

Departments of Revenue and Law:

Sectional Review

CSSB 21(FIN)

28-GS1647\R.A

March 22, 2013

House Resources Committee

Main Provisions

- **Interest Rate for Delinquent Tax Payments and Refunds of Overpayments of Taxes**

- Decreased to 3% points above the annual rate charged by the 12th Federal Reserve District

- **Corporate Income Tax Credit for Qualified Oil and Gas Service Industry Expenditures**

- **Production Tax Rate**

- Establishes a 35% flat tax rate
- Repeals progressivity.

- **Tax Credits**

- Eliminates current 20% capital expenditure tax credit for North Slope after December 31, 2013.
- Increases tax credit for carried-forward annual losses to 35% for the North Slope after December 31, 2013.
- Establishes a \$5 per barrel of oil tax credit.

- **Gross Revenue Exclusion**

- Establishes 20 % exclusion from the gross value at the point of production for oil and gas produced from
 - 1) new units,
 - 2) new participating areas in existing units and,
 - 3) metered wells subject to demonstration by the producer of certain conditions to the Department of Natural Resources and the Department of Revenue.

- **Oil and Gas Competitiveness Review Board**

- **Hold Cook Inlet and Middle Earth harmless**

Sec. 4 – Interest Rate for Delinquent Taxes

- **Amends AS 43.05.225(1).**
- **Sets the interest rate at 3% points above the annual rate charged member banks for advances by the 12th Federal Reserve District compounded quarterly.**
 - Currently, the interest rate is the greater of either 5% points above the annual rate charged member banks for advances by the 12th Federal Reserve District OR the annual rate of 11% compounded quarterly.
- **Eliminates the 11% alternate annual rate.**
- **Applies to many tax types.**
- **Applies against the State for refunds of overpayments of taxes.**
- **12 % interest rate under AS 43.05.225(2) is unchanged.**

Sec. 7 - Qualified Oil and Gas Industry Service Expenditure Tax Credit

- **Amends AS 43.20, the Alaska Net Income Tax Act, by adding a new section, AS 43.20.049.**
- **Provides a tax credit for the lesser of 10 % of qualified oil and gas industry service expenditures incurred in the state or \$10,000,000.**
- **Applies against tax liability, may be carried-forward for no more than 5 tax years after the expenditures were incurred.**
- **Qualified oil and gas service industry expenditure must be directly attributable to the in-state manufacture or modification of tangible personal property that has a useful life of 3 years or more used in the exploration, development, or production of oil or gas.**

Sec. 9 - Tax Rate

- **AS 43.55.011(e) is amended to levy an annual flat tax rate of 35%.**
- **AS 43.55.011(g), the monthly progressivity tax, is repealed.**
- **Applies to oil and gas produced after December 31, 2013.**

Sec. 2- Community Revenue Sharing Fund

- **Amends AS 29.60.850(b) to eliminate the reference to AS 43.55.011(g), progressivity, to conform to the repeal of progressivity.**
- **Provides guidelines for the amount the legislature may appropriate to the community revenue sharing fund.**
- **No change to the eligibility determinations for community revenue sharing payments to communities.**

Sec. 15 - Qualified Capital Expenditure Tax Credit

- **AS 43.55.023(a)(3) is a new provision limiting the 20% qualified capital expenditure tax credit for expenditures incurred to explore for, develop, or produce oil and gas deposits on the North Slope to expenditures incurred before January 1, 2014.**
- **Tax credits for expenditures incurred to explore for, develop, or produce oil and gas deposits south of the North Slope are not impacted.**
- **The full amount of a tax credit certificate may be issued in a single year.**

Sec. 9 - Carried-Forward Tax Credit

AS 43.55.023(b)

- Amends AS 43.55.023(b) to retain a tax credit of 25% for a carried-forward annual loss for adjusted lease expenditures incurred outside of the North Slope.
- Provides a tax credit of 35% for a carried-forward annual loss for adjusted lease expenditures incurred after December 31, 2013 on the North Slope.
- A carried forward annual loss is the amount of a producer's or explorer's lease adjusted lease expenditures that were not deductible in calculating the annual production tax values for that year.

Sec. 22 - \$5 Per Oil Barrel Tax Credit

AS 43.55.024(i)

- Amends AS 43.55.024 by adding a new a tax credit of \$5 for each barrel of oil subject to tax under AS 43.55.011(e)
- Applicable to the producer's tax liability for the year the oil was produced.
- The tax credit is not transferable.
- Any unused portion may not be carried forward for use in a later calendar year
- May not be applied to reduce the producer's tax liability to below zero.

Sec. 29 - Gross Revenue Exclusion for North Slope Oil and Gas

- Provides that for the determination of the annual production tax value of oil and gas produced north of 68 degrees North latitude, that the gross value at the point of production is reduced by 20 percent for the oil or gas:
 - 1) Produced from a lease or property that does not contain a lease that was within a unit as of January 1, 2003;
 - 2) Produced from a participating area established after December 31, 2011 that was within a unit formed under AS 38.05.180(p) before January 1, 2003, if the participating area does not contain a reservoir previously established in a participating area;

Sec. 29 - Gross Revenue Exclusion for North Slope Oil and Gas

3) Produced from a well that

- has been accurately metered and measured by the operator to the satisfaction of the Commissioner of the Department of Revenue, and
 - the producer demonstrates to the Department of Revenue that the well is producing from a reservoir that the Department of Natural Resources has certified was not contributing to production before January 1, 2013, and
 - the producer demonstrates to the Department of Revenue the volume of oil or gas produced from that well.
- **May not apply 20 percent exclusion to reduce the gross value at the point of production below zero.**
 - **Participating area defined a reservoir or portion of a reservoir producing or contributing to production as approved by the Department of Natural Resources.**

Sec. 33 - Oil and Gas Competitiveness Review Board

AS 43.98.040-070

- **AS 43.98.040 , establishes a 9 member board**
 - Governor designates chair every 2 years. Governor may replace and remove members.
 - Members serve 6 year terms, may be reappointed.
 - Board meets once a year
- **AS 43.98.050 details the duties of the Board, including annual written findings and recommendations to the Legislature**
- **AS 43.98.060 relates to information provided to the Board**
- **AS 43.98.070 defines the board**
- **The Board sunsets December 31, 2022.**