



CSHB 110 Presentation Bill Sectional



*Presentation to the
House Finance Committee
March 24, 2011
Alaska Department of Revenue*



Main proposed changes



Progressivity Rates & Cap

Progressivity levied as discrete brackets, rather than as a continuous function, and applied only to incremental revenue.

2013

Base Tax Rate

Base tax rate of 15%, plus progressivity for leases or properties neither unitized nor producing as of 12/31/2008. Base rate of 25% plus progressivity for currently producing fields.

2013

Tax Credits

Extension of 40% well lease expenditure tax credits to North Slope. Tax credits can be claimed in a single year instead of two years.

2012

2011

Tax Calculation

Yearly tax calculation based on average prices and costs, instead of monthly tax calculation impacted by short term price and cost peaks.

2013

2011 Effective 1/1/2011 for expenditures made after 12/31/2010.

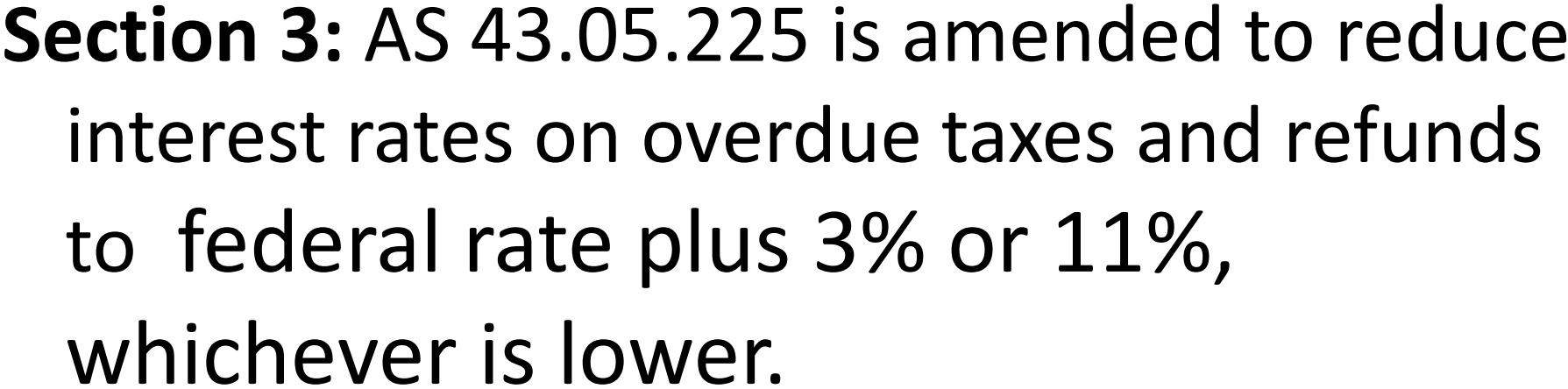
2012 Effective 1/1/2012 for expenditures made after 12/31/2011.

2013 Effective 1/1/2013, applies to production after 12/31/2012.



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- Current rate – federal rate plus 5% or 11%, whichever is greater.
- Applies as of July 1, 2011.
- Conforming sections 1-2, 4, 10, 13, 29-31.



Two base rates: 25% and 15%



Section 6: Levy of Tax

43.55.011(e)(1): Tax levied on oil and gas produced from leases or properties containing land that was within a unit or in commercial production as of December 31, 2008, is 25% base + progressivity.

Tax levied on production from leases or properties not subject to 43.55.011(e)(1) is 15% base + progressivity.

Section 8: Tax rate for calendar year.



Minimum tax



Section 7: Lowers threshold prices for calculation of minimum tax on oil and gas production from the North Slope.

- 4% of gross minimum tax would apply when ANS WC price is over \$20 (currently \$25).
- Thresholds for 0% to 4% minimum tax on North Slope production lowered.



Changes to progressivity and maximum tax rate



Section 8: Incremental bracketed progressivity rates apply, if annual production tax value is over \$30, to the fraction of the production tax value that falls within the incremental rate.

Incremental rates are:

- Up to 50% for production subject to the 25% base rate.
- Up to 40% for production subject to the 15% base rate.



Conforming amendments for tax rate changes



- **Section 9:** Statute requiring monthly payments is revised to account for annual progressivity calculation and new tax rate for certain fields.
- **Section 27:** AS 43.55.160 is repealed and reenacted to account for changes in progressivity and new 15% tax rate. Annual production tax value calculations maintained per current statute.



Capital credits can be taken in the year earned



- **Section 11:** Removes requirement that tax credits for qualified capital expenditures be taken over two years.
- **Section 12:** Provides that tax credit certificates will be issued as one certificate.
- **Section 14:** Conforming amendment to reflect repeal of AS 43.55.023 (m), relating to the issuance of well lease expenditure credit certificates.
- **Section 32:** Repeals AS 43.55.023(m), since all capital credit certificates will be issued as one certificate.



40% well lease expenditure credit extended to North Slope



- **Sections 15-16:** Expands the 40% well lease expenditure credit to qualified expenditures made on the North Slope.
- **Sections 25-26:** Conforming amendments to reflect repeal of AS 43.55.023 (m).



Amendments in House Resources

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Wage based tax credit



Section 17: A new section is added to AS 43.55.023 to allow a credit against production taxes for a producer that incurs more than 80% of its wages and compensation for Alaska residents.

The credit is for the percentage by which wages paid to Alaska residents exceeds 80% of all wages and compensation paid by the producer in the State.



Small Producer Credits



Sections 18 - 20:

- The sunset date for AS 43.55.024(a) and (c), non-transferable credits, is extended from 2016 to 2021.
- The small producer tax credit for a calendar year is raised from \$12 million to \$15 million. Applies if average production is less than 100,000 BTU equivalent barrels a day.



North Slope Exploration Credit



- **Sections 21 and 24:** Amends AS 43.55.025 to allow a 30% credit for exploration expenditures for qualified North Slope exploration outside a unit, or for certain expenditures within a unit formed after June 30, 2008. Effective January 1, 2012.
- **Sections 22-23:** Extends sunset date for credits under AS 43.55.025 from 2016 to 2021.



Disclosure of Credit Information



- **Section 28:** Amends AS 43.55.890 to clarify that DOR may publish detailed information related to tax credits, including the statutory type and amount of each credit taken under each statute, and whether the expenditure was for exploration, development or production.



CS HB 110 Effective Dates



Section 33: Explains when expenditures must be incurred for provisions to apply.

Sections 35-39: Effective dates:

Sections 11-12: Retroactive to January 1, 2011.

Sections 14-17, 21, 24-28, 32 and 33(b): January 1, 2012.

Sections 6-9, 27 and 33(c): January 1, 2013.

Sections 11, 12, 33(a), and 35: Effective immediately.

Except as provided in sections 36-38, this Act takes effect July 1, 2011.