FISCAL NOTE

STATE OF ALASKA
2010 LEGISLATIVE SESSION

Fiscal Note Number:
Bill Version: CS SB309 (FIN)
() Publish Date:

Identifier (file name): CS SB309(FIN)-REV-TAX-04-16-10
Dept. Affected: Revenue
Title: Gas Exploration / Development Tax Credit
RDU: Taxation and Treasury
Component: Tax Division
Sponsor: Rules by Request
Requester: Senate Finance Committee
Component Number: 2476

Expenditures/Revenues (Thousands of Dollars)

Note: Amounts do not include inflation unless otherwise noted below.

	Appropriation Required	Information					
OPERATING EXPENDITURES	**FY 2011**	**FY 2011**	**FY 2012**	**FY 2013**	**FY 2014**	**FY 2015**	**FY 2016**
Personal Services							
Travel							
Contractual							
Supplies							
Equipment							
Land & Structures							
Grants & Claims							
Miscellaneous							
TOTAL OPERATING	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
CAPITAL EXPENDITURES							
CHANGE IN REVENUES ( )	***	***	***	***	***	***	***

FUND SOURCE (Thousands of Dollars)

1002 Federal Receipts							
1003 GF Match							
1004 GF							
1005 GF/Program Receipts							
1037 GF/Mental Health							
Other Interagency Receipts							
TOTAL	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**

Estimate of any current year (FY2010) cost:

POSITIONS

Full-time							
Part-time							
Temporary							

ANALYSIS: *(Attach a separate page if necessary)*

*** Revenue impact is indeterminate. Please see attached for analysis.

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Division: Tax Division
Date/Time 04-16-10; 10:00 am
Approved by: Ginger Blaisdell, Director
Administrative Services Division
Date 04-16-10; 10:22am

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ANALYSIS CONTINUATION

Bill Language:

This bill makes several changes to credits to both the production tax system and the oil and gas corporate income tax system as follows.

The bill extends and increases the existing Gas Exploration and Development tax credit at AS 43.20.043 for investment in qualified capital expenditures and related qualified services for expenditures incurred south of 68 degrees North latitude. This tax credit is taken against the state corporate income tax and may offset 75% of a company's tax liability in a given year or be carried forward for up to five years. This is an increase from the 50% of tax liability currently allowed.

Currently, 10% of qualifying capital expenditures and operating expenditures can be taken as capital credits, sunsetting in 2013. The bill would increase the credit rate to 25% for qualifying capital and service expenditures incurred after December 31, 2009. The bill would also allow expenses within an existing producing unit to qualify, which are currently not eligible for the credit. The tax credit would sunset on December 31, 2019, although credit balances could be claimed against tax liabilities up to the tax year ending December 31, 2024.

Companies who take the Gas Exploration and Development tax credit may not take royalty or production tax credits for the same expenditure. The enhanced credit under AS 43.20.043 offers an alternative to companies who may not wish to take credits under the oil and gas production tax. It is difficult to determine the number of taxpayers who would take advantage of the corporate income tax credit, the degree to which the credit would be utilized, and other exogenous variables impacting the revenues the state would collect. Reduction in Corporate Income Tax revenue is indeterminate at this time.

The bill also expands the production tax credit authorized at AS 43.55.025 to a maximum credit of 100 percent of the total exploration expenditures for drilling 3,000 feet or more into the Tertiary zone in the Cook Inlet basin using a jack-up rig. The bill proposes to grant the full 100 percent credit of exploration expenditures to the first person to qualify under this credit, 90 percent to the second person, and 80 percent to the third person up to a maximum of $25 million per person. Only expenditures occuring after March 31, 2010 and before July 1, 2016 would qualify under the bill. If the exploration well for which credit is received results in paying quantities of production, the person who received the credit will pay back to the state 50 percent of the credit received in monthly installments over 10 years.

The fiscal impact of this provision of the bill is indeterminate. Several companies have sought credits under the .025 exploration incentive credit in the Cook Inlet basin, for which the state has reimbursed up to 40 percent of the companies' capital costs. Our records indicate that total costs for drilling in the Cook Inlet basin could be as high as $5 million or more per well. A recent study by the Petrotechnical Resources of Alaska (PRA) indicates that the cost of drilling 128 wells in the Cook Inlet basin over the period from 2001 through 2009 cost between $1.0 and $1.2 billion. This figure includes not just exploration wells, but presumably cheaper development wells. At the high end of the range, this amounts to a per-well cost of $9.4 million. PRA further reports that over the next decade 185 new wells will need to be drilled to meet demand, and that capital costs will increase to $1.85 to 2.8 billion, with per-well costs of $10-$15 million. If their report is correct, three persons receiving credit under this provision will cost the state up to $40 million in tax credits. If each of the three persons spends the maximum available under this bill ($25 million per well), the total cost to the state would be $67.5 million. Under this scenario, if all three of the persons found paying quantities of oil or gas, the state could be reimbursed about $34 milion of the $67 million in credits.

The bill also removes from law an existing requirement relating to production tax credits, effective January 1, 2010. Current law requires companies seeking reimbursement from the state for credits to reinvest in capital
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ANALYSIS CONTINUATION

expenditures in an amount equivalent to the cash reimbursement sought. The reinvestment requirement is removed under this bill. This provision is expected to be revenue neutral. Credits are either taken against tax liabilities in full or as a refund in full, and there is no differential revenue impact to the state.

The bill also waives interest for over or underpayment in the oil and gas production tax when the Department has determined that the reason the payment was incorrect was due to the retroactive application of regulations and the payment was a good faith estimate. This provision is retroactive to January 1, 2006. At this time it is uncertain whether there would be any revenue impact from this change, since it is unclear whether there was any underpayment or overpayment due to the retroactive regulations. The Department of Revenue does not include interest payments in our revenue projections, therefore this change would not affect our revenue forecast.

The bill has an immediate effective date.

Expenditures: The provisions of this bill could be implemented with existing state resources. No additional personnel or resources would be needed, since the DOR is already performing these duties.