

FISCAL NOTE

STATE OF ALASKA
2010 LEGISLATIVE SESSION

Fiscal Note Number: 1
 Bill Version: CSSB 309(RES)
 (S) Publish Date: 4/10/10

Identifier (file name): CSSB309(RES)-REV-TAX-04-10-10 Dept. Affected: Revenue
 Title: Gas Exploration / Development Tax Credit RDU: Taxation and Treasury
 Sponsor: Rules by Request Component: Tax Division
 Requester: Senate Resources Committee Component Number: 2476

Expenditures/Revenues (Thousands of Dollars)

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

OPERATING EXPENDITURES	Appropriation Required	Information					
	FY 2011	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016
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	0.0

CAPITAL EXPENDITURES							
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CHANGE IN REVENUES ()	***	***	***	***	***	***	***
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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 Interagency Receipts							
TOTAL	0.0	0.0	0.0	0.0	0.0	0.0	0.0

Estimate of any current year (FY2010) cost: _____

POSITIONS

Full-time							
Part-time							
Temporary							

ANALYSIS: (Attach a separate page if necessary)

*** Revenue impact is indeterminate. Please see attached for analysis.

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 Date/Time 04-10-10; 12:25am
 Date 04-10-10; 8:39am

FISCAL NOTE #1

STATE OF ALASKA
2010 LEGISLATIVE SESSION

BILL NO. CSSB 309(RES)

ANALYSIS CONTINUATION

Bill Language:

This bill makes several changes to credits to both the production tax system and the oil and gas corporate income tax system as follows.

The bill extends the existing Gas Exploration and Development tax credit for investment in qualified capital expenditures and related qualified services, dealing with those capital expenditures. The Gas Exploration and Development tax credit is taken against the Corporate Income Tax (CIT), before any other federal or state credits are taken. One hundred percent of a company's tax liability can be offset by this credit in a given tax year. Additionally, credits from prior years must be used before current year credits can be used. A credit must be used within five years, otherwise it expires.

Currently, 10% of qualifying capital expenditures and operating expenditures can be taken as capital credits, sunsetting in 2013. The bill would increase the credit rate to 25% for qualifying capital and service expenditures incurred after June 30, 2011 for tax years beginning after December 31, 2010. The 25% rate would sunset on January 1, 2020. Under existing law all remaining tax credits under AS 43.20.043 expire December 31, 2017. This bill would change the sunset date to expire the tax year ending December 31, 2024.

In order for an expenditure to qualify for the 10% rate, cash expenditures or binding payment agreements must be made between June 30, 2003 and before July 1, 2011. Expenditures qualify for the 25% rate cash expenditures or binding payment agreements must be made after June 30, 2011.

The credit is limited to activities south of 68 degrees North latitude and exempts delivery of Alaska North Slope natural gas to tidewater.

It is difficult to determine the number of taxpayers who would take advantage of the corporate income tax credit, the degree to which the credit would be utilized, and other exogenous variables impacting the revenues the state would collect. Reduction in CIT are indeterminate at this time.

The bill also expands the production tax credit authorized at AS 43.55.025 to a maximum credit of 100 percent of the total exploration expenditures for drilling in the Cook Inlet basin. The bill proposes to grant the full 100 percent credit of exploration expenditures to the first person to qualify under this credit, 90 percent to the second person, and 80 percent to the third person. Only expenditures occurring after July 1, 2010 and before July 1, 2016 would qualify under the bill. If the exploration well for which credit is received results in paying quantities of production, the person who received the credit will pay back to the state 50 percent of the credit received in monthly installments over 10 years.

The fiscal impact of this provision of the bill is indeterminate. Several companies have sought credits under the .025 exploration incentive credit in the Cook Inlet basin, for which the state has reimbursed up to 40 percent of the companies' capital costs. Our records indicate that total costs for drilling in the Cook Inlet basin could be as high as \$5 million or more. A recent study by the Petrotechnical Resources of Alaska (PRA) indicates that the cost of drilling 128 wells in the Cook Inlet basin over the period from 2001 through 2009 cost between \$1.0 and \$1.2 billion. This figure includes not just exploration wells, but presumably cheaper development wells. At the high end of the range, this amounts to a per-well cost of \$9.4 million. PRA further reports that over the next decade 185 new wells will need to be drilled to meet demand, and that capital costs will increase to \$1.85 to 2.8 billion, with per-well costs of \$10- \$15 million. If their report is correct, three persons receiving credit under this provision will cost the state up to \$40 million in tax credits. If all three of the persons found paying quantities of oil or gas, the state could be reimbursed about \$20 million of the \$40 million in credits.

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ANALYSIS CONTINUATION

The bill also removes from law two existing requirements relating to production tax credits. First, it removes the limitation that credits received for capital expenditures for oil and gas operations be taken over two years. The calculation of the revenue impact for this provision is difficult for two reasons: (1) the timing of the revenue impact will depend upon when the bill is signed into law; and (2) the amount the state may potentially be expected to pay to purchase credits is conditioned in part on removing the reinvestment requirement discussed in #2 above, and the timing of the payment will depend on whether companies will immediately seek reimbursement for their credits.

We assume for this provision a worse-case scenario where all credits held by companies with production tax liabilities are used in FY 2010 or FY 2011. This would cost the state approximately \$225 million in reduced taxes between the two years. For companies that are holding credit certificates and are not expected to incur a tax liability in FY 2010 or FY 2011, we estimate an additional liability of up to \$150 million over previous expectations for the two fiscal years. These impacts could spill into FY 2012, should companies delay seeking reimbursement. Beyond FY 2012, revenue impacts are expected to be negligible.

Second, it removes the requirement that companies that seek cash refunds from the state for credits reinvest in capital expenditures an amount equivalent to the cash reimbursement sought. This provision is expected to be revenue neutral, as credits are either taken against tax liabilities or as a refund in full, with no differential impact to the state.

Expenditures: The provisions of this bill could be implemented with existing state resources. No additional personnel or resources would be needed, since the DOR is already performing these duties.