

SPONSOR SUBSTITUTE FOR HOUSE BILL NO. 466

IN THE LEGISLATURE OF THE STATE OF ALASKA

TWENTY-FOURTH LEGISLATURE - SECOND SESSION

BY REPRESENTATIVES GARA, Berkowitz, Cissna, Crawford, Croft, Gruenberg, Guttenberg, Joule, Kapsner, Kerttula, Salmon

Introduced: 2/17/06

Referred: Resources, Finance

A BILL

FOR AN ACT ENTITLED

1 "An Act levying a net profits tax on the production of oil, authorizing a tax credit for
2 qualifying exploration costs associated with the exploration for and development of oil
3 and for certain related qualifying losses, and repealing the currently levied properties
4 production (severance) tax as it applies to oil; and providing for an effective date."

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

6 * **Section 1.** AS 43.55.013(j) is amended to read:

7 (j) The department may aggregate two or more leases or properties, or
8 portions of them [(OR PORTIONS OF THEM)], for purposes of determining
9 economic limit factors under this section and applying them to [AS 43.55.011 OR]
10 AS 43.55.016, when economically interdependent [OIL OR GAS] production
11 operations are not confined to a single lease or property. The department may also
12 segregate a lease or property into two or more parts, for purposes of determining
13 economic limit factors under this section and applying them under [AS 43.55.011 OR]
14 AS 43.55.016, when two or more economically independent [OIL OR GAS]

1 production operations are being conducted on it [, OR WHEN OLD CRUDE OIL IS
2 PRODUCED FROM THE SAME LEASE OR PROPERTY AS OTHER OIL].

3 * **Sec. 2.** AS 43.55.020(a) is amended to read:

4 (a) The production tax on [OIL OR] gas shall be paid monthly. The tax is due
5 on the 20th day of each calendar month on [OIL OR] gas produced from each lease or
6 property during the preceding month. If the tax is not paid before the end of the month
7 in which it becomes due, the tax becomes delinquent.

8 * **Sec. 3.** AS 43.55.020(b) is amended to read:

9 (b) The production tax on [OIL OR] gas shall be paid by or on behalf of the
10 producer.

11 * **Sec. 4.** AS 43.55.020(d) is amended to read:

12 (d) In making settlement with the royalty owner the producer may deduct the
13 amount of the tax paid on royalty [OIL OR] gas, or may deduct royalty [OIL OR] gas
14 equivalent in value at the time the tax becomes due to the amount of the tax paid.

15 * **Sec. 5.** AS 43.55.020(e) is amended to read:

16 (e) Gas produced in excess of that needed for safety purposes, except gas used
17 in the operation of a lease or property in drilling for or producing oil or gas, or for
18 repressuring, is considered, for the purpose of **this chapter** [AS 43.55.011 -
19 43.55.150] and in the amount used, as gas produced from a lease or property. Gas
20 flared beyond the amount authorized for safety by the Alaska Oil and Gas
21 Conservation Commission under AS 31.05 is considered as gas produced, except that
22 it is subject to a penalty equal to the tax computed under AS 43.55.016 per 1,000 cubic
23 feet of gas for the month in which the gas was flared.

24 * **Sec. 6.** AS 43.55.020(f) is amended to read:

25 (f) If, **under this chapter**, oil or gas is sold under circumstances where the
26 sale price does not represent the prevailing value for oil or gas of like kind, character,
27 or quality in the field or area from which the product is produced, the department may
28 require the tax to be paid upon the basis of the value of oil or gas of the same kind,
29 quality, and character prevailing during the calendar month of production for that field
30 or area.

31 * **Sec. 7.** AS 43.55.025(a) is amended to read:

1 (a) Subject to the terms and conditions of this section, on [OIL AND] gas
 2 produced on or after July 1, 2004, from an oil and gas lease, or on gas produced from a
 3 gas only lease, a credit against the production tax due under this chapter is allowed for
 4 exploration expenditures that qualify under (b) of this section in an amount equal to
 5 one of the following:

6 (1) 20 percent of the total exploration expenditures that qualify only
 7 under (b) and (c) of this section;

8 (2) 20 percent of the total exploration expenditures for work performed
 9 before July 1, 2007, and that qualify only under (b) and (d) of this section;

10 (3) 40 percent of the total exploration expenditures that qualify under
 11 (b), (c), and (d) of this section; or

12 (4) 40 percent of the total exploration expenditures that qualify only
 13 under (b) and (e) of this section.

14 * **Sec. 8.** AS 43.55.025(b) is amended to read:

15 (b) To qualify for the production tax credit under (a) of this section, an
 16 exploration expenditure must be incurred for work performed on or after July 1, 2003,
 17 and before July 1, 2007, except that an exploration expenditure for a Cook Inlet
 18 prospect must be incurred for work performed on or after July 1, 2005, and before
 19 July 1, 2010, and except that an exploration expenditure, in whole or in part, south of
 20 68 degrees, 15 minutes, North latitude, and not part of a Cook Inlet prospect must be
 21 incurred for work performed on or after July 1, 2003, and before July 1, 2010, and

22 (1) may be for seismic or geophysical exploration costs not connected
 23 with a specific well;

24 (2) if for an exploration well,

25 (A) must be incurred by an explorer that holds an interest in the
 26 exploration well for which the production tax credit is claimed;

27 (B) may be for either a [AN OIL OR] gas discovery well or a
 28 dry hole; and

29 (C) must be for goods, services, or rentals of personal property
 30 reasonably required for the surface preparation, drilling, casing, cementing,
 31 and logging of an exploration well, and, in the case of a dry hole, for the

1 expenses required for abandonment if the well is abandoned within 18 months
2 after the date the well was spudded;

3 (3) may not be for testing, stimulation, or completion costs;
4 administration, supervision, engineering, or lease operating costs; geological or
5 management costs; community relations or environmental costs; bonuses, taxes, or
6 other payments to governments related to the well; or other costs that are generally
7 recognized as indirect costs or financing costs; and

8 (4) may not be incurred for an exploration well or seismic exploration
9 that is included in a plan of exploration or a plan of development for any unit on
10 May 13, 2003.

11 * **Sec. 9.** AS 43.55.025(c) is amended to read:

12 (c) To be eligible for the 20 percent production tax credit authorized by (a)(1)
13 of this section or the 40 percent production tax credit authorized by (a)(3) of this
14 section, exploration expenditures must

15 (1) qualify under (b) of this section; and

16 (2) be for an exploration well, subject to the following:

17 (A) for an exploration well other than a well that is described in
18 (B) of this paragraph, the well must be located and drilled in such a manner
19 that the bottom hole is located not less than three miles away from the bottom
20 hole of a preexisting suspended, completed, or abandoned [OIL OR] gas well;
21 in this subparagraph, "preexisting" means a well that was spudded more than
22 150 days but less than 35 years before the exploration well was spudded;

23 (B) for an exploration well that explores a Cook Inlet prospect,
24 the well must be located at least three miles from any other well drilled for
25 [OIL AND] gas with all distances measured as the horizontal distance between
26 exploration targets, except that the exploration well that is located within three
27 miles of a well drilled for [OIL AND] gas qualifies for the tax credit
28 authorized by this subsection if the exploration well tests potential
29 hydrocarbon traps that the commissioner of natural resources determines, after
30 analyzing evidence submitted by the explorer and from other information that
31 the commissioner of natural resources determines relevant, constitute a

1 distinctly separate exploration target.

2 * **Sec. 10.** AS 43.55.025(f) is amended to read:

3 (f) For a production tax credit under this section,

4 (1) an explorer shall, in a form prescribed by the department and
5 within six months of the completion of the exploration activity, claim the credit and
6 submit information sufficient to demonstrate to the department's satisfaction that the
7 claimed exploration expenditures qualify under this section;

8 (2) an explorer shall agree, in writing,

9 (A) to notify the Department of Natural Resources, within 30
10 days after completion of seismic or geophysical data processing, completion of
11 a well, or filing of a claim for credit, whichever is the latest, for which
12 exploration costs are claimed, of the date of completion and submit a report to
13 that department describing the processing sequence and providing a list of data
14 sets available; if, under (c)(2)(B) of this section, an explorer submits a claim
15 for a credit for expenditures for an exploration well that is located within three
16 miles of a well already drilled for [OIL AND] gas, in addition to the
17 submissions required under (1) of this subsection, the explorer shall submit the
18 information necessary for the commissioner of natural resources to evaluate
19 the validity of the explorer's claim that the well is directed at a distinctly
20 separate exploration target, and the commissioner of natural resources shall,
21 upon receipt of all evidence sufficient for the commissioner to evaluate the
22 explorer's claim, make that determination within 60 days;

23 (B) to provide to the Department of Natural Resources, within
24 30 days after the date of a request, specific data sets, ancillary data, and reports
25 identified in (A) of this paragraph;

26 (C) that, notwithstanding any provision of AS 38, information
27 provided under this paragraph will be held confidential by the Department of
28 Natural Resources for 10 years following the completion date, at which time
29 that department will release the information after 30 days' public notice;

30 (3) if more than one explorer holds an interest in a well or seismic
31 exploration, each explorer may claim an amount of credit that is proportional to the

1 explorer's cost incurred;

2 (4) the department may exercise the full extent of its powers as though
3 the explorer were a taxpayer under this title, in order to verify that the claimed
4 expenditures are qualified exploration expenditures under this section; and

5 (5) if the department is satisfied that the explorer's claimed
6 expenditures are qualified under this section, the department shall issue to the explorer
7 a production tax credit certificate for the amount of credit to be allowed against
8 production taxes due under this chapter; however, notwithstanding any other provision
9 of this section, the department may not issue to an explorer a production tax credit
10 certificate if the total of production tax credits submitted for Cook Inlet production,
11 based on exploration expenditures for work performed during the period described in
12 (b) of this section for that production, that have been approved by the department
13 exceeds \$20,000,000.

14 * **Sec. 11.** AS 43.55.025(k)(1) is amended to read:

15 (1) "Cook Inlet production" means [OIL OR] gas production from the
16 Cook Inlet sedimentary basin, as that term is defined by regulation adopted to
17 implement AS 38.05.180(f)(4);

18 * **Sec. 12.** AS 43.55.025(k)(3) is amended to read:

19 (3) "explorer" means a person who, in exploring for new [OIL OR] gas
20 reserves, incurs expenditures.

21 * **Sec. 13.** AS 43.55.080 is amended to read:

22 **Sec. 43.55.080. Collection and deposit of revenue.** The department shall
23 deposit in the general fund the money collected by it under AS 43.55.013 - 43.55.150
24 and 43.55.400 - 43.55.420 [AS 43.55.011 - 43.55.150].

25 * **Sec. 14.** AS 43.55.135 is amended to read:

26 **Sec. 43.55.135. Measurement.** For the purposes of this chapter
27 [AS 43.55.011 - 43.55.150], oil shall be measured in terms of a "barrel of oil" and gas
28 shall be measured in terms of a "cubic foot of gas."

29 * **Sec. 15.** AS 43.55.150(a) is amended to read:

30 (a) For the purposes of this chapter [AS 43.55.011 - 43.55.150], the gross
31 value shall be calculated using the reasonable costs of transportation of the oil or gas.

1 The reasonable costs of transportation shall be the actual costs, except

2 (1) when the parties to the transportation of oil or gas are affiliated;

3 (2) when the contract for the transportation of oil or gas is not an arm's
4 length transaction or is not representative of the market value of that transportation;

5 (3) when the method of transportation of oil or gas is not reasonable in
6 view of existing alternative methods of transportation.

7 * **Sec. 16.** AS 43.55.201(b) is amended to read:

8 (b) The surcharge imposed by (a) of this section

9 (1) is in addition to [AND SHALL BE PAID IN THE SAME
10 MANNER AS] the tax imposed by AS 43.55.400 - 43.55.420 [AS 43.55.011 -
11 43.55.150;] and is in addition to the surcharge imposed by AS 43.55.300 - 43.55.310;
12 and

13 (2) shall be paid in the same manner as the tax imposed by
14 AS 43.55.400 - 43.55.420.

15 * **Sec. 17.** AS 43.55.201(c) is amended to read:

16 (c) A producer of oil shall make reports of production in the same manner and
17 under the same penalties as required under AS 43.55.020 - 43.55.150 and 43.55.400 -
18 43.55.420 [AS 43.55.011 - 43.55.150].

19 * **Sec. 18.** AS 43.55.300(b) is amended to read:

20 (b) The surcharge imposed by (a) of this section

21 (1) is in addition to [AND SHALL BE PAID IN THE SAME
22 MANNER AS] the tax imposed by AS 43.55.400 - 43.55.420 [AS 43.55.011 -
23 43.55.150;] and is in addition to the surcharge imposed by AS 43.55.201 - 43.55.231;
24 and

25 (2) shall be paid in the same manner as the tax imposed by
26 AS 43.55.400 - 43.55.420.

27 * **Sec. 19.** AS 43.55.300(c) is amended to read:

28 (c) A producer of oil shall make reports of production in the same manner and
29 under the same penalties as required under AS 43.55.020 - 43.55.150 and 43.55.400 -
30 43.55.420 [AS 43.55.011 - 43.55.150].

31 * **Sec. 20.** AS 43.55 is amended by adding new sections to read:

1 **Article 3A. Production Profits Sharing Tax.**

2 **Sec. 43.55.400. Production profits sharing tax.** (a) There is levied on the
3 producer of oil a tax for all oil from each lease or property in the state, less any oil the
4 ownership or right to which is exempt from taxation.

5 (b) The tax levied under this section is equal to a percentage as determined in
6 (c) or (d) of this section of the gross production revenues of the oil produced, based on
7 the gross value of the oil at the point of production, net of royalties paid on the oil
8 production under AS 38.05, and less the taxpayer's

9 (1) lease expenses; and

10 (2) capital expenses related to the lease.

11 (c) The rate of tax levied under this section, except as provided for heavy oil
12 under (d) of this section, is 30 percent.

13 (d) The tax levied under this section on heavy oil is determined as follows:

14 (1) subject to adjustment under (2) of this subsection, when the
15 average prevailing value of Alaska North Slope oil is

16 (A) not more than \$40 a barrel, tax is not due under this
17 section;

18 (B) more than \$40 a barrel but not more than \$45 a barrel, the
19 tax rate is 2.5 percent;

20 (C) more than \$45 a barrel but not more than \$50 a barrel, the
21 tax rate is five percent;

22 (D) more than \$50 a barrel but not more than \$55 a barrel, the
23 tax rate is 10 percent;

24 (E) more than \$55 a barrel, the tax rate is 15 percent;

25 (2) on and after July 1, 2007, the commissioner shall

26 (A) annually revise the dollar prices described in (1) of this
27 subsection to reflect inflation, as defined by regulation adopted by the
28 department; and

29 (B) promptly report the application of the revisions to all
30 taxpayers subject to the tax levied and collected under this section;

31 (3) in this subsection,

1 (A) "heavy oil" means oil equal to or less than 20 degrees API
2 gravity;

3 (B) "prevailing value of Alaska North Slope oil" means

4 (i) for oil, or commingled oil and natural gas liquids,
5 that are transferred by the producer in an arm's-length, third-party sale,
6 the average spot price for Alaska North Slope oil at the United States
7 West Coast during the month that is referenced in the sales contract
8 pricing provision; if more than one month is referenced in the sales
9 contract pricing provision, the month with more daily spot price reports
10 that fall within the contract price reference period must be used; in the
11 case of an equal number of spot price reports, the month closer to the
12 month of production must be used; if the sales contract does not have a
13 price reference period, the prevailing value determined under (iii) of
14 this subparagraph must be used;

15 (ii) for oil, or commingled oil and natural gas liquids,
16 that are transferred by the producer in an arm's-length, third-party
17 exchange, the average spot price for Alaska North Slope oil at the
18 United States West Coast during the same month that is applied by the
19 department to the crude received in the exchange; if the department
20 cannot determine the month in which the crude was received, the
21 prevailing value determined under (iii) of this subparagraph must be
22 used; or

23 (iii) for other oil, or commingled oil and natural gas
24 liquids, including that which is refined, used as fuel or petrochemical
25 feedstock, or otherwise consumed at a refinery or plant owned by the
26 producer, the average spot price for Alaska North Slope oil at the
27 United States West Coast during the month of delivery of that oil, or
28 commingled oil and natural gas liquids.

29 (e) For purposes of computation of payment of the tax under this section, a
30 deduction for pipeline expenses is not allowed.

31 (f) Tax is not due under this section from a field that produces less than 1,000

1 barrels of daily production. For purposes of determining daily production under this
2 subsection,

3 (1) the department may

4 (A) aggregate two or more leases or properties, or portions of
5 them, when economically interdependent oil production operations are not
6 confined to a single lease or property within a field or involve two or more
7 pools; or

8 (B) segregate a lease or property that involves more than one
9 pool within a field when two or more economically independent oil production
10 operations are being conducted on it;

11 (2) "field" means a general area that is underlain or appears to be
12 underlain by at least one pool, and includes the underground reservoir containing oil;
13 in this paragraph,

14 (A) "pool" means an underground reservoir containing oil; each
15 zone of a general structure that is completely separated from any other zone in
16 the structure is covered by the term "pool";

17 (B) the words "field" and "pool" mean the same thing when
18 only one underground reservoir is involved, but "field," unlike "pool," may
19 relate to two or more pools.

20 (g) A taxpayer may apply for and obtain a reduction of the tax due under this
21 section if the commissioner determines that the application meets the requirements of
22 AS 38.05.180(j)(1)(A), (j)(1)(B), or (j)(1)(C). When the commissioner receives an
23 application under this subsection, the commissioner

24 (1) may not approve a tax reduction

25 (A) unless the applicant makes a clear and convincing showing
26 that the tax reduction meets the requirements of this subsection and is in the
27 best interests of the state;

28 (B) without including an explicit condition that the tax
29 reduction is not assignable without the prior written approval, which may not
30 be unreasonably withheld, by the commissioner; the commissioner shall, in the
31 preliminary and final findings and determinations, set out the conditions under

1 which the tax reduction may be assigned;

2 (2) shall require the applicant to submit, with the application for the
3 tax reduction, financial and technical data that demonstrate that the requirements of
4 this subsection are met; the commissioner

5 (A) may require disclosure of only the financial and technical
6 data related to development, production, and transportation of oil and gas or
7 gas only from the field or pool that are reasonably available to the applicant;
8 and

9 (B) shall keep the data confidential under AS 38.05.035(a)(9)
10 at the request of the applicant; the confidential data may be disclosed by the
11 commissioner to legislators and to the legislative auditor and as directed by the
12 chair or vice-chair of the Legislative Budget and Audit Committee to the
13 director of the division of legislative finance, the permanent employees of their
14 respective divisions who are responsible for evaluating a tax reduction, and to
15 agents or contractors of the legislative auditor or the legislative finance director
16 who are engaged under contract to evaluate the tax reduction, if they sign an
17 appropriate confidentiality agreement;

18 (3) may require the applicant for the tax reduction under this
19 subsection to pay for the services of an independent contractor, selected by the
20 applicant from a list of qualified consultants compiled by the commissioner, to
21 evaluate hydrocarbon development, production, transportation, and economics and to
22 assist the commissioner in evaluating the application and financial and technical data;
23 if, under this paragraph, the commissioner requires payment for the services of an
24 independent contractor, the total cost of the services to be paid for by the applicant
25 may not exceed \$150,000 for each application, and the commissioner shall determine
26 the relevant scope of the work to be performed by the contractor; selection of an
27 independent contractor under this paragraph is not subject to AS 36.30;

28 (4) shall make and publish a preliminary findings and determination on
29 the tax reduction application, give reasonable public notice of the preliminary findings
30 and determination, and invite public comment on the preliminary findings and
31 determination during a 30-day period for receipt of public comment;

1 (5) shall offer to appear before the Legislative Budget and Audit
2 Committee, on a day that is not earlier than 10 days and not later than 20 days after
3 giving public notice under (4) of this subsection, to provide the committee a review of
4 the commissioner's preliminary findings and determination on the tax reduction
5 application and administrative process; if the Legislative Budget and Audit Committee
6 accepts the commissioner's offer, the committee shall give notice of the committee's
7 meeting to all members of the legislature;

8 (6) shall make copies of the preliminary findings and determination
9 available to

10 (A) the presiding officer of each house of the legislature;

11 (B) the chairs of the legislature's standing committees on
12 resources; and

13 (C) the chairs of the legislature's special committees on oil and
14 gas, if any; and

15 (7) shall, within 30 days after the close of the public comment period
16 under (4) of this subsection,

17 (A) prepare a summary of the public response to the
18 commissioner's preliminary findings and determination;

19 (B) make a final findings and determination; the
20 commissioner's final findings and determination prepared under this
21 subparagraph regarding a tax reduction is final and not appealable to the court;

22 (C) transmit a copy of the final findings and determination to
23 the taxpayer; and

24 (D) make copies of the final findings and determination
25 available to each person who submitted comment under (4) of this subsection
26 and who has filed a request for the copies.

27 **Sec. 43.55.410. Payment of tax.** A taxpayer shall pay the tax due under
28 AS 43.55.400 quarterly. The tax is due on the 20th day of each calendar month on oil
29 produced from each lease or property subject to the tax levied by AS 43.55.400 during
30 the preceding calendar quarter. If the tax is not paid before the end of the month in
31 which it becomes due, the tax becomes delinquent. For purposes of this section,

1 "calendar quarter" means each of the three-month periods ending March 31, June 30,
2 September 30, and December 31.

3 **Sec. 43.55.420. Tax credit for new investments.** (a) Subject to the terms and
4 conditions of this section, on oil subject to tax under AS 43.55.400 produced on or
5 after the effective date of this Act, from a lease or property, a credit against the
6 production tax due under AS 43.55.400 is allowed for 15 percent of the total
7 exploration expenditures that qualify under (c) of this section.

8 (b) The tax credit authorized under this section may not exceed one-half of the
9 taxpayer's tax liability under AS 43.55.400.

10 (c) To qualify for the tax credit under (a) of this section, an exploration
11 expenditure

12 (1) must be incurred

13 (A) for seismic or geophysical exploration costs that are
14 incurred generally and that are not connected with a specific well;

15 (B) if for an exploration well,

16 (i) by a taxpayer that holds an interest in the exploration
17 well for which the production tax credit is claimed;

18 (ii) for either a discovery well or a dry hole; and

19 (iii) for goods, services, or rentals of personal property
20 reasonably required for the surface preparation, drilling, casing,
21 cementing, and logging of an exploration well, and, in the case of a dry
22 hole, for the expenses required for abandonment if the well is
23 abandoned within 18 months after the date the well was spudded; and

24 (2) may not be incurred for testing, stimulation, or completion costs;
25 administration, supervision, engineering, or lease operating costs; geological or
26 management costs; community relations or environmental costs; bonuses, taxes, or
27 other payments to governments related to the well; or other costs that are generally
28 recognized as indirect costs or financing costs.

29 (d) To claim and obtain a tax credit under this section,

30 (1) a taxpayer shall, in a form prescribed by the department and within
31 six months of the completion of the exploration activity, claim the credit and submit

1 information sufficient to demonstrate to the department's satisfaction that the claimed
2 exploration expenditures qualify under this section;

3 (2) a taxpayer shall agree, in writing,

4 (A) to notify the Department of Natural Resources, within 30
5 days after completion of seismic or geophysical data processing, completion of
6 a well, or filing of a claim for credit, whichever is the latest, for which
7 exploration costs are claimed, of the date of completion, and submit a report to
8 that department describing the processing sequence and providing a list of data
9 sets available; the commissioner of natural resources shall, on receipt of all
10 evidence sufficient for the commissioner to evaluate the taxpayer's claim,
11 make that determination within 60 days; and

12 (B) to provide to the Department of Natural Resources, within
13 30 days after the date of a request, specific data sets, ancillary data, and reports
14 identified in (A) of this paragraph; notwithstanding any provision of AS 38 to
15 the contrary, the Department of Natural Resources shall hold confidential for
16 10 years following the completion date information provided under this
17 subparagraph, at which time that department shall release the information after
18 30 days' public notice;

19 (3) if more than one taxpayer who incurs expenses in exploring for
20 new oil reserves holds an interest in a well or seismic exploration, each taxpayer may
21 claim an amount of credit that is proportional to the taxpayer's cost incurred;

22 (4) the department may exercise the full extent of its powers to verify
23 that the claimed expenditures are qualified exploration expenditures under this section;
24 and

25 (5) if the department is satisfied that the taxpayer's claimed
26 expenditures are qualified under this section, the department shall issue to the taxpayer
27 a tax credit certificate for the amount of credit to be allowed against taxes due under
28 AS 43.55.400.

29 (e) Except as limited by (f) of this section, a taxpayer may transfer, convey, or
30 sell its tax credit certificate to any person, and any person who receives a tax credit
31 certificate may also transfer, convey, or sell the certificate.

1 (f) A taxpayer may not purchase or take receipt of a tax credit certificate under
2 this section unless the taxpayer provides evidence to the commissioner of exploration
3 activities that qualify under (c) of this section undertaken by the taxpayer or by an
4 agent of the taxpayer within the three years immediately preceding acquisition of the
5 tax credit certificate. A tax credit certificate obtained in violation of this section is
6 void.

7 (g) A taxpayer that purchases a tax credit certificate may apply the credits
8 against its tax liability under AS 43.55.400. Regardless of the price the taxpayer paid
9 for the certificate, the taxpayer may receive a credit against its tax liability under
10 AS 43.55.400 for the full amount of the credit, but for not more than the amount for
11 which the certificate is issued. A tax credit allowed under this section may not be
12 applied more than once.

13 (h) For a tax credit under this section,

14 (1) the amount of the credit that may be applied against the production
15 tax for each calendar quarter may not exceed the total tax liability of the taxpayer
16 applying the credit for the same period; and

17 (2) an amount of the tax credit that is greater than the total tax liability
18 of the taxpayer applying the credit for a calendar quarter may be carried forward and
19 applied against the taxpayer's tax liability under AS 43.55.400 in one or more
20 immediately following calendar quarters.

21 (i) Notwithstanding any other provision of this title, of AS 31.05, or of
22 AS 40.25.100, the department shall provide to the Department of Natural Resources
23 information submitted with a claim under this section to support the eligibility of an
24 exploration expenditure, including seismic exploration data and well data, and any
25 information described in (f)(2) of this section received by the department.

26 * **Sec. 21.** AS 43.82.210(a) is amended to read:

27 (a) If the commissioner approves an application and proposed project plan
28 under AS 43.82.140, the commissioner may develop proposed terms for inclusion in a
29 contract under AS 43.82.020 for periodic payment in lieu of one or more of the
30 following taxes that otherwise would be imposed by the state or a municipality on the
31 qualified sponsor or member of a qualified sponsor group as a consequence of

1 participating in an approved qualified project:

2 (1) [OIL AND] gas production taxes, the net profits tax on oil, and
3 the oil surcharges under AS 43.55;

4 (2) oil and gas exploration, production, and pipeline transportation
5 property taxes under AS 43.56;

6 (3) [REPEALED

7 (4)] Alaska net income tax under AS 43.20;

8 (4) [(5)] municipal sales and use tax under AS 29.45.650 - 29.45.710;

9 (5) [(6)] municipal property tax under AS 29.45.010 - 29.45.250 or
10 29.45.550 - 29.45.600;

11 (6) [(7)] municipal special assessments under AS 29.46;

12 (7) [(8)] a comparable tax or levy imposed by the state or a
13 municipality after June 18, 1998;

14 (8) [(9)] other state or municipal taxes or categories of taxes identified
15 by the commissioner.

16 * **Sec. 22.** AS 43.55.011, 43.55.012, 43.55.013(b), 43.55.013(d), and 43.55.900(12) are
17 repealed.

18 * **Sec. 23.** The uncodified law of the State of Alaska is amended by adding a new section to
19 read:

20 TRANSITIONAL PROVISION FOR EXPIRING OIL PRODUCTION TAX
21 CREDIT. Notwithstanding the amendments to AS 43.55.025 made by secs. 7 - 12 of this Act
22 limiting application of the production tax credit under that section to gas, a taxpayer who, on
23 January 1, 2006, holds production credits for oil that are subject to the carry-forward
24 provision of AS 43.55.025(i), may apply the unused amounts of those credits against the net
25 profits tax on oil due under AS 43.55.400.

26 * **Sec. 24.** The uncodified law of the State of Alaska is amended by adding a new section to
27 read:

28 RETROACTIVE APPLICATION. This Act is retroactive to January 1, 2006, and
29 applies to oil produced after December 31, 2005, that is subject to the properties production
30 tax on oil under AS 43.55.

31 * **Sec. 25.** This Act takes effect immediately under AS 01.10.070(c).