

**HOUSE BILL NO. 351**

IN THE LEGISLATURE OF THE STATE OF ALASKA

NINETEENTH LEGISLATURE - FIRST SESSION

BY THE HOUSE SPECIAL COMMITTEE ON OIL AND GAS

Introduced: 5/16/95

Referred: House Special Committee on Oil and Gas, Resources, Finance

**A BILL**

**FOR AN ACT ENTITLED**

1 "An Act authorizing tax credits for certain costs associated with recovery and  
2 production of oil or gas; and providing for an effective date."

3 **BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF ALASKA:**

4 \* **Section 1.** AS 43.20 is amended by adding new sections to read:

5           Sec. 43.20.076. CREDIT FOR DIFFICULT OR MARGINAL OIL OR GAS  
6 PRODUCTION. (a) As a credit against the tax due under this chapter, a producer of  
7 oil or gas is allowed an amount equal to 20 percent of the cost of drilling and  
8 completing a difficult or marginal production well.

9           (b) The credit authorized by this section arises in the tax year in which the  
10 difficult or marginal production well giving rise to the credit commences difficult or  
11 marginal production on a sustained basis.

12           (c) The total of all credits taken by a taxpayer under this section may not  
13 exceed 50 percent of the taxpayer's total tax liability under this chapter during the tax  
14 year in which the credit arises. The taxpayer may carry forward the portion of the

1 credit that exceeds the limitation on use of the credit under this subsection and claim  
2 the excess as a credit against taxes due under this chapter for succeeding tax years.

3 Sec. 43.20.077. CREDIT FOR STEAM-FLOOD PROJECT INVESTMENT  
4 TO RECOVER AND PRODUCE HEAVY OIL. (a) As a credit against the taxes due  
5 under this chapter, a producer of oil or gas is allowed an amount equal to 20 percent  
6 of the capital cost of installing a steam-flood project to enhance the recovery and  
7 production of heavy oil.

8 (b) The credit authorized by this section arises in the tax year in which the  
9 steam-flood project is placed into service.

10 (c) The total of all credits taken by a taxpayer under this section may not  
11 exceed 50 percent of the taxpayer's total tax liability under this chapter during the tax  
12 year in which the credit arises. The taxpayer may carry forward the portion of the  
13 credit that exceeds the limitation on use of the credit under this subsection and claim  
14 the excess as a credit against taxes for succeeding tax years.

15 Sec. 43.20.078. LIMITATION ON USE OF CREDITS FOR RECOVERY OF  
16 OIL AND GAS. An investment or expenditure giving rise to a credit under  
17 AS 43.20.076 or 43.20.077 may not give rise to a credit against any other tax imposed  
18 under this title.

19 Sec. 43.20.079. DEFINITIONS RELATING TO CREDITS FOR RECOVERY  
20 OF OIL AND GAS. In AS 43.20.076 - 43.20.079,

21 (1) "difficult or marginal production" means oil or gas that is produced  
22 from a difficult or marginal production well;

23 (2) "difficult or marginal production well" means a well, the drilling  
24 of which began on or after January 1, 1997, that is directed toward and completed in  
25 a zone or reservoir known to contain

26 (A) heavy oil and that only produces heavy oil; or

27 (B) gas at an absolute pressure of less than 1,000 pounds per  
28 square inch and that only produces gas from that zone or reservoir;

29 (3) "heavy oil" means oil

30 (A) with a viscosity greater than 10 centipoise as measured in  
31 the reservoir at initial conditions; or

1 (B) with an API gravity of less than 22 degrees;

2 (4) "steam-flood project" means a project involving the injection of  
3 steam into one or more injection wells or other source to effect oil displacement  
4 toward and oil production from one or more production wells.

5 \* **Sec. 2.** AS 43.55 is amended by adding new sections to read:

6 Sec. 43.55.021. CREDIT FOR DIFFICULT OR MARGINAL OIL OR GAS  
7 PRODUCTION. (a) As a credit against the taxes due under this chapter, a producer  
8 of oil or gas is allowed an amount equal to 20 percent of the cost of drilling and  
9 completing a difficult or marginal production well.

10 (b) The credit authorized by this section arises in the month in which the  
11 difficult or marginal production well giving rise to the credit commences difficult or  
12 marginal production on a sustained basis.

13 (c) The credit authorized by this section may be taken against the tax levied  
14 under this chapter for any lease or property in the state from which the taxpayer  
15 produces oil or gas subject to the tax levied by this chapter, and is not limited to tax  
16 on production from the same lease or property in which the difficult or marginal  
17 production well is completed.

18 (d) The total of all credits taken by a taxpayer under this section may not  
19 exceed 50 percent of the taxpayer's total tax liability under this chapter during the  
20 month in which the credit arises. The taxpayer may carry forward the portion of the  
21 credit that exceeds the limitation on use of the credit under this subsection and claim  
22 the excess as a credit against taxes for succeeding months.

23 Sec. 43.55.022. CREDIT FOR STEAM-FLOOD PROJECT INVESTMENT  
24 TO RECOVER AND PRODUCE HEAVY OIL. (a) As a credit against the taxes due  
25 under this chapter, a producer of oil or gas is allowed an amount equal to 20 percent  
26 of the capital cost of installing a steam-flood project to enhance the recovery and  
27 production of heavy oil.

28 (b) The credit authorized by this section arises in the month in which the  
29 steam-flood project is placed into service.

30 (c) The credit authorized by this section may be taken against the tax levied  
31 under this chapter for any lease or property in the state from which the taxpayer

1 produces oil or gas subject to the tax levied by this chapter, and is not limited to tax  
2 on production from the same lease or property for which the steam-flood project is  
3 installed.

4 (d) The total of all credits taken by a taxpayer under this section may not  
5 exceed 50 percent of the taxpayer's total tax liability during the month in which the  
6 credit arises. The taxpayer may carry forward the portion of the credit that exceeds  
7 the limitation on use of the credit under this subsection and claim the excess as a  
8 credit against taxes for succeeding months.

9 Sec. 43.55.023. LIMITATION ON USE OF CREDITS FOR RECOVERY OF  
10 OIL AND GAS. An investment or expenditure giving rise to a credit taken under  
11 AS 43.55.021 or 43.55.022 may not give rise to a credit against any other tax imposed  
12 under this title.

13 Sec. 43.55.025. DEFINITIONS. In AS 43.55.021 - 43.55.025,

14 (1) "difficult or marginal production" means oil or gas that is produced  
15 from a difficult or marginal production well;

16 (2) "difficult or marginal production well" means a well, the drilling  
17 of which began on or after January 1, 1997, that is directed toward and completed in  
18 a zone or reservoir known to contain

19 (A) heavy oil and that only produces heavy oil; or

20 (B) gas at an absolute pressure of less than 1,000 pounds per  
21 square inch and that only produces gas from that zone or reservoir;

22 (3) "heavy oil" means oil

23 (A) with a viscosity greater than 10 centipoise as measured in  
24 the reservoir at initial conditions; or

25 (B) with an API gravity of less than 22 degrees;

26 (4) "steam-flood project" means a project involving the injection of  
27 steam into one or more injection wells or other injection source to effect oil  
28 displacement toward and oil production from one or more production wells.

29 \* **Sec. 3.** APPLICABILITY OF CREDITS UNDER ALASKA NET INCOME TAX ACT.

30 The credits established by AS 43.20.076 - 43.20.079, added by sec. 1 of this Act, apply to  
31 income taxes of a taxpayer that become due on or after the effective date of sec. 1 of this Act.

1     \* **Sec. 4.** APPLICABILITY OF CREDITS AGAINST OIL AND GAS PRODUCTION  
2 TAXES. The credits established by AS 43.55.021 - 43.55.025, added by sec. 2 of this Act,  
3 apply to production taxes of a taxpayer that become due on or after the first day of the month  
4 in which sec. 2 of this Act takes effect.

5     \* **Sec. 5.** This Act takes effect January 1, 1997.