

STATE CAPITOL  
PO Box 110001  
Juneau, Alaska 99811-0001  
907-465-3500  
fax: 907-465-3532



550 West 7th Avenue #1700  
Anchorage, Alaska 99501  
907-269-7450  
fax 907-269-7463  
www.gov.alaska.gov  
Governor@alaska.gov

Governor Sean Parnell  
STATE OF ALASKA

February 9, 2010

The Honorable Mike Chenault  
Speaker of the House  
Alaska State Legislature  
State Capitol, Room 208  
Juneau, AK 99801-1182

Dear Speaker Chenault,

Under the authority of Art. III, Sec. 18 of the Alaska Constitution, I am transmitting a bill that proposes four discrete changes to Alaska's oil and gas production tax. The bill will provide incentives for explorers and producers to continue to invest in Alaska. The proposed changes will encourage investment and employment within the state, and ultimately, increase production of the state's oil and gas resources.

I remain committed to considering all proposals and ideas that will result in increased exploration and drilling that produce more oil and jobs for Alaskans.

First, the bill will encourage investment by creating a new 30 percent alternative tax credit for qualified costs closely related to well drilling and work over operations designed to enhance current well operations. The taxpayer will have to claim the 30 percent credit within six months of completing the qualifying activity, and will have to submit enough information for the Department of Revenue to determine that the expenditures qualify for the credit.

Second, the bill will allow qualified applicants, regardless of their future spending levels, to receive cash refunds for tax credits that the applicants received for qualified capital expenditures. Under current law, an applicant cannot qualify for a cash refund unless, within 24 months of receiving the tax credit certificate, the applicant incurred a qualified capital expenditure or successfully bid on a lease on State land. If the applicant is unable to meet either requirement, the applicant cannot receive payment for the qualified capital expenditures the applicant invested in the state. To solve this problem, the bill will eliminate the requirement that the applicant make additional capital expenditures or be the successful bidder for a lease on State land.

Third, the bill will allow producers and explorers who qualify for the 20 percent tax credit under AS 43.55.023 for capital expenditures to use the credit in the year that the credit is earned. Currently, producers and explorers are required to spread the benefit over two years. Allowing producers and explorers the full value of their credits in one year would increase the amount available for further exploration activities and for work on currently producing wells.

HOUSE BILL NO. 337

The Honorable Mike Chenault

February 9, 2010

Page 2

Finally, the bill will allow the Department of Revenue to waive interest for certain underpayments of taxes due before the effective date of certain regulations implementing the production tax. This provision will apply only if regulations to implement the production tax are not yet in effect at the time the annual tax payments are due, and only if the underpayment results from the producer's good faith estimation of the tax due. Should it be determined that the taxpayer overpaid the amount of tax due under the regulations in effect at the time of payment and that a refund is due, no interest will be due on a refund made within the time period specified in the bill.

With these changes, we will continue to responsibly maximize and invest in Alaska's oil and gas resources. I urge your prompt and favorable action on this measure.

Sincerely,

A handwritten signature in black ink, appearing to read "Sean Parnell", written over the word "Sincerely,".

Sean Parnell  
Governor

Enclosure