

2/10/11

**PRESENTATION
TRANSFERABLE
TAX CREDIT**

<TARGET><BILL></BILL><SUBJECT>2-10-11 PRESENTATION
TRANSFERABLE TAX
CREDIT</SUBJECT><COMM>HFIN27</COMM></TARGET>

Alaska State Legislature
HOUSE FINANCE COMMITTEE

Agenda

1:30 PM

Thursday, February 10, 2011

Transferable tax credit presentation—Lennie Dees, Master Tax Auditor, Department of Revenue

PRODUCTION TAX CREDITS

PRESENTATION TO THE
HOUSE FINANCE COMMITTEE
FEBRUARY 10, 2011

2/10/2011

Alaska State Department of Revenue

Overview

2

- Types of Production Tax Credits**
- Credits Applied Against Production Tax Liability
- Transferable Tax Credit Certificates
- Cash Refunds History

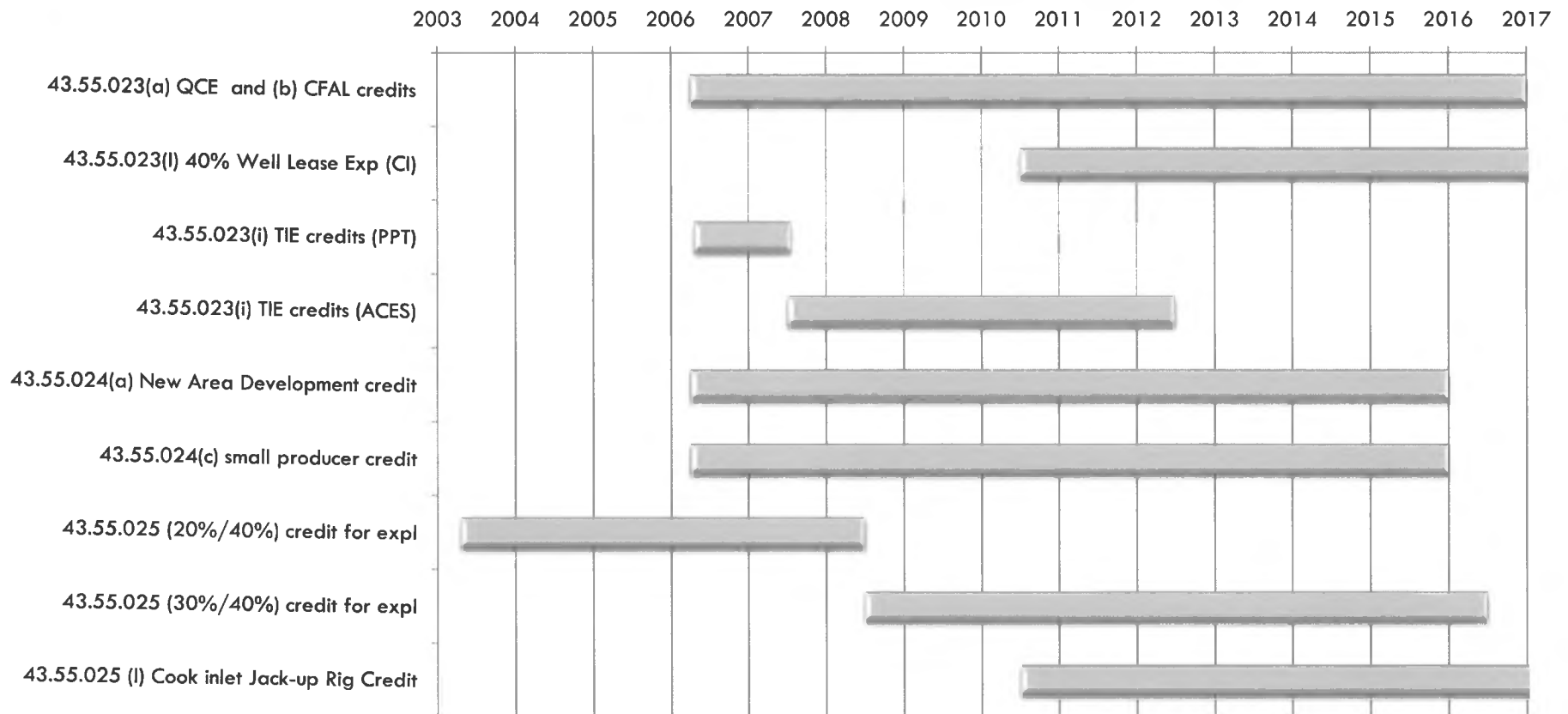
Types of Production Tax Credits

3

Credits which may be taken against oil and gas production taxes include:

- Capital Expenditure Credits
- Alternative Tax Credits for Oil and Gas Exploration
- Net Operating Loss (“NOL”) Carry Forward Credits
- Transitional Investment Expenditure (“TIE”) Credit
- Additional Nontransferable Tax Credits
- Well Lease Expenditures Credit
- Cook Inlet Jack-up Rig Credit

Timelines for Production Tax Credits



Types of Production Tax Credits

5

Capital Expenditure Credits - (AS 43.55.023(a)(1))

- ❑ **20%** of qualified capital expenditures (QCE)
- ❑ QCE include drilling, construction of facilities, new equipment, etc.
- ❑ Same expenditures may also qualify for NOL Carry Forward Credit
- ❑ Same expenditures do *not* qualify for exploration credit
- ❑ Must be spread over 2 years (except for expenditures incurred south of 68 degrees North latitude – effective July 1, 2010)
- ❑ Credits may be cashed or transferred

Types of Production Tax Credits

6

Exploration Credits

□ Two Main Types

- Capital Credit for Exploration Activity 43.55.023(a)(2) **(20%)**
- Alternative Tax Credits for Oil and Gas Exploration 43.55.025 **(30%-40%)**

Types of Production Tax Credits

7

Capital Credit for Exploration Activity 43.55.023(a)(2)

- ❑ **20%** of qualifying expenditures
- ❑ Qualifying expenditures related to geologic and geophysical exploration, or in connection with an exploration well
- ❑ Must be spread across 2 years (except for expenditures incurred south of 68 degrees North latitude – effective July 1, 2010)
- ❑ Same expenditures may also qualify for NOL Carry Forward Credits
- ❑ Credits may be cashed or transferred

Types of Production Tax Credits

8

Exploration Credits

- Two Main Types
 - Capital Credit for Exploration Activity under 43.55.023(a)(2) (**20%**)
 - Alternative Tax Credits for Oil and Gas Exploration under 43.55.025 (**30%-40%**)

Types of Production Tax Credits

9

Alternative Tax Credits for Oil and Gas Exploration - 43.55.025

- ❑ 30% - 40% of qualified expenditures depending on well location and proximity to existing wells and unit boundaries
- ❑ Qualified expenditures include certain expenses associated with seismic and geophysical exploration work, and exploration well drilling
- ❑ Same expenditures may also qualify for NOL Carry Forward Credit
- ❑ Same expenditures do *not* qualify for Capital Expenditure Credit
- ❑ To receive credit, taxpayer must provide certain well data to DNR
- ❑ Expires 2016
- ❑ Credits may be cashed or transferred

Types of Production Tax Credits

10

NOL Carry Forward Credit - 43.55.023(b)

- ❑ **25%** of net operating loss
- ❑ Applied against tax liability in following year
- ❑ Credit based on adjusted lease expenditures which include both operating and capital expenses
- ❑ Includes capital expenditures which also qualify for qualified capital expenditure credit under 43.55.023(a)(1) and exploration credit under 43.55.023(a)(2)
- ❑ Credits may be cashed or transferred

Types of Production Tax Credits

11

Transitional Investment Expenditure (TIE) Credits

43.55.023(i)

- Credit equals 20% of qualifying capital expenditures:
 - incurred between March 31, 2001 and April 1, 2006, and
 - not exceeding 10% of the capital expenditures incurred between March 31, 2006 and January 1, 2008.
- Revised under Aces to cover only producer or explorer not having production prior to January 1, 2008
- Credits are **not** transferable and may **not** be carried forward beyond 2013
- Same capital expenditures may **not** qualify for exploration credit under 43.55.025

Types of Production Tax Credits

12

Additional Nontransferable Tax Credit- 43.55.024(a)

- ❑ Referred to as “New Area Development” credit
- ❑ Up to \$6 million
- ❑ Available for companies producing from leases or properties outside of Cook Inlet and North Slope
- ❑ Credit can only be applied against tax liability
- ❑ Expires 2016 or 9 years after first commercial oil or gas production if before May 1, 2016
- ❑ Credits may *not* be cashed or transferred or carried forward

Types of Production Tax Credits

13

Small Producer Credit - 43.55.024(c)

- ❑ Up to \$12 million, depending upon level of production
- ❑ Available for companies producing less than 100,000 bbl/day of oil BTU-equivalent
- ❑ Production not restricted by region
- ❑ Credit can only be applied against tax liability
- ❑ Expires 2016 or 9 years after first commercial oil or gas production if before May 1, 2016
- ❑ Credits may **not** be cashed or transferred or carried forward

Types of Production Tax Credits

14

Well Lease Expenditure Credit - 43.55.023(I)

- ❑ 40% of well lease expenditures incurred in the state south of 68 degrees north latitude
- ❑ Must be intangible drilling costs or geological / geophysical exploration
- ❑ Credit may be applied against tax liability, or certificated and cashed or transferred to another taxpayer

Types of Production Tax Credits

15

Cook Inlet Jack-Up Rig Credit - 43.55.025(I)

- ❑ Credit of 100%/90%/80% of up to \$25 million each of exploration expenditures for first 3 unaffiliated persons drilling wells using the same jack up rig penetrating and evaluating prospects in the pre-Tertiary zone.
- ❑ Taxpayer obtaining credit may not claim .023 credit for same expenditures
- ❑ 50% of credit to be repaid over 10 year period if well yields sustained production

Overview

16

- Types of Production Tax Credits
- Credits Applied Against Production Tax Liability**
- Transferable Tax Credit Certificates
- Cash Refunds History

Credits Applied Against Production Tax Liability

Credits may be redeemed in two ways:

(1) All Credits may be applied against production tax liability

- Capital Expenditure and Capital Exploration Credits split over two years (except south of 68 degree North latitude – eff. July 1, 2010)
- NOL , TIE, Small Producer and Alternative Tax Credits for Oil and Gas Exploration may all be applied against tax liability in total in a single year

(2) Some Credits may be converted into a transferable Tax Credit Certificate

- Capital Expenditure, Capital Exploration, NOL, and Alternative Tax Credits for Oil and Gas Exploration are convertible to tax certificates
- Capital Expenditure, Capital Exploration and NOL Tax Credit Certificates must be applied over two years (except south of 68 degrees North latitude – passed 2010)
- Alternative Tax Credits for Oil and Gas Exploration Certificates can be used in single year

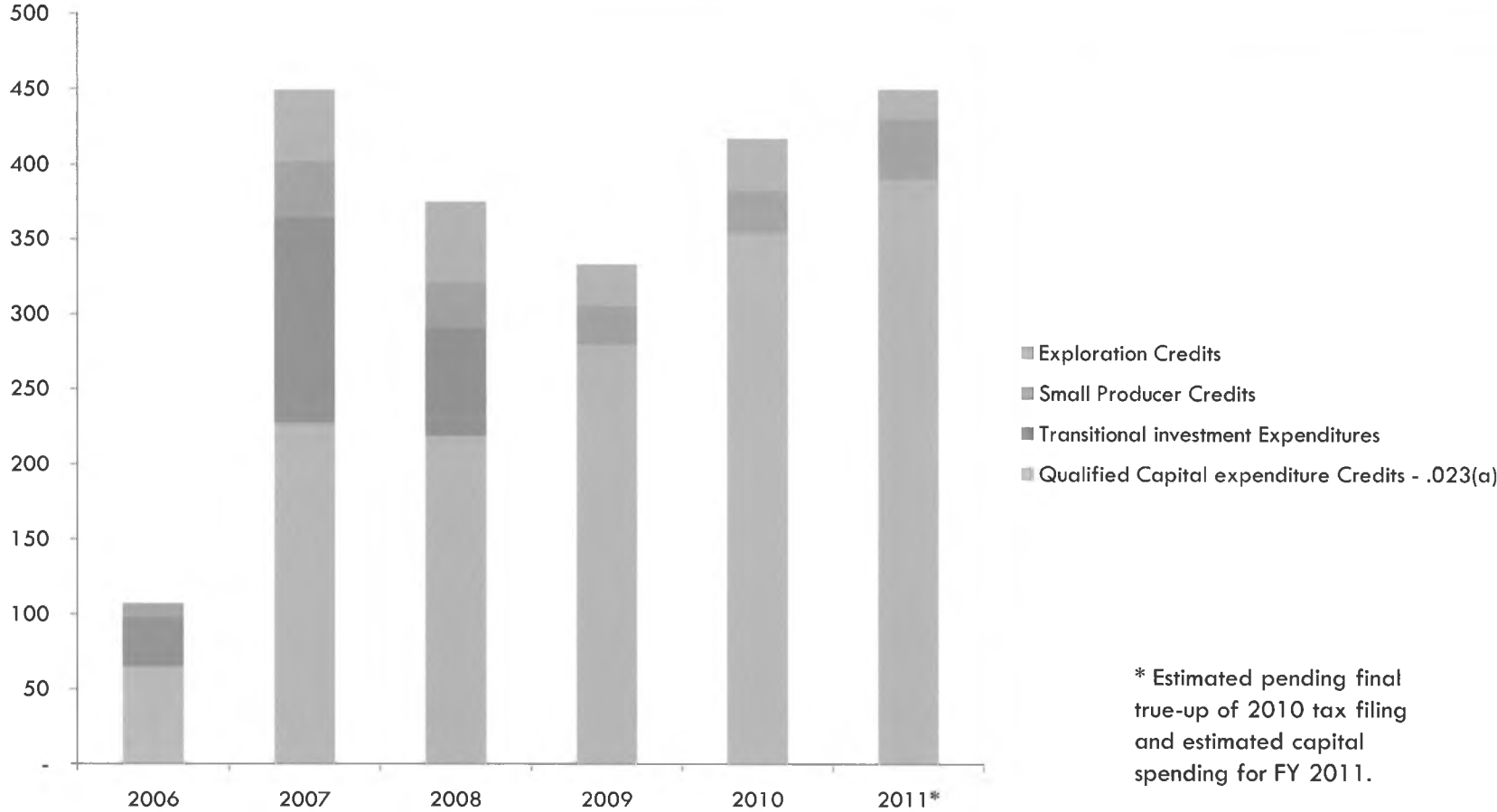
Production Tax Credits Applied Against Tax Liability (Fiscal Year)

18

	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011*</u>	<u>Total</u>
Capital Expenditure Credit	65	227	219	280	349	391	1,329
TIE Credits	33	138	73	0	0	0	243
Small Producer Credits	9	37	30	26	28	40	155
Exploration Credits	1	47	55	28	34	20	169
Totals	<u>107</u>	<u>449</u>	<u>375</u>	<u>333</u>	<u>417</u>	<u>450</u>	<u>1,896</u>

* Estimated

Production Tax Credits Applied Against Tax Liability (Fiscal Year)

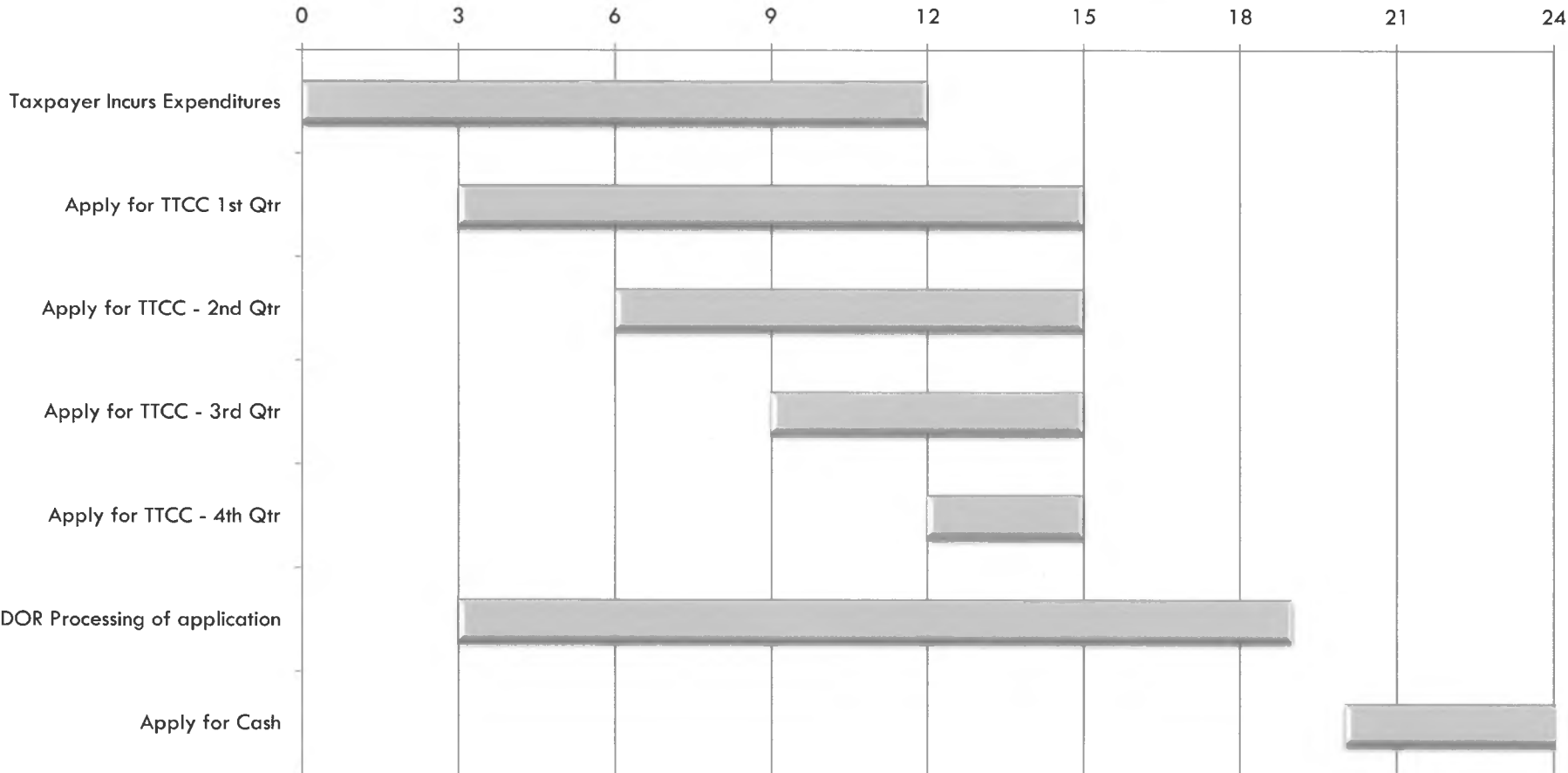


Overview

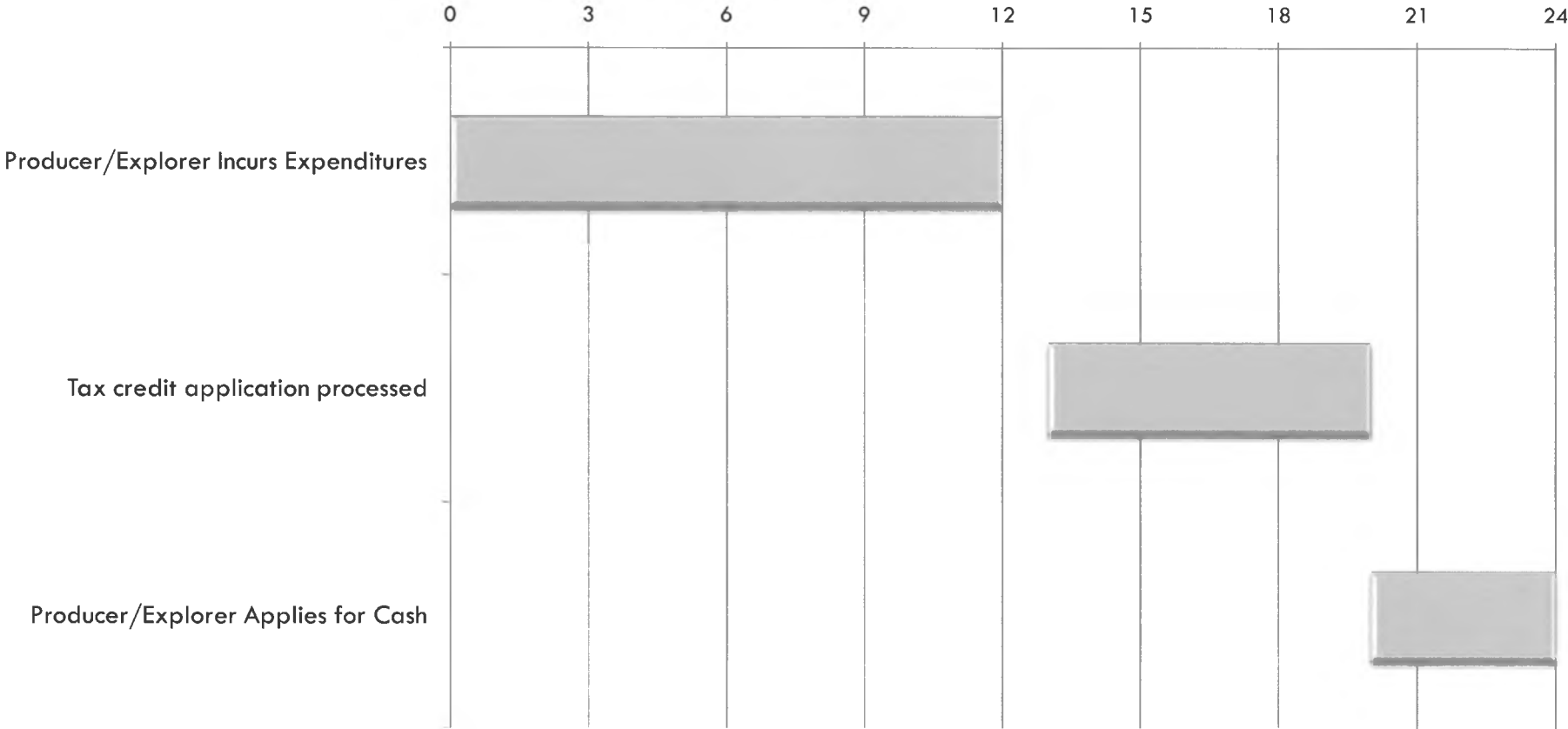
20

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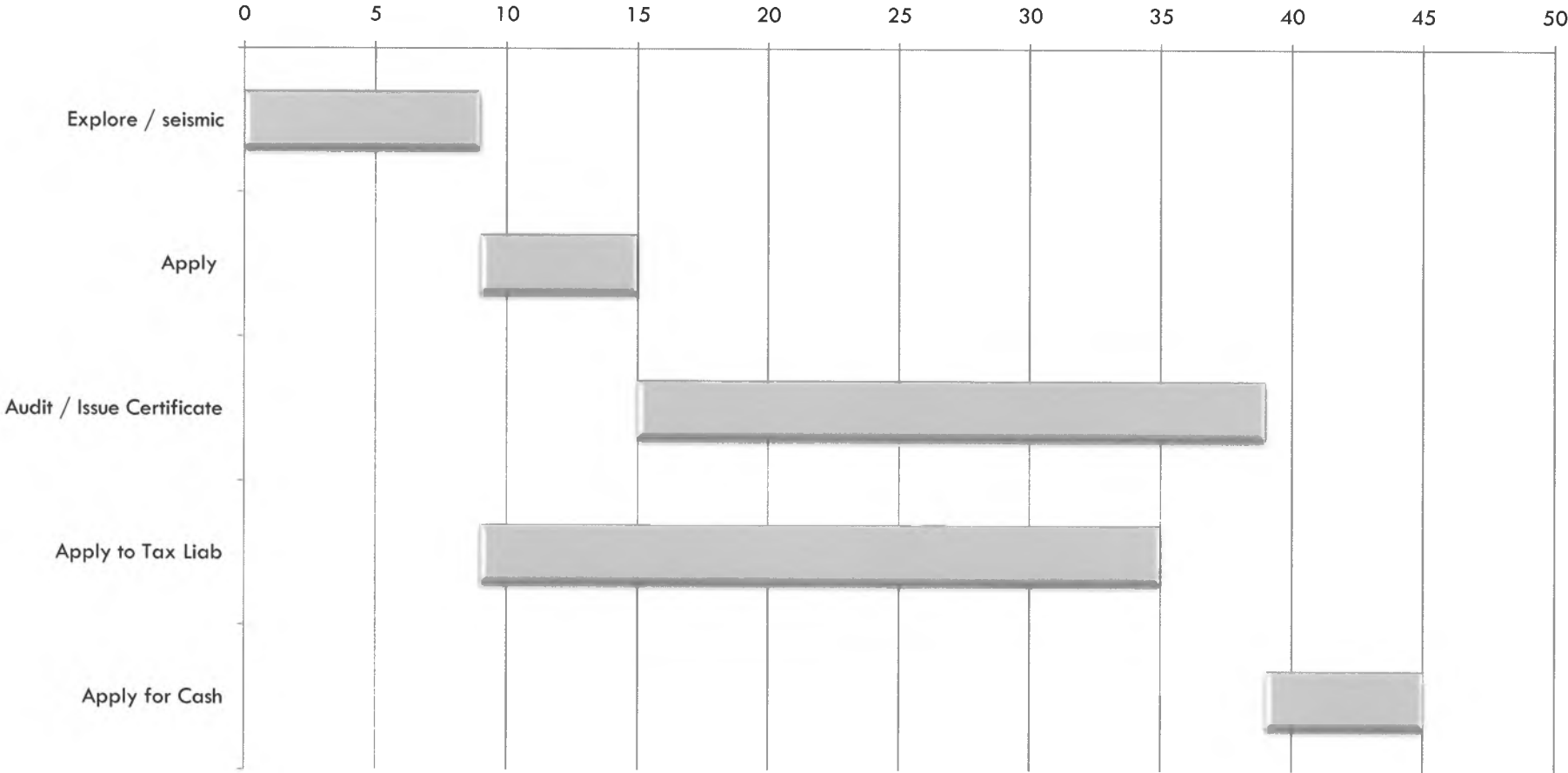
Timeline for processing of Transferable Credit under AS 43.55.023 (a)



Timeline for processing a Transferable Tax Credit Certificate under AS 43.55.023(b)



Timeline for Application for AS 43.55.025 Alternative Credit for Oil and Gas Exploration



Transferable Tax Credit Certificates

Companies may also claim tax credits by applying for a Transferable Tax Credit Certificate (TTCC)

- ❑ Available to companies (explorers) with no tax liability to which credits can be applied
- ❑ Tax Credit Certificates under 43.55.023(a) and (b) must be split or applied over two years (except credits issued for expenditures incurred south of 68 degrees North latitude effective July 1, 2010)
- ❑ May be transferred to another taxpayer or cashed with the state

Production Tax Credits Under AS 43.55 Claimed by FY (\$M)

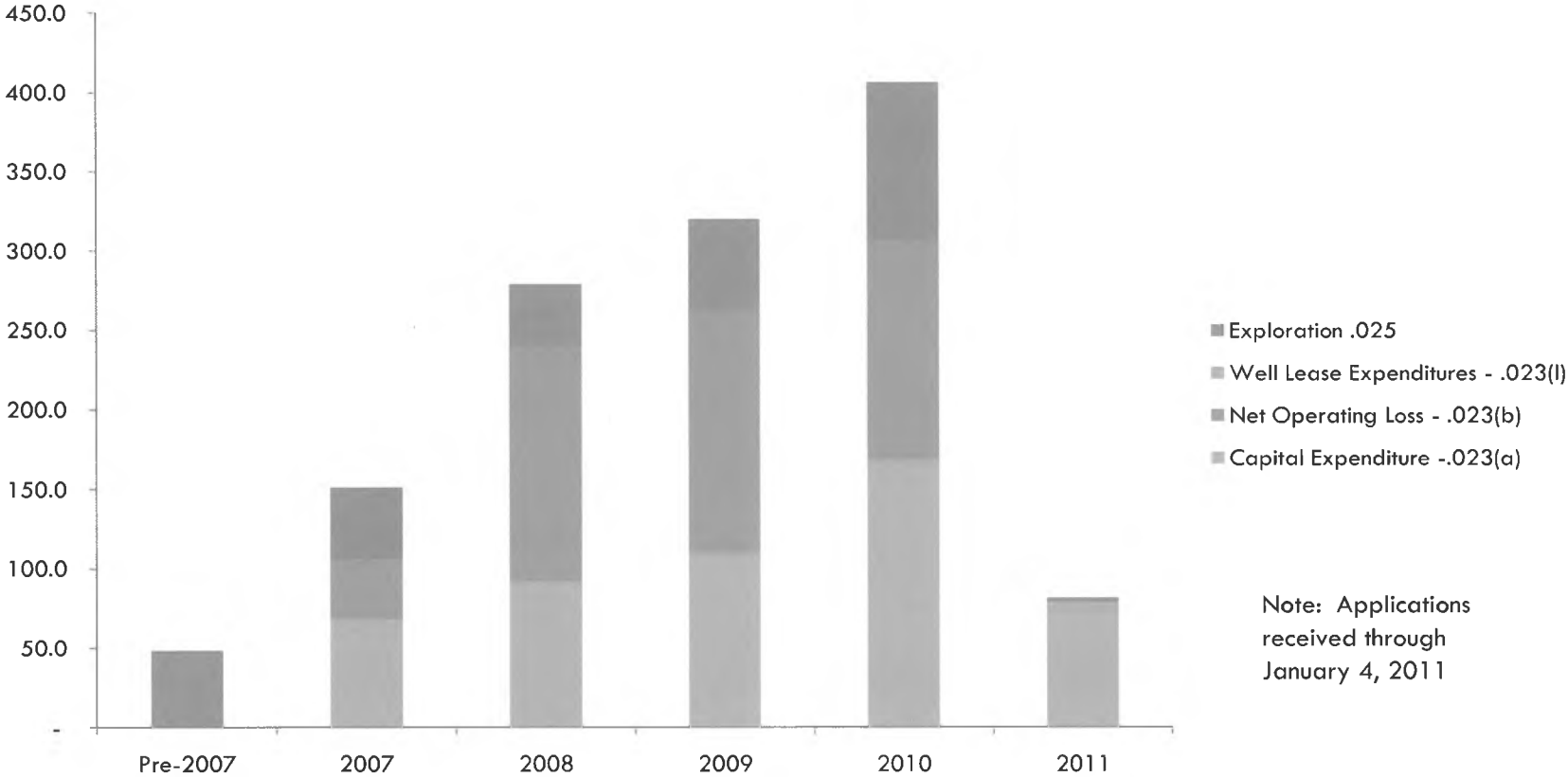
25

Credit Type	Pre-2007	2007	2008	2009	2010	2011*	Total
Capital Expenditure - .023(a)		68.2	91.7	109.6	168.0	72.8	510.3
Net Operating Loss .023(b)		38.1	148.5	153.5	138.7	.2	479.0
Well Lease Expenditure - .023(l)						5.8	5.8
Exploration -.025	<u>48.3</u>	<u>44.9</u>	<u>38.5</u>	<u>56.6</u>	<u>99.5</u>	<u>2.4</u>	<u>290.2</u>
Total	<u>48.3</u>	<u>151.3</u>	<u>278.6</u>	<u>319.7</u>	<u>406.2</u>	<u>81.3</u>	<u>1285.3</u>

* Applications received through January 4, 2011.

Transferable Tax Credit Certificates

Tax Credits Claimed by FY (\$M)



Note: Applications received through January 4, 2011

Transferable Tax Credit Certificate Activity by Fiscal Year (\$M)

27

	Pre-2007	2007	2008	2009	2010	2011*	Total
Issued	16.2	99.9	130.8	308.2	361.3	191.5	1,107.9
Refunded		(54.6)	(54.1)	(193.1)	(250.5)	(299.3)	(851.6)
Transferred/ Applied to Taxes	<u>(12.3)</u>	<u>(40.0)</u>	<u>(46.6)</u>	<u>(20.0)</u>	<u>(1.2)</u>	<u>(62.7)</u>	<u>(182.8)</u>
Activity by year	3.9	5.2	30.1	95.1	109.6	(170.4)	
Transferable Tax Credit Certificates Outstanding	<u>3.9</u>	<u>9.1</u>	<u>39.2</u>	<u>134.2</u>	<u>243.9</u>	<u>73.4</u>	<u>73.4</u>

*Payment activity through February 4, 2011.

Overview

28

- Types of Production Tax Credits
- Credits Applied Against Production Tax Liability
- Transferable Tax Credit Certificates (TTCC)
- Cash Refunds History

Cash Refunds History

29

Cash Refunds Governed by AS 43.55.028:

- To cash must be usable against tax liability
- Must show subsequent (24 months) QCEs or lease bids equal to cash sought (repealed in 2010)
- Have a zero tax owed in current and past years
- Have no more than 50,000 BOE/d

Cash Refunds History

30

Tax Credits Purchased

By fiscal year (\$M)

□ 2007	\$ 54.6
□ 2008	54.1
□ 2009	193.1
□ 2010	250.5
□ 2011 (thru 02/04/11)	<u>299.3</u>
TOTAL	<u>\$851.6</u>

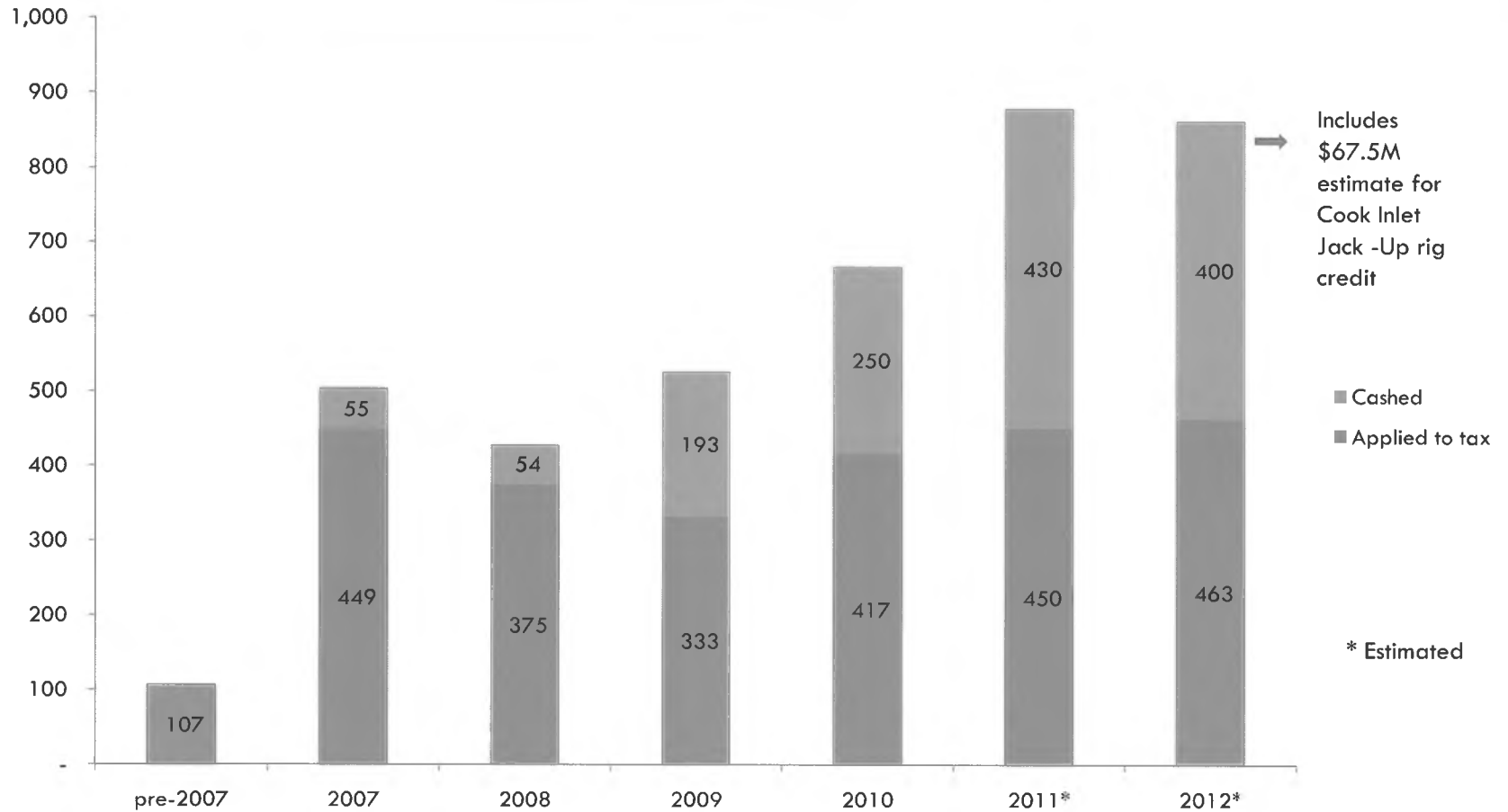
Cash Refunds History

31

Oil & Gas Tax Credit Fund

Appropriations -	\$ 904	M
Tax Credit Purchases (TC Fund)	(772)	M
Tax Credit Purchases (GF)	(79)	M
Interest Earned	<u>22</u>	M
Balance	<u>\$ 75</u>	M

Impact of Production Tax Credits Total State Stimulus



Capital Expenditures by Year (\$M)

Capital Expenditures By Year

