

PRODUCTION TAX CREDITS

PRESENTED TO THE SENATE RESOURCES COMMITTEE

MARCH 16, 2011

3/16/2011

Alaska State Department of Revenue

Overview

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☐ **Types of Production Tax Credits**

- ☐ Credits Applied Against Production Tax Liability
- ☐ Transferable Tax Credit Certificates
- ☐ Cash Refunds History

Types of Production Tax Credits

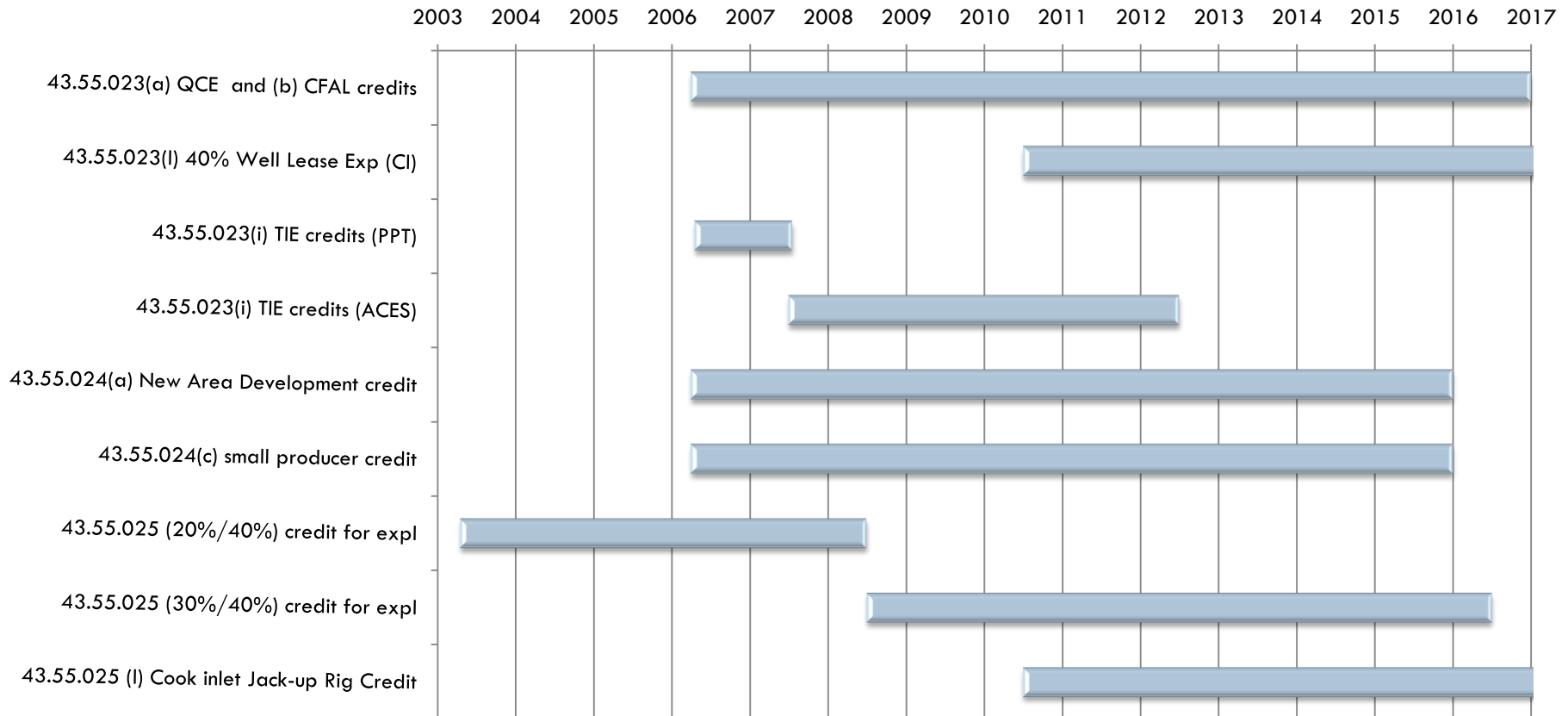
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Credits which may be taken against oil and gas production taxes include:

- Capital Expenditure Credits
- Alternative Tax Credits for Oil and Gas Exploration
- Net Operating Loss (“NOL”) Carry Forward Credits
- Transitional Investment Expenditure (“TIE”) Credit
- Additional Nontransferable Tax Credits
- Well Lease Expenditures Credit
- Cook Inlet Jack-up Rig Credit

Timelines for Production Tax Credits

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Types of Production Tax Credits

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Capital Expenditure Credits - (AS 43.55.023(a)(1))

- ▣ **20%** of qualified capital expenditures (QCE)
- ▣ QCE include drilling, construction of facilities, new equipment, etc.
- ▣ Same expenditures may also qualify for NOL Carry Forward Credit
- ▣ Same expenditures do **not** qualify for exploration credit
- ▣ Must be spread over 2 years (except for expenditures incurred south of 68 degrees North latitude – effective July 1, 2010)
- ▣ Credits may be cashed or transferred

Types of Production Tax Credits

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Exploration Credits

■ Two Main Types

- Capital Credit for Exploration Activity 43.55.023(a)(2) **(20%)**
- Alternative Tax Credits for Oil and Gas Exploration 43.55.025 **(30%-40%)**

Types of Production Tax Credits

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Capital Credit for Exploration Activity 43.55.023(a)(2)

- **20%** of qualifying expenditures related to geologic and geophysical exploration, or in connection with an exploration well
- Requires that data be submitted to DNR
- Must be spread across 2 years (except for expenditures incurred south of 68 degrees North latitude – effective July 1, 2010)
- Same expenditures may also qualify for NOL Carry Forward Credits
- Credits may be cashed or transferred

Types of Production Tax Credits

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Exploration Credits

- ▣ Two Main Types
 - Capital Credit for Exploration Activity under 43.55.023(a)(2) (**20%**)
 - Alternative Tax Credits for Oil and Gas Exploration under 43.55.025 (**30%-40%**)

Types of Production Tax Credits

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Alternative Tax Credits for Oil and Gas Exploration - 43.55.025

- **30% - 40%** of qualified expenditures depending on well location and proximity to existing wells and unit boundaries
- Qualified expenditures include certain expenses associated with seismic and geophysical exploration work, and exploration well drilling
- Same expenditures may also qualify for NOL Carry Forward Credit
- Same expenditures do **not** qualify for Capital Expenditure Credit
- To receive credit, taxpayer must provide certain well data to DNR
- Expires 2016
- Credits may be cashed or transferred

Types of Production Tax Credits

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NOL Carry Forward Credit - 43.55.023(b)

- ▣ **25%** of net operating loss
- ▣ Applied against tax liability in following year
- ▣ Credit based on adjusted lease expenditures which include both operating and capital expenses
- ▣ Includes capital expenditures which also qualify for qualified capital expenditure credit under 43.55.023(a)(1) and exploration credit under 43.55.023(a)(2)
- ▣ Credits may be cashed or transferred

Types of Production Tax Credits

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Transitional Investment Expenditure (TIE) Credits

43.55.023(i)

- Credit equals 20% of qualifying capital expenditures:
 - incurred between March 31, 2001 and April 1, 2006, and
 - not exceeding 10% of the capital expenditures incurred between March 31, 2006 and January 1, 2008.
- Revised under Aces to cover only producer or explorer not having production prior to January 1, 2008
- Credits are **not** transferable and may **not** be carried forward beyond 2013
- Same capital expenditures may **not** qualify for exploration credit under 43.55.025

Types of Production Tax Credits

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Additional Nontransferable Tax Credit- 43.55.024(a)

- ▣ Referred to as “New Area Development” credit
- ▣ Up to \$6 million
- ▣ Available for companies producing from leases or properties outside of Cook Inlet and North Slope
- ▣ Credit can only be applied against tax liability
- ▣ Expires 2016 or 9 years after first commercial oil or gas production if before May 1, 2016
- ▣ Credits may **not** be cashed or transferred or carried forward

Types of Production Tax Credits

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Small Producer Credit - 43.55.024(c)

- ▣ Up to \$12 million, depending upon level of production
- ▣ Available for companies producing less than 100,000 bbl/day of oil BTU-equivalent
- ▣ Production not restricted by region
- ▣ Credit can only be applied against tax liability
- ▣ Expires 2016 or 9 years after first commercial oil or gas production if before May 1, 2016
- ▣ Credits may **not** be cashed or transferred or carried forward

Types of Production Tax Credits

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Well Lease Expenditure Credit - 43.55.023(I)

- ▣ 40% of well lease expenditures incurred in the state south of 68 degrees north latitude
- ▣ Must be intangible drilling costs or seismic work conducted within the boundaries of a exploration or production unit
- ▣ Credit may be applied against tax liability, or certificated and cashed or transferred to another taxpayer

Types of Production Tax Credits

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Cook Inlet Jack-Up Rig Credit - 43.55.025(I)

- ▣ Credit of 100%/90%/80% of up to \$25 million each of exploration expenditures for first 3 unaffiliated persons drilling wells using the same jack up rig penetrating and evaluating prospects in the pre-Tertiary zone.
- ▣ Taxpayer obtaining credit may not claim .023 credit for same expenditure
- ▣ 50% of credit to be repaid over 10 year period if well yields sustained production

Overview

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- Types of Production Tax Credits
- **Credits Applied Against Production Tax Liability**
- Transferable Tax Credit Certificates
- Cash Refunds History

Credits Applied Against Production Tax Liability

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Credits may be redeemed in two ways:

(1) All Credits may be applied against production tax liability

- Capital Expenditure and Capital Exploration Credits split over two years (except south of 68 degree North latitude – eff. July 1, 2010)
- NOL, TIE, Small Producer and Alternative Tax Credits for Oil and Gas Exploration may all be applied against tax liability in total in a single year

(2) Some Credits may be converted into a transferable Tax Credit Certificate

- Capital Expenditure, Capital Exploration, NOL, and Alternative Tax Credits for Oil and Gas Exploration are convertible to tax certificates
- Capital Expenditure, Capital Exploration and NOL Tax Credit Certificates must be applied over two years (except south of 68 degrees North latitude – passed 2010)
- Alternative Tax Credits for Oil and Gas Exploration Certificates can be used in single year

Production Tax Credits Applied Against Tax Liability (Fiscal Year)

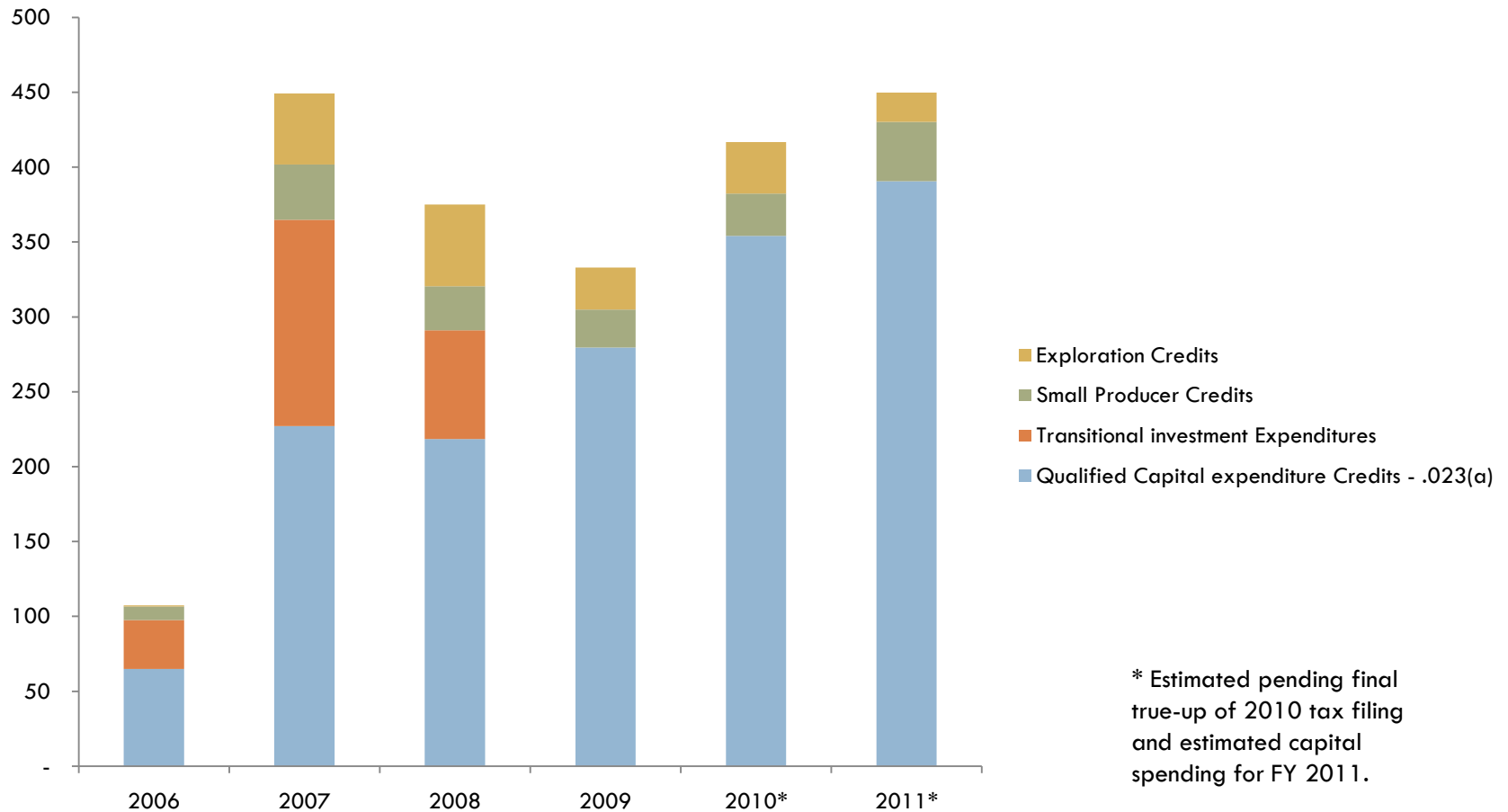
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	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010*</u>	<u>2011*</u>	<u>Total</u>
Capital Expenditure Credit	65	227	219	280	349	391	1,535
TIE Credits	33	138	73	0	0	0	243
Small Producer Credits	9	37	30	26	28	40	169
Exploration Credits	1	47	55	28	34	20	185
Totals	<u>107</u>	<u>449</u>	<u>375</u>	<u>333</u>	<u>417</u>	<u>450</u>	<u>2,131</u>

* Estimated

Production Tax Credits Applied Against Tax Liability (Fiscal Year)

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Overview

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- Types of Production Tax Credits
- Credits Applied Against Production Tax Liability
- **Transferable Tax Credit Certificates**
- Cash Refunds History

Transferable Tax Credit Certificates

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Companies may also claim tax credits by applying for a Transferable Tax Credit Certificate (TTCC)

- ▣ Available to companies (explorers) with no tax liability to which credits can be applied
- ▣ Tax Credit Certificates under 43.55.023(a) and (b) must be split or applied over two years (except credits issued for expenditures incurred south of 68 degrees North latitude effective July 1, 2010)
- ▣ May be transferred to another taxpayer or cashed with the state

Production Tax Credits Under AS 43.55 Claimed by FY (\$M)

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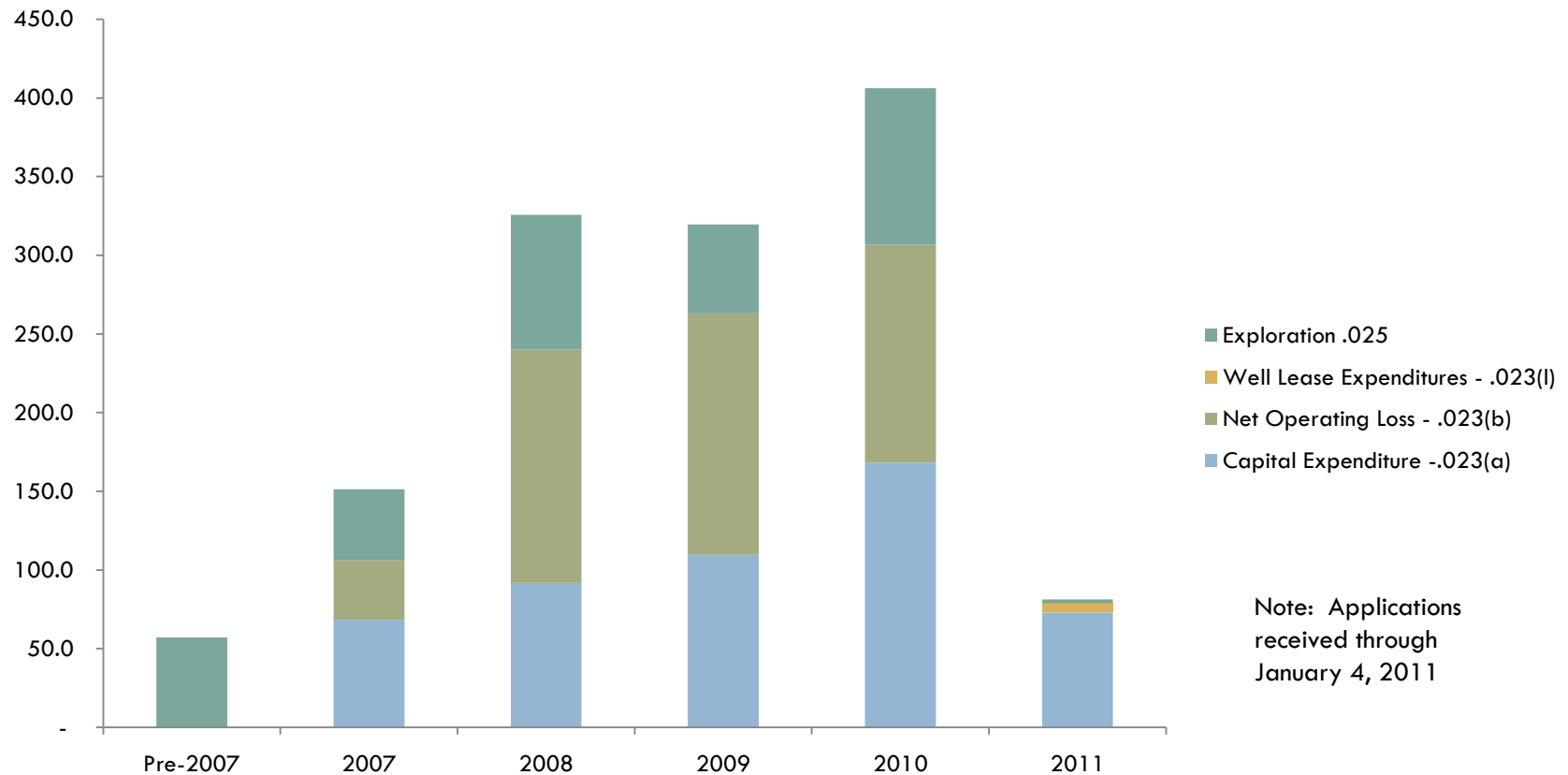
Credit Type	Pre-2007	2007	2008	2009	2010	2011*	Total
Capital Expenditure - .023(a)		68.2	91.7	109.6	168.0	72.8	510.3
Net Operating Loss .023(b)		38.1	148.5	153.5	138.7	.2	479.0
Well Lease Expenditure - .023(l)						5.8	5.8
Exploration -.025	<u>48.3</u>	<u>44.9</u>	<u>85.5</u>	<u>56.6</u>	<u>99.5</u>	<u>2.4</u>	<u>337.2</u>
Total	<u>48.3</u>	<u>151.3</u>	<u>325.6</u>	<u>319.7</u>	<u>406.2</u>	<u>81.3</u>	<u>1332.4</u>

* Applications received through January 4, 2011.

Transferable Tax Credit Certificates

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Tax Credits Claimed by FY (\$M)



Note: Applications received through January 4, 2011

Transferable Tax Credit Certificate Activity by Fiscal Year (\$M)

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	Pre-2007	2007	2008	2009	2010	2011*	Total
Issued	16.2	99.9	130.8	308.2	361.3	191.5	1,107.9
Refunded		(54.6)	(54.1)	(193.1)	(250.5)	(299.3)	(851.6)
Transferred/ Applied to Taxes	<u>(12.3)</u>	<u>(40.0)</u>	<u>(46.6)</u>	<u>(20.0)</u>	<u>(1.2)</u>	<u>(62.7)</u>	<u>(182.8)</u>
Activity by year	3.9	5.2	30.1	95.1	109.6	(170.4)	
Transferable Tax Credit Certificates Outstanding	<u>3.9</u>	<u>9.1</u>	<u>39.2</u>	<u>134.2</u>	<u>243.9</u>	<u>73.4</u>	<u>73.4</u>

*Payment activity through February 4, 2011.

Overview

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- Types of Production Tax Credits
- Credits Applied Against Production Tax Liability
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- Cash Refunds History

Cash Refunds History

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Cash Refunds Governed by AS 43.55.028:

- To cash must be usable against tax liability
- Must show subsequent (24 months) QCEs or lease bids equal to cash sought (repealed in 2010)
- Have a zero tax owed in current and past years
- Have no more than 50,000 BOE/d

Cash Refunds History

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Tax Credits Purchased

By fiscal year (\$M)

□ 2007	\$ 54.6
□ 2008	54.1
□ 2009	193.1
□ 2010	250.5
□ 2011 (thru 02/04/11)	<u>299.3</u>
TOTAL	<u>\$851.6</u>

Cash Refunds History

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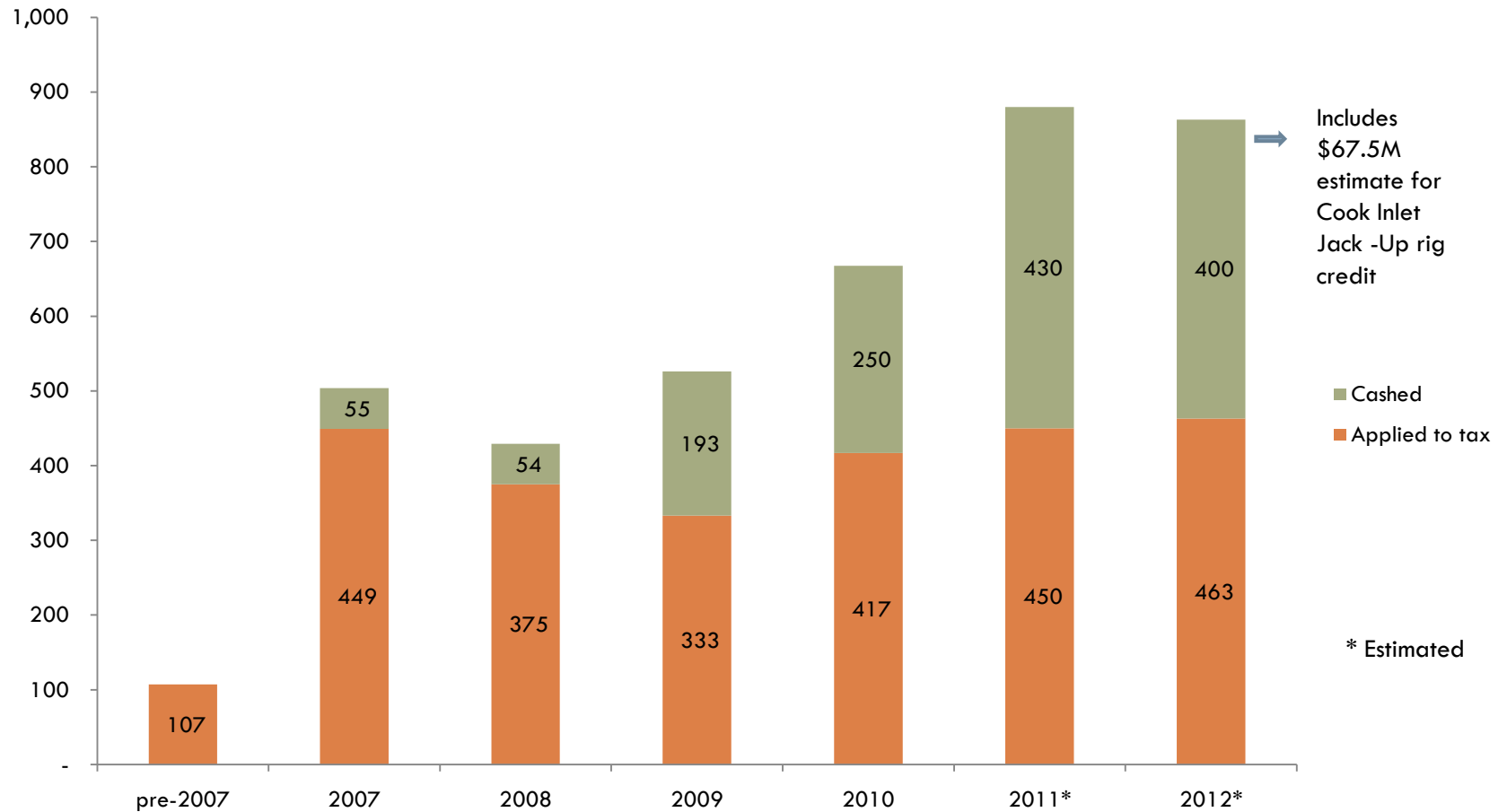
Oil & Gas Tax Credit Fund

Appropriations -	\$ 904	M
Tax Credit Purchases (TC Fund)	(772)	M
Tax Credit Purchases (GF)	(79)	M
Interest Earned	<u>22</u>	M
Balance	<u>\$ 75</u>	M

Impact of Production Tax Credits

Total State Stimulus

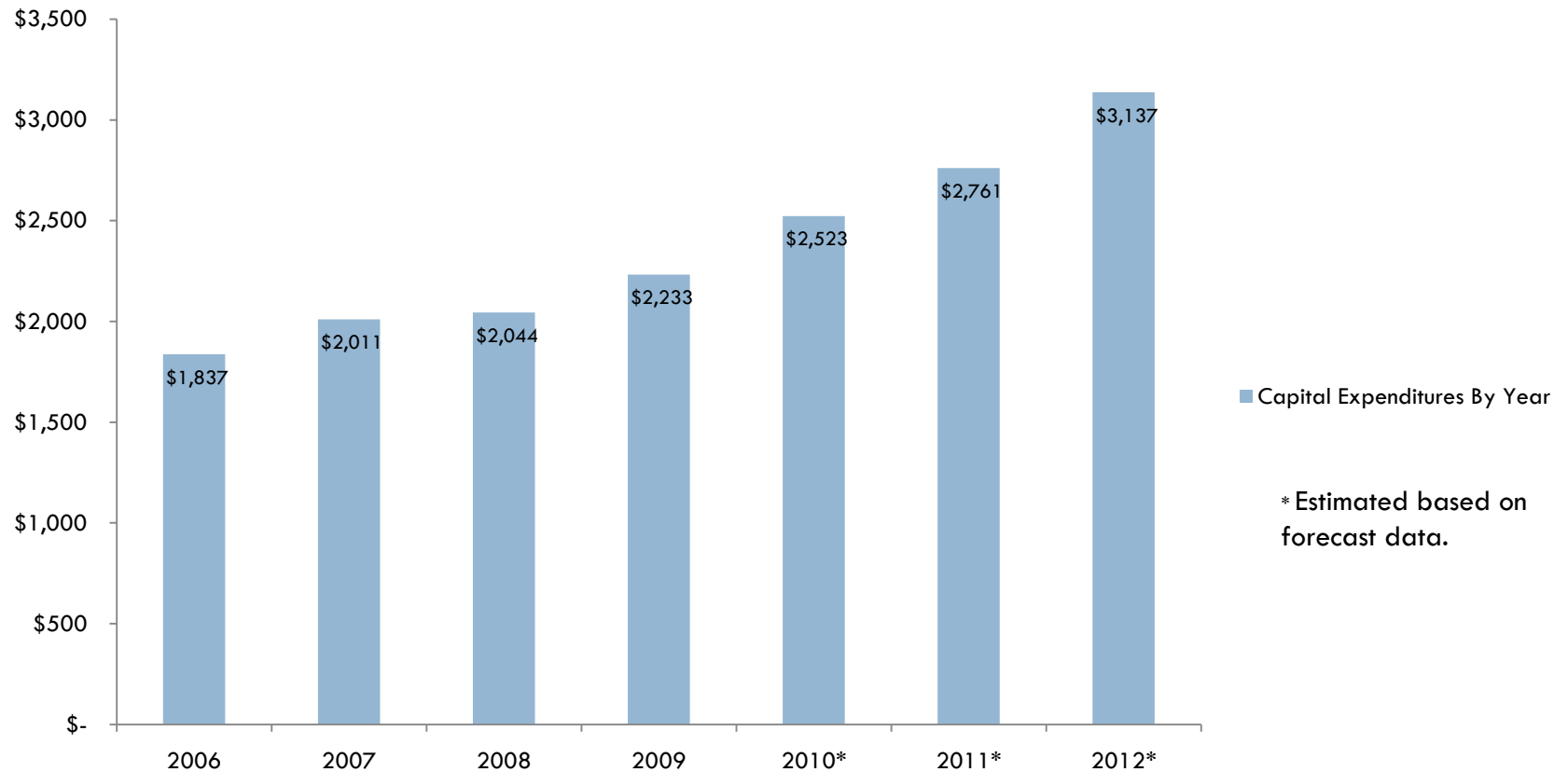
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Capital Expenditures by Year (\$M)

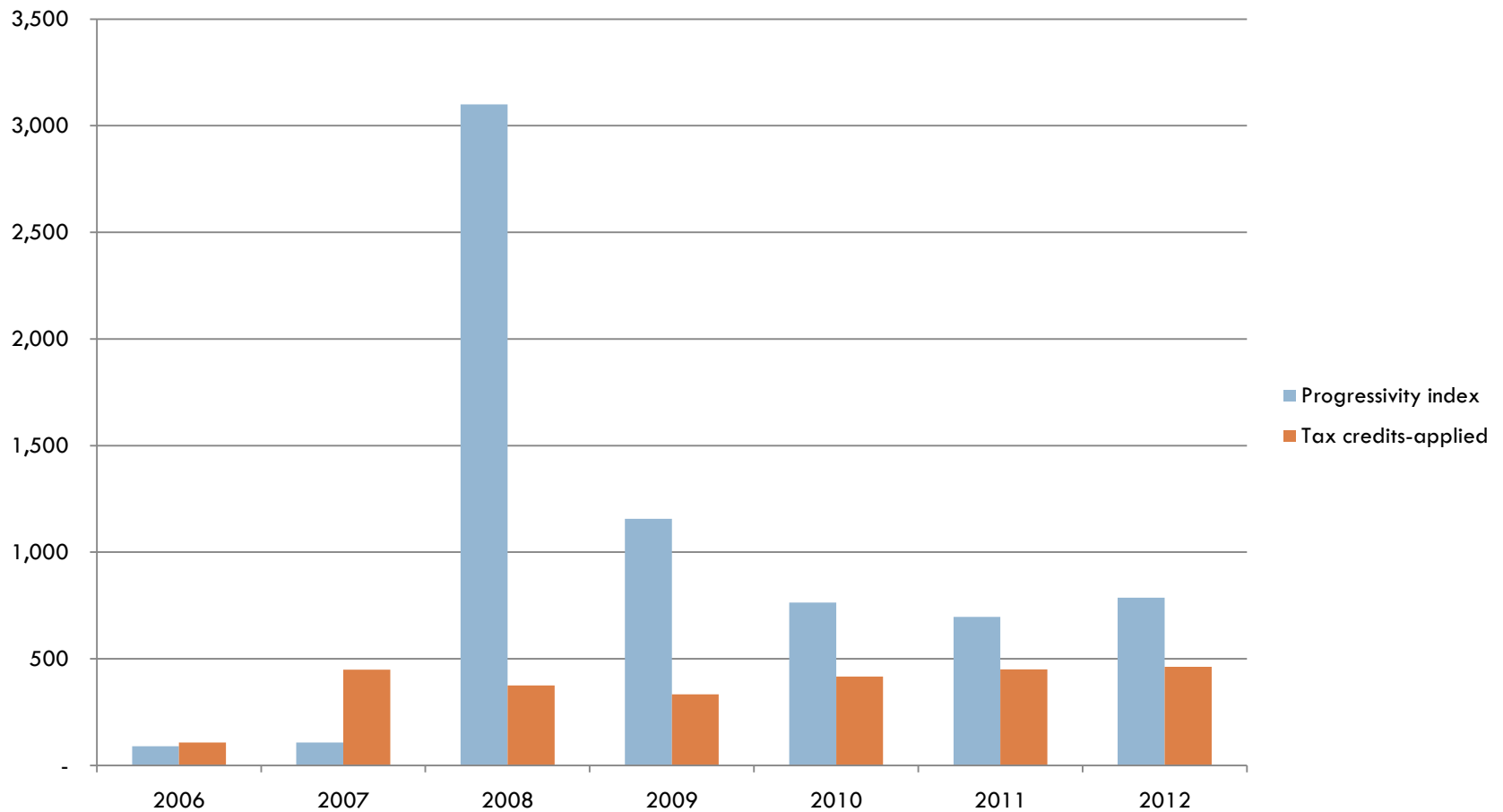
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Capital Expenditures By Year



Progressivity Index versus Production Tax Credits Applied

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Progressivity Index versus Total Production Tax Credits

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