition of paragraph (3) to AS 43.55.160(a), and amends (e) to conform to the amendment to AS 43.55.160(h).

Section 20. Amends AS 43.55.160(f), which creates a gross value reduction for "new" oil, to limit the reduction under this subsection so that it does not apply to oil produced from a field that produces an average of more than 50,000 barrels a day during a calendar year. Limits a reduction under this subsection to the first five years after the commencement of regular production or after three years, consecutive or nonconsecutive, for which the price of oil is above $70 per barrel, whichever occurs first. Limits a reduction under this subsection for heavy oil first produced from a lease or property on or after January 1, 2018, to the first five years, consecutive or nonconsecutive, for which the price of oil is above $70 per barrel.

Section 21. Amends AS 43.55.160(h), to conform to the amendments to AS 43.55.011(e) and (g).

Section 22. Amends AS 43.55.900, which contains definitions for AS 43.55, to add a definition for "heavy oil."

Section 23. Amends AS 43.98.050, which sets forth the duties of the Oil and Gas Competitiveness Review Board, to conform to the repeal of AS 43.55.160(g).

Section 24. Repeals AS 43.55.011(k), the production tax cap for Cook Inlet oil, and AS 43.55.160(g), the gross value reduction for oil or gas subject to a "royalty share of more than 12.5 percent."

Section 25. Adds to uncodified law an applicability provision related to the limitation on the use of a tax credit under new subsection 43.55.011(r) and the adjustment to the calculation of a tax payment under new paragraph AS 43.55.020(a)(9).

Section 26. Adds to uncodified law a transition provision for a gross value reduction given the amendment of AS 43.55.160(f) and the repeal of AS 43.55.160(g).

Section 27. Adds to uncodified law a transition provision related to an installment payment under AS 43.55.020.

Section 28. Adds to uncodified law a transition provision related to determination of production tax and production tax value of oil and gas given the repeal of AS 43.55.011(k) and the amendment to AS 43.55.011(e) and (f) and AS 43.55.160.

Section 29. Gives the bill a January 1, 2018, effective date.

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