

**CS FOR HOUSE BILL NO. 294(O&G)**

IN THE LEGISLATURE OF THE STATE OF ALASKA

TWENTY-FOURTH LEGISLATURE - SECOND SESSION

BY THE HOUSE SPECIAL COMMITTEE ON OIL AND GAS

Offered: 2/3/06

Referred: Resources, Finance

Sponsor(s): REPRESENTATIVE CHENAULT

**A BILL**

**FOR AN ACT ENTITLED**

1 "An Act amending and extending the exploration and development incentive tax credit  
2 under the Alaska Net Income Tax Act for operators and working interest owners  
3 directly engaged in the exploration for and development of gas for delivery and sale  
4 from a lease or property in the state; providing for an effective date by amending the  
5 effective date for sec. 2, ch. 61, SLA 2003; and providing for an effective date."

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

7 \* **Section 1.** AS 43.20.043(a) is amended to read:

8 (a) Subject to the terms and conditions of this section, and in addition to any  
9 other credit authorized to the taxpayer by this chapter, a taxpayer that is an operator or  
10 working interest owner directly engaging in the exploration for and development of  
11 gas may apply as a credit against the state tax liability that may be imposed on the  
12 taxpayer under this chapter,

13 (1) for a tax year beginning after December 31, 2002, and before

1 **January 1, 2005,**

2 **(A)** [(1)] 10 percent of the taxpayer's qualified capital  
3 investment; and

4 **(B)** [(2)] 10 percent of the annual cost incurred by the taxpayer  
5 for qualified services in the state during each tax year for which a credit is  
6 allowable for a qualified capital investment under **(A) of this paragraph; and**  
7 **(2) for a tax year beginning after December 31, 2004,**

8 **(A) 25 percent of the taxpayer's qualified capital**  
9 **investment; and**

10 **(B) 25 percent of the annual cost incurred by the taxpayer**  
11 **for qualified services in the state during each tax year for which a credit is**  
12 **allowable for a qualified capital investment under (A) of this paragraph**  
13 [(1) OF THIS SUBSECTION].

14 \* **Sec. 2.** AS 43.20.043(b) is amended to read:

15 (b) Expenditures qualifying for the taxpayer's qualified investment credit  
16 under **(a)(1)(A) or (a)(2)(A)** [(a)(1)] of this section must be

17 (1) cash expenditures or binding payment agreements entered into after

18 **(A) June 30, 2003, and before July 1, 2005, if the claim of**  
19 **the credit is made under (a)(1)(A) of this section; or**

20 **(B) June 30, 2005, if the claim of the credit is made under**  
21 **(a)(2)(A) of this section;** and

22 (2) made for assets first placed in service in the state in or before the  
23 tax year in which the credit is claimed through the date the reserves produce gas for  
24 sale and delivery; for purposes of this paragraph, "placed in service in the state" means  
25 that the first use of the qualified investment is in this state; if the property on which the  
26 claim of the credit is based has been used elsewhere in the tax year of acquisition and  
27 is brought to this state during that year or a subsequent year, the property does not  
28 qualify for the investment credit.

29 \* **Sec. 3.** AS 43.20.043(c) is amended to read:

30 (c) The credit **each** [PER] tax year allowed by (a) of this section may not  
31 exceed [50 PERCENT OF] the taxpayer's total tax liability under this chapter, but

1 shall be calculated before the application of any other credits allowed under this  
2 chapter. An unused portion of the credit for the tax year

3 (1) may be carried forward into one or more of the following tax years,  
4 except that the unused credit from one tax year may not be carried forward for more  
5 than five following tax years;

6 (2) shall be applied to the taxpayer's tax liability under this chapter  
7 during the following tax year before allowance of a credit allowed by (a) of this  
8 section for that following tax year.

9 \* **Sec. 4.** AS 43.20.043(f) is amended to read:

10 (f) A taxpayer is not entitled to a credit under this section for expenditures that  
11 are made or incurred for the qualified capital investment or for qualified services made  
12 for exploration and development of gas that occur in the area of Alaska lying north of  
13 68 degrees North latitude or that are made or incurred to transport gas from reserves  
14 located in the area of Alaska lying north of 68 degrees North latitude **or for the**  
15 **delivery of Alaska North Slope natural gas to tidewater below 68 degrees North**  
16 **latitude.**

17 \* **Sec. 5.** AS 43.20.043(i)(1) is amended to read:

18 (1) "qualified capital investment" means a cash expenditure or binding  
19 payment agreement, as described in (b)(1) of this section, for real property or tangible  
20 personal property used in this state in the exploration and development of gas reserves  
21 in a gas reservoir for which there has not been commercial production [IF THE  
22 RESERVES PRODUCE GAS FOR SALE AND DELIVERY]; in this paragraph,  
23 "property" includes

24 (A) property used in the operation or maintenance of facilities  
25 for exploration or development of gas;

26 (B) property that is placed in use under a capitalized lease or an  
27 operating lease; and

28 (C) the following property used for the exploration and  
29 development of gas:

30 (i) machinery, appliances, supplies, and equipment;

31 (ii) drilling rigs, wells, gathering lines and transmission

1 lines, pumping stations, compressor stations, power plants, topping  
2 plants, and processing units;

3 (iii) roads, docks and other port facilities, and helicopter  
4 pads;

5 (iv) maintenance equipment and facilities, and  
6 maintenance camps and other related facilities; and

7 (v) communications facilities owned by a person whose  
8 principal business in the state is the exploration for or development of  
9 gas and whose operation of the communications facilities directly  
10 relates to the conduct of that business;

11 \* **Sec. 6.** The uncoded law of the State of Alaska enacted by sec. 3, ch. 61, SLA 2003, is  
12 amended to read:

13 Sec. 3. CLAIM OF GAS EXPLORATION AND DEVELOPMENT TAX  
14 CREDIT CONTINUED. A taxpayer who, on the effective date of repeal of  
15 AS 43.20.043 by sec. 2, ch. 61, SLA 2003, as amended by sec. 7 of this **2006** Act,  
16 claims the balance of any unused portion of the gas exploration and development tax  
17 credit as a carry-forward under AS 43.20.043(c), may, notwithstanding the repeal of  
18 that subsection, continue to claim the balance of the credit until the claim of the credit  
19 is exhausted or until the tax year ending December 31, **2024** [2017], whichever occurs  
20 earlier. The provisions of AS 43.20.043 as they read on the day immediately  
21 preceding the effective date of the repeal of that section apply to the claim of the credit  
22 if carried forward under this section.

23 \* **Sec. 7.** The uncoded law of the State of Alaska enacted by sec. 5, ch. 61, SLA 2003, is  
24 amended to read:

25 Sec. 5. Section 2, ch. 61, SLA 2003, [OF THIS ACT] takes effect January 1,  
26 **2020** [2013].

27 \* **Sec. 8.** This Act takes effect immediately under AS 01.10.070(c).