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REPRESENTATIVE MIKE CHENAULT SPEAKER OF THE HOUSE

SPONSOR STATEMENT COMMITTEE SUBSTITUTE FOR HOUSE BILL 229 (RES)

“An Act amending and extending the exploration and development incentive tax credit under the Alaska Net Income Tax Act for operators and working interest owners directly engaged in the exploration for and development of gas from a lease or property in the state; providing for an effective date by amending the effective date by amending the effective date for sec. 2, ch. 61, SLA 2003; and providing for an effective date.”

Committee Substitute for House Bill 229 (RES) amends and extends the exploration and development incentive tax credit that was originally enacted in the 23rd legislature in 2003 as HB 61. This tax credit continues to apply under the Alaska Net Income Tax Act for operators and working interest owners directly engaged in the exploration for and development of natural gas primarily in the Cook Inlet area.

To more strongly encourage companies to invest additional capital in exploring for and developing new natural gas reserves, this legislation makes the following changes to current law:

1. Increasing the amount of the credit from 10% to 25% of the amount of qualified capital investment and qualified services spending.
2. Removes the 50% limitation on the amount of credits that can apply in a single year increasing the “time-value of money” for the credits.
3. Removes the “successful efforts” requirement that disallows the credit for wells that are drilled, with all the same costs, but end up being non-productive.
4. Clarifies that the credits can be taken on a current tax return, on a timely filed tax return or on a timely filed tax return for the year immediately following the year the qualified capital investment is made.
5. Clarifies that the credits can be applied to a gas reserve regardless of whether or not there has been previous gas production in the area.
6. Clarifies that the credits do not apply to North Slope gas that is brought into Southcentral.
7. Extends the sunset date of the investment tax credit from January 1, 2013 to January 1, 2020.

This legislation makes no changes to definitions of qualified capital investment or qualified services.

Annual natural gas production and supply in the Cook Inlet area have been declining for a number of years. During the same time, demand has been increasing steadily. Therefore, a sharp increase in drilling to find new reserves is drastically needed. The original Investment Tax Credit enacted in 2003, while modestly successful in stimulating new drilling, needs to be made a much more effective incentive to developers to increase capital spending in a large manner. These changes will go a long way to achieving that goal.