

CS FOR HOUSE BILL NO. 100(RES)

IN THE LEGISLATURE OF THE STATE OF ALASKA

TWENTY-NINTH LEGISLATURE - FIRST SESSION

BY THE HOUSE RESOURCES COMMITTEE

Offered: 3/27/15

Referred: Finance

Sponsor(s): REPRESENTATIVES CHENAULT, Olson

A BILL

FOR AN ACT ENTITLED

1 **"An Act establishing a credit against the net income tax for an in-state processing**
2 **facility that manufactures urea or ammonia; relating to establishing the value of the**
3 **state's royalty share of gas production based on contracts with certain in-state**
4 **processing facilities that manufacture urea or ammonia; and providing for an effective**
5 **date."**

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

7 *** Section 1.** AS 38.05.180 is amended by adding a new subsection to read:

8 *(l)* For a contract that is entered into on or after the effective date of this
9 subsection, within 90 days after the written request of a lessee of a lease issued under
10 this section, in order to establish the value of the state's royalty share of gas production
11 sold by the lessee under the contract, the commissioner may enter into an agreement
12 with the lessee to use or accept as a price for the gas an amount that is not less than the
13 price established in the contract between the lessee and an in-state processing facility

1 whose primary function is the manufacturing and sale of urea or ammonia to third
 2 parties in arm's length transactions, not to exceed the amount that would otherwise be
 3 due under the lease. The commissioner may enter into an agreement under this
 4 subsection if

5 (1) the commissioner makes a written finding that

6 (A) it is in the best interest of the state; and

7 (B) based on clear and convincing evidence, the contract price
 8 is not unreasonably low; and

9 (2) the primary function of the in-state processing facility is to engage
 10 in the production of urea or ammonia, and the owner of the in-state processing facility
 11 with which the lessee has entered into the contract is not affiliated with the lessee or
 12 with a subsequent purchaser of more than 10 percent of the urea or ammonia
 13 produced; for purposes of this paragraph, the parties to a contract or purchase are
 14 affiliated if, in the judgment of the commissioner, one of the parties to the contract or
 15 purchase exercises substantial influence over the policies and actions of the other as
 16 evidenced by relationship based on common ownership or family interest or by action
 17 taken in concert without regard to whether that influence is based on stockholdings,
 18 stockholders, officers, or directors.

19 * **Sec. 2.** AS 43.20 is amended by adding a new section to read:

20 **Sec. 43.20.052. Credit for the in-state manufacture of urea or ammonia.**

21 (a) A taxpayer that owns an in-state processing facility whose primary function is the
 22 manufacturing and sale of urea or ammonia to third parties in arm's length transactions
 23 is entitled to receive a credit under this section against the tax due under this chapter.
 24 The credit under this section is equal to the amount of royalty paid under
 25 AS 38.05.135 on natural gas from a state lease that is delivered in the taxable year of
 26 the taxpayer to the in-state processing facility owned by the taxpayer entitled to a
 27 credit under this section.

28 (b) A tax credit or portion of a tax credit under this section may not be used to
 29 reduce the taxpayer's tax liability under this chapter below zero. An unused tax credit
 30 or portion of a tax credit received under this section may not be carried forward for
 31 use in a taxable year of the taxpayer after the taxable year in which the credit is

1 earned.

2 (c) To claim a credit under this section, the taxpayer shall report to the
3 department the name of each lessee delivering natural gas to the in-state processing
4 facility, the identification and quantity of natural gas from each state lease that is the
5 source of the natural gas, and the price for the natural gas established in a contract
6 between the owner of the in-state processing facility and the lessee delivering the
7 natural gas.

8 * **Sec. 3.** AS 43.20.052 is repealed.

9 * **Sec. 4.** The uncodified law of the State of Alaska is amended by adding a new section to
10 read:

11 **APPLICABILITY.** AS 43.20.052, added by sec. 2 of this Act, applies to the amount of
12 royalty paid under AS 38.05.135 on natural gas from a state lease that is delivered to a facility
13 on or after July 1, 2017, and before January 1, 2027.

14 * **Sec. 5.** Sections 1, 2, and 4 of this Act take effect July 1, 2017.

15 * **Sec. 6.** Section 3 of this Act takes effect January 1, 2027.