

HOUSE BILL NO. 326

IN THE LEGISLATURE OF THE STATE OF ALASKA
TWENTY-NINTH LEGISLATURE - SECOND SESSION

BY REPRESENTATIVES GARA, Guttenberg, Kito

Introduced: 2/22/16

Referred: Resources, Finance

A BILL

FOR AN ACT ENTITLED

1 **"An Act bearing the short title of the 'Fair Oil Share and Heavy Oil Production**
2 **Incentive Act'; relating to the oil and gas production tax; relating to an adjustment to**
3 **the calculation of the gross value at the point of production; relating to minimum**
4 **production taxes for oil and gas; relating to a limitation on the use of certain tax credits;**
5 **relating to the calculation of installment payments of the oil and gas production tax;**
6 **creating a heavy oil production enhancement credit; and providing for an effective**
7 **date."**

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

9 * **Section 1.** The uncodified law of the State of Alaska is amended by adding a new section
10 to read:

11 SHORT TITLE. This Act may be known as the Fair Oil Share and Heavy Oil
12 Production Incentive Act.

13 * **Sec. 2.** AS 43.55.011(f) is amended to read:

1 (f) **Except as provided in AS 43.55.160(f) and (g), the** [THE] levy of tax
2 under (e) of this section for

3 (1) oil and gas produced before **January 1, 2017** [JANUARY 1,
4 2022], from leases or properties that include land north of 68 degrees North latitude,
5 other than gas subject to (o) of this section, may not be less than

6 (A) four percent of the gross value at the point of production
7 when the average price per barrel for Alaska North Slope crude oil for sale on
8 the United States West Coast during the calendar year for which the tax is due
9 is more than \$25;

10 (B) three percent of the gross value at the point of production
11 when the average price per barrel for Alaska North Slope crude oil for sale on
12 the United States West Coast during the calendar year for which the tax is due
13 is over \$20 but not over \$25;

14 (C) two percent of the gross value at the point of production
15 when the average price per barrel for Alaska North Slope crude oil for sale on
16 the United States West Coast during the calendar year for which the tax is due
17 is over \$17.50 but not over \$20;

18 (D) one percent of the gross value at the point of production
19 when the average price per barrel for Alaska North Slope crude oil for sale on
20 the United States West Coast during the calendar year for which the tax is due
21 is over \$15 but not over \$17.50; or

22 (E) zero percent of the gross value at the point of production
23 when the average price per barrel for Alaska North Slope crude oil for sale on
24 the United States West Coast during the calendar year for which the tax is due
25 is \$15 or less; and

26 (2) **oil and gas produced on and after January 1, 2022, from leases**
27 **or properties that include land north of 68 degrees North latitude, may not be**
28 **less than the greater of the amount calculated in (q) of this section or**

29 **(A) 10 percent of the gross value at the point of production**
30 **when the average price per barrel for Alaska North Slope crude oil for**
31 **sale on the United States West Coast during the calendar year for which**

1 the tax is due is more than \$65;

2 (B) eight percent of the gross value at the point of
 3 production when the average price per barrel for Alaska North Slope
 4 crude oil for sale on the United States West Coast during the calendar
 5 year for which the tax is due is over \$55 but not over \$65;

6 (C) six percent of the gross value at the point of production
 7 when the average price per barrel for Alaska North Slope crude oil for
 8 sale on the United States West Coast during the calendar year for which
 9 the tax is due is over \$45 but not over \$55; or

10 (D) five percent of the gross value at the point of production
 11 when the average price per barrel for Alaska North Slope crude oil for
 12 sale on the United States West Coast during the calendar year for which
 13 the tax is due is \$45 or less; and

14 (3) oil produced on and after January 1, 2022, from leases or properties
 15 that include land north of 68 degrees North latitude, may not be less than the greater
 16 of the amount calculated in (q) of this section or

17 (A) 10 [FOUR] percent of the gross value at the point of
 18 production when the average price per barrel for Alaska North Slope crude oil
 19 for sale on the United States West Coast during the calendar year for which the
 20 tax is due is more than \$65 [\$25];

21 (B) eight [THREE] percent of the gross value at the point of
 22 production when the average price per barrel for Alaska North Slope crude oil
 23 for sale on the United States West Coast during the calendar year for which the
 24 tax is due is over \$55 [\$20] but not over \$65 [\$25];

25 (C) Six [TWO] percent of the gross value at the point of
 26 production when the average price per barrel for Alaska North Slope crude oil
 27 for sale on the United States West Coast during the calendar year for which the
 28 tax is due is over \$45 [\$17.50] but not over \$55 [\$20]; or

29 (D) five [ONE PERCENT OF THE GROSS VALUE AT THE
 30 POINT OF PRODUCTION WHEN THE AVERAGE PRICE PER BARREL
 31 FOR ALASKA NORTH SLOPE CRUDE OIL FOR SALE ON THE UNITED

1 STATES WEST COAST DURING THE CALENDAR YEAR FOR WHICH
 2 THE TAX IS DUE IS OVER \$15 BUT NOT OVER \$17.50; OR

3 (E) ZERO] percent of the gross value at the point of production
 4 when the average price per barrel for Alaska North Slope crude oil for sale on
 5 the United States West Coast during the calendar year for which the tax is due
 6 is \$40 [\$15] or less.

7 * **Sec. 3.** AS 43.55.011 is amended by adding a new subsection to read:

8 (q) The levy of tax under (e) of this section for

9 (1) oil and gas produced before January 1, 2022, except as otherwise
 10 provided in (f), (j), (k), (o), and (p) of this section, may not be less than the greater of
 11 the amount calculated in (f) of this section or the production tax value of oil or gas
 12 calculated under AS 43.55.160 multiplied by

13 (A) if the annual average price per barrel for Alaska North
 14 Slope crude oil for sale on the United States West Coast during the calendar
 15 month is greater than \$85, the sum of 20 percent and the product of 0.3 percent
 16 multiplied by the number that represents the difference between the annual
 17 average price per barrel for Alaska North Slope crude oil for sale on the United
 18 States West Coast during the calendar month and \$85, except that the sum
 19 determined under this subparagraph may not exceed 50 percent; or

20 (B) if the annual average price per barrel for Alaska North
 21 Slope crude oil for sale on the United States West Coast during the calendar
 22 month is less than or equal to \$85, 20 percent;

23 (2) oil produced on and after January 1, 2022, may not be less than the
 24 greater of the amount calculated in (f) of this section or the production tax value of oil
 25 or gas calculated under AS 43.55.160 multiplied by

26 (A) if the annual average price per barrel for Alaska North
 27 Slope crude oil for sale on the United States West Coast during the calendar
 28 month is greater than \$85, the sum of 20 percent and the product of 0.3 percent
 29 multiplied by the number that represents the difference between the annual
 30 average price per barrel for Alaska North Slope crude oil for sale on the United
 31 States West Coast during the calendar month and \$85, except that the sum

1 determined under this subparagraph may not exceed 50 percent; or

2 (B) if the annual average price per barrel for Alaska North
3 Slope crude oil for sale on the United States West Coast during the calendar
4 month is less than or equal to \$85, 20 percent.

5 * **Sec. 4.** AS 43.55.020(a) is amended to read:

6 (a) For a calendar year, a producer subject to tax under AS 43.55.011 shall pay
7 the tax as follows:

8 (1) for oil and gas produced before January 1, 2014, an installment
9 payment of the estimated tax levied by AS 43.55.011(e), net of any tax credits applied
10 as allowed by law, is due for each month of the calendar year on the last day of the
11 following month; except as otherwise provided under (2) of this subsection, the
12 amount of the installment payment is the sum of the following amounts, less 1/12 of
13 the tax credits that are allowed by law to be applied against the tax levied by
14 AS 43.55.011(e) for the calendar year, but the amount of the installment payment may
15 not be less than zero:

16 (A) for oil and gas not subject to AS 43.55.011(o) or (p)
17 produced from leases or properties in the state outside the Cook Inlet
18 sedimentary basin, other than leases or properties subject to AS 43.55.011(f),
19 the greater of

20 (i) zero; or

21 (ii) the sum of 25 percent and the tax rate calculated for
22 the month under AS 43.55.011(g) multiplied by the remainder obtained
23 by subtracting 1/12 of the producer's adjusted lease expenditures for the
24 calendar year of production under AS 43.55.165 and 43.55.170 that are
25 deductible for the oil and gas under AS 43.55.160 from the gross value
26 at the point of production of the oil and gas produced from the leases or
27 properties during the month for which the installment payment is
28 calculated;

29 (B) for oil and gas produced from leases or properties subject
30 to AS 43.55.011(f), the greatest of

31 (i) zero;

1 (ii) zero percent, one percent, two percent, three
 2 percent, or four percent, as applicable, of the gross value at the point of
 3 production of the oil and gas produced from the leases or properties
 4 during the month for which the installment payment is calculated; or

5 (iii) the sum of 25 percent and the tax rate calculated for
 6 the month under AS 43.55.011(g) multiplied by the remainder obtained
 7 by subtracting 1/12 of the producer's adjusted lease expenditures for the
 8 calendar year of production under AS 43.55.165 and 43.55.170 that are
 9 deductible for the oil and gas under AS 43.55.160 from the gross value
 10 at the point of production of the oil and gas produced from those leases
 11 or properties during the month for which the installment payment is
 12 calculated;

13 (C) for oil or gas subject to AS 43.55.011(j), (k), or (o), for
 14 each lease or property, the greater of

15 (i) zero; or

16 (ii) the sum of 25 percent and the tax rate calculated for
 17 the month under AS 43.55.011(g) multiplied by the remainder obtained
 18 by subtracting 1/12 of the producer's adjusted lease expenditures for the
 19 calendar year of production under AS 43.55.165 and 43.55.170 that are
 20 deductible under AS 43.55.160 for the oil or gas, respectively,
 21 produced from the lease or property from the gross value at the point of
 22 production of the oil or gas, respectively, produced from the lease or
 23 property during the month for which the installment payment is
 24 calculated;

25 (D) for oil and gas subject to AS 43.55.011(p), the lesser of

26 (i) the sum of 25 percent and the tax rate calculated for
 27 the month under AS 43.55.011(g) multiplied by the remainder obtained
 28 by subtracting 1/12 of the producer's adjusted lease expenditures for the
 29 calendar year of production under AS 43.55.165 and 43.55.170 that are
 30 deductible for the oil and gas under AS 43.55.160 from the gross value
 31 at the point of production of the oil and gas produced from the leases or

1 properties during the month for which the installment payment is
2 calculated, but not less than zero; or

3 (ii) four percent of the gross value at the point of
4 production of the oil and gas produced from the leases or properties
5 during the month, but not less than zero;

6 (2) an amount calculated under (1)(C) of this subsection for oil or gas
7 subject to AS 43.55.011(j), (k), or (o) may not exceed the product obtained by
8 carrying out the calculation set out in AS 43.55.011(j)(1) or (2) or 43.55.011(o), as
9 applicable, for gas or set out in AS 43.55.011(k)(1) or (2), as applicable, for oil, but
10 substituting in AS 43.55.011(j)(1)(A) or (2)(A) or 43.55.011(o), as applicable, the
11 amount of taxable gas produced during the month for the amount of taxable gas
12 produced during the calendar year and substituting in AS 43.55.011(k)(1)(A) or
13 (2)(A), as applicable, the amount of taxable oil produced during the month for the
14 amount of taxable oil produced during the calendar year;

15 (3) an installment payment of the estimated tax levied by
16 AS 43.55.011(i) for each lease or property is due for each month of the calendar year
17 on the last day of the following month; the amount of the installment payment is the
18 sum of

19 (A) the applicable tax rate for oil provided under
20 AS 43.55.011(i), multiplied by the gross value at the point of production of the
21 oil taxable under AS 43.55.011(i) and produced from the lease or property
22 during the month; and

23 (B) the applicable tax rate for gas provided under
24 AS 43.55.011(i), multiplied by the gross value at the point of production of the
25 gas taxable under AS 43.55.011(i) and produced from the lease or property
26 during the month;

27 (4) any amount of tax levied by AS 43.55.011, net of any credits
28 applied as allowed by law, that exceeds the total of the amounts due as installment
29 payments of estimated tax is due on March 31 of the year following the calendar year
30 of production;

31 (5) for oil and gas produced on and after January 1, 2014, and before

1 **January 1, 2017** [JANUARY 1, 2022], an installment payment of the estimated tax
2 levied by AS 43.55.011(e), net of any tax credits applied as allowed by law, is due for
3 each month of the calendar year on the last day of the following month; except as
4 otherwise provided under **(7)** [(6)] of this subsection, the amount of the installment
5 payment is the sum of the following amounts, less 1/12 of the tax credits that are
6 allowed by law to be applied against the tax levied by AS 43.55.011(e) for the
7 calendar year, but the amount of the installment payment may not be less than zero:

8 (A) for oil and gas not subject to AS 43.55.011(o) or (p)
9 produced from leases or properties in the state outside the Cook Inlet
10 sedimentary basin, other than leases or properties subject to AS 43.55.011(f),
11 the greater of

12 (i) zero; or

13 (ii) 35 percent multiplied by the remainder obtained by
14 subtracting 1/12 of the producer's adjusted lease expenditures for the
15 calendar year of production under AS 43.55.165 and 43.55.170 that are
16 deductible for the oil and gas under AS 43.55.160 from the gross value
17 at the point of production of the oil and gas produced from the leases or
18 properties during the month for which the installment payment is
19 calculated;

20 (B) for oil and gas produced from leases or properties subject
21 to AS 43.55.011(f), the greatest of

22 (i) zero;

23 (ii) zero percent, one percent, two percent, three
24 percent, or four percent, as applicable, of the gross value at the point of
25 production of the oil and gas produced from the leases or properties
26 during the month for which the installment payment is calculated; or

27 (iii) 35 percent multiplied by the remainder obtained by
28 subtracting 1/12 of the producer's adjusted lease expenditures for the
29 calendar year of production under AS 43.55.165 and 43.55.170 that are
30 deductible for the oil and gas under AS 43.55.160 from the gross value
31 at the point of production of the oil and gas produced from those leases

1 or properties during the month for which the installment payment is
 2 calculated, except that, for the purposes of this calculation, a reduction
 3 from the gross value at the point of production may apply for oil and
 4 gas subject to AS 43.55.160(f) or (g);

5 (C) for oil or gas subject to AS 43.55.011(j), (k), or (o), for
 6 each lease or property, the greater of

7 (i) zero; or

8 (ii) 35 percent multiplied by the remainder obtained by
 9 subtracting 1/12 of the producer's adjusted lease expenditures for the
 10 calendar year of production under AS 43.55.165 and 43.55.170 that are
 11 deductible under AS 43.55.160 for the oil or gas, respectively,
 12 produced from the lease or property from the gross value at the point of
 13 production of the oil or gas, respectively, produced from the lease or
 14 property during the month for which the installment payment is
 15 calculated;

16 (D) for oil and gas subject to AS 43.55.011(p), the lesser of

17 (i) 35 percent multiplied by the remainder obtained by
 18 subtracting 1/12 of the producer's adjusted lease expenditures for the
 19 calendar year of production under AS 43.55.165 and 43.55.170 that are
 20 deductible for the oil and gas under AS 43.55.160 from the gross value
 21 at the point of production of the oil and gas produced from the leases or
 22 properties during the month for which the installment payment is
 23 calculated, but not less than zero; or

24 (ii) four percent of the gross value at the point of
 25 production of the oil and gas produced from the leases or properties
 26 during the month, but not less than zero;

27 (6) **for oil and gas produced on and after January 1, 2017, and**
 28 **before January 1, 2022, an installment payment of the estimated tax levied by**
 29 **AS 43.55.011(e), net of any tax credits applied as allowed by law, is due for each**
 30 **month of the calendar year on the last day of the following month; except as**
 31 **otherwise provided under (7) of this subsection, the amount of the installment**

1 payment is the sum of the following amounts, less 1/12 of the tax credits that are
2 allowed by law to be applied against the tax levied by AS 43.55.011(e) for the
3 calendar year, but the amount of the installment payment may not be less than
4 zero:

5 (A) for oil and gas not subject to AS 43.55.011(o) or (p)
6 produced from leases or properties in the state outside the Cook Inlet
7 sedimentary basin, other than leases or properties subject to
8 AS 43.55.011(f), the greater of

9 (i) zero; or

10 (ii) 35 percent multiplied by the remainder obtained
11 by subtracting 1/12 of the producer's adjusted lease expenditures
12 for the calendar year of production under AS 43.55.165 and
13 43.55.170 that are deductible for the oil and gas under
14 AS 43.55.160 from the gross value at the point of production of the
15 oil and gas produced from the leases or properties during the
16 month for which the installment payment is calculated;

17 (B) for oil and gas produced from leases or properties
18 subject to AS 43.55.011(f) or (q), the greatest of

19 (i) zero;

20 (ii) the amount applicable under AS 43.55.011(f) or
21 (q) during the month for which the installment payment is
22 calculated; or

23 (iii) 35 percent multiplied by the remainder obtained
24 by subtracting 1/12 of the producer's adjusted lease expenditures
25 for the calendar year of production under AS 43.55.165 and
26 43.55.170 that are deductible for the oil and gas under
27 AS 43.55.160 from the gross value at the point of production of the
28 oil and gas produced from those leases or properties during the
29 month for which the installment payment is calculated, except that,
30 for the purposes of this calculation, a reduction from the gross
31 value at the point of production may apply for oil and gas subject

1 to AS 43.55.160(f) or (g);

2 (C) for oil or gas subject to AS 43.55.011(j), (k), or (o), for
 3 each lease or property, the greater of

4 (i) zero; or

5 (ii) 35 percent multiplied by the remainder obtained
 6 by subtracting 1/12 of the producer's adjusted lease expenditures
 7 for the calendar year of production under AS 43.55.165 and
 8 43.55.170 that are deductible under AS 43.55.160 for the oil or gas,
 9 respectively, produced from the lease or property from the gross
 10 value at the point of production of the oil or gas, respectively,
 11 produced from the lease or property during the month for which
 12 the installment payment is calculated;

13 (D) for oil and gas subject to AS 43.55.011(p), the lesser of

14 (i) 35 percent multiplied by the remainder obtained
 15 by subtracting 1/12 of the producer's adjusted lease expenditures
 16 for the calendar year of production under AS 43.55.165 and
 17 43.55.170 that are deductible for the oil and gas under
 18 AS 43.55.160 from the gross value at the point of production of the
 19 oil and gas produced from the leases or properties during the
 20 month for which the installment payment is calculated, but not less
 21 than zero; or

22 (ii) four percent of the gross value at the point of
 23 production of the oil and gas produced from the leases or
 24 properties during the month, but not less than zero;

25 (7) an amount calculated under (5)(C) or (6)(C) of this subsection for
 26 oil or gas subject to AS 43.55.011(j), (k), or (o) may not exceed the product obtained
 27 by carrying out the calculation set out in AS 43.55.011(j)(1) or (2) or 43.55.011(o), as
 28 applicable, for gas or set out in AS 43.55.011(k)(1) or (2), as applicable, for oil, but
 29 substituting in AS 43.55.011(j)(1)(A) or (2)(A) or 43.55.011(o), as applicable, the
 30 amount of taxable gas produced during the month for the amount of taxable gas
 31 produced during the calendar year and substituting in AS 43.55.011(k)(1)(A) or

1 (2)(A), as applicable, the amount of taxable oil produced during the month for the
2 amount of taxable oil produced during the calendar year;

3 **(8)** [(7)] for oil and gas produced on or after January 1, 2022, an
4 installment payment of the estimated tax levied by AS 43.55.011(e), net of any tax
5 credits applied as allowed by law, is due for each month of the calendar year on the
6 last day of the following month; the amount of the installment payment is the sum of
7 the following amounts, less 1/12 of the tax credits that are allowed by law to be
8 applied against the tax levied by AS 43.55.011(e) for the calendar year, but the amount
9 of the installment payment may not be less than zero:

10 (A) for oil produced from leases or properties that include land
11 north of 68 degrees North latitude, the greatest of

12 (i) zero;

13 (ii) **the amount** [ZERO PERCENT, ONE PERCENT,
14 TWO PERCENT, THREE PERCENT, OR FOUR PERCENT, AS]
15 applicable **under AS 43.55.011(f) or (g)** [, OF THE GROSS VALUE
16 AT THE POINT OF PRODUCTION OF THE OIL PRODUCED
17 FROM THE LEASES OR PROPERTIES] during the month for which
18 the installment payment is calculated; or

19 (iii) 35 percent multiplied by the remainder obtained by
20 subtracting 1/12 of the producer's adjusted lease expenditures for the
21 calendar year of production under AS 43.55.165 and 43.55.170 that are
22 deductible for the oil under AS 43.55.160(h)(1) from the gross value at
23 the point of production of the oil produced from those leases or
24 properties during the month for which the installment payment is
25 calculated, except that, for the purposes of this calculation, a reduction
26 from the gross value at the point of production may apply for oil
27 subject to AS 43.55.160(f) or 43.55.160(f) and (g);

28 (B) for oil produced before or during the last calendar year
29 under AS 43.55.024(b) for which the producer could take a tax credit under
30 AS 43.55.024(a), from leases or properties in the state outside the Cook Inlet
31 sedimentary basin, no part of which is north of 68 degrees North latitude, other

1 than leases or properties subject to AS 43.55.011(p), the greater of

2 (i) zero; or

3 (ii) 35 percent multiplied by the remainder obtained by
4 subtracting 1/12 of the producer's adjusted lease expenditures for the
5 calendar year of production under AS 43.55.165 and 43.55.170 that are
6 deductible for the oil under AS 43.55.160(h)(2) from the gross value at
7 the point of production of the oil produced from the leases or properties
8 during the month for which the installment payment is calculated;

9 (C) for oil and gas produced from leases or properties subject
10 to AS 43.55.011(p), except as otherwise provided under (8) of this subsection,
11 the sum of

12 (i) 35 percent multiplied by the remainder obtained by
13 subtracting 1/12 of the producer's adjusted lease expenditures for the
14 calendar year of production under AS 43.55.165 and 43.55.170 that are
15 deductible for the oil under AS 43.55.160(h)(3) from the gross value at
16 the point of production of the oil produced from the leases or properties
17 during the month for which the installment payment is calculated, but
18 not less than zero; and

19 (ii) 13 percent of the gross value at the point of
20 production of the gas produced from the leases or properties during the
21 month, but not less than zero;

22 (D) for oil produced from leases or properties in the state, no
23 part of which is north of 68 degrees North latitude, other than leases or
24 properties subject to (B) or (C) of this paragraph, the greater of

25 (i) zero; or

26 (ii) 35 percent multiplied by the remainder obtained by
27 subtracting 1/12 of the producer's adjusted lease expenditures for the
28 calendar year of production under AS 43.55.165 and 43.55.170 that are
29 deductible for the oil under AS 43.55.160(h)(4) from the gross value at
30 the point of production of the oil produced from the leases or properties
31 during the month for which the installment payment is calculated;

1 (E) for gas produced from each lease or property in the state,
 2 other than a lease or property subject to AS 43.55.011(p), 13 percent of the
 3 gross value at the point of production of the gas produced from the lease or
 4 property during the month for which the installment payment is calculated, but
 5 not less than zero;

6 (9) [(8)] an amount calculated under (8)(C) [(7)(C)] of this subsection
 7 may not exceed four percent of the gross value at the point of production of the oil and
 8 gas produced from leases or properties subject to AS 43.55.011(p) during the month
 9 for which the installment payment is calculated;

10 (10) [(9)] for purposes of the calculation under (1)(B)(ii), (5)(B)(ii),
 11 (6)(B)(ii), and (8)(A)(ii) [(7)(A)(ii)] of this subsection, the applicable **amount**
 12 [PERCENTAGE OF THE GROSS VALUE AT THE POINT OF PRODUCTION] is
 13 determined under AS 43.55.011(f) [AS 43.55.011(f)(1) OR (2)] but substituting,
 14 **where applicable**, the phrase "month for which the installment payment is calculated"
 15 in AS 43.55.011(f) [AS 43.55.011(f)(1) AND (2)] for the phrase "calendar year for
 16 which the tax is due."

17 * **Sec. 5.** AS 43.55.020(g) is amended to read:

18 (g) Notwithstanding any contrary provision of AS 43.05.225,

19 (1) before January 1, 2014, an unpaid amount of an installment
 20 payment required under (a)(1) - (3) of this section that is not paid when due bears
 21 interest (A) at the rate provided for an underpayment under 26 U.S.C. 6621 (Internal
 22 Revenue Code), as amended, compounded daily, from the date the installment
 23 payment is due until March 31 following the calendar year of production, and (B) as
 24 provided for a delinquent tax under AS 43.05.225 after that March 31; interest accrued
 25 under (A) of this paragraph that remains unpaid after that March 31 is treated as an
 26 addition to tax that bears interest under (B) of this paragraph; an unpaid amount of tax
 27 due under (a)(4) of this section that is not paid when due bears interest as provided for
 28 a delinquent tax under AS 43.05.225;

29 (2) on and after January 1, 2014, an unpaid amount of an installment
 30 payment required under (a)(3), (5), (6), [OR] (7), **or (8)** of this section that is not paid
 31 when due bears interest (A) at the rate provided for an underpayment under 26 U.S.C.

1 6621 (Internal Revenue Code), as amended, compounded daily, from the date the
 2 installment payment is due until March 31 following the calendar year of production,
 3 and (B) as provided for a delinquent tax under AS 43.05.225 after that March 31;
 4 interest accrued under (A) of this paragraph that remains unpaid after that March 31 is
 5 treated as an addition to tax that bears interest under (B) of this paragraph; an unpaid
 6 amount of tax due under (a)(4) of this section that is not paid when due bears interest
 7 as provided for a delinquent tax under AS 43.05.225.

8 * **Sec. 6.** AS 43.55 is amended by adding a new section to read:

9 **Sec. 43.55.022. Limitations on tax credits.** (a) Notwithstanding any contrary
 10 provision of this chapter, the application of tax credits under this chapter is subject to
 11 the limitations set out in this section.

12 (b) A tax credit or a fraction of a tax credit under AS 43.55.023, 43.55.024,
 13 and 43.55.025 may not be subtracted in calculating an installment payment of
 14 estimated tax required under AS 43.55.020(a) if the resulting amount of the
 15 installment payment would be less than the amount in AS 43.55.020(a)(5)(B)(ii),
 16 43.55.020(a)(6)(B)(ii), or 43.55.020(a)(8)(A)(ii), as applicable.

17 (c) The total amount of tax credits under AS 43.55.023, 43.55.024, and
 18 43.55.025 that may be applied against a tax levied by AS 43.55.011(e) for a calendar
 19 year may not exceed the sum of the amount of the tax credits or fractions of tax credits
 20 that are allowed under (b) of this section to be subtracted in calculating the installment
 21 payments of estimated tax for each month in the calendar year.

22 * **Sec. 7.** AS 43.55.023(c) is amended to read:

23 (c) A credit or portion of a credit under this section may not be used to reduce
 24 a person's tax liability under AS 43.55.011(e) for any calendar year below **the amount**
 25 **calculated under AS 43.55.011(f)** [ZERO], and any unused credit or portion of a
 26 credit not used under this subsection may be applied in a later calendar year.

27 * **Sec. 8.** AS 43.55.024(g) is amended to read:

28 (g) A tax credit authorized by (c) of this section may not be applied to reduce
 29 a producer's tax liability for any calendar year under AS 43.55.011(e) below **the**
 30 **amount calculated under AS 43.55.011(f)** [ZERO].

31 * **Sec. 9.** AS 43.55.025(i) is amended to read:

1 (i) For a production tax credit under this section,

2 (1) a credit may not be applied to reduce a taxpayer's tax liability under
3 AS 43.55.011(e) below **the amount calculated under AS 43.55.011(f)** [ZERO] for a
4 calendar year; and

5 (2) an amount of the production tax credit in excess of the amount that
6 may be applied for a calendar year under this subsection may be carried forward and
7 applied against the taxpayer's tax liability under AS 43.55.011(e) in one or more later
8 calendar years.

9 * **Sec. 10.** AS 43.55 is amended by adding a new section to read:

10 **Sec. 43.55.026. Heavy oil research or development expenditure credit.** (a)

11 A person may apply for a tax credit against the tax due under this chapter in the
12 amount of (1) 25 percent of an expenditure for research or development of a new
13 technology or method solely and directly aimed at producing or enhancing the
14 production of heavy oil in the state; or (2) \$2,500,000, whichever is less. A person
15 may not claim a credit under this section for research and development expenditures
16 that were deducted in the calculation of tax liability under AS 43.55.011(e).

17 (b) A taxpayer applying the credit under this section against a liability under
18 this chapter shall claim the credit on the taxpayer's return. A tax credit or portion of a
19 tax credit under this section may not be used to reduce the taxpayer's tax liability
20 under this chapter below zero.

21 (c) An expenditure that is the basis of the credit under this section may not be
22 the basis for

23 (1) a deduction against the tax levied under this chapter;

24 (2) a credit or deduction under another provision of this title; or

25 (3) any federal credit claimed under this title.

26 (d) A person entitled to a tax credit under this section that is greater than the
27 person's tax liability under this chapter may request a refund or payment in the amount
28 of the unused portion of the tax credit. The department may use money available in the
29 oil and gas tax credit fund established in AS 43.55.028 to make a refund or payment
30 under this subsection in whole or in part if the department finds that

31 (1) the claimant does not have an outstanding liability to the state for

1 unpaid delinquent taxes under this title; and

2 (2) after application of all available tax credits, the claimant's total tax
3 liability under this chapter for the calendar year in which the claim is made is zero.

4 (e) A refund under this section does not bear interest.

5 (f) In this section, "heavy oil" means oil with an American Petroleum Institute
6 gravity of less than 18 degrees.

7 * **Sec. 11.** AS 43.55.028(a) is amended to read:

8 (a) The oil and gas tax credit fund is established as a separate fund of the state.
9 The purpose of the fund is to purchase transferable tax credit certificates issued under
10 AS 43.55.023 and production tax credit certificates issued under AS 43.55.025 and to
11 pay refunds and payments claimed under AS 43.20.046, 43.20.047, [OR] 43.20.053,
12 or AS 43.55.026.

13 * **Sec. 12.** AS 43.55.028(g) is amended to read:

14 (g) The department may adopt regulations to carry out the purposes of this
15 section, including standards and procedures to allocate available money among
16 applications for purchases under this chapter and claims for refunds and payments
17 under AS 43.20.046, 43.20.047, [OR] 43.20.053, or AS 43.55.026 when the total
18 amount of the applications for purchase and claims for refund exceed the amount of
19 available money in the fund. The regulations adopted by the department may not,
20 when allocating available money in the fund under this section, distinguish an
21 application for the purchase of a credit certificate issued under former
22 AS 43.55.023(m) or a claim for a refund or payment under AS 43.20.046, 43.20.047,
23 [OR] 43.20.053, or AS 43.55.026.

24 * **Sec. 13.** AS 43.55.160(f) is amended to read:

25 (f) On and after January 1, 2014, in the calculation of an annual production tax
26 value of a producer under (a)(1)(A) or (h)(1) of this section, the gross value at the
27 point of production of oil or gas produced from a lease or property north of 68 degrees
28 North latitude meeting one or more of the following criteria is reduced by 20 percent:
29 (1) the oil or gas is produced from a lease or property that does not contain a lease that
30 was within a unit on January 1, 2003; (2) the oil or gas is produced from a
31 participating area established after December 31, 2011, that is within a unit formed

1 under AS 38.05.180(p) before January 1, 2003, if the participating area does not
2 contain a reservoir that had previously been in a participating area established before
3 December 31, 2011; (3) the oil or gas is produced from acreage that was added to an
4 existing participating area by the Department of Natural Resources on and after
5 January 1, 2014, and the producer demonstrates to the department that the volume of
6 oil or gas produced is from acreage added to an existing participating area. This
7 subsection does not apply to gas produced before 2022 that is used in the state or to
8 gas produced on and after January 1, 2022. **For oil or gas produced after January 1,**
9 **2017, the reduction under this subsection shall apply to oil or gas produced from**
10 **a lease or property for the first four years after the commencement of production**
11 **in commercial quantities of oil or gas from that lease or property. For oil or gas**
12 **produced before January 1, 2017, the reduction under this subsection for a lease**
13 **or property shall expire January 1, 2021.** A reduction under this subsection may not
14 reduce the gross value at the point of production below zero. **Oil or gas produced**
15 **after January 1, 2017, that qualifies for a reduction under this subsection is not**
16 **subject to the minimum tax under AS 43.55.011(f).** In this subsection, "participating
17 area" means a reservoir or portion of a reservoir producing or contributing to
18 production as approved by the Department of Natural Resources.

19 * **Sec. 14.** This Act takes effect January 1, 2017.