ALASKA STATE LEGISLATURE

Official Business

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Session: January – May
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Senate Bill 85
Sectional Analysis
TAX CREDIT FOR NEW OIL & GAS DEVELOPMENT

Section 1: Existing law prohibits multiple tax credits, this adds the new credits established in this bill, **43.55.026**.

Section 2: Adds new credits established in this bill, **43.55.026,** to existing law that restricts multiple tax credits..

Section 3: sets out new **43.55.026** for the new tax credit.

(a) Directs that the new credit applies to qualified expenditures that were incurred prior to production of oil or gas in paying quantities for a lease or a property taxable under AS 43.55.011(e)[1] and that is not and has not been within a unit, or produced oil or gas, as of December 31, 2010.

(b) Establishes that the credit amount is 100% of the qualified development expenditures incurred after completing the drilling of the first well that discovers a pool (capable of commercial production) and before production (in paying quantities) commences. Those dates are determined by the Department of Revenue (DOR), in consult with
1. Alaska Oil and Gas Conservation Commission (AOGCC) for establishing the date on which the first well drilled discovered a pool (capable of commercial production); and
2. Department of Natural Resources (DNR), for establishing the date that production (in paying quantities) commences.

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[1] *(AS 43.55.011(e) establishes the oil and gas production tax that replaced the ELF production tax in 2006.).*

(a) Establishes that the credit may be applied against the production tax during the five years immediately following the date of production commencement, or, if the credit is fully applied before the end of the five year period, until the credits for the expenditures are fully applied, whichever occurs first. Credits expire if not taken within that five year period and may not be applied against the production tax from a lease or property not eligible for the credit.

Essentially, there is a five year "holiday" from the production tax under this new credit or the time required to recoup 100% of the development costs, whichever occurs first.

(b) Restricts the use of the new credit so there are not multiple credits.

(c) Establishes that the credit or any portion of the credit is not transferable and may not reduce the tax liability below zero for AS 43.55.011(e) (the production tax) for any calendar year.

Essentially, the tax credit stays with the drilling site and the new credit may not allow the tax payer to obtain a refund from the state in any calendar year.

(d) Allows the DOR to adopt regulations needed to administer the new credit.

(e) Establishes procedures so that when a lease or property that utilizes this new credit becomes part of a unit under AS 38.05.180(p)[2], the credit is applied only to the production tax due for the lease or property that qualified for the credit.

(f) Defines:
1. "production in paying quantities".
2. "qualified development expenditure".

Section 4: Amends existing law to include new section for this tax credit in **43.55.026**.

Section 5: Establishes an immediate effective date for the legislation.

[2] AS 38.05.180(p) (oil and gas and gas only leasing statutes regarding unitization)