

FISCAL NOTE

STATE OF ALASKA
2006 LEGISLATIVE SESSION

Fiscal Note Number: 1
 Bill Version: CSHB 294(O&G)
 (H) Publish Date: 2/3/06

Revision Date/Time (Note if correction): _____ Dept. Affected: Revenue
 Title Exploration and Development Incentive RDU Revenue Operations
Tax Credit Component Tax Division
 Sponsor Rep. Chenault
 Requester House Committee on Oil and Gas Component No. 2476

Expenditures/Revenues (Thousands of Dollars)

Note: Amounts do not include inflation unless otherwise noted below.

OPERATING EXPENDITURES	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012
Personal Services						
Travel						
Contractual						
Supplies						
Equipment						
Land & Structures						
Grants & Claims						
Miscellaneous						
TOTAL OPERATING	0.0	0.0	0.0	0.0	0.0	0.0

CAPITAL EXPENDITURES						
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CHANGE IN REVENUES ()	<i>See Analysis</i> -----
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FUND SOURCE (Thousands of Dollars)

1002 Federal Receipts						
1003 GF Match						
1004 GF						
1005 GF/Program Receipts						
1037 GF/Mental Health						
Other (Specify Type--Do not abbreviate)						
TOTAL	0.0	0.0	0.0	0.0	0.0	0.0

Estimate of any current year (FY2006) cost: 0.0

Check this box (X) if funding for this bill is included in the Governor's FY 2007 budget proposal:

POSITIONS

Full-time						
Part-time						
Temporary						

ANALYSIS: (Attach a separate page if necessary)

This bill increases and extends the existing credit against the corporate income tax liability for exploration and development of natural gas south of the Brooks Range, particularly in Cook Inlet. The bill retains the following characteristics:

1. Only exploration and development outlays for gas wells qualify for the credit.
2. The credit may be applied against the taxpayers total income tax liability. The credit may offset tax arising from oil production and pipeline activity, as well as gas exploration and production.
3. Unused credits may be carried forward to the subsequent five years.
4. Once production gas production begins, additional outlays for the field cease to accrue credits.

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 Division Tax Division Date/Time 1/24/06 11 a.m.
 Approved by: Jerry Burnett, ASD Date _____
 Agency Department of Revenue

FISCAL NOTE #1

STATE OF ALASKA
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BILL NO. CSHB 294(O&G)

ANALYSIS CONTINUATION

The bill makes the following changes:

1. The bill increases the credit to 25 percent of qualified capital investment and qualified services (increased from 10 percent).
2. The credit may eliminate the total tax liability for a tax year (up from a credit limit of 50% of the year's tax).
3. The credit is expanded to include dry-hole costs (currently only expenditures for successful wells qualify).
4. The life of the credit program is extended to a repeal date of January 1, 2020 (from January 1, 2013).

In the two tax years since the credit's enactment, taxpayers have claimed credits for three fields. Credits claimed to date total \$6.3 million.

It is difficult to assess the overall revenue effect of a tax credit. On the positive side, if exploration activity results in the discovery of developable reserves, the State could receive royalty and production taxes that more than offset the revenue loss due to the tax credit. The availability of the credit could enhance the attractiveness of exploring for new oil and gas resources.

The credit is targeted to natural gas exploration and development activity south of the Brooks Range, while the bulk of current oil and gas corporate income tax against which this credit could potentially be taken is from production and transportation of high-value oil on the North Slope. As a result, an oil and gas corporation that has profitable operations on the North Slope could, by investing in development outside of the Slope, reduce its total oil and gas corporate income tax liability through this credit provision.

The key State revenue issue with regard to this tax credit is the extent to which the additional incentive is needed to encourage exploration and development. Natural gas price levels are critical in determining the commercial incentive to explore and develop, and probably are a bigger factor in a commercial venture than the tax credits in this legislation, but this tax credit could also play a factor in a corporate decision to invest in exploration and development. The primary risk to the State is a situation in which high gas prices spur development on their own, regardless of the tax credit, leaving the State with a tax credit that is no longer necessary to promote development.