

SB

271

SB 271 OVERVIEW

Alaska State Department of Revenue

April 5, 2010

SB 271 Overview

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Purpose

- Increase tax incentives for activities that will result in more jobs and more production of oil and gas
- Provide all taxpayers with the full value of the incentives currently offered
- Provide fairness in the administration of the production tax

SB 271 Overview

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Four Main Components

- 30% Credit for Well-Related Expenditures [.025]
- Eliminates requirement that credits be spread over 2 years [.023(a) & (d)]
- Eliminates reinvestment requirement for state purchase of credit certificates [.028(e)(2)-(3)]
- Waiver of interest on retroactive regulations [.020]

30% Credit for Infill Drilling -
Well-Related Expenditures

30% Credit for Infill Drilling

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- Targeting an area of concern – The documented drop, beginning in 2005, in the number of wells drilled in Alaska;
- Provides a credit boost from 20% to 30% for well-related capital expenditures;
- Provides a credit where none is currently available for well-related operating costs (i.e. well work-overs).

Review - SB 271 Overview

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Four Main Components

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- Eliminates reinvestment requirement for state purchase of credit certificates [.028(e)(2)-(3)]
- Waiver of interest on retroactive regulations [.020]

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Governor Sean Parnell
STATE OF ALASKA

February 9, 2010

The Honorable Gary Stevens
President of the Senate
Alaska State Legislature
State Capitol, Room 111
Juneau, AK 99801-1182

Dear President Stevens,

Under the authority of Art. III, Sec. 18 of the Alaska Constitution, I am transmitting a bill that proposes four discrete changes to Alaska's oil and gas production tax. The bill will provide incentives for explorers and producers to continue to invest in Alaska. The proposed changes will encourage investment and employment within the state, and ultimately, increase production of the state's oil and gas resources.

I remain committed to considering all proposals and ideas that will result in increased exploration and drilling that produce more oil and jobs for Alaskans.

First, the bill will encourage investment by creating a new 30 percent alternative tax credit for qualified costs closely related to well drilling and work over operations designed to enhance current well operations. The taxpayer will have to claim the 30 percent credit within six months of completing the qualifying activity, and will have to submit enough information for the Department of Revenue to determine that the expenditures qualify for the credit.

Second, the bill will allow qualified applicants, regardless of their future spending levels, to receive cash refunds for tax credits that the applicants received for qualified capital expenditures. Under current law, an applicant cannot qualify for a cash refund unless, within 24 months of receiving the tax credit certificate, the applicant incurred a qualified capital expenditure or successfully bid on a lease on State land. If the applicant is unable to meet either requirement, the applicant cannot receive payment for the qualified capital expenditures the applicant invested in the state. To solve this problem, the bill will eliminate the requirement that the applicant make additional capital expenditures or be the successful bidder for a lease on State land.

Third, the bill will allow producers and explorers who qualify for the 20 percent tax credit under AS 43.55.023 for capital expenditures to use the credit in the year that the credit is earned. Currently, producers and explorers are required to spread the benefit over two years. Allowing producers and explorers the full value of their credits in one year would increase the amount available for further exploration activities and for work on currently producing wells.

The Honorable Gary Stevens

February 9, 2010

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Finally, the bill will allow the Department of Revenue to waive interest for certain underpayments of taxes due before the effective date of certain regulations implementing the production tax. This provision will apply only if regulations to implement the production tax are not yet in effect at the time the annual tax payments are due, and only if the underpayment results from the producer's good faith estimation of the tax due. Should it be determined that the taxpayer overpaid the amount of tax due under the regulations in effect at the time of payment and that a refund is due, no interest will be due on a refund made within the time period specified in the bill.

With these changes, we will continue to responsibly maximize and invest in Alaska's oil and gas resources. I urge your prompt and favorable action on this measure.

Sincerely,

A handwritten signature in black ink, appearing to read "Sean Parnell". The signature is written in a cursive, flowing style with a large initial "S".

Sean Parnell
Governor

Enclosure

State of Alaska

Department of Revenue
Commissioner's Office



SEAN PARNELL, GOVERNOR

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Sponsor Statement HB 337 / SB 271 Oil Production Tax Credits

Governor Parnell's legislation to modify Alaska's oil taxes (HB 337 and SB 271) is intended to create Alaska jobs, increase production and TAPS throughput quickly, and encourage new companies to explore in Alaska. This is accomplished by providing incentives for explorers and producers only if they do on the ground work in Alaska, by expanding investment credits for that work, allowing companies to enjoy the entire benefit of credits earned, and waiving interest accrued due to retroactive regulations.

These changes will encourage investment in jobs and increased production of the state's oil and gas resources.

- **Encourages Investment by Expanding Investment Credits.**

The bill increases to 30 percent a tax credit for costs related to drilling wells, including "work over" wells in existing fields that are now excluded from the credit.

Primary Benefit: Most valuable for infill drilling programs within existing units, like Prudhoe Bay and Kuparuk. Current credits focus on exploration and other remote operations far removed from existing operations. This credit is focused on existing fields where infill drilling and work over wells can be done quickly resulting in new jobs immediately and new production within months.

- **Eliminates the payment delay for explorers by allowing the state to buy capital credits earned by explorers regardless of future spending levels.**

The bill will allow those who receive credit certificates to receive cash refunds regardless of their future spending levels. Currently, an explorer cannot qualify for a cash payment from the state for its credit certificate unless, within 24 months of receiving the tax credit certificate, the explorer makes additional expenditures or successfully bids on a state oil lease. The bill eliminates this reinvestment requirement.

Primary Benefit: Explorers can invest with complete confidence that they can monetize their earned tax credits, improving the economics of their project.

HB 337 / SB 271 Oil Production Tax Credits

- **Allows all companies to enjoy the entire benefit of their capital credits in the year they are earned, eliminating the requirement to spread the credit over two years.**

The bill allows companies to use their entire tax credits in the year that the credit is earned. Currently, producers and explorers are required to spread the benefit over two years.

Primary Benefit: Increases the value of the tax credits by allowing them to be monetized quickly.

- **Provides a waiver of interest charges on late payments caused by the retroactive application of new regulations.**

The bill waives interest calculations for underpayments of taxes due to the retroactive effective date of regulations implementing the production tax. This provision will apply if the underpayment is the result of the producer's good faith estimation of the tax due.

Primary Benefit: Is simply fairer. This provides for a more just outcome when a producer makes a tax payment based on a good faith understanding of the tax laws, and then regulations are made retroactive to before the time that the payment was due.

FISCAL NOTE

STATE OF ALASKA
2010 LEGISLATIVE SESSION

Fiscal Note Number: _____
 Bill Version: SB 271
 () Publish Date: _____

Identifier (file name): SB271-REV-TAX-02-12-10
 Title: Oil and Gas Tax Adjustments
 Sponsor: Rules
 Requester: Request of the Governor
 Dept. Affected: Revenue
 RDU: Taxation and Treasury
 Component: Tax Division
 Component Number: 2476

Expenditures/Revenues (Thousands of Dollars)

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

	Appropriation Required	Information						
		FY 2011	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016
OPERATING EXPENDITURES								
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								
CHANGE IN REVENUES ()		***	***	***	***	***	***	***

*** See Analysis Section for Additional Information ***

FUND SOURCE (Thousands of Dollars)

1002 Federal Receipts								
1003 GF Match								
1004 GF		0.0	0.0	0.0	0.0	0.0	0.0	0.0
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	0.0	0.00	0	0	0	0	0
Part-time							
Temporary							

ANALYSIS: (Attach a separate page if necessary)

See Attached.

Prepared by: Cherie Nienhuis and Dan Stickel, Petroleum Economists
 Division: Tax Division
 Approved by: Ginger Blaisdell, Director
Administrative Services Division

Phone 907-269-1019
 Date/Time 2/08/10; 12:13pm
 Date 2/12/10; 12:26pm

FISCAL NOTE

STATE OF ALASKA
2010 LEGISLATIVE SESSION

BILL NO. SB 271

ANALYSIS CONTINUATION

Bill Language:

This bill makes four refinements to Alaska's oil and gas production tax. The refinements and the revenue impact of each are discussed below:

1. Increased credits for well related expenditures: This bill would modify AS 43.55.025 to allow a 30 percent credit against production tax for exploratory well expenditures and most development well expenditures. For wells more than 25 miles outside of existing units (or more than 10 miles outside of Cook Inlet units) the credit is 40 percent of exploratory well expenditures. These credits would also be an increase in credits for well related expenditures. Currently, companies are allowed a 20 percent credit for well related qualified capital expenditures under the provisions of AS 43.55.023. There are no current provisions for credits against operating expenditures and this bill would extend the 30% credit to well related operating expenditures as well as capital expenditures. This provision would take effect July 1, 2010.

Under current projected spending and production levels, revenues would be estimated to be reduced by \$325 million in FY 2011, \$335 million in FY 2012, and \$350 million in FY 2013-2016. However, the Department of Revenue provides an indeterminant fiscal impact to revenues because the new incentives will likely spur higher spending levels on development activity, which would result in more credits being earned, but would also be expected to increase production, thus providing an offsetting increase in revenue.

2. Removing reinvestment requirement for state purchase of capital credits: For companies applying for state purchase of capital credits, this bill would remove the requirement that the companies reinvest an amount equal to the amount of the credit purchased within 24 months after applying for a credit certificate. This provision would take effect July 1, 2010.

This provision is expected to be revenue neutral as the credits will reduce revenue whether the state purchases the credits or other companies purchase and subsequently apply the credits against a tax liability.

3. Capital credits no longer required to be spread over two years: Producers and explorers receive a capital expenditure credit in the amount of 20 percent of the qualified capital expenditure. This bill would remove the provision that no more than half of the tax credit may be applied for in a single calendar year. As a result, the entire 20 percent credit could be applied in the year it is earned. This is retroactive to January 1, 2010.

There is a revenue reduction for FY 2010 of \$120 million because of the immediate effective date of the changes to spreading of capital credits. For FY 2011-FY 2013, the revenue reduction from changes to the spreading of capital credits will be about \$50 million per year. For FY 2014 and beyond, the revenue impacts will be negligible.

4. Interest waived for changes in tax liability as a result of retroactive regulations changes: Following adoption of retroactive regulations to the oil and gas production tax under AS 43.55, the Department of Revenue is required to determine whether the retroactive application of the regulation caused an overpayment or underpayment of the amount due in tax. For an underpayment, interest is waived as long as the underpayment was due to the regulation and the producer made a good faith estimation and payment of its tax obligation under regulations in place when the payment was due. For an overpayment, interest does not accrue until either the first day of the second month following the regulation taking effect, or 90 days after the Department receives an amended annual production tax return with request for refund. The interest provisions are retroactive to February 2007. At this time it is uncertain whether there would be any revenue impact from this change, since it is unclear whether there was any underpayment or overpayment due to the retroactive regulations. The Department of Revenue does not include interest payments in our revenue projections, therefore this change would not affect our revenue forecast.

*** We cannot currently make a determination of the revenue impacts of the bill. For this reason, asterisks are include in our revenue estimates for this fiscal note.

Expenditures:

The Department will be able to implement the provisions of this bill using existing resources.

FISCAL NOTE

STATE OF ALASKA
2010 LEGISLATIVE SESSION

Fiscal Note Number: 1
 Bill Version: SB 271
 (S) Publish Date: 2/10/10

Identifier (file name): LL1057-DNR-OG-02-08-2010 Dept. Affected: Natural Resources
 Title: Oil and Gas Tax Amendments RDU: Resource Development
 Component: Oil and Gas Development
 Sponsor: Rules Committee
 Requester: Governor Component Number: 439

Expenditures/Revenues (Thousands of Dollars)

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

	Appropriation Required	Information						
		FY 2011	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016
OPERATING EXPENDITURES								
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								
CHANGE IN REVENUES ()								

FUND SOURCE (Thousands of Dollars)

	FY 2011	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016
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

Estimate of any current year (FY2010) cost: _____

POSITIONS

	FY 2011	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016
Full-time							
Part-time							
Temporary							

ANALYSIS: (Attach a separate page if necessary)

The bill will, first, change the current provision under AS 43.55.023(b) that only half the various tax credits could be taken in any one year. This limitation spreads the benefits of the credit out over a couple of years, thereby diluting the incentive that the credit provides to the extent that a producer/investor must wait before receiving the full benefit of the credit. This bill would also accelerate most investor's receipt of the full value of the credit. Second, the bill would extend the current 30% credit provided under 43.55.025 to include development drilling (this credit is available now only for exploration wells drilled beyond three-miles of another well. This credit will reduce the taxpayer's tax liability and, other things being equal, contribute to improved economics for development drilling. Finally, the bill allows a small producer to monetize the credit more easily by eliminating the requirement that the producer spend additional money before receiving the credit monies.

The effect on royalty revenue is an indeterminant positive.

Prepared by: Kevin Banks, Director Phone 269-8800
 Division: Oil and Gas Date/Time 2/8/10 3:00 PM
 Approved by: Tom Irwin, Commissioner Date 2/8/2010
Natural Resources

FISCAL NOTE # 1

STATE OF ALASKA
2010 LEGISLATIVE SESSION

BILL NO. SB 271

ANALYSIS CONTINUATION

In these three ways, the bill will encourage additional investment in oil and gas development in Alaska, leading to an expected increase in the amount of oil and gas produced from State lands. This should increase the amount of royalty revenue collected, the exact amount of this increase is indeterminate. This bill also requires that the producer submit to the DNR within 30 days of the request for a credit under AS 43.55.025 data on development well activity under Section 9. While the DNR currently reviews seismic and exploration well information, the requirement to look at development wells as well may take additional staff time. However, we think we will be able to undertake this review with current staff.

FISCAL NOTE

STATE OF ALASKA
2010 LEGISLATIVE SESSION

Fiscal Note Number: 2
 Bill Version: SB 271
 (S) Publish Date: 2/10/10

Identifier (file name): 1057-DOA-AOGCC-01-27-10 Dept. Affected: Admin
 Title Relating to interest on certain underpayments...for Oil and Gas RDU AOGCC
production tax... Component AOGCC
 Sponsor Rules Committee
 Requester Governor Component Number 2010

Expenditures/Revenues

(Thousands of Dollars)

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

	Appropriation Required	Information						
		FY 2011	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016
OPERATING EXPENDITURES								
Personal Services	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Travel	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Contractual	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Supplies	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Equipment	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Land & Structures	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Grants & Claims	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Miscellaneous	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
TOTAL OPERATING	0.0	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	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
1003 GF Match	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
1004 GF	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
1005 GF/Program Receipts	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
1037 GF/Mental Health	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other Interagency Receipts	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
TOTAL	0.0	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)

Any additional activity that industry would undertake in areas the Alaska Oil and Gas Conservation Commission regulates because of this bill would be part of ongoing agency responsibilities and any additional workload would be managed by existing staff. The agency therefore submits a zero fiscal note.

Prepared by: Jody J. Colombie, Special Assistant I
 Division Alaska Oil and Gas Conservation Commission
 Approved by: Rachael Petro, Deputy Commissioner
Department of Administration

Phone (907) 793-1221
 Date/Time 1/27/10 4:00 PM
 Date 1/27/2010