Alaska Department of Revenue

Credits

Presentation to House Finance Committee

January 27, 2015

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Tax Credits
In Alaska's
Oil and Gas Production Tax

History of Oil and Gas Tax Credits

- **The first "modern era" credit was the Exploration Tax Credit, AS 43.55.025 (SB 185, 2003)**
  - **20%-40% credit depending on type and location of work**
  - **Could be taken against liability, sold to a producer with tax liability, or carried forward**
  - **No state reimbursement option**
  - **This was still during the ELF tax regime**

History of Oil and Gas Tax Credits

- **Several Credits added with passage of PPT and switch to a net-profits tax (HB3001, 2006)**
  - **20% Loss Carry Forward (NOL) Credit**
  - **20% Qualified Capital Expenditure (QCE) Credit**
  - **Small Producer & New Areas Credit**
  - **Transitional Expenditure Credit**
- **Added a mechanism for state buyback of credits from smaller producers (less than 50,000 bbl / day), for up to $25 million / year**

History of Oil and Gas Tax Credits

- **Credits Modified with ACES (HB2001, 2007)**
  - **Minor changes to credits themselves**
  - **Loss Carry Forward Credit increased to 25%**
  - **Eliminated $25 million cap and created the Tax Credit Fund (AS 43.55.028).**

History of Oil and Gas Tax Credits

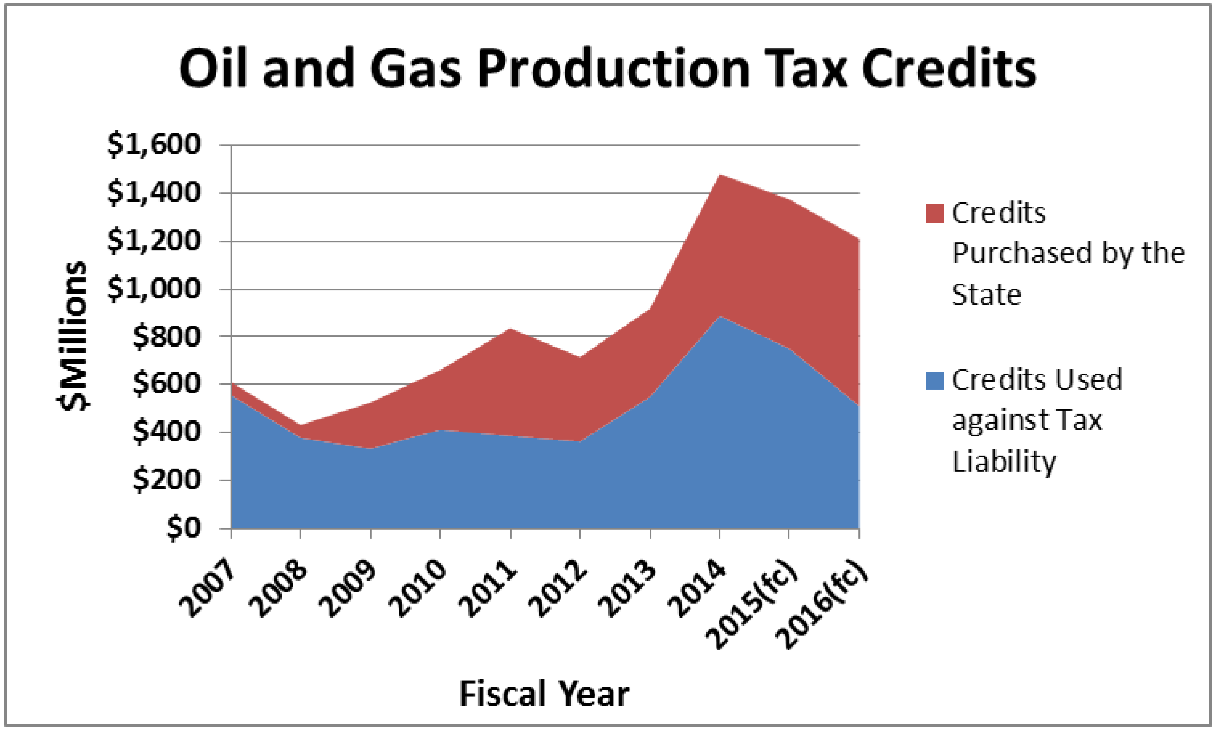
- **Several Cook Inlet Specific Credits added in 2010**
  - **Gas Storage Facility Credit (HB280)**
  - **40% Well Lease Expenditure Credit (HB280)**
  - **Jack-up Rig Credit (SB309)**
- **Frontier Areas Credit (modeled on Jack-up Rig Credit) and LNG Storage Facility Credit (modeled on Gas Storage Facility Credit) added in 2012 (SB23)**

History of Oil and Gas Tax Credits

- **Credits Modified with SB21 (2013)**
  - **Eliminate the 20% Capital Credit**
  - **Create the Per-Barrel Credit**
  - **Increase the Loss Carry Forward (NOL) credit to 35%. (45% for 2014 and 2015)**

So to sum all that up…

- Over the last 10 years the size and the applicability of the oil and gas tax credit program has increased



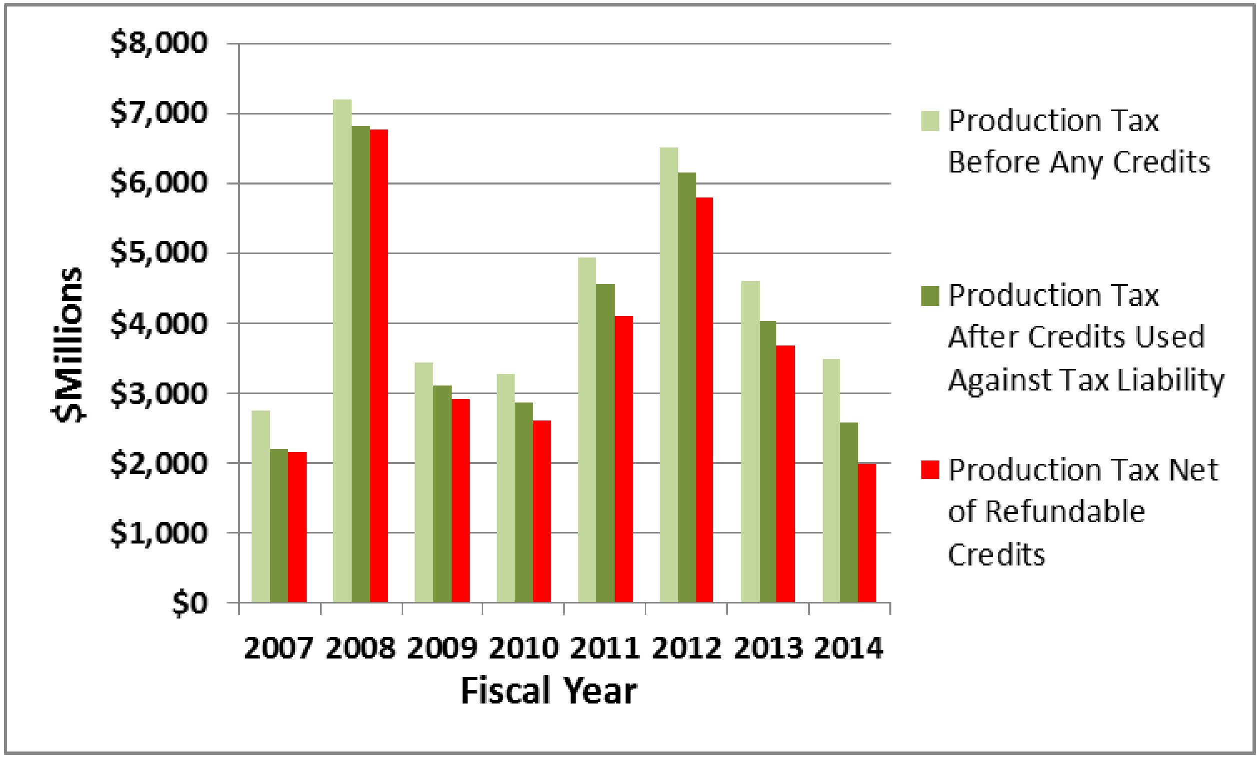
Source: Fall 2014 Revenue Sources Book, p.68-69

Not All Credits Should be Viewed as a “Cost”

- The largest credits, the 20% capital credit in ACES and the per-barrel credit in SB21, are integral parts of the tax system.
  They are built-in offsets to the tax rate.
  - Most of the “credits used against tax liability” fall into this category
- Other credits were created to encourage a desired behavior by industry.
  - Most of the “refunded credits” fall into this category

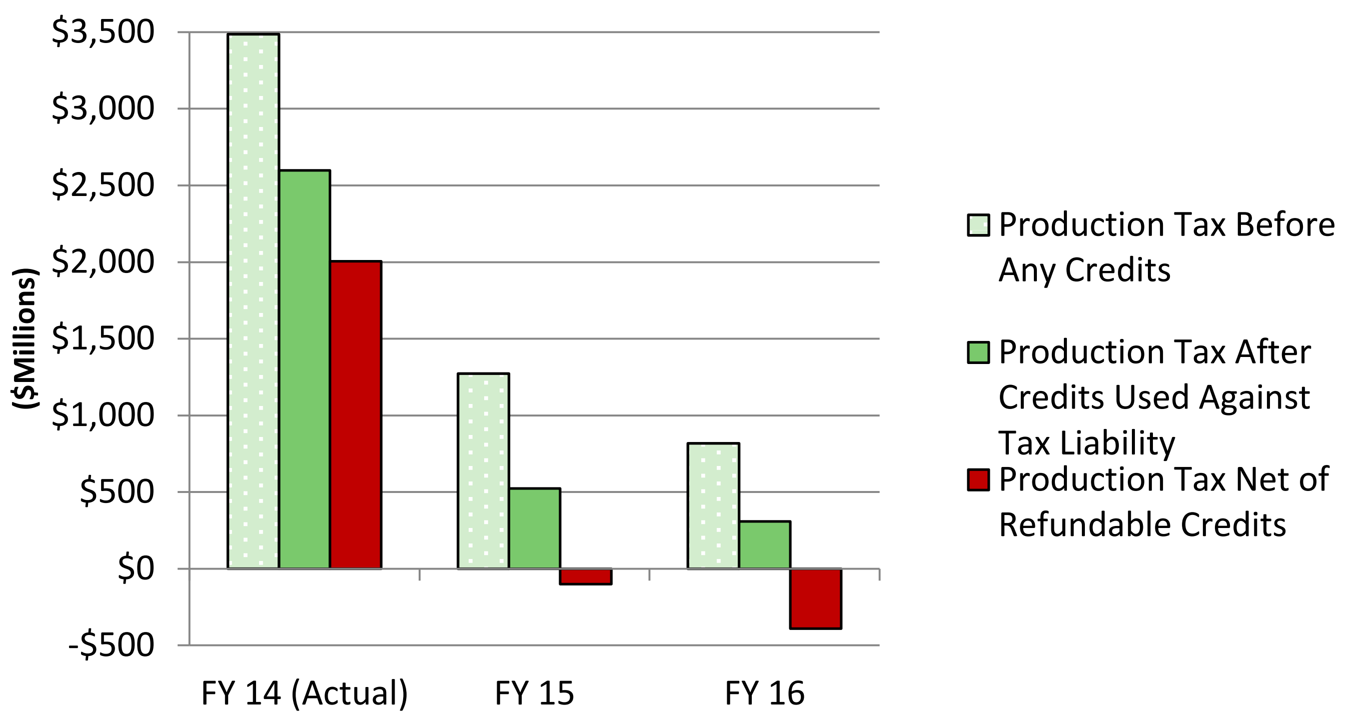
Net Tax Credits versus Production Tax

- Refundable credits were implemented as an investment in the future



Net Tax Credits versus Production Tax

- But in today's low oil price environment, the refundable credits exceed the tax revenue



Taxes and Credits are Different Companies

- The production tax is paid by the companies with taxable profits producing oil in Alaska
  - This is primarily the large companies working on the North Slope
- The refundable credits go to companies who have no tax liability
  - This is generally the smaller companies exploring and developing oil and gas fields on the North Slope and Cook Inlet

Alaska's Credit Burden will Naturally Decline

- **Carry Forward Annual Loss Credit for the North Slope will decrease from 45% to 35% in January, 2016**
- **Small Producer Credit stops accepting new producers in May, 2016**
- **Exploration Incentive Credits for North Slope and Cook Inlet expire in July, 2016**

THANK YOU

Please find our contact information below:

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