

Hypothetical example of Cook Inlet exploration well costs vs state contribution

Prepared 04/05/10 by Dan Stickel

	<u>Current - law</u> <u>no EIC</u>	<u>Current law -</u> <u>with 40% EIC</u>	<u>SB 290 - #1</u>	<u>SB 290 - #2</u>	<u>SB 290 - #3</u>	<u>HB 280</u>	<u>SB 309 / HB</u> <u>229</u>	<u>SB 271 / HB</u> <u>337</u>	<u>Notes</u>
Exploration Well Capital Cost	\$20,000,000	\$20,000,000	\$20,000,000	\$20,000,000	\$20,000,000	\$20,000,000	\$20,000,000	\$20,000,000	For illustrative purposes only
.025 Exploration Credit or .023									
Capital Expenditure Credit									
<i>Exploration Tax Credit</i>									
Rate	NA	40%	100%	75%	50%	40%	40%	40%	Current law allows for a 30% or 40% credit when certain parameters are met. SB 290 would increase this rate for qualifying wells.
Amount	NA	\$8,000,000	\$20,000,000	\$15,000,000	\$10,000,000	\$8,000,000	\$8,000,000	\$8,000,000	
.023 (a) Cap Ex Credit									
Rate	20%	20%	20%	20%	20%	20%	20%	30%	Current law allows for a 20% production tax credit for qualifying capital costs. SB 271 / HB 337 would increase this amount to 30% for well-related expenditures.
Amount	\$4,000,000	\$4,000,000	\$4,000,000	\$4,000,000	\$4,000,000	\$4,000,000	\$4,000,000	\$6,000,000	
Higher of ETC or CapEx Credit	\$4,000,000	\$8,000,000	\$20,000,000	\$15,000,000	\$10,000,000	\$8,000,000	\$8,000,000	\$8,000,000	Company can take the exploration tax credit OR the capital credit but not both.
Lease Expense deduction or .023 (b) NOL credit	\$5,000,000	\$5,000,000	\$5,000,000	\$5,000,000	\$5,000,000	\$5,000,000	\$5,000,000	\$5,000,000	Assumes 25% tax rate (or NOL credit)
Exploration Incentive Credit - against Corporate Income Tax									
Rate	10%	10%	10%	10%	10%	10%	25%	10%	A company claiming the EIC may not "claim a tax credit or royalty modification provided for under any other title" -AS 43.20.043 (g). We assume language will be changed to also disallow a tax credit under title 43. In most cases the exploration incentive credit will NOT be claimed because production tax credits provide greater benefit.
Amount	\$2,000,000	\$2,000,000	\$2,000,000	\$2,000,000	\$2,000,000	\$2,000,000	\$5,000,000	\$2,000,000	
.024 Small Producer Credit	Can provide up to a \$12 million / year benefit against production tax; cannot be used to reduce liability below zero. Applied on a company - wide basis.								
Other	Capital, exploration and NOL credits for production tax may be eligible for state purchase under AS 43.55.028								
						Corporate income tax credit for gas storage facilities.			
Total State Contribution	\$9,000,000	\$13,000,000	\$25,000,000	\$20,000,000	\$15,000,000	\$13,000,000	\$13,000,000	\$13,000,000	State contribution is Capital or exploration credit + Lease expenditure or NOL credit
State contribution % of cost	45%	65%	125%	100%	75%	65%	65%	65%	

Assumes Well will qualify as an exploration well for Exploration Tax Credit purposes.