

HB

247

<TARGET><BILL>HB 247</BILL><SUBJECT>HB
247</SUBJECT><COMM>SFIN29</COMM></TARGET>

SENATE FINANCE COMMITTEE REPORT

DATE: 5/14/16

FURTHER:

DATE TURNED
IN TO OFFICE: _____

Finance Committee considered 2d CS FOR HOUSE BILL NO. 247(RLS) am

HB 247-TAX;CREDITS;INTEREST;REFUNDS;O & G

"An Act amending the powers of the board of trustees of the Alaska Retirement Management Board to authorize purchase and sale of transferable tax credit certificates issued in conjunction with the production tax on oil and gas; relating to interest applicable to delinquent tax; relating to the oil and gas production tax, tax payments, and credits; relating to exploration incentive credits; relating to refunds for the gas storage facility tax credit, the liquefied natural gas storage facility tax credit, and the qualified in-state oil refinery infrastructure expenditures tax credit; relating to the confidential information status and public record status of information in the possession of the Department of Revenue; relating to oil and gas lease expenditures and production tax credits for municipal entities; requiring a bond or cash deposit with a business license application for an oil or gas business; establishing a legislative working group to study the fiscal regime and tax structure and rates for oil and gas produced south of 68 degrees North latitude; and providing for an effective date."

and recommends:

be replaced with SCS 2dCSHB 247 (FIN) [] Same Title [] Technical Title Change
[] New Title/SCR No. _____

[] adopt previous SCS _____ (_____) [] Same Title [] Technical Title Change
[] New Title/SCR No. _____

[] attached amendment(s)

[] adopt _____ Letter of Intent

[] further referral to _____ Committee

| Dept Abbr. | |
|------------|-----|
| ADM | LWF |
| CED | LAW |
| COR | LEG |
| EED | MVA |
| DEC | DNR |
| DFG | DPS |
| GOV | REV |
| DHS | DOT |
| AJS | UA |

| NEW FISCAL NOTE(S) | | | | |
|--------------------|--------|--------|------|------|
| Dept. | Fiscal | Indet. | Zero | FN # |
| REV | ✓ | | | |
| | | | | |
| | | | | |
| | | | | |
| | | | | |
| | | | | |

| PREVIOUS FISCAL NOTE(S) | | | | |
|-------------------------|--------|--------|------|------|
| Dept. | Fiscal | Indet. | Zero | FN # |
| DNR | | | ✓ | 5 |
| | | | | |
| | | | | |
| | | | | |
| | | | | |
| | | | | |

[] APPROPRIATION - no fiscal note

| SIGNATURES AND RECOMMENDATIONS: | PRINTED LAST NAME | DO PASS | DO NOT PASS | NO REC | AMEND |
|---------------------------------|-------------------|---------|-------------|--------|-------|
| <i>Cliff Bishop</i> | Bishop | | | | ✓ |
| <i>James Dunaway</i> | Dunaway | | | | ✓ |
| <i>Thomas Olson</i> | OLSON | | | | ✓ |
| <i>Patricia Hoffman</i> | Hoffman | ✓ | | | |
| <i>Phyllis Micciche</i> | MICCICHE | ✓ | | | |
| CO-CHAIR: <i>Pete Kelly</i> | Kelly | | | ✓ | |
| CO-CHAIR: <i>Anna Mackinnon</i> | Mackinnon | ✓ | | | |

Fiscal Note

State of Alaska
2016 Legislative Session

| | |
|---------------------|----------------------|
| Bill Version: | SCS 2d CSHB 247(FIN) |
| Fiscal Note Number: | 8 **CORRECTED** |
| (S) Publish Date: | 5/18/2016 |

Identifier: HB247SCS(FIN)-DOR-TAX-05-17-16
 Title: TAX;CREDITS;INTEREST;REFUNDS;O & G
 Sponsor: RLS BY REQUEST OF THE GOVERNOR
 Requester: Senate Finance Committee

Department: Department of Revenue
 Appropriation: Taxation and Treasury
 Allocation: Tax Division
 OMB Component Number: 2476

Expenditures/Revenues

Note: Amounts do not include inflation unless otherwise noted below. (Thousands of Dollars)

| | FY2017 | Included in | Out-Year Cost Estimates | | | | |
|-------------------------------|-------------------------|----------------|-------------------------|----------------|----------------|----------------|----------------|
| | Appropriation Requested | FY2017 Request | FY 2018 | FY 2019 | FY 2020 | FY 2021 | FY 2022 |
| OPERATING EXPENDITURES | FY 2017 | FY 2017 | FY 2018 | FY 2019 | FY 2020 | FY 2021 | FY 2022 |
| Personal Services | | | | | | | |
| Travel | | | | | | | |
| Services | | | | | | | |
| Commodities | | | | | | | |
| Capital Outlay | | | | | | | |
| Grants & Benefits | | | | | | | |
| Miscellaneous | | | | | | | |
| Total Operating | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |

Fund Source (Operating Only)

| | | | | | | | |
|--------------|------------|------------|------------|------------|------------|------------|------------|
| None | | | | | | | |
| Total | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |

Positions

| | | | | | | | |
|-----------|--|--|--|--|--|--|--|
| Full-time | | | | | | | |
| Part-time | | | | | | | |
| Temporary | | | | | | | |

| | | | | | | |
|---------------------------|------------|-----------------|-----------------|-----------------|-----------------|-------------------|
| Change in Revenues | 0.0 | 10,000.0 | 12,500.0 | 12,500.0 | 12,500.0 | (17,500.0) |
|---------------------------|------------|-----------------|-----------------|-----------------|-----------------|-------------------|

Estimated SUPPLEMENTAL (FY2016) cost: 0.0 *(separate supplemental appropriation required)*

(discuss reasons and fund source(s) in analysis section)

Estimated CAPITAL (FY2017) cost: 1,200.0 *(separate capital appropriation required)*

(discuss reasons and fund source(s) in analysis section)

ASSOCIATED REGULATIONS

Does the bill direct, or will the bill result in, regulation changes adopted by your agency? yes
 If yes, by what date are the regulations to be adopted, amended or repealed? 01/01/17

Why this fiscal note differs from previous version:

Revised to conform to changes between the first and second versions of the Senate Finance Committee Substitute as introduced in the afternoon of 5/17/16. The cover page of this document only includes the revenue raising numbers, with any program expenditure savings noted in the detailed impact table attached within the narrative section.

Prepared By: Ken Alper, director

Division: Tax Division

Approved By: Jerry Burnett, Deputy Commissioner

Agency: Department of Revenue

Phone: (907)465-8221

Date: 05/17/2016 01:00 PM

Date: 05/17/16

**REPORTED OUT OF
SFC 05/17/2016**

FISCAL NOTE ANALYSIS

STATE OF ALASKA
2016 LEGISLATIVE SESSION

Analysis

Bill Background

This legislation is a comprehensive attempt to reform and reduce the cost of Alaska's current program of providing direct tax credit rebates and other advantages to oil and gas companies. Various credits have been added to statute since 2003, with state repurchase beginning in 2007. Through the end of FY 2016, about \$8 billion in tax credits will be received by companies. This includes both credits used against tax liability and credits repurchased by the state; it also includes activity on both the North Slope and other areas of the state.

A substantial number of companies rely on these credits to support and subsidize their Alaska operations. For work done in 2015, in many cases the state is paying 55%-65% of the cost of a project during the development phase, and up to 85% of exploration costs. These large numbers result from "stacking" multiple credits. With the changes made in this legislation, the state's contribution towards many projects will be reduced by 50% or more.

The Administration identified several themes, or goals, of this legislation as originally introduced. These include: (1) Reduce the state's annual cash outlay; (2) Protect Net Operating Loss credits especially for exploration activity; (3) Limit repurchases to companies who need the support; (4) Strengthen the minimum tax and prevent abuses to the system; (5) Be more open and transparent; and (6) Honor and pay credits earned to date and through any transition period. Savings due to reductions in future appropriations needed to repurchase tax credits are noted in the summary table on page 4 of this fiscal note.

Summary of Revenue Impact

The current version of the bill is a substantial revision to what passed the House of Representatives on 5/13. With these changes, we anticipate additional revenue of up to \$12.5 million per year over the time period contained in the fiscal note. No additional revenue is expected in FY17, due to the phased implementation of various bill provisions.

Once fully implemented, the majority of the revenue impacts from this bill will be due to the phaseout and elimination of the three major credits (NOL, QCE, and WLE) in Cook Inlet. Some of these credits are used to offset tax payments. Therefore, reducing these credits will increase revenue in addition to reducing credit repurchases. Additional revenue is due to the addition of a \$1 per barrel tax on oil produced in Cook Inlet. The fiscal note shows a revenue reduction beginning in 2022 as the existing "Cook Inlet tax caps" are no longer sunseting in that year. On the North Slope, additional revenue will result from the inability to use the Gross Value Reduction (GVR) for "new" oil to increase the size of a Net Operating Loss credit.

Also, a small indeterminate amount of additional revenue would come from the restoration of compound interest and an increase in the interest rate for assessed delinquent taxes.

Implementation Cost

The changes anticipated in this bill will require somewhat substantial reprogramming of the Tax Revenue Management System and Revenue Online tax portal. We have received a preliminary estimate from the software developer, which allows us to reduce our one-time cost to about \$1,200,000 to accomplish these changes. We do not anticipate any additional costs to administer the tax program. This \$1.2 million is in the current version of the FY2017 capital budget, SB138.

There will also be a need for substantial amendments to existing regulations to fully implement the changes.

STATE OF ALASKA
2016 LEGISLATIVE SESSION

BILL NO. HB 247

Analysis Continued

Detail of Specific Provisions

1) Repeal of certain credits and closing of loopholes

For Cook Inlet and Middle Earth, the Senate Finance bill reduces the Qualified Capital Expenditure (QCE) credit on 1/1/17 and eliminates it on 1/1/18. The carried forward annual loss (NOL) credit is reduced to 15% in 2017 and is sunset in 2018. The Well Lease Expenditure Credit (WLE) is reduced to 20% in 2017 and sunset in 2018. The net effect of these changes will be to reduce state contribution for new Cook Inlet projects from the current 45-65% range to zero beginning in 2018. Unlike prior versions of the bill, this version does not create a legislative working group for a new Cook Inlet tax regime. Instead, the current tax cap, averaging 17.5 cents on Cook Inlet gas and gas used in state, is extended indefinitely. A new tax, not to exceed \$1 per barrel, is added for Cook Inlet oil.

The bill also eliminates a provision in current law that enables companies having GVR-eligible "new oil" production on the North Slope and also claiming a net operating loss to use the GVR to increase the size of an NOL credit. It also eliminates another loophole that has been used by municipal utilities who also own oil or gas production. If a portion of that production is sold to an outside party, the proposed change ensures that these entities are only able to deduct or claim a pro-rated portion of their lease expenditures for the purpose of applying for credits.

2) Deferral or loss of eligibility for credit repurchase

For the North Slope, the Senate Finance revisions keep the \$70 million per-company cap on annual credit certificate repurchases. However, only the first \$35 million of any certificate is repurchased at full face value and the amount in excess of that may only be purchased at 75% of face value. Alternatively, a company can choose to carry the second part forward into a future year. Operating losses for larger companies continue to be carried forward against future taxes, with the NOL credit rate retained at 35%.

3) Other changes

In this version, the GVR for new oil only applies for the first seven years of production, and is lost on 1/1/23 for fields receiving it before the effective date. The GVR can be terminated early if the price of oil exceed \$70 for three years of production. Additionally, the bill restores quarterly compound interest for delinquent taxes, underpayments, and tax assessments for the first four years of a delinquency. The interest rate for delinquent production taxes is increased from 3% above the federal discount rate to 7% above, but only for the first three years of a delinquency. After three years, the interest rate is zero. The bill adds a surety bond to protect a producer's unsecured creditors.

The finance committee substitute also repeals several older and currently unused exploration incentive credit programs, and authorizes the Department of Revenue to use credit certificates to offset a company's other obligations to the state prior to repurchase.

There is a prioritization of credits, given limited funds, for companies with greater than 75% Alaska resident hire.

The bill also reduces the Refinery Infrastructure Credit from 40% to 20% in 2017, and sunsets it in 2018. In current law this was scheduled to sunset in 2020.

Analysis Continued

Fiscal Detail of SCS CSHB247(FIN)\AA (Revenue and Budget Impacts)

Revised 5-18-16 by Department of Revenue

SCS HB247(FIN) \AA

Provisions in SCS HB247(FIN) \AA and their Estimated Fiscal Impact as compared to Spring 2016 Forecast (\$millions) - FORECAST PRICE¹

Note: this table attempts to value the impact of each of the items independently, except where noted. In some cases, the total value of several impacts will not equal the sum of the individual impact values.

| Brief Description of Provision - Includes only provisions anticipated to have a direct fiscal impact | FY 2017 | FY 2018 | FY 2019 | FY 2020 | FY 2021 | FY 2022 |
|---|--------------------|---------------------|----------------------|----------------------|-----------------------|----------------------|
| 1. The QCE credits for Cook Inlet and Middle Earth are reduced to 10% on 1/1/17 then eliminated 1/1/18; the well lease exp credits for Cook Inlet and Middle Earth are reduced to 20% on 1/1/17, then eliminated 1/1/18; the NOL credits for Cook Inlet and Middle Earth are reduced to 15% on 1/1/17 then eliminated 1/1/18. | \$0 | \$0-\$5 | \$10-\$15 | \$10-\$15 | \$10-\$15 | \$30-\$40 |
| 2. Sunset removed for Cook Inlet tax caps on gas; for oil, sunset removed and tax limitation changed from zero to \$1 per barrel of oil effective 1/1/17. (represents additional revenue to provision #1). | \$0 | \$0-\$10 | \$0-\$10 | \$0-\$10 | \$0-\$10 | (\$75)-(\$50) |
| 3. The GVR cannot be used to create or increase a net operating loss | \$0 | \$0 | \$0 | \$0 | \$0 | \$5-\$15 |
| 4. GVR-eligible production qualifies for the GVR for a period of 7 years; benefit ends early if average ANS price exceeds \$70 for any 3 years of production. | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 |
| 5. The interest rate on delinquent taxes is changed to 7% above the Fed Res Discount rate, compounded quarterly for the first three years, then to zero interest thereafter. | | | | | | Indeterminate |
| 6. A tax exempt entity may earn credits applicable to only those lease expenditures subject to tax | | | | | | Indeterminate |
| Total Revenue Impact | \$0 | \$0 to \$15 | \$10 to \$25 | \$10 to \$25 | \$10 to \$25 | (\$40) to \$5 |
| A. Budget impact of changes to Cook Inlet credits (provision 1 above) | \$5-\$15 | \$25-\$45 | \$40-\$60 | \$40-\$60 | \$75-\$100 | \$75-\$100 |
| B. Budget impact of changes to tax caps for Cook Inlet (provision 2 above) | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 |
| C. Effective 1/1/17, limit refunded credits to \$70 million per year. First \$35 million per company are purchased at full value, next \$35 million may be purchased at 75% of value at company option. (Fiscal impacts assume all companies receive maximum refunds each year) | \$0 | \$0-\$10 | \$10-\$30 | \$10-\$30 | (\$10)-\$0 | \$0 |
| D. The refinery credit under AS 43.20 is reduced to 20% of eligible expenditures on 1/1/17 then eliminated on 1/1/18. | \$0 | \$0 | \$5 | \$15 | \$20 | \$10 |
| E. The GVR cannot be used to create or increase a net operating loss (provision 3 above) | \$0 | \$10-\$20 | \$20-\$30 | \$15-\$25 | \$5-\$15 | \$0-\$10 |
| F. Budget impact of GVR applying to fields for a period of 7 years or less (provision 4 above) | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 |
| Total Budget Impact² | \$5 to \$15 | \$35 to \$75 | \$75 to \$125 | \$80 to \$130 | \$90 to \$135 | \$85 to \$120 |
| Total Fiscal Impact - does not include revenue impacts from potential changes in investment³ | \$5 to \$15 | \$35 to \$90 | \$85 to \$150 | \$90 to \$155 | \$100 to \$160 | \$45 to \$125 |
| Non-refundable carry-forward credits balance at fiscal year end - current law ⁴ | \$618 | \$751 | \$732 | \$585 | \$265 | \$136 |
| Non-refundable carry-forward credits balance at fiscal year end - proposed ⁴ | \$605 | \$715 | \$690 | \$515 | \$245 | \$130 |
| Change in year-end balance due to bill | -\$13 | -\$36 | -\$42 | -\$70 | -\$20 | -\$6 |

¹The impacts listed are based on production and prices as forecasted in DOR's Spring 2016 revenue forecast. The forecasted oil prices are between \$38.89 and \$61.64.

²This proposal stipulates that credits can only be earned for expenditures to carry out a DWR approved Plan of Development; our analysis assumes that all expenditures in forecast would qualify.

³NOTE: "Total Fiscal Impact" includes best estimates of both revenue and operating budget impacts.

⁴These rows include estimates of carried-forward credits for previous calendar years, plus estimates of credits that will be earned on activity through June 30 of the fiscal year.

NOTE: The fiscal impact of this bill is an estimate based on the Spring 2016 revenue forecast. Estimates shown here are draft / preliminary based on our interpretation of possible changes. We reserve the right to make modifications to estimates for any forthcoming fiscal notes.

Fiscal Note

State of Alaska
2016 Legislative Session

| | |
|---------------------|---------------|
| Bill Version: | CSHB 247(FIN) |
| Fiscal Note Number: | 5 |
| (H) Publish Date: | 4/9/2016 |

Identifier: HB247CS(FIN)-DNR-DOG-4-8-16
 Title: TAX;CREDITS;INTEREST;REFUNDS;O & G
 Sponsor: RLS BY REQUEST OF THE GOVERNOR
 Requester: House Finance

Department: Department of Natural Resources
 Appropriation: Oil & Gas
 Allocation: Oil & Gas
 OMB Component Number: 439

Expenditures/Revenues

Note: Amounts do not include inflation unless otherwise noted below. (Thousands of Dollars)

| | FY2017 Appropriation Requested | Included in Governor's FY2017 Request | Out-Year Cost Estimates | | | | | |
|-------------------------------|--------------------------------------|--|-------------------------|------------|------------|------------|------------|------------|
| | | | FY 2017 | FY 2018 | FY 2019 | FY 2020 | FY 2021 | FY 2022 |
| OPERATING EXPENDITURES | | | | | | | | |
| Personal Services | | | | | | | | |
| Travel | | | | | | | | |
| Services | | | | | | | | |
| Commodities | | | | | | | | |
| Capital Outlay | | | | | | | | |
| Grants & Benefits | | | | | | | | |
| Miscellaneous | | | | | | | | |
| Total Operating | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |

Fund Source (Operating Only)

| | | | | | | | | |
|--------------|------------|------------|------------|------------|------------|------------|------------|------------|
| None | | | | | | | | |
| Total | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |

Positions

| | | | | | | | | |
|-----------|--|--|--|--|--|--|--|--|
| Full-time | | | | | | | | |
| Part-time | | | | | | | | |
| Temporary | | | | | | | | |

Change in Revenues

| | | | | | | | | |
|--|--|--|--|--|--|--|--|--|
| | | | | | | | | |
|--|--|--|--|--|--|--|--|--|

Estimated SUPPLEMENTAL (FY2016) cost: 0.0 *(separate supplemental appropriation required)*
(discuss reasons and fund source(s) in analysis section)

Estimated CAPITAL (FY2017) cost: 0.0 *(separate capital appropriation required)*
(discuss reasons and fund source(s) in analysis section)

ASSOCIATED REGULATIONS

Does the bill direct, or will the bill result in, regulation changes adopted by your agency? No
 If yes, by what date are the regulations to be adopted, amended or repealed? N/A

Why this fiscal note differs from previous version:

| |
|---|
| Revised in response to Committee Substitute. No numbers or analysis were changed. |
|---|

Prepared By: Corri Feige, Director
 Division: Division of Oil & Gas
 Approved By: Marty Rutherford, Acting Commissioner
 Agency: Department of Natural Resources

Phone: (907)269-8775
 Date: 04/01/2016 12:00 AM
 Date: 04/01/16

REPORTED OUT OF
HFC 04/09/2016

Control Code: fXQmm

FISCAL NOTE ANALYSIS

STATE OF ALASKA
2016 LEGISLATIVE SESSION

Analysis

No fiscal impact.

adopted 5/17/16

29-GH2609\AA
Nauman/Shutts
5/17/16

SENATE CS FOR 2d CS FOR HOUSE BILL NO. 247(FIN)

IN THE LEGISLATURE OF THE STATE OF ALASKA

TWENTY-NINTH LEGISLATURE - SECOND SESSION

BY THE SENATE FINANCE COMMITTEE

Offered:

Referred:

Sponsor(s): HOUSE RULES COMMITTEE BY REQUEST OF THE GOVERNOR

A BILL

FOR AN ACT ENTITLED

1 "An Act relating to the exploration incentive credits; relating to the powers and duties
2 of the Alaska Oil and Gas Conservation Commission; relating to interest applicable to
3 delinquent tax; relating to the oil and gas production tax, tax payments, and credits;
4 relating to tax credit certificates; relating to refunds for the gas storage facility tax
5 credit, the liquefied natural gas storage facility tax credit, and the qualified in-state oil
6 refinery infrastructure expenditures tax credit; relating to oil and gas lease expenditures
7 and production tax credits for municipal entities; requiring a bond or cash deposit with
8 a business license application for an oil or gas business; and providing for an effective
9 date."

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

11 * **Section 1.** AS 31.05.030 is amended by adding a new subsection to read:

12 (n) Upon request of the commissioner of revenue, the commission shall

1 (1) verify regular production for the purposes of AS 43.55.023(b) and
2 (l); and

3 (2) determine the commencement of regular production from a lease or
4 property for purposes of AS 43.55.160(f) and (g).

5 * **Sec. 2.** AS 38.05.036(a) is amended to read:

6 (a) The department may conduct audits regarding royalty and net profits under
7 oil and gas contracts, agreements, or leases under this chapter and regarding costs
8 related to exploration licenses entered into under AS 38.05.131 - 38.05.134 and
9 exploration incentive credits under this chapter [OR UNDER AS 41.09]. For purposes
10 of an audit under this section,

11 (1) the department may examine the books, papers, records, or
12 memoranda of a person regarding matters related to the audit; and

13 (2) the records and premises where a business is conducted shall be
14 open at all reasonable times for inspection by the department.

15 * **Sec. 3.** AS 38.05.036(b) is amended to read:

16 (b) The Department of Revenue may obtain from the department information
17 relating to royalty and net profits payments and to exploration incentive credits under
18 this chapter [OR UNDER AS 41.09], whether or not that information is confidential.
19 The Department of Revenue may use the information in carrying out its functions and
20 responsibilities under AS 43, and shall hold that information confidential to the extent
21 required by an agreement with the department or by AS 38.05.035(a)(8) [,
22 AS 41.09.010(d),] or AS 43.05.230.

23 * **Sec. 4.** AS 38.05.036(c) is amended to read:

24 (c) The department may obtain from the Department of Revenue all
25 information obtained under AS 43 relating to royalty and net profits and to exploration
26 incentive credits. The department may use the information for purposes of carrying out
27 its responsibilities and functions under this chapter [AND AS 41.09]. Information
28 made available to the department that was obtained under AS 43 is confidential and
29 subject to the provisions of AS 43.05.230.

30 * **Sec. 5.** AS 38.05.036(f) is amended to read:

31 (f) Except as otherwise provided in this section or in connection with official

1 investigations or proceedings of the department, it is unlawful for a current or former
2 officer, employee, or agent of the state to divulge information obtained by the
3 department as a result of an audit under this section that is required by an agreement
4 with the department or by AS 38.05.035(a)(8) [OR AS 41.09.010(d)] to be kept
5 confidential.

6 * **Sec. 6.** AS 38.05.036(g) is amended to read:

7 (g) Nothing in this section prohibits the publication of statistics in a manner
8 that maintains the confidentiality of information to the extent required by an
9 agreement with the department or by AS 38.05.035(a)(8) [OR AS 41.09.010(d)].

10 * **Sec. 7.** AS 40.25.100(a) is amended to read:

11 (a) Information in the possession of the Department of Revenue that discloses
12 the particulars of the business or affairs of a taxpayer or other person, including
13 information under AS 38.05.020(b)(11) that is subject to a confidentiality agreement
14 under AS 38.05.020(b)(12), is not a matter of public record, except as provided in
15 **AS 43.05.230(i) - (l)** [AS 43.05.230(i) OR (k)] or for purposes of investigation and
16 law enforcement. The information shall be kept confidential except when its
17 production is required in an official investigation, administrative adjudication under
18 AS 43.05.405 - 43.05.499, or court proceeding. These restrictions do not prohibit the
19 publication of statistics presented in a manner that prevents the identification of
20 particular reports and items, prohibit the publication of tax lists showing the names of
21 taxpayers who are delinquent and relevant information that may assist in the collection
22 of delinquent taxes, or prohibit the publication of records, proceedings, and decisions
23 under AS 43.05.405 - 43.05.499.

24 * **Sec. 8.** AS 43.05.225 is amended to read:

25 **Sec. 43.05.225. Interest.** Unless otherwise provided,

26 (1) a delinquent tax [UNDER THIS TITLE,]

27 (A) **under this title**, before January 1, 2014, bears interest in
28 each calendar quarter at the rate of five percentage points above the annual rate
29 charged member banks for advances by the 12th Federal Reserve District as of
30 the first day of that calendar quarter, or at the annual rate of 11 percent,
31 whichever is greater, compounded quarterly as of the last day of that quarter;

1 [OR]

2 (B) under this title, on and after January 1, 2014, except as
3 provided in (C) of this paragraph, bears interest in each calendar quarter at
4 the rate of three percentage points above the annual rate charged member
5 banks for advances by the 12th Federal Reserve District as of the first day of
6 that calendar quarter;

7 (C) under AS 43.55, on and after January 1, 2017,

8 (i) for the first three years after a tax becomes
9 delinquent, bears interest in each calendar quarter at the rate of
10 seven percentage points above the annual rate charged member
11 banks for advances by the 12th Federal Reserve District as of the
12 first day of that calendar quarter, compounded quarterly as of the
13 last day of that quarter; and

14 (ii) after the first three years after a tax becomes
15 delinquent, does not bear interest;

16 (2) the interest rate is 12 percent a year for

17 (A) delinquent fees payable under AS 05.15.095(c); and

18 (B) unclaimed property that is not timely paid or delivered, as
19 allowed by AS 34.45.470(a).

20 * **Sec. 9.** AS 43.05.230 is amended by adding a new subsection to read:

21 (I) For tax credit certificates purchased by the department in the preceding
22 calendar year under AS 43.55.028, the department shall make the aggregate amount of
23 tax credits purchased under each statutory section or subsection, as applicable,
24 classified to prevent the identification of a particular taxpayer public by April 30 of
25 each year.

26 * **Sec. 10.** AS 43.20.046(e) is amended to read:

27 (e) Subject to the requirements in AS 43.55.028(j), the [THE] department
28 may use available money in the oil and gas tax credit fund established in AS 43.55.028
29 to make the refund applied for under (d) of this section in whole or in part if the
30 department finds that, [(1) THE CLAIMANT DOES NOT HAVE AN
31 OUTSTANDING LIABILITY TO THE STATE FOR UNPAID DELINQUENT

1 TAXES UNDER THIS TITLE; AND (2)] after application of all available tax credits,
2 the claimant's total tax liability under this chapter for the calendar year in which the
3 claim is made is zero. [IN THIS SUBSECTION, "UNPAID DELINQUENT TAX"
4 MEANS AN AMOUNT OF TAX FOR WHICH THE DEPARTMENT HAS ISSUED
5 AN ASSESSMENT THAT HAS NOT BEEN PAID AND, IF CONTESTED, HAS
6 NOT BEEN FINALLY RESOLVED IN THE TAXPAYER'S FAVOR.]

7 * **Sec. 11.** AS 43.20.047(e) is amended to read:

8 (e) **Subject to the requirements in AS 43.55.028(j), the** [THE] department
9 may use money available in the oil and gas tax credit fund established in AS 43.55.028
10 to make a refund or payment under (d) of this section in whole or in part if the
11 department finds that, [(1) THE CLAIMANT DOES NOT HAVE AN
12 OUTSTANDING LIABILITY TO THE STATE FOR UNPAID DELINQUENT
13 TAXES UNDER THIS TITLE; AND (2)] after application of all available tax credits,
14 the claimant's total tax liability under this chapter for the calendar year in which the
15 claim is made is zero. [IN THIS SUBSECTION, "UNPAID DELINQUENT TAX"
16 MEANS AN AMOUNT OF TAX FOR WHICH THE DEPARTMENT HAS ISSUED
17 AN ASSESSMENT THAT HAS NOT BEEN PAID AND, IF CONTESTED, HAS
18 NOT BEEN FINALLY RESOLVED IN THE TAXPAYER'S FAVOR.]

19 * **Sec. 12.** AS 43.20.053(a) is amended to read:

20 (a) A taxpayer that owns an in-state oil refinery whose primary function is the
21 manufacturing and sale of refined petroleum products to third parties in arm's length
22 transactions may apply a credit against the tax due under this chapter for a qualified
23 infrastructure expenditure incurred in the state. **For** [FOR] a tax year beginning after
24 December 31, 2014, and before **January 1, 2017, the** [JANUARY 1, 2020. THE] total
25 amount of credit a taxpayer may receive under this section may not exceed the lesser
26 of 40 percent of qualified infrastructure expenditures incurred in the state during the
27 tax year or \$10,000,000 for each in-state refinery for which qualified expenditures are
28 incurred. **For a tax year beginning after December 31, 2016, and before**
29 **January 1, 2018, the total amount of credit a taxpayer may receive under this**
30 **section may not exceed the lesser of 20 percent of qualified infrastructure**
31 **expenditures incurred in the state during the tax year or \$5,000,000 for each in-**

1 **state refinery for which qualified expenditures are incurred.**

2 * **Sec. 13.** AS 43.20.053(e) is amended to read:

3 (e) **Subject to the requirements in AS 43.55.028(j), the** [THE] department
4 may use money available in the oil and gas tax credit fund established in AS 43.55.028
5 to make a refund or payment under (d) of this section in whole or in part if the
6 department finds that,

7 [(1) THE CLAIMANT DOES NOT HAVE AN OUTSTANDING
8 LIABILITY TO THE STATE FOR UNPAID DELINQUENT TAXES UNDER THIS
9 TITLE; AND

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

12 * **Sec. 14.** AS 43.55.011(j) is amended to read:

13 (j) For a calendar year [BEFORE 2022], the tax levied by (e) of this section
14 for gas produced from a lease or property in the Cook Inlet sedimentary basin may not
15 exceed

16 (1) for a lease or property that first commenced commercial production
17 of gas before April 1, 2006, the product obtained by multiplying (A) the amount of
18 taxable gas produced during the calendar year from the lease or property, times (B) the
19 average rate of tax that was imposed under this chapter for taxable gas produced from
20 the lease or property for the 12-month period ending on March 31, 2006, times (C) the
21 quotient obtained by dividing the total gross value at the point of production of the
22 taxable gas produced from the lease or property during the 12-month period ending on
23 March 31, 2006, by the total amount of that gas;

24 (2) for a lease or property that first commences commercial production
25 of gas after March 31, 2006, the product obtained by multiplying (A) the amount of
26 taxable gas produced during the calendar year from the lease or property, times (B) the
27 average rate of tax that was imposed under this chapter for taxable gas produced from
28 all leases or properties in the Cook Inlet sedimentary basin for the 12-month period
29 ending on March 31, 2006, times (C) the average prevailing value for gas delivered in
30 the Cook Inlet area for the 12-month period ending March 31, 2006, as determined by
31 the department under AS 43.55.020(f).

1 * **Sec. 15.** AS 43.55.011(k) is amended to read:

2 (k) For a calendar year [BEFORE 2022], the tax levied by (e) of this section
3 may not exceed one dollar per barrel of oil for oil produced from a lease or property
4 in the Cook Inlet sedimentary basin [MAY NOT EXCEED

5 (1) FOR A LEASE OR PROPERTY THAT FIRST COMMENCED
6 COMMERCIAL PRODUCTION OF OIL BEFORE APRIL 1, 2006, THE PRODUCT
7 OBTAINED BY MULTIPLYING (A) THE AMOUNT OF TAXABLE OIL
8 PRODUCED DURING THE CALENDAR YEAR FROM THE LEASE OR
9 PROPERTY, TIMES (B) THE AVERAGE RATE OF TAX THAT WAS IMPOSED
10 UNDER THIS CHAPTER FOR TAXABLE OIL PRODUCED FROM THE LEASE
11 OR PROPERTY FOR THE 12-MONTH PERIOD ENDING ON MARCH 31, 2006,
12 TIMES (C) THE QUOTIENT OBTAINED BY DIVIDING THE TOTAL GROSS
13 VALUE AT THE POINT OF PRODUCTION OF THE TAXABLE OIL PRODUCED
14 FROM THE LEASE OR PROPERTY DURING THE 12-MONTH PERIOD
15 ENDING ON MARCH 31, 2006, BY THE TOTAL AMOUNT OF THAT OIL;

16 (2) FOR A LEASE OR PROPERTY THAT FIRST COMMENCES
17 COMMERCIAL PRODUCTION OF OIL AFTER MARCH 31, 2006, THE
18 PRODUCT OBTAINED BY MULTIPLYING (A) THE AMOUNT OF TAXABLE
19 OIL PRODUCED DURING THE CALENDAR YEAR FROM THE LEASE OR
20 PROPERTY, TIMES (B) THE AVERAGE RATE OF TAX THAT WAS IMPOSED
21 UNDER THIS CHAPTER FOR TAXABLE OIL PRODUCED FROM ALL LEASES
22 OR PROPERTIES IN THE COOK INLET SEDIMENTARY BASIN FOR THE 12-
23 MONTH PERIOD ENDING ON MARCH 31, 2006, TIMES (C) THE AVERAGE
24 PREVAILING VALUE FOR OIL PRODUCED AND DELIVERED IN THE COOK
25 INLET AREA FOR THE 12-MONTH PERIOD ENDING ON MARCH 31, 2006, AS
26 DETERMINED BY THE DEPARTMENT UNDER AS 43.55.020(f)].

27 * **Sec. 16.** AS 43.55.011(o) is amended to read:

28 (o) Notwithstanding other provisions of this section, for a calendar year
29 [BEFORE 2022], the tax levied under (e) of this section for each 1,000 cubic feet of
30 gas for gas produced from a lease or property outside the Cook Inlet sedimentary basin
31 and used in the state, other than gas subject to (p) of this section, may not exceed the

1 amount of tax for each 1,000 cubic feet of gas that is determined under (j)(2) of this
2 section.

3 * **Sec. 17.** AS 43.55.020(a) is amended to read:

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

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

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

18 (i) zero; or

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

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

29 (i) zero;

30 (ii) zero percent, one percent, two percent, three
31 percent, or four percent, as applicable, of the gross value at the point of

1 production of the oil and gas produced from the leases or properties
2 during the month for which the installment payment is calculated; or

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

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

13 (i) zero; or

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

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

24 (i) the sum of 25 percent and the tax rate calculated for
25 the month under AS 43.55.011(g) multiplied by the remainder obtained
26 by subtracting 1/12 of the producer's adjusted lease expenditures for the
27 calendar year of production under AS 43.55.165 and 43.55.170 that are
28 deductible for the oil and gas under AS 43.55.160 from the gross value
29 at the point of production of the oil and gas produced from the leases or
30 properties during the month for which the installment payment is
31 calculated, but not less than zero; or

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

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

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

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

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

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

29 (5) for oil and gas produced on and after January 1, 2014, and before
30 January 1, 2022, an installment payment of the estimated tax levied by
31 AS 43.55.011(e), net of any tax credits applied as allowed by law, is due for each

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

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

10 (i) zero; or

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

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

20 (i) zero;

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

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

1 from the gross value at the point of production may apply for oil and
2 gas subject to AS 43.55.160(f) or (g);

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

5 (i) zero; or

6 (ii) 35 percent multiplied by the remainder obtained by
7 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 under AS 43.55.160 for the oil or gas, respectively,
10 produced from the lease or property from the gross value at the point of
11 production of the oil or gas, respectively, produced from the lease or
12 property during the month for which the installment payment is
13 calculated;

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

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

25 (6) an amount calculated under (5)(C) of this subsection for oil or gas
26 subject to AS 43.55.011(j), (k), or (o) may not exceed the product obtained by
27 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 (7) for oil and gas produced on or after January 1, 2022, an installment
4 payment of the estimated tax levied by AS 43.55.011(e), net of any tax credits applied
5 as allowed by law, is due for each month of the calendar year on the last day of the
6 following month; **except as otherwise provided under (10) of this subsection**, the
7 amount of the installment payment is the sum of the following amounts, less 1/12 of
8 the tax credits that are allowed by law to be applied against the tax levied by
9 AS 43.55.011(e) for the calendar year, but the amount of the installment payment may
10 not be less than zero:

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

13 (i) zero;

14 (ii) zero percent, one percent, two percent, three
15 percent, or four percent, as applicable, of the gross value at the point of
16 production of the oil produced from the leases or properties during the
17 month for which the installment payment is calculated; or

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

27 (B) for oil produced before or during the last calendar year
28 under AS 43.55.024(b) for which the producer could take a tax credit under
29 AS 43.55.024(a), from leases or properties in the state outside the Cook Inlet
30 sedimentary basin, no part of which is north of 68 degrees North latitude, other
31 than leases or properties subject to **AS 43.55.011(o) or (p)** [AS 43.55.011(p)],

1 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), or (F) 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(o) or (p)
3 [AS 43.55.011(p)], 13 percent of the gross value at the point of production of
4 the gas produced from the lease or property during the month for which the
5 installment payment is calculated, but not less than zero;

6 (F) for oil subject to AS 43.55.011(k), for each lease or
7 property, the greater of

8 (i) zero; or

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

16 (G) for gas subject to AS 43.55.011(i) or (o), for each lease
17 or property, the greater of

18 (i) zero; or

19 (ii) 13 percent of the gross value at the point of
20 production of the gas produced from the lease or property during
21 the month for which the installment payment is calculated;

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

26 (9) for purposes of the calculation under (1)(B)(ii), (5)(B)(ii), and
27 (7)(A)(ii) of this subsection, the applicable percentage of the gross value at the point
28 of production is determined under AS 43.55.011(f)(1) or (2) but substituting the
29 phrase "month for which the installment payment is calculated" in AS 43.55.011(f)(1)
30 and (2) for the phrase "calendar year for which the tax is due";

31 (10) an amount calculated under (7)(F) or (G) of this subsection

1 for oil or gas subject to AS 43.55.011(j), (k), or (o) may not exceed the product
2 obtained by carrying out the calculation set out in AS 43.55.011(j)(1) or (2) or
3 43.55.011(o), as applicable, for gas, or set out in AS 43.55.011(k)(1) or (2), as
4 applicable, for oil, but substituting in AS 43.55.011(j)(1)(A) or (2)(A) or
5 43.55.011(o), as applicable, the amount of taxable gas produced during the month
6 for the amount of taxable gas produced during the calendar year and substituting
7 in AS 43.55.011(k)(1)(A) or (2)(A), as applicable, the amount of taxable oil
8 produced during the month for the amount of taxable oil produced during the
9 calendar year. ["

10 * **Sec. 18.** AS 43.55.023(a) is amended to read:

11 (a) A producer or explorer may take a tax credit for a qualified capital
12 expenditure as follows:

13 (1) notwithstanding that a qualified capital expenditure may be a
14 deductible lease expenditure for purposes of calculating the production tax value of oil
15 and gas under AS 43.55.160(a), unless a credit for that expenditure is taken under
16 [AS 38.05.180(i), AS 41.09.010,] AS 43.20.043 [,] or AS 43.55.025, a producer or
17 explorer that incurs a qualified capital expenditure **in the Cook Inlet sedimentary**
18 **basin** may also elect to apply a tax credit against a tax levied by AS 43.55.011(e) in
19 the amount of **10** [20] percent of that expenditure;

20 (2) a producer or explorer may take a credit for a qualified capital
21 expenditure incurred in connection with geological or geophysical exploration or in
22 connection with an exploration well only if the producer or explorer

23 (A) agrees, in writing, to the applicable provisions of
24 AS 43.55.025(f)(2); and

25 (B) submits to the Department of Natural Resources all data
26 that would be required to be submitted under AS 43.55.025(f)(2) [;

27 (3) A CREDIT FOR A QUALIFIED CAPITAL EXPENDITURE
28 INCURRED TO EXPLORE FOR, DEVELOP, OR PRODUCE OIL OR GAS
29 DEPOSITS LOCATED NORTH OF 68 DEGREES NORTH LATITUDE MAY BE
30 TAKEN ONLY IF THE EXPENDITURE IS INCURRED BEFORE JANUARY 1,
31 2014].

1 * **Sec. 19.** AS 43.55.023(b) is amended to read:

2 (b) Before January 1, 2014, a producer or explorer may elect to take a tax
3 credit in the amount of 25 percent of a carried-forward annual loss. For lease
4 expenditures incurred on and after January 1, 2014, and before January 1, 2016, to
5 explore for, develop, or produce oil or gas deposits located north of 68 degrees North
6 latitude, a producer or explorer may elect to take a tax credit in the amount of 45
7 percent of a carried-forward annual loss. For lease expenditures incurred on and after
8 January 1, 2016, to explore for, develop, or produce oil or gas deposits located north
9 of 68 degrees North latitude, a producer or explorer may elect to take a tax credit in
10 the amount of 35 percent of a carried-forward annual loss. For lease expenditures
11 incurred on or after January 1, 2014, **and before January 1, 2017,** to explore for,
12 develop, or produce oil or gas deposits located south of 68 degrees North latitude, a
13 producer or explorer may elect to take a tax credit in the amount of 25 percent of a
14 carried-forward annual loss. **For lease expenditures incurred on or after January 1,**
15 **2017, to explore for, develop, or produce oil or gas deposits located in the Cook**
16 **Inlet sedimentary basin, a producer or explorer may elect to take a tax credit in**
17 **the amount of 15 percent of a carried-forward annual loss.** A credit under this
18 subsection may be applied against a tax levied by AS 43.55.011(e). For purposes of
19 this subsection,

20 (1) a carried-forward annual loss is the amount of a producer's or
21 explorer's adjusted lease expenditures under AS 43.55.165 and 43.55.170 for a
22 previous calendar year that was not deductible in calculating production tax values for
23 that calendar year under AS 43.55.160;

24 (2) **for lease expenditures incurred on or after January 1, 2017,**
25 **any reduction under AS 43.55.160(f) or (g) is added back to the calculation of**
26 **production tax values for that calendar year under AS 43.55.160 for the**
27 **determination of a carried-forward annual loss.**

28 * **Sec. 20.** AS 43.55.023(b), as amended by sec. 19 of this Act, is amended to read:

29 (b) Before January 1, 2014, a producer or explorer may elect to take a tax
30 credit in the amount of 25 percent of a carried-forward annual loss. For lease
31 expenditures incurred on and after January 1, 2014, and before January 1, 2016, to

1 explore for, develop, or produce oil or gas deposits located north of 68 degrees North
2 latitude, a producer or explorer may elect to take a tax credit in the amount of 45
3 percent of a carried-forward annual loss. For lease expenditures incurred on and after
4 January 1, 2016, to explore for, develop, or produce oil or gas deposits located north
5 of 68 degrees North latitude, a producer or explorer may elect to take a tax credit in
6 the amount of 35 percent of a carried-forward annual loss. [FOR LEASE
7 EXPENDITURES INCURRED ON OR AFTER JANUARY 1, 2014, AND BEFORE
8 JANUARY 1, 2017, TO EXPLORE FOR, DEVELOP, OR PRODUCE OIL OR GAS
9 DEPOSITS LOCATED SOUTH OF 68 DEGREES NORTH LATITUDE, A
10 PRODUCER OR EXPLORER MAY ELECT TO TAKE A TAX CREDIT IN THE
11 AMOUNT OF 25 PERCENT OF A CARRIED-FORWARD ANNUAL LOSS. FOR
12 LEASE EXPENDITURES INCURRED ON OR AFTER JANUARY 1, 2017, TO
13 EXPLORE FOR, DEVELOP, OR PRODUCE OIL OR GAS DEPOSITS LOCATED
14 IN THE COOK INLET SEDIMENTARY BASIN, A PRODUCER OR EXPLORER
15 MAY ELECT TO TAKE A TAX CREDIT IN THE AMOUNT OF 15 PERCENT OF
16 A CARRIED-FORWARD ANNUAL LOSS.] A credit under this subsection may be
17 applied against a tax levied by AS 43.55.011(e). For purposes of this subsection,

18 (1) a carried-forward annual loss is the amount of a producer's or
19 explorer's adjusted lease expenditures under AS 43.55.165 and 43.55.170 for a
20 previous calendar year that was not deductible in calculating production tax values for
21 that calendar year under AS 43.55.160;

22 (2) for lease expenditures incurred on or after January 1, 2017, any
23 reduction under AS 43.55.160(f) or (g) is added back to the calculation of production
24 tax values for that calendar year under AS 43.55.160 for the determination of a
25 carried-forward annual loss.

26 * **Sec. 21.** AS 43.55.023(d) is amended to read:

27 (d) A person that is entitled to take a tax credit under this section that wishes
28 to transfer the unused credit to another person or obtain a cash payment under
29 AS 43.55.028 may apply to the department for a transferable tax credit certificate. An
30 application under this subsection must be in a form prescribed by the department and
31 must include supporting information and documentation that the department

1 reasonably requires. The department shall grant or deny an application, or grant an
2 application as to a lesser amount than that claimed and deny it as to the excess, not
3 later than 120 days after the latest of (1) March 31 of the year following the calendar
4 year in which the [QUALIFIED CAPITAL EXPENDITURE OR] carried-forward
5 annual loss for which the credit is claimed was incurred; (2) the date the statement
6 required under AS 43.55.030(a) or (e) was filed for the calendar year in which the
7 [QUALIFIED CAPITAL EXPENDITURE OR] carried-forward annual loss for which
8 the credit is claimed was incurred; or (3) the date the application was received by the
9 department. If, based on the information then available to it, the department is
10 reasonably satisfied that the applicant is entitled to a credit, the department shall issue
11 the applicant a transferable tax credit certificate for the amount of the credit. A
12 certificate issued under this subsection does not expire.

13 * **Sec. 22.** AS 43.55.023(e) is amended to read:

14 (e) A person to which a transferable tax credit certificate is issued under (d) of
15 this section may transfer the certificate to another person, and a transferee may further
16 transfer the certificate. Subject to the limitations set out in **former (a) of this section**
17 **and (b) - (d)** [(a) - (d)] of this section, and notwithstanding any action the department
18 may take with respect to the applicant under (g) of this section, the owner of a
19 certificate may apply the credit or a portion of the credit shown on the certificate only
20 against a tax levied by AS 43.55.011(e). However, a credit shown on a transferable tax
21 credit certificate may not be applied to reduce a transferee's total tax liability under
22 AS 43.55.011(e) for oil and gas produced during a calendar year to less than 80
23 percent of the tax that would otherwise be due without applying that credit. Any
24 portion of a credit not used under this subsection may be applied in a later period.

25 * **Sec. 23.** AS 43.55.023(l) is amended to read:

26 (l) A producer or explorer may apply for a tax credit for a well lease
27 expenditure incurred in the state south of 68 degrees North latitude after June 30,
28 2010, as follows:

29 (1) notwithstanding that a well lease expenditure incurred in the **Cook**
30 **Inlet sedimentary basin** [STATE SOUTH OF 68 DEGREES NORTH LATITUDE]
31 may be a deductible lease expenditure for purposes of calculating the production tax

1 value of oil and gas under AS 43.55.160(a), unless a credit for that expenditure is
2 taken under (a) of this section, [AS 38.05.180(i), AS 41.09.010,] AS 43.20.043, or
3 AS 43.55.025, a producer or explorer that incurs a well lease expenditure in the **Cook**
4 **Inlet sedimentary basin** [STATE SOUTH OF 68 DEGREES NORTH LATITUDE]
5 may elect to apply a tax credit against a tax levied by AS 43.55.011(e) in the amount
6 of **20** [40] percent of that expenditure [; A TAX CREDIT UNDER THIS
7 PARAGRAPH MAY BE APPLIED FOR A SINGLE CALENDAR YEAR];

8 (2) a producer or explorer may take a credit for a well lease
9 expenditure incurred in the state south of 68 degrees North latitude in connection with
10 geological or geophysical exploration or in connection with an exploration well only if
11 the producer or explorer

12 (A) agrees, in writing, to the applicable provisions of
13 AS 43.55.025(f)(2); and

14 (B) submits to the Department of Natural Resources all data
15 that would be required to be submitted under AS 43.55.025(f)(2).

16 * **Sec. 24.** AS 43.55.024(i) is amended to read:

17 (i) A producer may apply against the producer's tax liability for the calendar
18 year under AS 43.55.011(e) a tax credit of \$5 for each barrel of oil taxable under
19 AS 43.55.011(e) that **receives a reduction in the gross value at the point of**
20 **production under** [MEETS ONE OR MORE OF THE CRITERIA IN]
21 AS 43.55.160(f) or (g) and that is produced during a calendar year after December 31,
22 2013. A tax credit authorized by this subsection may not reduce a producer's tax
23 liability for a calendar year under AS 43.55.011(e) below zero.

24 * **Sec. 25.** AS 43.55.024(j) is amended to read:

25 (j) A producer may apply against the producer's tax liability for the calendar
26 year under AS 43.55.011(e) a tax credit in the amount specified in this subsection for
27 each barrel of oil taxable under AS 43.55.011(e) that does not **receive a reduction in**
28 **the gross value at the point of production under** [MEET ANY OF THE CRITERIA
29 IN] AS 43.55.160(f) or (g) and that is produced during a calendar year after
30 December 31, 2013, from leases or properties north of 68 degrees North latitude. A tax
31 credit under this subsection may not reduce a producer's tax liability for a calendar

1 year under AS 43.55.011(e) below the amount calculated under AS 43.55.011(f). The
2 amount of the tax credit for a barrel of taxable oil subject to this subsection produced
3 during a month of the calendar year is

4 (1) \$8 for each barrel of taxable oil if the average gross value at the
5 point of production for the month is less than \$80 a barrel;

6 (2) \$7 for each barrel of taxable oil if the average gross value at the
7 point of production for the month is greater than or equal to \$80 a barrel, but less than
8 \$90 a barrel;

9 (3) \$6 for each barrel of taxable oil if the average gross value at the
10 point of production for the month is greater than or equal to \$90 a barrel, but less than
11 \$100 a barrel;

12 (4) \$5 for each barrel of taxable oil if the average gross value at the
13 point of production for the month is greater than or equal to \$100 a barrel, but less
14 than \$110 a barrel;

15 (5) \$4 for each barrel of taxable oil if the average gross value at the
16 point of production for the month is greater than or equal to \$110 a barrel, but less
17 than \$120 a barrel;

18 (6) \$3 for each barrel of taxable oil if the average gross value at the
19 point of production for the month is greater than or equal to \$120 a barrel, but less
20 than \$130 a barrel;

21 (7) \$2 for each barrel of taxable oil if the average gross value at the
22 point of production for the month is greater than or equal to \$130 a barrel, but less
23 than \$140 a barrel;

24 (8) \$1 for each barrel of taxable oil if the average gross value at the
25 point of production for the month is greater than or equal to \$140 a barrel, but less
26 than \$150 a barrel;

27 (9) zero if the average gross value at the point of production for the
28 month is greater than or equal to \$150 a barrel.

29 * **Sec. 26.** AS 43.55.028(a) is amended to read:

30 (a) The oil and gas tax credit fund is established as a separate fund of the state.
31 The purpose of the fund is to purchase transferable tax credit certificates issued under

1 AS 43.55.023 and production tax credit certificates issued under AS 43.55.025 and to
2 pay refunds and payments claimed under AS 43.20.046 or [,] 43.20.047 [, OR
3 43.20.053].

4 * **Sec. 27.** AS 43.55.028(e) is amended to read:

5 (e) The department, on the written application of a person to whom a
6 transferable tax credit certificate has been issued under AS 43.55.023(d) or former
7 AS 43.55.023(m) or to whom a production tax credit certificate has been issued under
8 AS 43.55.025(f), may use available money in the oil and gas tax credit fund to
9 purchase, in whole or in part, the certificate. **The department may not purchase a**
10 **total of more than \$70,000,000 in tax credit certificates from a person in a**
11 **calendar year. Before purchasing a certificate or part of a certificate,** [IF] the
12 department **shall find** [FINDS] that

13 (1) the calendar year of the purchase is not earlier than the first
14 calendar year for which the credit shown on the certificate would otherwise be allowed
15 to be applied against a tax;

16 (2) the **application is not the result of the division of a single entity**
17 **into multiple entities that would reasonably be expected to apply as a single entity**
18 **if the \$70,000,000 limitation in this subsection did not exist** [APPLICANT DOES
19 NOT HAVE AN OUTSTANDING LIABILITY TO THE STATE FOR UNPAID
20 DELINQUENT TAXES UNDER THIS TITLE];

21 (3) the applicant's total tax liability under AS 43.55.011(e), after
22 application of all available tax credits, for the calendar year in which the application is
23 made is zero;

24 (4) the applicant's average daily production of oil and gas taxable
25 under AS 43.55.011(e) during the calendar year preceding the calendar year in which
26 the application is made was not more than 50,000 BTU equivalent barrels; and

27 (5) the purchase is consistent with this section and regulations adopted
28 under this section.

29 * **Sec. 28.** AS 43.55.028(g) is amended to read:

30 (g) The department **shall** [MAY] adopt regulations to carry out the purposes
31 of this section, including standards and procedures to allocate available money among

1 applications for purchases under this chapter and claims for refunds and payments
2 under AS 43.20.046, 43.20.047, or 43.20.053 when the total amount of the
3 applications for purchase and claims for refund exceed the amount of available money
4 in the fund. The regulations adopted by the department

5 (1) may not, when allocating available money in the fund under this
6 section, distinguish an application for the purchase of a credit certificate issued under
7 former AS 43.55.023(m) or a claim for a refund or payment under AS 43.20.046,
8 43.20.047, or 43.20.053;

9 (2) must grant a preference to an applicant if at least 75 percent of
10 the applicant's workforce in the state in the previous calendar year was
11 composed of resident workers; in this paragraph, "resident worker" has the
12 meaning given in AS 43.40.092(b);

13 (3) must provide for the purchase of the amount equal to the first
14 50 percent of the credit repurchase limit per person under (e) of this section at a
15 rate of 100 percent of the value of the certificate or portion of the certificate
16 requested to be purchased and the amount equal to the next 50 percent of the
17 credit repurchase limit per person under (e) of this section at a rate of 75 percent
18 of the value of the certificate or portion of the certificate requested to be
19 purchased.

20 * **Sec. 29.** AS 43.55.028(g), as amended by sec. 28 of this Act, is amended to read:

21 (g) The department shall adopt regulations to carry out the purposes of this
22 section, including standards and procedures to allocate available money among
23 applications for purchases under this chapter and claims for refunds and payments
24 under AS 43.20.046 or [,] 43.20.047 [, OR 43.20.053] when the total amount of the
25 applications for purchase and claims for refund exceed the amount of available money
26 in the fund. The regulations adopted by the department

27 (1) may not, when allocating available money in the fund under this
28 section, distinguish an application for the purchase of a credit certificate issued under
29 former AS 43.55.023(m) or a claim for a refund or payment under AS 43.20.046 or [,]
30 43.20.047 [, OR 43.20.053];

31 (2) must grant a preference to an applicant if at least 75 percent of the

1 applicant's workforce in the state in the previous calendar year was composed of
2 resident workers; in this paragraph, "resident worker" has the meaning given in
3 AS 43.40.092(b);

4 (3) must provide for the purchase of the amount equal to the first 50
5 percent of the credit repurchase limit per person under (e) of this section at a rate of
6 100 percent of the value of the certificate or portion of the certificate requested to be
7 purchased and the amount equal to the next 50 percent of the credit repurchase limit
8 per person under (e) of this section at a rate of 75 percent of the value of the certificate
9 or portion of the certificate requested to be purchased.

10 * **Sec. 30.** AS 43.55.028 is amended by adding a new subsection to read:

11 (j) If an applicant or claimant has an outstanding liability to the state directly
12 related to the applicant's or claimant's oil or gas exploration, development, or
13 production and the department has not previously reduced the amount paid to that
14 applicant or claimant for a certificate or refund because of that outstanding liability,
15 the department may purchase only that portion of a certificate or pay only that portion
16 of a refund that exceeds the outstanding liability. After notifying the applicant or
17 claimant, the department may apply the amount by which the department reduced its
18 purchase of a certificate or payment for a refund because of an outstanding liability to
19 satisfy the outstanding liability. Satisfaction of an outstanding liability under this
20 subsection does not affect the applicant's ability to contest that liability. The
21 department may enter into contracts or agreements with another department to which
22 the outstanding liability is owed. In this subsection, "outstanding liability" means an
23 amount of tax, interest, penalty, fee, rental, royalty, or other charge for which the state
24 has issued a demand for payment that has not been paid when due and, if contested,
25 has not been finally resolved against the state.

26 * **Sec. 31.** AS 43.55.029(a) is amended to read:

27 (a) An explorer or producer that has applied for a production tax credit under
28 former AS 43.55.023(a) [, (b),] or (l) or under AS 43.55.023(b) or 43.55.025(a) may
29 make a present assignment of the production tax credit certificate expected to be
30 issued by the department to a third-party assignee. The assignment may be made either
31 at the time the application is filed with the department or not later than 30 days after

1 the date of filing with the department. Once a notice of assignment in compliance with
2 this section is filed with the department, the assignment is irrevocable and cannot be
3 modified by the explorer or producer without the written consent of the assignee
4 named in the assignment. If a production tax credit certificate is issued to the explorer
5 or producer, the notice of assignment remains effective and shall be filed with the
6 department by the explorer or producer together with any application for the
7 department to purchase the certificate under AS 43.55.028(e).

8 * **Sec. 32.** AS 43.55.030(a) is amended to read:

9 (a) A producer that produces oil or gas from a lease or property in the state
10 during a calendar year, whether or not any tax payment is due under AS 43.55.020(a)
11 for that oil or gas, shall file with the department on March 31 of the following year a
12 statement, under oath, in a form prescribed by the department, giving, with other
13 information required, the following:

14 (1) a description of each lease or property from which oil or gas was
15 produced, by name, legal description, lease number, or accounting codes assigned by
16 the department;

17 (2) the names of the producer and, if different, the person paying the
18 tax, if any;

19 (3) the gross amount of oil and the gross amount of gas produced from
20 each lease or property, separately identifying the gross amount of gas produced from
21 each oil and gas lease to which an effective election under AS 43.55.014(a) applies,
22 the amount of gas delivered to the state under AS 43.55.014(b), and the percentage of
23 the gross amount of oil and gas owned by the producer;

24 (4) the gross value at the point of production of the oil and of the gas
25 produced from each lease or property owned by the producer and the costs of
26 transportation of the oil and gas;

27 (5) the name of the first purchaser and the price received for the oil and
28 for the gas, unless relieved from this requirement in whole or in part by the
29 department;

30 (6) the producer's qualified capital expenditures, [AS DEFINED IN
31 AS 43.55.023,] other lease expenditures under AS 43.55.165, and adjustments or other

1 payments or credits under AS 43.55.170;

2 (7) the production tax values of the oil and gas under AS 43.55.160(a)
3 or of the oil under AS 43.55.160(h), as applicable;

4 (8) any claims for tax credits to be applied; and

5 (9) calculations showing the amounts, if any, that were or are due
6 under AS 43.55.020(a) and interest on any underpayment or overpayment.

7 * **Sec. 33.** AS 43.55.030(e) is amended to read:

8 (e) An explorer or producer that incurs a lease expenditure under
9 AS 43.55.165 or receives a payment or credit under AS 43.55.170 during a calendar
10 year but does not produce oil or gas from a lease or property in the state during the
11 calendar year shall file with the department, on March 31 of the following year, a
12 statement, under oath, in a form prescribed by the department, giving, with other
13 information required, the following:

14 (1) the explorer's or producer's qualified capital expenditures, [AS
15 DEFINED IN AS 43.55.023,] other lease expenditures under AS 43.55.165, and
16 adjustments or other payments or credits under AS 43.55.170; and

17 (2) if the explorer or producer receives a payment or credit under
18 AS 43.55.170, calculations showing whether the explorer or producer is liable for a
19 tax under AS 43.55.160(d) or 43.55.170(b) and, if so, the amount.

20 * **Sec. 34.** AS 43.55.160(f) is amended to read:

21 (f) On and after January 1, 2014, in the calculation of an annual production tax
22 value of a producer under (a)(1)(A) or (h)(1) of this section, the gross value at the
23 point of production of oil or gas produced from a lease or property north of 68 degrees
24 North latitude meeting one or more of the following criteria is reduced by 20 percent:
25 (1) the oil or gas is produced from a lease or property that does not contain a lease that
26 was within a unit on January 1, 2003; (2) the oil or gas is produced from a
27 participating area established after December 31, 2011, that is within a unit formed
28 under AS 38.05.180(p) before January 1, 2003, if the participating area does not
29 contain a reservoir that had previously been in a participating area established before
30 December 31, 2011; (3) the oil or gas is produced from acreage that was added to an
31 existing participating area by the Department of Natural Resources on and after

1 January 1, 2014, and the producer demonstrates to the department that the volume of
2 oil or gas produced is from acreage added to an existing participating area. This
3 subsection does not apply to gas produced before 2022 that is used in the state or to
4 gas produced on and after January 1, 2022. For oil and gas first produced from a
5 lease or property after December 31, 2016, a reduction allowed under this
6 subsection applies from the date of commencement of regular production of oil
7 and gas from that lease or property and expires after three years, consecutive or
8 nonconsecutive, in which the average annual price per barrel for Alaska North
9 Slope crude oil for sale on the United States West Coast is more than \$70 or after
10 seven years, whichever occurs first. For oil and gas first produced from a lease
11 or property before January 1, 2017, a reduction allowed under this subsection
12 expires on the earlier of January 1, 2023, or January 1 following three years,
13 consecutive or nonconsecutive, in which the average annual price per barrel for
14 Alaska North Slope crude oil for sale on the United States West Coast is more
15 than \$70. The Alaska Oil and Gas Conservation Commission shall determine the
16 commencement of regular production of oil and gas for purposes of this section.

17 A reduction under this subsection may not reduce the gross value at the point of
18 production below zero. In this subsection, "participating area" means a reservoir or
19 portion of a reservoir producing or contributing to production as approved by the
20 Department of Natural Resources.

21 * **Sec. 35.** AS 43.55.160(g) is amended to read:

22 (g) On and after January 1, 2014, in addition to the reduction under (f) of this
23 section, in the calculation of an annual production tax value of a producer under
24 (a)(1)(A) or (h)(1) of this section, the gross value at the point of production of oil or
25 gas produced from a lease or property north of 68 degrees North latitude that does not
26 contain a lease that was within a unit on January 1, 2003, is reduced by 10 percent if
27 the oil or gas is produced from a unit made up solely of leases that have a royalty
28 share of more than 12.5 percent in amount or value of the production removed or sold
29 from the lease as determined under AS 38.05.180(f). This subsection does not apply if
30 the royalty obligation for one or more of the leases in the unit has been reduced to 12.5
31 percent or less under AS 38.05.180(j) for all or part of the calendar year for which the

1 annual production tax value is calculated. This subsection does not apply to gas
2 produced before 2022 that is used in the state or to gas produced on and after
3 January 1, 2022. For oil or gas first produced after December 31, 2016, a
4 reduction allowed under this subsection applies to oil or gas produced from a
5 lease or property for the first seven years after the commencement of regular
6 production of oil or gas from that lease or property. For oil or gas first produced
7 before January 1, 2017, a reduction allowed under this subsection for a lease or
8 property expires January 1, 2023. The Alaska Oil and Gas Conservation
9 Commission shall determine the commencement of regular production for
10 purposes of this subsection. A reduction under this subsection may not reduce the
11 gross value at the point of production below zero.

12 * Sec. 36. AS 43.55.165(a) is amended to read:

13 (a) For [EXCEPT AS PROVIDED IN (j) AND (k) OF THIS SECTION,
14 FOR] purposes of this chapter, a producer's lease expenditures for a calendar year are

15 (1) costs, other than items listed in (e) of this section, that are

16 (A) incurred by the producer during the calendar year after
17 March 31, 2006, to explore for, develop, or produce oil or gas deposits located
18 within the producer's leases or properties in the state or, in the case of land in
19 which the producer does not own an operating right, operating interest, or
20 working interest, to explore for oil or gas deposits within other land in the
21 state; and

22 (B) allowed by the department by regulation, based on the
23 department's determination that the costs satisfy the following three
24 requirements:

25 (i) the costs must be incurred upstream of the point of
26 production of oil and gas;

27 (ii) the costs must be ordinary and necessary costs of
28 exploring for, developing, or producing, as applicable, oil or gas
29 deposits; and

30 (iii) the costs must be direct costs of exploring for,
31 developing, or producing, as applicable, oil or gas deposits; and

1 (2) a reasonable allowance for that calendar year, as determined under
2 regulations adopted by the department, for overhead expenses that are directly related
3 to exploring for, developing, or producing, as applicable, the oil or gas deposits.

4 * **Sec. 37.** AS 43.55.165(e) is amended to read:

5 (e) For purposes of this section, lease expenditures do not include

6 (1) depreciation, depletion, or amortization;

7 (2) oil or gas royalty payments, production payments, lease profit
8 shares, or other payments or distributions of a share of oil or gas production, profit, or
9 revenue, except that a producer's lease expenditures applicable to oil and gas produced
10 from a lease issued under AS 38.05.180(f)(3)(B), (D), or (E) include the share of net
11 profit paid to the state under that lease;

12 (3) taxes based on or measured by net income;

13 (4) interest or other financing charges or costs of raising equity or debt
14 capital;

15 (5) acquisition costs for a lease or property or exploration license;

16 (6) costs arising from fraud, wilful misconduct, gross negligence,
17 violation of law, or failure to comply with an obligation under a lease, permit, or
18 license issued by the state or federal government;

19 (7) fines or penalties imposed by law;

20 (8) costs of arbitration, litigation, or other dispute resolution activities
21 that involve the state or concern the rights or obligations among owners of interests in,
22 or rights to production from, one or more leases or properties or a unit;

23 (9) costs incurred in organizing a partnership, joint venture, or other
24 business entity or arrangement;

25 (10) amounts paid to indemnify the state; the exclusion provided by
26 this paragraph does not apply to the costs of obtaining insurance or a surety bond from
27 a third-party insurer or surety;

28 (11) surcharges levied under AS 43.55.201 or 43.55.300;

29 (12) an expenditure otherwise deductible under (b) of this section that
30 is a result of an internal transfer, a transaction with an affiliate, or a transaction
31 between related parties, or is otherwise not an arm's length transaction, unless the

1 producer establishes to the satisfaction of the department that the amount of the
2 expenditure does not exceed the fair market value of the expenditure;

3 (13) an expenditure incurred to purchase an interest in any corporation,
4 partnership, limited liability company, business trust, or any other business entity,
5 whether or not the transaction is treated as an asset sale for federal income tax
6 purposes;

7 (14) a tax levied under AS 43.55.011 or 43.55.014;

8 (15) costs incurred for dismantlement, removal, surrender, or
9 abandonment of a facility, pipeline, well pad, platform, or other structure, or for the
10 restoration of a lease, field, unit, area, tract of land, body of water, or right-of-way in
11 conjunction with dismantlement, removal, surrender, or abandonment; a cost is not
12 excluded under this paragraph if the dismantlement, removal, surrender, or
13 abandonment for which the cost is incurred is undertaken for the purpose of replacing,
14 renovating, or improving the facility, pipeline, well pad, platform, or other structure;

15 (16) costs incurred for containment, control, cleanup, or removal in
16 connection with any unpermitted release of oil or a hazardous substance and any
17 liability for damages imposed on the producer or explorer for that unpermitted release;
18 this paragraph does not apply to the cost of developing and maintaining an oil
19 discharge prevention and contingency plan under AS 46.04.030;

20 (17) costs incurred to satisfy a work commitment under an exploration
21 license under AS 38.05.132;

22 (18) that portion of expenditures, that would otherwise be qualified
23 capital expenditures, [AS DEFINED IN AS 43.55.023,] incurred during a calendar
24 year that are less than the product of \$0.30 multiplied by the total taxable production
25 from each lease or property, in BTU equivalent barrels, during that calendar year,
26 except that, when a portion of a calendar year is subject to this provision, the
27 expenditures and volumes shall be prorated within that calendar year;

28 (19) costs incurred for repair, replacement, or deferred maintenance of
29 a facility, a pipeline, a structure, or equipment, other than a well, that results in or is
30 undertaken in response to a failure, problem, or event that results in an unscheduled
31 interruption of, or reduction in the rate of, oil or gas production; or costs incurred for

1 repair, replacement, or deferred maintenance of a facility, a pipeline, a structure, or
2 equipment, other than a well, that is undertaken in response to, or is otherwise
3 associated with, an unpermitted release of a hazardous substance or of gas; however,
4 costs under this paragraph that would otherwise constitute lease expenditures under (a)
5 and (b) of this section may be treated as lease expenditures if the department
6 determines that the repair or replacement is solely necessitated by an act of war, by an
7 unanticipated grave natural disaster or other natural phenomenon of an exceptional,
8 inevitable, and irresistible character, the effects of which could not have been
9 prevented or avoided by the exercise of due care or foresight, or by an intentional or
10 negligent act or omission of a third party, other than a party or its agents in privity of
11 contract with, or employed by, the producer or an operator acting for the producer, but
12 only if the producer or operator, as applicable, exercised due care in operating and
13 maintaining the facility, pipeline, structure, or equipment, and took reasonable
14 precautions against the act or omission of the third party and against the consequences
15 of the act or omission; in this paragraph,

16 (A) "costs incurred for repair, replacement, or deferred
17 maintenance of a facility, a pipeline, a structure, or equipment" includes costs
18 to dismantle and remove the facility, pipeline, structure, or equipment that is
19 being replaced;

20 (B) "hazardous substance" has the meaning given in
21 AS 46.03.826;

22 (C) "replacement" includes renovation or improvement;

23 (20) costs incurred to construct, acquire, or operate a refinery or crude
24 oil topping plant, regardless of whether the products of the refinery or topping plant
25 are used in oil or gas exploration, development, or production operations; however, if
26 a producer owns a refinery or crude oil topping plant that is located on or near the
27 premises of the producer's lease or property in the state and that processes the
28 producer's oil produced from that lease or property into a product that the producer
29 uses in the operation of the lease or property in drilling for or producing oil or gas, the
30 producer's lease expenditures include the amount calculated by subtracting from the
31 fair market value of the product used the prevailing value, as determined under

1 AS 43.55.020(f), of the oil that is processed;

2 (21) costs of lobbying, public relations, public relations advertising, or
3 policy advocacy.

4 * **Sec. 38.** AS 43.55.165(f) is amended to read:

5 (f) For purposes of AS 43.55.023(b) [AS 43.55.023(a) AND (b)] and only as
6 to expenditures incurred to explore for an oil or gas deposit located within land in
7 which an explorer does not own a working interest, the term "producer" in this section
8 includes "explorer."

9 * **Sec. 39.** AS 43.55.170(c) is amended to read:

10 (c) For purposes of AS 43.55.023(b) [AS 43.55.023(a) AND (b)] and only as
11 to expenditures incurred to explore for an oil or gas deposit located within land in
12 which an explorer does not own a working interest, the term "producer" in this section
13 includes "explorer."

14 * **Sec. 40.** AS 43.55.890 is amended to read:

15 **Sec. 43.55.890. Disclosure of tax information.** Notwithstanding any contrary
16 provision of AS 40.25.100, and regardless of whether the information is considered
17 under AS 43.05.230(e) to constitute statistics classified to prevent the identification of
18 particular returns or reports, the department may publish the following information
19 under this chapter, if aggregated among three or more producers or explorers, showing
20 by month or calendar year and by lease or property, unit, or area of the state:

- 21 (1) the amount of oil or gas production;
- 22 (2) the amount of taxes levied under this chapter or paid under this
23 chapter;
- 24 (3) the effective tax rates under this chapter;
- 25 (4) the gross value of oil or gas at the point of production;
- 26 (5) the transportation costs for oil or gas;
- 27 (6) qualified capital expenditures [, AS DEFINED IN AS 43.55.023];
- 28 (7) exploration expenditures under AS 43.55.025;
- 29 (8) production tax values of oil or gas under AS 43.55.160;
- 30 (9) lease expenditures under AS 43.55.165;
- 31 (10) adjustments to lease expenditures under AS 43.55.170;

1 (11) tax credits applicable or potentially applicable against taxes levied
2 by this chapter.

3 * **Sec. 41.** AS 43.55.895(b) is amended to read:

4 (b) A municipal entity subject to taxation because of this section

5 **(1) is eligible for [ALL] tax credits proportionate to its production**
6 **taxable under AS 43.55.011(e); and**

7 **(2) shall allocate its lease expenditures in proportion to its**
8 **production taxable under AS 43.55.011(e) [UNDER THIS CHAPTER TO THE**
9 **SAME EXTENT AS ANY OTHER PRODUCER].**

10 * **Sec. 42.** AS 43.55.900 is amended by adding new paragraphs to read:

11 (26) "qualified capital expenditure"

12 (A) means, except as otherwise provided in (B) of this
13 paragraph, an expenditure that is a lease expenditure under AS 43.55.165 and
14 is

15 (i) incurred for geological or geophysical exploration;

16 (ii) treated as a capitalized expenditure under 26 U.S.C.
17 (Internal Revenue Code), as amended, regardless of elections made
18 under 26 U.S.C. 263(c) (Internal Revenue Code), as amended, and is
19 treated as a capitalized expenditure for federal income tax reporting
20 purposes by the person incurring the expenditure; or

21 (iii) treated as a capitalized expenditure under 26 U.S.C.
22 (Internal Revenue Code), as amended, regardless of elections made
23 under 26 U.S.C. 263(c) (Internal Revenue Code), as amended, and is
24 eligible to be deducted as an expense under 26 U.S.C. 263(c) (Internal
25 Revenue Code), as amended;

26 (B) does not include an expenditure incurred to acquire an asset
27 the cost of previously acquiring which was a lease expenditure under
28 AS 43.55.165 or would have been a lease expenditure under AS 43.55.165 if it
29 had been incurred after March 31, 2006, or that has previously been placed in
30 service in the state; an expenditure to acquire an asset is not excluded under
31 this subparagraph if not more than an immaterial portion of the asset meets a

1 description under this subparagraph; for purposes of this subparagraph, "asset"
2 includes geological, geophysical, and well data and interpretations;

3 (27) "regular production" has the meaning given in AS 31.05.170.

4 * **Sec. 43.** AS 43.70 is amended by adding new sections to read:

5 **Sec. 43.70.025. Bond or cash deposit required for an oil or gas business.** (a)

6 At the time of applying for a license under this chapter, an applicant engaged in the
7 business of oil or gas exploration, development, or production shall file a surety bond
8 in the amount of \$250,000 running to the state, conditioned upon the applicant's
9 promise to pay all

10 (1) taxes and contributions due the state and political subdivisions;

11 (2) persons furnishing labor or material or renting or supplying
12 equipment to the applicant; and

13 (3) amounts that may be adjudged against the applicant because of
14 negligent or improper work or breach of contract while engaged in the business of oil
15 or gas exploration, development, or production.

16 (b) In lieu of the surety bond required under this section, the applicant may
17 file with the commissioner a cash deposit or other negotiable security acceptable to the
18 commissioner in the amount of \$250,000.

19 (c) The bond required by this section remains in effect until cancelled by
20 action of the surety, the principal, or if the commissioner finds that the business is
21 producing oil or gas in commercial quantities, by the commissioner.

22 **Sec. 43.70.028. Claims against an oil or gas business.** (a) A person having a
23 claim against a person required to file a surety bond under AS 43.70.025 because of
24 the failure to pay a liability described in AS 43.70.025(a) may bring suit upon the
25 bond. A copy of the complaint shall be served by registered or certified mail on the
26 commissioner at the time suit is filed, and the commissioner shall maintain a record,
27 available for public inspection, of all suits commenced. This service on the
28 commissioner shall constitute service on the surety, and the commissioner shall
29 transmit the complaint or a copy of it to the surety within 72 hours after it is received.
30 The surety on the bond is not liable in an aggregate amount in excess of that named in
31 the bond, but if claims pending at any one time exceed the amount of the bond, the

1 claims shall be satisfied from the bond in the following order:

2 (1) labor, including employee benefits;

3 (2) taxes and contributions due the state, city, and borough, in that
4 order;

5 (3) material and equipment;

6 (4) claims for negligent or improper work or breach of contract;

7 (5) repair of public facilities.

8 (b) If a judgment is entered against a cash deposit, the commissioner, upon
9 receipt of a certified copy of a final judgment, shall pay the judgment from the amount
10 of the deposit in accordance with the priorities set out in (a) of this section.

11 (c) An action described in (a) of this section may not be commenced on the
12 bond more than three years after the cancellation of the bond.

13 * **Sec. 44.** AS 38.05.180(i); AS 41.09.010, 41.09.020, 41.09.030, 41.09.090;
14 AS 43.20.053(j)(4); and AS 43.55.011(m) are repealed January 1, 2017.

15 * **Sec. 45.** AS 43.20.053; AS 43.55.023(a), 43.55.023(l), 43.55.023(n), 43.55.023(o),
16 43.55.028(i), 43.55.075(d)(1), 43.55.165(j), and 43.55.165(k) are repealed January 1, 2018.

17 * **Sec. 46.** The uncodified law of the State of Alaska is amended by adding a new section to
18 read:

19 APPLICABILITY. (a) AS 43.20.046(e), as amended by sec. 10 of this Act,
20 AS 43.20.047(e), as amended by sec. 11 of this Act, AS 43.20.053(e), as amended by sec. 13
21 of this Act, AS 43.55.028(e), as amended by sec. 27 of this Act, AS 43.55.028(j), as amended
22 by sec. 30 of this Act, and regulations related to a tax credit certificate purchase preference for
23 applicants with a workforce of resident workers and tax credit purchase rates, adopted under
24 AS 43.55.028(g), as amended by sec. 29 of this Act, apply to a purchase applied for on or
25 after the effective date of secs. 10, 11, 13, 27, 29, and 30 of this Act.

26 (b) AS 43.55.011(k), as amended by sec. 15 of this Act, applies to oil produced after
27 the effective date of sec. 15 of this Act.

28 * **Sec. 47.** The uncodified law of the State of Alaska is amended by adding a new section to
29 read:

30 TRANSITION: QUALIFIED IN-STATE OIL REFINERY INFRASTRUCTURE
31 EXPENDITURES TAX CREDIT. (a) Notwithstanding the repeal of AS 43.20.053 by sec. 45

1 of this Act and the amendments to AS 43.55.028(a) and (g) by secs. 26 and 29 of this Act, a
2 taxpayer who incurs a qualified infrastructure expenditure before the repeal of AS 43.20.053
3 by sec. 45 of this Act that qualifies for a qualified in-state oil refinery infrastructure
4 expenditures tax credit under AS 43.20.053 may apply for a tax credit under AS 43.20.053, as
5 that section read the day before the repeal of AS 43.20.053 by sec. 45 of this Act, apply for a
6 refund or payment under AS 43.55.028(a) and (g), as those sections read the day before the
7 effective date of secs. 26 and 29 of this Act, carry forward a credit subject to the limitations of
8 AS 43.20.053, as that section read the day before the repeal of AS 43.20.053 by sec. 45 of this
9 Act, or be subject to additional tax liability under AS 43.20.053, as that section read the day
10 before the repeal of AS 43.20.053 by sec. 45 of this Act.

11 (b) The Department of Revenue may continue to apply and enforce AS 43.20.053, as
12 that section read the day before the repeal of AS 43.20.053 by sec. 45 of this Act.

13 * **Sec. 48.** The uncodified law of the State of Alaska is amended by adding a new section to
14 read:

15 TRANSITION: QUALIFIED CAPITAL EXPENDITURES AND WELL LEASE
16 EXPENDITURES. (a) Notwithstanding the repeal of AS 43.55.023(a), (l), (n), and (o) by sec.
17 45 of this Act, and the amendments to AS 43.55.023(d) and (e) by secs. 21 and 22 of this Act,
18 AS 43.55.029(a) by sec. 31 of this Act, AS 43.55.165(f) by sec. 38 of this Act, and
19 AS 43.55.170(c) by sec. 39 of this Act, a taxpayer who incurs

20 (1) a qualified capital expenditure before the repeal of AS 43.55.023(a) and
21 (o) by sec. 45 of this Act that qualifies for a qualified capital expenditure credit under
22 AS 43.55.023(a) and (o) may apply for a credit or transferable tax credit certificate under
23 AS 43.55.023 and assign the tax credit under AS 43.55.029, as those sections read on the day
24 before the repeal of AS 43.55.023(a) and (o) by sec. 45 of this Act;

25 (2) a well lease expenditure before the repeal of AS 43.55.023(l) and (n) by
26 sec. 45 of this Act that qualifies for a well lease expenditure credit under AS 43.55.023(l) and
27 (n) may apply for a credit or transferable tax credit certificate under AS 43.55.023 and assign
28 the tax credit under AS 43.55.029, as those sections read on the day before the repeal of
29 AS 43.55.023(l) and (n) by sec. 45 of this Act.

30 (b) The Department of Revenue may continue to apply and enforce AS 43.55.023(a),
31 (l), (n), and (o) and AS 43.55.029, as those sections read on the day before the repeal of

1 AS 43.55.023(a), (l), (n), and (o) by sec. 45 of this Act, for qualified capital expenditures and
2 well lease expenditures incurred before the repeal of AS 43.55.023(a), (l), (n), and (o) by sec.
3 45 of this Act.

4 * **Sec. 49.** The uncodified law of the State of Alaska is amended by adding a new section to
5 read:

6 **TRANSITION: CARRY FORWARD ANNUAL NET OPERATING LOSS CREDIT.**
7 Notwithstanding the amendment of AS 43.55.023(b) by sec. 20 of this Act, a taxpayer who
8 incurs a carried-forward annual loss before the effective date of sec. 20 of this Act that
9 qualifies for a carried-forward annual loss credit under AS 43.55.023(b) may apply for a
10 credit or tax credit certificate under AS 43.55.023(d) and assign the tax credit under
11 AS 43.55.029, subject to the requirements of AS 43.55.160(d) and (e), as those sections read
12 on the day before the effective date of sec. 20 of this Act.

13 * **Sec. 50.** The uncodified law of the State of Alaska is amended by adding a new section to
14 read:

15 **TRANSITION: LEASE EXPENDITURES FOR A CALENDAR YEAR AFTER**
16 **2006 AND BEFORE 2010.** Notwithstanding AS 43.55.165(a), as amended by sec. 36 of this
17 Act, and the repeal of AS 43.55.165(j) and (k) by sec. 45 of this Act, AS 43.55.165(j) and (k)
18 apply to a producer's total lease expenditures for a calendar year after 2006 and before 2010
19 under AS 43.55.165, as that section read on the day before the repeal of AS 43.55.165(j) and
20 (k) by sec. 45 of this Act.

21 * **Sec. 51.** The uncodified law of the State of Alaska is amended by adding a new section to
22 read:

23 **TRANSITION: REGULATIONS.** The Department of Revenue, the Department of
24 Natural Resources, the Department of Commerce, Community, and Economic Development,
25 and the Alaska Oil and Gas Conservation Commission may adopt regulations necessary to
26 implement the changes made by this Act. The regulations take effect under AS 44.62
27 (Administrative Procedure Act), but not before the effective date of the law implemented by
28 the regulation. The Department of Revenue shall adopt regulations governing the use of tax
29 credits under AS 43.55 for a calendar year for which the applicable tax credit provisions of
30 AS 43.55 differ as between parts of the year as a result of this Act.

31 * **Sec. 52.** The uncodified law of the State of Alaska is amended by adding a new section to

1 read:

2 TRANSITION: RETROACTIVITY OF REGULATIONS. Notwithstanding any
3 contrary provision of AS 44.62.240,

4 (1) if the Department of Revenue expressly designates in a regulation that the
5 regulation applies retroactively, a regulation adopted by the Department of Revenue to
6 implement, interpret, make specific, or otherwise carry out this Act may apply retroactively to
7 the effective date of the law implemented by the regulation;

8 (2) if the Department of Natural Resources expressly designates in the
9 regulation that the regulation applies retroactively, a regulation adopted by the Department of
10 Natural Resources to implement, interpret, make specific, or otherwise carry out the statutory
11 amendments in this Act affecting the administration of oil and gas leases issued under
12 AS 38.05.180(f)(3)(B), (D), or (E), to the extent the regulation relates to the treatment of oil
13 and gas production taxes in determining net profits under those leases, may apply
14 retroactively to the effective date of the law implemented by the regulation.

15 * **Sec. 53.** Sections 51 and 52 of this Act take effect immediately under AS 01.10.070(c).

16 * **Sec. 54.** Sections 20 - 22, 26, 29, 31 - 33, 36 - 40, 45, 47 - 50, and AS 43.55.900(26),
17 added by sec. 42 of this Act, take effect January 1, 2018.

18 * **Sec. 55.** Except as provided in secs. 53 and 54 of this Act, this Act takes effect January 1,
19 2017.

Conceptually adopted 5/17/16

29-GH2609\C.A.1
Nauman/Shutts
5/16/16

AMENDMENT #1

OFFERED IN THE SENATE

BY SENATOR MICCICHE

TO: 2d CSHB 247(RLS) am

1

2 Page 5, line 26:

3 Delete "and"

4

5 Page 5, line 28, following "year":

6 Insert "; and

7

8 (3) the aggregate amount of tax credits purchased under each statutory
9 section or subsection, as applicable, for the preceding calendar year, classified to
prevent the identification of a particular taxpayer"

amendment #1 was
conceptually amended to
technically conform to the
committee substitute

ALASKA STATE LEGISLATURE

SENATE FINANCE COMMITTEE

Senator Pete Kelly, Co-Chair
State Capitol, Room 518
Juneau, AK 99801-1182
Phone - (907) 465- 3709
Senator.Pete.Kelly@akleg.gov



Senator Anna MacKinnon, Co-Chair
State Capitol, Room 516
Juneau, AK 99801-1182
Phone - (907) 465- 3777
Senator.Anna.MacKinnon@akleg.gov

Official Business

Sectional Analysis Senate CS for 2d CS for House Bill 247 TAX;CREDITS;INTEREST;REFUNDS;O & G Version AA

Section. 1 (**Effective date, 1/1/2017**) Amends statutes related to the Alaska Oil and Gas Conservation Commission, AS 31.05.030, directing the commission to verify regular production of oil eligible for a Gross Value Reduction, and to determine the commencement of regular production for oil eligible for a Gross Value Reduction.

Section. 2 (**Effective date, 1/1/2017**) Conforming language to the repeal of statutes related to exploration credits, AS 41.09. AS 41.09 is repealed in Section. 44.

Section. 3 (**Effective date, 1/1/2017**) Conforming language to the repeal of statutes related to exploration credits, AS 41.09. AS 41.09 is repealed in Section. 44.

Section. 4 (**Effective date, 1/1/2017**) Conforming language to the repeal of statutes related to exploration credits, AS 41.09. AS 41.09 is repealed in Section. 44.

Section. 5 (**Effective date, 1/1/2017**) Conforming language to the repeal of statutes related to exploration credits, AS 41.09. AS 41.09 is repealed in Section. 44.

Section. 6 (**Effective date, 1/1/2017**) Conforming language to the repeal of statutes related to exploration credits, AS 41.09. AS 41.09 is repealed in Section. 44.

Section. 7 (**Effective date, 1/1/2017**) Amends statutes related to the disposition of tax information for public disclosure, AS 40.25.100(a), adding language conforming to disclosure requirements in the newly created AS 43.05.230(l). AS 43.05.230(l) is created in Section. 9.

Section. 8 (**Effective date, 1/1/2017**) Amends statutes related to the calculation of interest for delinquent taxes, AS 43.05.225. Specifically cites the oil and gas tax related statute, AS 43.55, and sets the rate of interest to 7% above the Federal

Reserve rate, for the first 3 years, and then eliminates the accrual of interest thereafter.

Section. 9 (**Effective date, 1/1/2017**) Amends statutes related to the disclosure of tax return and reports, AS 43.05.230. Adds a new subsection, AS 43.05.230(l), directing the Department of Revenue to classify the aggregate amount of tax credits purchased under each statutory section, and make that information available to the public by April 30 of each year.

Section. 10 (**Effective date 1/1/2017**) Amends statutes related to purchases of the gas storage facility credit, AS 43.20.046(e). Adds conforming language to the new definition of outstanding liability to the state as written in in AS 43.55.028(j). AS 43.55.028(j) is in Section. 30.

Section. 11 (**Effective date 1/1/2017**) Amends statutes related to purchases for the LNG storage credit, AS 43.20.047(e). Adds conforming language to the new definition of outstanding liability to the state as written in in AS 43.55.028(j). AS 43.55.028(j) is in Section. 30.

Section. 12 (**Effective date 1/1/2017**) Amends statutes related to the in-state refinery credit, AS 43.20.053(a). As of January 1, 2017, reduces the credit to 20% of qualified expenditures, or \$5 million, whichever is the lesser. As of January 1, 2018, the credit is eliminated.

Section. 13 (**Effective date 1/1/2017**) Amends statutes related to repurchases for the in-state refinery credit, AS 43.20.053(e). Adds conforming language to the new definition of outstanding liability to the state as written in in AS 43.55.028(j). AS 43.55.028(j) is in Section. 30.

Section. 14 (**Effective date 1/1/2017**) Amends statutes related to the limits on taxes for Cook Inlet gas, AS 43.55.011(j). Removes the sunset of 2022 for the tax limit on gas.

Section. 15 (**Effective date 1/1/2017**) Amends statutes related to the limits on taxes for Cook Inlet oil, AS 43.55.011(k). Removes the sunset of 2022 for the tax limit on oil; imposes a tax on Cook Inlet oil not to exceed \$1 per barrel.

Section. 16 (**Effective date 1/1/2017**) Amends statutes related to the limits on taxes for gas produced in state but outside of the Cook Inlet, for use in state, AS

43.55.011(o). Removes the sunset of 2022 for the tax limit on gas produced in state but outside of the Cook Inlet, for use in state.

Section. 17 (**Effective date 1/1/2017**) Amends statutes related to the installment payments of taxes, AS 43.55.020(a). Adds language conforming to the changes of the in-state refinery credit, Sections. 12-13, and the limits on taxes for Cook Inlet gas, Section. 14.

Section. 18 (**Effective date 1/1/2017**) Amends statutes relate to the Qualified Capital Expenditure credits, AS 43.55.023(a). Reduces the credit rate to 10% for the Cook Inlet, and bars Middle Earth from accessing the credit.

Section. 19 (**Effective date 1/1/2017**) Amends the statutes related to the Net Operating Loss credit, AS 43.55.023(b). Reduces the credit rate to 15% for the Cook Inlet. Adds language preventing the Gross Value Reduction, a North Slope specific credit, from increasing the size of a Net Operating Loss.

Section. 20 (**Effective date 1/1/2018**) Amends the statutes related to the Net Operating Loss credit, AS 43.55.023(b). Eliminates the Net Operating Loss credit for both the Cook Inlet and Middle Earth.

Section. 21 (**Effective date 1/1/2018**) Amends the statutes related to credits eligible for transfer between private parties or reimbursement by the state, AS 43.55.023(d). Adds language conforming to the elimination of the Qualified Capital Expenditure credit for both the Cook Inlet and Middle Earth. The repeal provision for the Qualified Capital Expenditure credit is in Section. 45.

Section. 22 (**Effective date 1/1/2018**) Amends statutes related to the limitation on transferability of credits, AS 43.55.023(e). Adds language conforming to the elimination of the Qualified Capital Expenditure credit for both the Cook Inlet and Middle Earth. The repeal provision for the Qualified Capital Expenditure credit is in Section. 45.

Section. 23 (**Effective date 1/1/2017**) Amends statutes related to the Well Lease Expenditure credit, AS 43.55.023(l). Reduces the credit rate to 20%. Limits the credit to the Cook Inlet, thereby excluding Middle Earth.

Section. 24 (**Effective date 1/1/2017**) Amends statutes related to the Gross Value Reduction credit, AS 43.55.024 (i). Adds language clarifying oil receiving a Gross Value Reduction. Enables oil transitioning from eligibility of the Gross Value Reduction to be fully classified as legacy oil.

Section. 25 (**Effective date, 1/1/2017**) Amends statutes related to the sliding scale per-barrel credit on legacy oil, AS 43.55.024(j). Adds language clarifying oil receiving a Gross Value Reduction. Enables oil transitioning from eligibility of the Gross Value Reduction to be fully classified as legacy oil, and thereby eligible for the sliding scale per-barrel credit on legacy oil.

Section. 26 (**Effective date, 1/1/2018**) Amends statutes related to the oil and gas tax credit fund, AS 43.55.028(a). Adds language conforming to the repeal of the in-state refinery income tax credit, AS 43.20.053(a). AS 43.20.053(a) language changes are in Section. 12.

Section. 27 (**Effective date, 1/1/2017**) Amends statutes related to the oil and gas tax credit fund, AS 43.55.028(e). Adds language imposing a per-company annual limit of \$70 million from the fund. Does not allow the artificial division of an entity to enhance the per-company limit. Reinstates the eligible applicant restriction threshold of the fund to 50,000 barrels of oil equivalent/day of production.

Section. 28 (**Effective date, 1/1/2017**) Amends statutes related to the oil and gas tax credit fund, AS 43.55.028(g). Adds language giving priority for repurchases from the fund to companies with an Alaska resident hire rate of 75% or greater. Imposes restrictions on the rate of repurchase per-company: the first \$35 million per company is repurchased at 100% of the certificate value; the second \$35 million is available for repurchase at 75% of the certificate value. Monetary amounts conform to the annual per-company limit in AS 43.55.028(e). AS 43.55.028(e) is in Section. 27.

Section. 29 (**Effective date, 1/1/2018**) Amends statutes related to the oil and gas tax credit fund, AS 43.55.028(g). Adds language conforming to the repeal of the in-state refinery income tax credit, AS 43.20.053(a). AS 43.20.053(a) is in Section. 12.

Section. 30 (**Effective date, 1/1/2017**) Amends statutes related to the oil and gas tax credit fund, AS 43.55.028. Adds a new subsection (j), limiting the amount of credits repurchased to an outstanding liability to the state related to an applicant's work in oil or gas exploration, development, or production. The limitation occurs after the applicant has been notified. Creates a definition of outstanding liability to the state.

Section. 31 (**Effective date, 1/1/2018**) Amends statutes related to the assignment of tax credits, AS 43.55.029(a). Adds language conforming to the elimination of the definition of the Qualified Capital Expenditure credit. The repeal provision for the Qualified Capital Expenditure credit is in Section. 45.

Section. 32 (**Effective date, 1/1/2018**) Amends statutes related to the filing of statement on oil and gas taxes, AS 43.55.030(a). Adds language conforming to the elimination of the definition of the Qualified Capital Expenditure credit. The repeal provision for the Qualified Capital Expenditure credit is in Section. 45.

Section. 33 (**Effective date, 1/1/2018**) Amends statutes related to the filing of statement and assignment of oil and gas taxes and credits, AS 43.55.030(e). Adds language conforming to the elimination of the definition of the Qualified Capital Expenditure credit. The repeal provision for the Qualified Capital Expenditure credit is in Section. 45.

Section. 34 (**Effective date, 1/1/2017**) Amends statutes related to the Gross Value Reduction credit, AS 43.55.160(f). Adds language limiting the eligibility for receiving the Gross Value Reduction to 7 years, or after 3 years either consecutively or nonconsecutively, in which the price of Alaska North Slope oil averages greater than \$70/barrel. Adds language that the Alaska Oil and Gas Conservation Commission will determine the commencement of regular production of oil or gas. Applicable production begun before 2017 is ineligible after 2023.

Section. 35 (**Effective date, 1/1/2017**) Amends statutes related to the Gross Value Reduction credit based on royalty rates, AS 43.55.160(g). Adds language limiting the eligibility of receiving the Gross Value Reduction to 7 years for production commencing after 2016. Adds language that the Alaska Oil and Gas Conservation Commission will determine the commencement of regular production of oil or gas. Applicable production begun before 2017 is ineligible after 2023.

Section. 36 (**Effective date, 1/1/2018**) Amends statutes related to lease expenditures, AS 43.55.165. Adds language conforming to the repeal of AS 43.55.165(j) and (k), lease expenditures that were applicable between 2007 and 2009.

Section. 37 (**Effective date, 1/1/2018**) Amends statutes related to lease expenditures, AS 43.55.165(e). Adds language conforming to the elimination of

the definition of the Qualified Capital Expenditure credit. The repeal provision for the Qualified Capital Expenditure credit is in Section. 45.

Section. 38 (Effective date, 1/1/2018) Amends statutes related to lease expenditures, AS 43.55.165(f). Adds language conforming to the elimination of the definition of the Qualified Capital Expenditure credit. The repeal provision for the Qualified Capital Expenditure credit is in Section. 45.

Section. 39 (Effective date, 1/1/2018) Amends statutes related to adjustment to lease expenditures, AS 43.55.170(c). Adds language conforming to the elimination of the definition of the Qualified Capital Expenditure credit. The repeal provision for the Qualified Capital Expenditure credit is in Section. 45.

Section. 40 (Effective date, 1/1/2018) Amends statutes related to the disclosure of tax information, AS 43.55.890. Adds language conforming to the elimination of the definition of the Qualified Capital Expenditure credit. The repeal provision for the Qualified Capital Expenditure credit is in Section. 45.

Section. 41 (Effective date, 1/1/2017) Amends statutes related to municipal entity credits and lease expenditures, AS 43.55.895(b). Limits the credits a municipal entity can claim to only its share of production that is taxable.

Section. 42 (Effective date, 1/1/2018 for QCE definition; 1/1/2017 for regular production definition) Amends statutes related to definition of terms for oil and gas taxation, AS 43.55.900. Adds a new definition for the Qualified Capital Expenditure Credit, AS 43.55.900(26), due to the repeal of the Qualified Capital Expenditure Credit. The repeal provision for the Qualified Capital Expenditure credit is in Section. 45. Adds a definition for regular production, AS 43.55.900(27).

Section. 43 (Effective date, 1/1/2017) Amends the statutes related to the Alaska Business License Act, AS 43.70. Adds new sections, AS 43.70.025, AS 43.70.028, requiring businesses engaging in oil or gas exploration, development, or production, to post a surety bond in the amount of \$250,000.

Section. 44 (Effective date, 1/1/2017) Repeals Alaska Statutes AS 38.05.180(i), AS 41.09, AS 43.20.053(j)(4) (the in-state refinery credit), and AS 43.55.011(m).

Section. 45 (Effective date, 1/1/2018) Repeals Alaska Statutes AS 43.20.053; AS 43.55.023(a) (the Qualified Capital Expenditure credit, (l)(the Well Lease

Expenditure credit), (n), (o)(the definition of the Qualified Capital Expenditure credit; 43.55.028(i); 43.55.075(d)(1); 43.55.165(j and (k)(Lease expenditures incurred between 2007-2009).

Section. 46 (**Effective date, 1/1/2017**) Creates applicability provisions for the limits on repurchasing tax credits. Creates applicability provisions for \$1/barrel tax limit on oil for the Cook Inlet.

Section. 47 (**Effective date 1/1/2018**) Transition language for the in-state refinery credit.

Section. 48 (**Effective date 1/1/2018**) Transition language for assignment of the Qualified Capital Expenditure credit and the Well Lease Expenditure credit.

Section. 49 (**Effective date 1/1/2018**) Transition language for assignment of the New Operating Loss credit.

Section. 50 (**Effective date 1/1/2018**) Transition language for lease expenditures incurred in 2007, 2008 and 2009.

Section. 51 (**Effective immediately**) Language for adoption of regulations by the Departments of Revenue, Natural Resources, and Commerce, Community and Economic Development, as well as the Alaska Oil and Gas Conservation Commission.

Section. 52 (**Effective immediately**) Language providing for the adoption of retroactive regulations by the Departments of Revenue and Natural Resources.

Section. 53 (**Effective dates**) Makes Sections. 51-52 effective immediately.

Section. 54 (**Effective dates**) Makes Sections. 20-22, 26, 29, 31-33, 36-40, 45, 47-50, and AS 43.55.900(26) (Definition of Qualified Capital Expenditure), added by Section. 42, effective January 1, 2018.

Section. 55 (**Effective dates**) Makes all sections not provided in Sections. 53-54 effective January 1, 2017.

*adopted
5/17/16*

29-GH2609Z
Nauman/Shutts
5/17/16

**SENATE CS FOR CS FOR HOUSE BILL NO. 247(FIN)
IN THE LEGISLATURE OF THE STATE OF ALASKA
TWENTY-NINTH LEGISLATURE - SECOND SESSION**

BY THE SENATE FINANCE COMMITTEE

**Offered:
Referred:**

Sponsor(s): HOUSE RULES COMMITTEE BY REQUEST OF THE GOVERNOR

**A BILL
FOR AN ACT ENTITLED**

1 **"An Act relating to the exploration incentive credits; relating to the powers and duties**
2 **of the Alaska Oil and Gas Conservation Commission; relating to interest applicable to**
3 **delinquent tax; relating to the oil and gas production tax, tax payments, and credits;**
4 **relating to tax credit certificates; relating to refunds for the gas storage facility tax**
5 **credit, the liquefied natural gas storage facility tax credit, and the qualified in-state oil**
6 **refinery infrastructure expenditures tax credit; relating to oil and gas lease expenditures**
7 **and production tax credits for municipal entities; requiring a bond or cash deposit with**
8 **a business license application for an oil or gas business; and providing for an effective**
9 **date."**

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

11 *** Section 1.** AS 31.05.030 is amended by adding a new subsection to read:
12 (n) Upon request of the commissioner of revenue, the commission shall

1 (1) verify regular production for the purposes of AS 43.55.023(b) and
2 (l); and

3 (2) determine the commencement of regular production from a lease or
4 property for purposes of AS 43.55.160(f) and (g).

5 * **Sec. 2.** AS 38.05.036(a) is amended to read:

6 (a) The department may conduct audits regarding royalty and net profits under
7 oil and gas contracts, agreements, or leases under this chapter and regarding costs
8 related to exploration licenses entered into under AS 38.05.131 - 38.05.134 and
9 exploration incentive credits under this chapter [OR UNDER AS 41.09]. For purposes
10 of an audit under this section,

11 (1) the department may examine the books, papers, records, or
12 memoranda of a person regarding matters related to the audit; and

13 (2) the records and premises where a business is conducted shall be
14 open at all reasonable times for inspection by the department.

15 * **Sec. 3.** AS 38.05.036(b) is amended to read:

16 (b) The Department of Revenue may obtain from the department information
17 relating to royalty and net profits payments and to exploration incentive credits under
18 this chapter [OR UNDER AS 41.09], whether or not that information is confidential.
19 The Department of Revenue may use the information in carrying out its functions and
20 responsibilities under AS 43, and shall hold that information confidential to the extent
21 required by an agreement with the department or by AS 38.05.035(a)(8) [,
22 AS 41.09.010(d),] or AS 43.05.230.

23 * **Sec. 4.** AS 38.05.036(c) is amended to read:

24 (c) The department may obtain from the Department of Revenue all
25 information obtained under AS 43 relating to royalty and net profits and to exploration
26 incentive credits. The department may use the information for purposes of carrying out
27 its responsibilities and functions under this chapter [AND AS 41.09]. Information
28 made available to the department that was obtained under AS 43 is confidential and
29 subject to the provisions of AS 43.05.230.

30 * **Sec. 5.** AS 38.05.036(f) is amended to read:

31 (f) Except as otherwise provided in this section or in connection with official

1 investigations or proceedings of the department, it is unlawful for a current or former
2 officer, employee, or agent of the state to divulge information obtained by the
3 department as a result of an audit under this section that is required by an agreement
4 with the department or by AS 38.05.035(a)(8) [OR AS 41.09.010(d)] to be kept
5 confidential.

6 * **Sec. 6.** AS 38.05.036(g) is amended to read:

7 (g) Nothing in this section prohibits the publication of statistics in a manner
8 that maintains the confidentiality of information to the extent required by an
9 agreement with the department or by AS 38.05.035(a)(8) [OR AS 41.09.010(d)].

10 * **Sec. 7.** AS 43.05.225 is amended to read:

11 **Sec. 43.05.225. Interest.** Unless otherwise provided,

12 (1) a delinquent tax [UNDER THIS TITLE,]

13 (A) under this title, before January 1, 2014, bears interest in
14 each calendar quarter at the rate of five percentage points above the annual rate
15 charged member banks for advances by the 12th Federal Reserve District as of
16 the first day of that calendar quarter, or at the annual rate of 11 percent,
17 whichever is greater, compounded quarterly as of the last day of that quarter;
18 [OR]

19 (B) under this title, on and after January 1, 2014, **except as**
20 **provided in (C) of this paragraph**, bears interest in each calendar quarter at
21 the rate of three percentage points above the annual rate charged member
22 banks for advances by the 12th Federal Reserve District as of the first day of
23 that calendar quarter;

24 **(C) under AS 43.55, on and after January 1, 2017,**

25 **(i) for the first three years after a tax becomes**
26 **delinquent, bears interest in each calendar quarter at the rate of**
27 **five percentage points above the annual rate charged member**
28 **banks for advances by the 12th Federal Reserve District as of the**
29 **first day of that calendar quarter, compounded quarterly as of the**
30 **last day of that quarter; and**

31 **(ii) after the first three years after a tax becomes**

1 **delinquent, does not bear interest;**

2 (2) the interest rate is 12 percent a year for

3 (A) delinquent fees payable under AS 05.15.095(c); and

4 (B) unclaimed property that is not timely paid or delivered, as
5 allowed by AS 34.45.470(a).

6 * **Sec. 8.** AS 43.20.046(e) is amended to read:

7 (e) **Subject to the requirements in AS 43.55.028(j), the** [THE] department
8 may use available money in the oil and gas tax credit fund established in AS 43.55.028
9 to make the refund applied for under (d) of this section in whole or in part if the
10 department finds that, [(1) THE CLAIMANT DOES NOT HAVE AN
11 OUTSTANDING LIABILITY TO THE STATE FOR UNPAID DELINQUENT
12 TAXES UNDER THIS TITLE; AND (2)] after application of all available tax credits,
13 the claimant's total tax liability under this chapter for the calendar year in which the
14 claim is made is zero. [IN THIS SUBSECTION, "UNPAID DELINQUENT TAX"
15 MEANS AN AMOUNT OF TAX FOR WHICH THE DEPARTMENT HAS ISSUED
16 AN ASSESSMENT THAT HAS NOT BEEN PAID AND, IF CONTESTED, HAS
17 NOT BEEN FINALLY RESOLVED IN THE TAXPAYER'S FAVOR.]

18 * **Sec. 9.** AS 43.20.047(e) is amended to read:

19 (e) **Subject to the requirements in AS 43.55.028(j), the** [THE] department
20 may use money available in the oil and gas tax credit fund established in AS 43.55.028
21 to make a refund or payment under (d) of this section in whole or in part if the
22 department finds that, [(1) THE CLAIMANT DOES NOT HAVE AN
23 OUTSTANDING LIABILITY TO THE STATE FOR UNPAID DELINQUENT
24 TAXES UNDER THIS TITLE; AND (2)] after application of all available tax credits,
25 the claimant's total tax liability under this chapter for the calendar year in which the
26 claim is made is zero. [IN THIS SUBSECTION, "UNPAID DELINQUENT TAX"
27 MEANS AN AMOUNT OF TAX FOR WHICH THE DEPARTMENT HAS ISSUED
28 AN ASSESSMENT THAT HAS NOT BEEN PAID AND, IF CONTESTED, HAS
29 NOT BEEN FINALLY RESOLVED IN THE TAXPAYER'S FAVOR.]

30 * **Sec. 10.** AS 43.20.053(a) is amended to read:

31 (a) A taxpayer that owns an in-state oil refinery whose primary function is the

1 manufacturing and sale of refined petroleum products to third parties in arm's length
2 transactions may apply a credit against the tax due under this chapter for a qualified
3 infrastructure expenditure incurred in the state. For [FOR] a tax year beginning after
4 December 31, 2014, and before January 1, 2017, the [JANUARY 1, 2020. THE] total
5 amount of credit a taxpayer may receive under this section may not exceed the lesser
6 of 40 percent of qualified infrastructure expenditures incurred in the state during the
7 tax year or \$10,000,000 for each in-state refinery for which qualified expenditures are
8 incurred. For a tax year beginning after December 31, 2016, and before
9 January 1, 2018, the total amount of credit a taxpayer may receive under this
10 section may not exceed the lesser of 20 percent of qualified infrastructure
11 expenditures incurred in the state during the tax year or \$5,000,000 for each in-
12 state refinery for which qualified expenditures are incurred.

13 * **Sec. 11.** AS 43.20.053(e) is amended to read:

14 (e) Subject to the requirements in AS 43.55.028(j), the [THE] department
15 may use money available in the oil and gas tax credit fund established in AS 43.55.028
16 to make a refund or payment under (d) of this section in whole or in part if the
17 department finds that,

18 [(1) THE CLAIMANT DOES NOT HAVE AN OUTSTANDING
19 LIABILITY TO THE STATE FOR UNPAID DELINQUENT TAXES UNDER THIS
20 TITLE; AND

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

23 * **Sec. 12.** AS 43.55.011(j) is amended to read:

24 (j) For a calendar year [BEFORE 2022], the tax levied by (e) of this section
25 for gas produced from a lease or property in the Cook Inlet sedimentary basin may not
26 exceed

27 (1) for a lease or property that first commenced commercial production
28 of gas before April 1, 2006, the product obtained by multiplying (A) the amount of
29 taxable gas produced during the calendar year from the lease or property, times (B) the
30 average rate of tax that was imposed under this chapter for taxable gas produced from
31 the lease or property for the 12-month period ending on March 31, 2006, times (C) the

1 quotient obtained by dividing the total gross value at the point of production of the
2 taxable gas produced from the lease or property during the 12-month period ending on
3 March 31, 2006, by the total amount of that gas;

4 (2) for a lease or property that first commences commercial production
5 of gas after March 31, 2006, the product obtained by multiplying (A) the amount of
6 taxable gas produced during the calendar year from the lease or property, times (B) the
7 average rate of tax that was imposed under this chapter for taxable gas produced from
8 all leases or properties in the Cook Inlet sedimentary basin for the 12-month period
9 ending on March 31, 2006, times (C) the average prevailing value for gas delivered in
10 the Cook Inlet area for the 12-month period ending March 31, 2006, as determined by
11 the department under AS 43.55.020(f).

12 * **Sec. 13.** AS 43.55.011(k) is amended to read:

13 (k) For a calendar year [BEFORE 2022], the tax levied by (e) of this section
14 **may not exceed one dollar per barrel of oil** for oil produced from a lease or property
15 in the Cook Inlet sedimentary basin [MAY NOT EXCEED

16 (1) FOR A LEASE OR PROPERTY THAT FIRST COMMENCED
17 COMMERCIAL PRODUCTION OF OIL BEFORE APRIL 1, 2006, THE PRODUCT
18 OBTAINED BY MULTIPLYING (A) THE AMOUNT OF TAXABLE OIL
19 PRODUCED DURING THE CALENDAR YEAR FROM THE LEASE OR
20 PROPERTY, TIMES (B) THE AVERAGE RATE OF TAX THAT WAS IMPOSED
21 UNDER THIS CHAPTER FOR TAXABLE OIL PRODUCED FROM THE LEASE
22 OR PROPERTY FOR THE 12-MONTH PERIOD ENDING ON MARCH 31, 2006,
23 TIMES (C) THE QUOTIENT OBTAINED BY DIVIDING THE TOTAL GROSS
24 VALUE AT THE POINT OF PRODUCTION OF THE TAXABLE OIL PRODUCED
25 FROM THE LEASE OR PROPERTY DURING THE 12-MONTH PERIOD
26 ENDING ON MARCH 31, 2006, BY THE TOTAL AMOUNT OF THAT OIL;

27 (2) FOR A LEASE OR PROPERTY THAT FIRST COMMENCES
28 COMMERCIAL PRODUCTION OF OIL AFTER MARCH 31, 2006, THE
29 PRODUCT OBTAINED BY MULTIPLYING (A) THE AMOUNT OF TAXABLE
30 OIL PRODUCED DURING THE CALENDAR YEAR FROM THE LEASE OR
31 PROPERTY, TIMES (B) THE AVERAGE RATE OF TAX THAT WAS IMPOSED

1 UNDER THIS CHAPTER FOR TAXABLE OIL PRODUCED FROM ALL LEASES
2 OR PROPERTIES IN THE COOK INLET SEDIMENTARY BASIN FOR THE 12-
3 MONTH PERIOD ENDING ON MARCH 31, 2006, TIMES (C) THE AVERAGE
4 PREVAILING VALUE FOR OIL PRODUCED AND DELIVERED IN THE COOK
5 INLET AREA FOR THE 12-MONTH PERIOD ENDING ON MARCH 31, 2006, AS
6 DETERMINED BY THE DEPARTMENT UNDER AS 43.55.020(f)].

7 * **Sec. 14.** AS 43.55.011(o) is amended to read:

8 (o) Notwithstanding other provisions of this section, for a calendar year
9 [BEFORE 2022], the tax levied under (e) of this section for each 1,000 cubic feet of
10 gas for gas produced from a lease or property outside the Cook Inlet sedimentary basin
11 and used in the state, other than gas subject to (p) of this section, may not exceed the
12 amount of tax for each 1,000 cubic feet of gas that is determined under (j)(2) of this
13 section.

14 * **Sec. 15.** AS 43.55.020(a) is amended to read:

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

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

25 (A) for oil and gas not subject to AS 43.55.011(o) or (p)
26 produced from leases or properties in the state outside the cook inlet
27 sedimentary basin, other than leases or properties subject to AS 43.55.011(f),
28 the greater of

29 (i) zero; or

30 (ii) the sum of 25 percent and the tax rate calculated for
31 the month under AS 43.55.011(g) multiplied by the remainder obtained

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25
26
27
28
29
30
31

by subtracting 1/12 of the producer's adjusted lease expenditures for the calendar year of production under AS 43.55.165 and 43.55.170 that are deductible for the oil and gas under AS 43.55.160 from the gross value at the point of production of the oil and gas produced from the leases or properties during the month for which the installment payment is calculated;

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

(i) zero;

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

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

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

(i) zero; or

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

1 property during the month for which the installment payment is
2 calculated;

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

4 (i) the sum of 25 percent and the tax rate calculated for
5 the month under AS 43.55.011(g) multiplied by the remainder obtained
6 by subtracting 1/12 of the producer's adjusted lease expenditures for the
7 calendar year of production under AS 43.55.165 and 43.55.170 that are
8 deductible for the oil and gas under AS 43.55.160 from the gross value
9 at the point of production of the oil and gas produced from the leases or
10 properties during the month for which the installment payment is
11 calculated, but not less than zero; or

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

15 (2) an amount calculated under (1)(C) of this subsection for oil or gas
16 subject to AS 43.55.011(j), (k), or (o) may not exceed the product obtained by
17 carrying out the calculation set out in AS 43.55.011(j)(1) or (2) or 43.55.011(o), as
18 applicable, for gas or set out in AS 43.55.011(k)(1) or (2), as applicable, for oil, but
19 substituting in AS 43.55.011(j)(1)(A) or (2)(A) or 43.55.011(o), as applicable, the
20 amount of taxable gas produced during the month for the amount of taxable gas
21 produced during the calendar year and substituting in AS 43.55.011(k)(1)(A) or
22 (2)(A), as applicable, the amount of taxable oil produced during the month for the
23 amount of taxable oil produced during the calendar year;

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

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

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25
26
27
28
29
30
31

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

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

(5) for oil and gas produced on and after January 1, 2014, and before January 1, 2022, an installment payment of the estimated tax levied by AS 43.55.011(e), net of any tax credits applied as allowed by law, is due for each month of the calendar year on the last day of the following month; except as otherwise provided under (6) of this subsection, the amount of the installment payment is the sum of the following amounts, less 1/12 of the tax credits that are allowed by law to be applied against the tax levied by AS 43.55.011(e) for the calendar year, but the amount of the installment payment may not be less than zero:

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

(i) zero; or

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

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

(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) 35 percent multiplied by the remainder obtained by
6 subtracting 1/12 of the producer's adjusted lease expenditures for the
7 calendar year of production under AS 43.55.165 and 43.55.170 that are
8 deductible for the oil and gas under AS 43.55.160 from the gross value
9 at the point of production of the oil and gas produced from those leases
10 or properties during the month for which the installment payment is
11 calculated, except that, for the purposes of this calculation, a reduction
12 from the gross value at the point of production may apply for oil and
13 gas subject to AS 43.55.160(f) or (g);

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

16 (i) zero; or

17 (ii) 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 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) 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 and gas under AS 43.55.160 from the gross value
30 at the point of production of the oil and gas produced from the leases or
31 properties during the month for which the installment payment is

1 calculated, but not less than zero; or

2 (ii) four percent 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, but not less than zero;

5 (6) an amount calculated under (5)(C) of this subsection for oil or gas
6 subject to AS 43.55.011(j), (k), or (o) may not exceed the product obtained by
7 carrying out the calculation set out in AS 43.55.011(j)(1) or (2) or 43.55.011(o), as
8 applicable, for gas or set out in AS 43.55.011(k)(1) or (2), as applicable, for oil, but
9 substituting in AS 43.55.011(j)(1)(A) or (2)(A) or 43.55.011(o), as applicable, the
10 amount of taxable gas produced during the month for the amount of taxable gas
11 produced during the calendar year and substituting in AS 43.55.011(k)(1)(A) or
12 (2)(A), as applicable, the amount of taxable oil produced during the month for the
13 amount of taxable oil produced during the calendar year;

14 (7) for oil and gas produced on or after January 1, 2022, an installment
15 payment of the estimated tax levied by AS 43.55.011(e), net of any tax credits applied
16 as allowed by law, is due for each month of the calendar year on the last day of the
17 following month; **except as otherwise provided under (10) of this subsection**, the
18 amount of the installment payment is the sum of the following amounts, less 1/12 of
19 the tax credits that are allowed by law to be applied against the tax levied by
20 AS 43.55.011(e) for the calendar year, but the amount of the installment payment may
21 not be less than zero:

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

24 (i) zero;

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

29 (iii) 35 percent multiplied by the remainder obtained by
30 subtracting 1/12 of the producer's adjusted lease expenditures for the
31 calendar year of production under AS 43.55.165 and 43.55.170 that are

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25
26
27
28
29
30
31

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

(B) for oil produced before or during the last calendar year under AS 43.55.024(b) for which the producer could take a tax credit under AS 43.55.024(a), from leases or properties in the state outside the Cook Inlet sedimentary basin, no part of which is north of 68 degrees North latitude, other than leases or properties subject to AS 43.55.011(o) or (p) [AS 43.55.011(p)], the greater of

(i) zero; or

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

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

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

(ii) 13 percent of the gross value at the point of production of the gas produced from the leases or properties during the

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25
26
27
28
29
30
31

month, but not less than zero;

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

(i) zero; or

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

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

(F) for oil subject to AS 43.55.011(k), for each lease or property, the greater of

(i) zero; or

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

(G) for gas subject to AS 43.55.011(j) or (o), for each lease or property, the greater of

(i) zero; or

(ii) 13 percent of the gross value at the point of production of the gas produced from the lease or property during

1 **the month for which the installment payment is calculated;**

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

6 (9) for purposes of the calculation under (1)(B)(ii), (5)(B)(ii), and
7 (7)(A)(ii) of this subsection, the applicable percentage of the gross value at the point
8 of production is determined under AS 43.55.011(f)(1) or (2) but substituting the
9 phrase "month for which the installment payment is calculated" in AS 43.55.011(f)(1)
10 and (2) for the phrase "calendar year for which the tax is due";

11 **(10) an amount calculated under (7)(F) or (G) of this subsection**
12 **for oil or gas subject to AS 43.55.011(j), (k), or (o) may not exceed the product**
13 **obtained by carrying out the calculation set out in AS 43.55.011(j)(1) or (2) or**
14 **43.55.011(o), as applicable, for gas, or set out in AS 43.55.011(k)(1) or (2), as**
15 **applicable, for oil, but substituting in AS 43.55.011(j)(1)(A) or (2)(A) or**
16 **43.55.011(o), as applicable, the amount of taxable gas produced during the month**
17 **for the amount of taxable gas produced during the calendar year and substituting**
18 **in AS 43.55.011(k)(1)(A) or (2)(A), as applicable, the amount of taxable oil**
19 **produced during the month for the amount of taxable oil produced during the**
20 **calendar year.** [""]

21 * Sec. 16. AS 43.55.023(a) is amended to read:

22 (a) A producer or explorer may take a tax credit for a qualified capital
23 expenditure as follows:

24 (1) notwithstanding that a qualified capital expenditure may be a
25 deductible lease expenditure for purposes of calculating the production tax value of oil
26 and gas under AS 43.55.160(a), unless a credit for that expenditure is taken under
27 [AS 38.05.180(i), AS 41.09.010,] AS 43.20.043 [,] or AS 43.55.025, a producer or
28 explorer that incurs a qualified capital expenditure **in the Cook Inlet sedimentary**
29 **basin** may also elect to apply a tax credit against a tax levied by AS 43.55.011(e) in
30 the amount of **10** [20] percent of that expenditure;

31 (2) a producer or explorer may take a credit for a qualified capital

1 expenditure incurred in connection with geological or geophysical exploration or in
2 connection with an exploration well only if the producer or explorer

3 (A) agrees, in writing, to the applicable provisions of
4 AS 43.55.025(f)(2); and

5 (B) submits to the Department of Natural Resources all data
6 that would be required to be submitted under AS 43.55.025(f)(2) [;

7 (3) A CREDIT FOR A QUALIFIED CAPITAL EXPENDITURE
8 INCURRED TO EXPLORE FOR, DEVELOP, OR PRODUCE OIL OR GAS
9 DEPOSITS LOCATED NORTH OF 68 DEGREES NORTH LATITUDE MAY BE
10 TAKEN ONLY IF THE EXPENDITURE IS INCURRED BEFORE JANUARY 1,
11 2014].

12 * Sec. 17. AS 43.55.023(b) is amended to read:

13 (b) Before January 1, 2014, a producer or explorer may elect to take a tax
14 credit in the amount of 25 percent of a carried-forward annual loss. For lease
15 expenditures incurred on and after January 1, 2014, and before January 1, 2016, to
16 explore for, develop, or produce oil or gas deposits located north of 68 degrees North
17 latitude, a producer or explorer may elect to take a tax credit in the amount of 45
18 percent of a carried-forward annual loss. For lease expenditures incurred on and after
19 January 1, 2016, to explore for, develop, or produce oil or gas deposits located north
20 of 68 degrees North latitude, a producer or explorer may elect to take a tax credit in
21 the amount of 35 percent of a carried-forward annual loss. For lease expenditures
22 incurred on or after January 1, 2014, and before January 1, 2017, to explore for,
23 develop, or produce oil or gas deposits located south of 68 degrees North latitude, a
24 producer or explorer may elect to take a tax credit in the amount of 25 percent of a
25 carried-forward annual loss. For lease expenditures incurred on or after January 1,
26 2017, to explore for, develop, or produce oil or gas deposits located in the Cook
27 Inlet sedimentary basin, a producer or explorer may elect to take a tax credit in
28 the amount of 15 percent of a carried-forward annual loss. A credit under this
29 subsection may be applied against a tax levied by AS 43.55.011(e). For purposes of
30 this subsection,

31 (1) a carried-forward annual loss is the amount of a producer's or

1 explorer's adjusted lease expenditures under AS 43.55.165 and 43.55.170 for a
2 previous calendar year that was not deductible in calculating production tax values for
3 that calendar year under AS 43.55.160;

4 (2) for lease expenditures incurred on or after January 1, 2017,
5 any reduction under AS 43.55.160(f) or (g) is added back to the calculation of
6 production tax values for that calendar year under AS 43.55.160 for the
7 determination of a carried-forward annual loss.

8 * Sec. 18. AS 43.55.023(b), as amended by sec. 17 of this Act, is amended to read:

9 (b) Before January 1, 2014, a producer or explorer may elect to take a tax
10 credit in the amount of 25 percent of a carried-forward annual loss. For lease
11 expenditures incurred on and after January 1, 2014, and before January 1, 2016, to
12 explore for, develop, or produce oil or gas deposits located north of 68 degrees North
13 latitude, a producer or explorer may elect to take a tax credit in the amount of 45
14 percent of a carried-forward annual loss. For lease expenditures incurred on and after
15 January 1, 2016, to explore for, develop, or produce oil or gas deposits located north
16 of 68 degrees North latitude, a producer or explorer may elect to take a tax credit in
17 the amount of 35 percent of a carried-forward annual loss. [FOR LEASE
18 EXPENDITURES INCURRED ON OR AFTER JANUARY 1, 2014, AND BEFORE
19 JANUARY 1, 2017, TO EXPLORE FOR, DEVELOP, OR PRODUCE OIL OR GAS
20 DEPOSITS LOCATED SOUTH OF 68 DEGREES NORTH LATITUDE, A
21 PRODUCER OR EXPLORER MAY ELECT TO TAKE A TAX CREDIT IN THE
22 AMOUNT OF 25 PERCENT OF A CARRIED-FORWARD ANNUAL LOSS. FOR
23 LEASE EXPENDITURES INCURRED ON OR AFTER JANUARY 1, 2017, TO
24 EXPLORE FOR, DEVELOP, OR PRODUCE OIL OR GAS DEPOSITS LOCATED
25 IN THE COOK INLET SEDIMENTARY BASIN, A PRODUCER OR EXPLORER
26 MAY ELECT TO TAKE A TAX CREDIT IN THE AMOUNT OF 15 PERCENT OF
27 A CARRIED-FORWARD ANNUAL LOSS.] A credit under this subsection may be
28 applied against a tax levied by AS 43.55.011(e). For purposes of this subsection,

29 (1) a carried-forward annual loss is the amount of a producer's or
30 explorer's adjusted lease expenditures under AS 43.55.165 and 43.55.170 for a
31 previous calendar year that was not deductible in calculating production tax values for

1 that calendar year under AS 43.55.160;

2 (2) for lease expenditures incurred on or after January 1, 2017, any
3 reduction under AS 43.55.160(f) or (g) is added back to the calculation of production
4 tax values for that calendar year under AS 43.55.160 for the determination of a
5 carried-forward annual loss.

6 * **Sec. 19.** AS 43.55.023(d) is amended to read:

7 (d) A person that is entitled to take a tax credit under this section that wishes
8 to transfer the unused credit to another person or obtain a cash payment under
9 AS 43.55.028 may apply to the department for a transferable tax credit certificate. An
10 application under this subsection must be in a form prescribed by the department and
11 must include supporting information and documentation that the department
12 reasonably requires. The department shall grant or deny an application, or grant an
13 application as to a lesser amount than that claimed and deny it as to the excess, not
14 later than 120 days after the latest of (1) March 31 of the year following the calendar
15 year in which the [QUALIFIED CAPITAL EXPENDITURE OR] carried-forward
16 annual loss for which the credit is claimed was incurred; (2) the date the statement
17 required under AS 43.55.030(a) or (e) was filed for the calendar year in which the
18 [QUALIFIED CAPITAL EXPENDITURE OR] carried-forward annual loss for which
19 the credit is claimed was incurred; or (3) the date the application was received by the
20 department. If, based on the information then available to it, the department is
21 reasonably satisfied that the applicant is entitled to a credit, the department shall issue
22 the applicant a transferable tax credit certificate for the amount of the credit. A
23 certificate issued under this subsection does not expire.

24 * **Sec. 20.** AS 43.55.023(e) is amended to read:

25 (e) A person to which a transferable tax credit certificate is issued under (d) of
26 this section may transfer the certificate to another person, and a transferee may further
27 transfer the certificate. Subject to the limitations set out in **former (a) of this section**
28 **and (b) - (d)** [(a) - (d)] of this section, and notwithstanding any action the department
29 may take with respect to the applicant under (g) of this section, the owner of a
30 certificate may apply the credit or a portion of the credit shown on the certificate only
31 against a tax levied by AS 43.55.011(e). However, a credit shown on a transferable tax

1 credit certificate may not be applied to reduce a transferee's total tax liability under
2 AS 43.55.011(e) for oil and gas produced during a calendar year to less than 80
3 percent of the tax that would otherwise be due without applying that credit. Any
4 portion of a credit not used under this subsection may be applied in a later period.

5 * **Sec. 21.** AS 43.55.023(l) is amended to read:

6 (l) A producer or explorer may apply for a tax credit for a well lease
7 expenditure incurred in the state south of 68 degrees North latitude after June 30,
8 2010, as follows:

9 (1) notwithstanding that a well lease expenditure incurred in the **Cook**
10 **Inlet sedimentary basin** [STATE SOUTH OF 68 DEGREES NORTH LATITUDE]
11 may be a deductible lease expenditure for purposes of calculating the production tax
12 value of oil and gas under AS 43.55.160(a), unless a credit for that expenditure is
13 taken under (a) of this section, [AS 38.05.180(i), AS 41.09.010,] AS 43.20.043, or
14 AS 43.55.025, a producer or explorer that incurs a well lease expenditure in the **Cook**
15 **Inlet sedimentary basin** [STATE SOUTH OF 68 DEGREES NORTH LATITUDE]
16 may elect to apply a tax credit against a tax levied by AS 43.55.011(e) in the amount
17 of **20** [40] percent of that expenditure [; A TAX CREDIT UNDER THIS
18 PARAGRAPH MAY BE APPLIED FOR A SINGLE CALENDAR YEAR];

19 (2) a producer or explorer may take a credit for a well lease
20 expenditure incurred in the state south of 68 degrees North latitude in connection with
21 geological or geophysical exploration or in connection with an exploration well only if
22 the producer or explorer

23 (A) agrees, in writing, to the applicable provisions of
24 AS 43.55.025(f)(2); and

25 (B) submits to the Department of Natural Resources all data
26 that would be required to be submitted under AS 43.55.025(f)(2).

27 * **Sec. 22.** AS 43.55.028(a) is amended to read:

28 (a) The oil and gas tax credit fund is established as a separate fund of the state.
29 The purpose of the fund is to purchase transferable tax credit certificates issued under
30 AS 43.55.023 and production tax credit certificates issued under AS 43.55.025 and to
31 pay refunds and payments claimed under AS 43.20.046 **or** [,] 43.20.047 [, OR

1 43.20.053].

2 * **Sec. 23.** AS 43.55.028(e) is amended to read:

3 (e) The department, on the written application of a person to whom a
4 transferable tax credit certificate has been issued under AS 43.55.023(d) or former
5 AS 43.55.023(m) or to whom a production tax credit certificate has been issued under
6 AS 43.55.025(f), may use available money in the oil and gas tax credit fund to
7 purchase, in whole or in part, the certificate. **The department may not purchase a**
8 **total of more than \$70,000,000 in tax credit certificates from a person in a**
9 **calendar year. Before purchasing a certificate or part of a certificate,** [IF] the
10 department **shall find** [FINDS] that

11 (1) the calendar year of the purchase is not earlier than the first
12 calendar year for which the credit shown on the certificate would otherwise be allowed
13 to be applied against a tax;

14 (2) the **application is not the result of the division of a single entity**
15 **into multiple entities that would reasonably be expected to apply as a single entity**
16 **if the \$70,000,000 limitation in this subsection did not exist** [APPLICANT DOES
17 NOT HAVE AN OUTSTANDING LIABILITY TO THE STATE FOR UNPAID
18 DELINQUENT TAXES UNDER THIS TITLE];

19 (3) the applicant's total tax liability under AS 43.55.011(e), after
20 application of all available tax credits, for the calendar year in which the application is
21 made is zero;

22 (4) the applicant's average daily production of oil and gas taxable
23 under AS 43.55.011(e) during the calendar year preceding the calendar year in which
24 the application is made was not more than 50,000 BTU equivalent barrels; and

25 (5) the purchase is consistent with this section and regulations adopted
26 under this section.

27 * **Sec. 24.** AS 43.55.028(g) is amended to read:

28 (g) The department **shall** [MAY] adopt regulations to carry out the purposes
29 of this section, including standards and procedures to allocate available money among
30 applications for purchases under this chapter and claims for refunds and payments
31 under AS 43.20.046, 43.20.047, or 43.20.053 when the total amount of the

1 applications for purchase and claims for refund exceed the amount of available money
2 in the fund. The regulations adopted by the department

3 (1) may not, when allocating available money in the fund under this
4 section, distinguish an application for the purchase of a credit certificate issued under
5 former AS 43.55.023(m) or a claim for a refund or payment under AS 43.20.046,
6 43.20.047, or 43.20.053;

7 (2) must grant a preference to an applicant if at least 75 percent of
8 the applicant's workforce in the state in the previous calendar year was
9 composed of resident workers; in this paragraph, "resident worker" has the
10 meaning given in AS 43.40.092(b);

11 (3) must provide for the purchase or refund of the amount equal to
12 50 percent of the annual appropriations to the fund under this section for the
13 current fiscal year at a rate of 100 percent of the value of the certificate or
14 portion of the certificate requested to be purchased and the amount equal to 50
15 percent of the annual appropriations to the fund under this section for the
16 current fiscal year at a rate of 75 percent of the value of the certificate or portion
17 of the certificate requested to be purchased; the department shall make the
18 payments under this section in the order of priority otherwise established under
19 this section and regulations adopted under this section.

20 * **Sec. 25.** AS 43.55.028(g), as amended by sec. 24 of this Act, is amended to read:

21 (g) The department shall adopt regulations to carry out the purposes of this
22 section, including standards and procedures to allocate available money among
23 applications for purchases under this chapter and claims for refunds and payments
24 under AS 43.20.046 or [,] 43.20.047 [, OR 43.20.053] when the total amount of the
25 applications for purchase and claims for refund exceed the amount of available money
26 in the fund. The regulations adopted by the department

27 (1) may not, when allocating available money in the fund under this
28 section, distinguish an application for the purchase of a credit certificate issued under
29 former AS 43.55.023(m) or a claim for a refund or payment under AS 43.20.046 or [,]
30 43.20.047 [, OR 43.20.053];

31 (2) must grant a preference to an applicant if at least 75 percent of the

1 applicant's workforce in the state in the previous calendar year was composed of
2 resident workers; in this paragraph, "resident worker" has the meaning given in
3 AS 43.40.092(b);

4 (3) must provide for the purchase or refund of the amount equal to 50
5 percent of the annual appropriations to the fund under this section for the current fiscal
6 year at a rate of 100 percent of the value of the certificate or portion of the certificate
7 requested to be purchased and the amount equal to 50 percent of the annual
8 appropriations to the fund under this section for the current fiscal year at a rate of 75
9 percent of the value of the certificate or portion of the certificate requested to be
10 purchased; the department shall make the payments under this section in the order of
11 priority otherwise established under this section and regulations adopted under this
12 section.

13 * **Sec. 26.** AS 43.55.028 is amended by adding a new subsection to read:

14 (j) If an applicant or claimant has an outstanding liability to the state directly
15 related to the applicant's or claimant's oil or gas exploration, development, or
16 production and the department has not previously reduced the amount paid to that
17 applicant or claimant for a certificate or refund because of that outstanding liability,
18 the department may purchase only that portion of a certificate or pay only that portion
19 of a refund that exceeds the outstanding liability. After notifying the applicant or
20 claimant, the department may apply the amount by which the department reduced its
21 purchase of a certificate or payment for a refund because of an outstanding liability to
22 satisfy the outstanding liability. Satisfaction of an outstanding liability under this
23 subsection does not affect the applicant's ability to contest that liability. The
24 department may enter into contracts or agreements with another department to which
25 the outstanding liability is owed. In this subsection, "outstanding liability" means an
26 amount of tax, interest, penalty, fee, rental, royalty, or other charge for which the state
27 has issued a demand for payment that has not been paid when due and, if contested,
28 has not been finally resolved against the state.

29 * **Sec. 27.** AS 43.55.029(a) is amended to read:

30 (a) An explorer or producer that has applied for a production tax credit under
31 **former** AS 43.55.023(a) [, (b),] or (l) **or under AS 43.55.023(b)** or 43.55.025(a) may

1 make a present assignment of the production tax credit certificate expected to be
2 issued by the department to a third-party assignee. The assignment may be made either
3 at the time the application is filed with the department or not later than 30 days after
4 the date of filing with the department. Once a notice of assignment in compliance with
5 this section is filed with the department, the assignment is irrevocable and cannot be
6 modified by the explorer or producer without the written consent of the assignee
7 named in the assignment. If a production tax credit certificate is issued to the explorer
8 or producer, the notice of assignment remains effective and shall be filed with the
9 department by the explorer or producer together with any application for the
10 department to purchase the certificate under AS 43.55.028(e).

11 * **Sec. 28.** AS 43.55.030(a) is amended to read:

12 (a) A producer that produces oil or gas from a lease or property in the state
13 during a calendar year, whether or not any tax payment is due under AS 43.55.020(a)
14 for that oil or gas, shall file with the department on March 31 of the following year a
15 statement, under oath, in a form prescribed by the department, giving, with other
16 information required, the following:

17 (1) a description of each lease or property from which oil or gas was
18 produced, by name, legal description, lease number, or accounting codes assigned by
19 the department;

20 (2) the names of the producer and, if different, the person paying the
21 tax, if any;

22 (3) the gross amount of oil and the gross amount of gas produced from
23 each lease or property, separately identifying the gross amount of gas produced from
24 each oil and gas lease to which an effective election under AS 43.55.014(a) applies,
25 the amount of gas delivered to the state under AS 43.55.014(b), and the percentage of
26 the gross amount of oil and gas owned by the producer;

27 (4) the gross value at the point of production of the oil and of the gas
28 produced from each lease or property owned by the producer and the costs of
29 transportation of the oil and gas;

30 (5) the name of the first purchaser and the price received for the oil and
31 for the gas, unless relieved from this requirement in whole or in part by the

1 department;

2 (6) the producer's qualified capital expenditures, [AS DEFINED IN
3 AS 43.55.023,] other lease expenditures under AS 43.55.165, and adjustments or other
4 payments or credits under AS 43.55.170;

5 (7) the production tax values of the oil and gas under AS 43.55.160(a)
6 or of the oil under AS 43.55.160(h), as applicable;

7 (8) any claims for tax credits to be applied; and

8 (9) calculations showing the amounts, if any, that were or are due
9 under AS 43.55.020(a) and interest on any underpayment or overpayment.

10 * **Sec. 29.** AS 43.55.030(e) is amended to read:

11 (e) An explorer or producer that incurs a lease expenditure under
12 AS 43.55.165 or receives a payment or credit under AS 43.55.170 during a calendar
13 year but does not produce oil or gas from a lease or property in the state during the
14 calendar year shall file with the department, on March 31 of the following year, a
15 statement, under oath, in a form prescribed by the department, giving, with other
16 information required, the following:

17 (1) the explorer's or producer's qualified capital expenditures, [AS
18 DEFINED IN AS 43.55.023,] other lease expenditures under AS 43.55.165, and
19 adjustments or other payments or credits under AS 43.55.170; and

20 (2) if the explorer or producer receives a payment or credit under
21 AS 43.55.170, calculations showing whether the explorer or producer is liable for a
22 tax under AS 43.55.160(d) or 43.55.170(b) and, if so, the amount.

23 * **Sec. 30.** AS 43.55.160(f) is amended to read:

24 (f) On and after January 1, 2014, in the calculation of an annual production tax
25 value of a producer under (a)(1)(A) or (h)(1) of this section, the gross value at the
26 point of production of oil or gas produced from a lease or property north of 68 degrees
27 North latitude meeting one or more of the following criteria is reduced by 20 percent:
28 (1) the oil or gas is produced from a lease or property that does not contain a lease that
29 was within a unit on January 1, 2003; (2) the oil or gas is produced from a
30 participating area established after December 31, 2011, that is within a unit formed
31 under AS 38.05.180(p) before January 1, 2003, if the participating area does not

1 contain a reservoir that had previously been in a participating area established before
2 December 31, 2011; (3) the oil or gas is produced from acreage that was added to an
3 existing participating area by the Department of Natural Resources on and after
4 January 1, 2014, and the producer demonstrates to the department that the volume of
5 oil or gas produced is from acreage added to an existing participating area. This
6 subsection does not apply to gas produced before 2022 that is used in the state or to
7 gas produced on and after January 1, 2022. For oil and gas first produced from a
8 lease or property after December 31, 2016, a reduction allowed under this
9 subsection applies from the date of commencement of regular production of oil
10 and gas from that lease or property and expires after three years, consecutive or
11 nonconsecutive, in which the average annual price per barrel for Alaska North
12 Slope crude oil for sale on the United States West Coast is more than \$70 or after
13 seven years, whichever occurs first. For oil and gas first produced from a lease
14 or property before January 1, 2017, a reduction allowed under this subsection
15 expires on the earlier of January 1, 2023, or January 1 following three years,
16 consecutive or nonconsecutive, in which the average annual price per barrel for
17 Alaska North Slope crude oil for sale on the United States West Coast is more
18 than \$70. The Alaska Oil and Gas Conservation Commission shall determine the
19 commencement of regular production of oil and gas for purposes of this section.

20 A reduction under this subsection may not reduce the gross value at the point of
21 production below zero. In this subsection, "participating area" means a reservoir or
22 portion of a reservoir producing or contributing to production as approved by the
23 Department of Natural Resources.

24 * **Sec. 31.** AS 43.55.160(g) is amended to read:

25 (g) On and after January 1, 2014, in addition to the reduction under (f) of this
26 section, in the calculation of an annual production tax value of a producer under
27 (a)(1)(A) or (h)(1) of this section, the gross value at the point of production of oil or
28 gas produced from a lease or property north of 68 degrees North latitude that does not
29 contain a lease that was within a unit on January 1, 2003, is reduced by 10 percent if
30 the oil or gas is produced from a unit made up solely of leases that have a royalty
31 share of more than 12.5 percent in amount or value of the production removed or sold

1 from the lease as determined under AS 38.05.180(f). This subsection does not apply if
2 the royalty obligation for one or more of the leases in the unit has been reduced to 12.5
3 percent or less under AS 38.05.180(j) for all or part of the calendar year for which the
4 annual production tax value is calculated. This subsection does not apply to gas
5 produced before 2022 that is used in the state or to gas produced on and after
6 January 1, 2022. For oil or gas first produced after December 31, 2016, a
7 reduction allowed under this subsection applies to oil or gas produced from a
8 lease or property for the first seven years after the commencement of regular
9 production of oil or gas from that lease or property. For oil or gas first produced
10 before January 1, 2017, a reduction allowed under this subsection for a lease or
11 property expires January 1, 2023. The Alaska Oil and Gas Conservation
12 Commission shall determine the commencement of regular production for
13 purposes of this subsection. A reduction under this subsection may not reduce the
14 gross value at the point of production below zero.

15 * **Sec. 32.** AS 43.55.165(a) is amended to read:

16 (a) For [EXCEPT AS PROVIDED IN (j) AND (k) OF THIS SECTION,
17 FOR] purposes of this chapter, a producer's lease expenditures for a calendar year are

18 (1) costs, other than items listed in (e) of this section, that are

19 (A) incurred by the producer during the calendar year after
20 March 31, 2006, to explore for, develop, or produce oil or gas deposits located
21 within the producer's leases or properties in the state or, in the case of land in
22 which the producer does not own an operating right, operating interest, or
23 working interest, to explore for oil or gas deposits within other land in the
24 state; and

25 (B) allowed by the department by regulation, based on the
26 department's determination that the costs satisfy the following three
27 requirements:

28 (i) the costs must be incurred upstream of the point of
29 production of oil and gas;

30 (ii) the costs must be ordinary and necessary costs of
31 exploring for, developing, or producing, as applicable, oil or gas

1 deposits; and

2 (iii) the costs must be direct costs of exploring for,
3 developing, or producing, as applicable, oil or gas deposits; and

4 (2) a reasonable allowance for that calendar year, as determined under
5 regulations adopted by the department, for overhead expenses that are directly related
6 to exploring for, developing, or producing, as applicable, the oil or gas deposits.

7 * **Sec. 33.** AS 43.55.165(e) is amended to read:

8 (e) For purposes of this section, lease expenditures do not include

9 (1) depreciation, depletion, or amortization;

10 (2) oil or gas royalty payments, production payments, lease profit
11 shares, or other payments or distributions of a share of oil or gas production, profit, or
12 revenue, except that a producer's lease expenditures applicable to oil and gas produced
13 from a lease issued under AS 38.05.180(f)(3)(B), (D), or (E) include the share of net
14 profit paid to the state under that lease;

15 (3) taxes based on or measured by net income;

16 (4) interest or other financing charges or costs of raising equity or debt
17 capital;

18 (5) acquisition costs for a lease or property or exploration license;

19 (6) costs arising from fraud, wilful misconduct, gross negligence,
20 violation of law, or failure to comply with an obligation under a lease, permit, or
21 license issued by the state or federal government;

22 (7) fines or penalties imposed by law;

23 (8) costs of arbitration, litigation, or other dispute resolution activities
24 that involve the state or concern the rights or obligations among owners of interests in,
25 or rights to production from, one or more leases or properties or a unit;

26 (9) costs incurred in organizing a partnership, joint venture, or other
27 business entity or arrangement;

28 (10) amounts paid to indemnify the state; the exclusion provided by
29 this paragraph does not apply to the costs of obtaining insurance or a surety bond from
30 a third-party insurer or surety;

31 (11) surcharges levied under AS 43.55.201 or 43.55.300;

1 (12) an expenditure otherwise deductible under (b) of this section that
2 is a result of an internal transfer, a transaction with an affiliate, or a transaction
3 between related parties, or is otherwise not an arm's length transaction, unless the
4 producer establishes to the satisfaction of the department that the amount of the
5 expenditure does not exceed the fair market value of the expenditure;

6 (13) an expenditure incurred to purchase an interest in any corporation,
7 partnership, limited liability company, business trust, or any other business entity,
8 whether or not the transaction is treated as an asset sale for federal income tax
9 purposes;

10 (14) a tax levied under AS 43.55.011 or 43.55.014;

11 (15) costs incurred for dismantlement, removal, surrender, or
12 abandonment of a facility, pipeline, well pad, platform, or other structure, or for the
13 restoration of a lease, field, unit, area, tract of land, body of water, or right-of-way in
14 conjunction with dismantlement, removal, surrender, or abandonment; a cost is not
15 excluded under this paragraph if the dismantlement, removal, surrender, or
16 abandonment for which the cost is incurred is undertaken for the purpose of replacing,
17 renovating, or improving the facility, pipeline, well pad, platform, or other structure;

18 (16) costs incurred for containment, control, cleanup, or removal in
19 connection with any unpermitted release of oil or a hazardous substance and any
20 liability for damages imposed on the producer or explorer for that unpermitted release;
21 this paragraph does not apply to the cost of developing and maintaining an oil
22 discharge prevention and contingency plan under AS 46.04.030;

23 (17) costs incurred to satisfy a work commitment under an exploration
24 license under AS 38.05.132;

25 (18) that portion of expenditures, that would otherwise be qualified
26 capital expenditures, [AS DEFINED IN AS 43.55.023,] incurred during a calendar
27 year that are less than the product of \$0.30 multiplied by the total taxable production
28 from each lease or property, in BTU equivalent barrels, during that calendar year,
29 except that, when a portion of a calendar year is subject to this provision, the
30 expenditures and volumes shall be prorated within that calendar year;

31 (19) costs incurred for repair, replacement, or deferred maintenance of

1 a facility, a pipeline, a structure, or equipment, other than a well, that results in or is
2 undertaken in response to a failure, problem, or event that results in an unscheduled
3 interruption of, or reduction in the rate of, oil or gas production; or costs incurred for
4 repair, replacement, or deferred maintenance of a facility, a pipeline, a structure, or
5 equipment, other than a well, that is undertaken in response to, or is otherwise
6 associated with, an unpermitted release of a hazardous substance or of gas; however,
7 costs under this paragraph that would otherwise constitute lease expenditures under (a)
8 and (b) of this section may be treated as lease expenditures if the department
9 determines that the repair or replacement is solely necessitated by an act of war, by an
10 unanticipated grave natural disaster or other natural phenomenon of an exceptional,
11 inevitable, and irresistible character, the effects of which could not have been
12 prevented or avoided by the exercise of due care or foresight, or by an intentional or
13 negligent act or omission of a third party, other than a party or its agents in privity of
14 contract with, or employed by, the producer or an operator acting for the producer, but
15 only if the producer or operator, as applicable, exercised due care in operating and
16 maintaining the facility, pipeline, structure, or equipment, and took reasonable
17 precautions against the act or omission of the third party and against the consequences
18 of the act or omission; in this paragraph,

19 (A) "costs incurred for repair, replacement, or deferred
20 maintenance of a facility, a pipeline, a structure, or equipment" includes costs
21 to dismantle and remove the facility, pipeline, structure, or equipment that is
22 being replaced;

23 (B) "hazardous substance" has the meaning given in
24 AS 46.03.826;

25 (C) "replacement" includes renovation or improvement;

26 (20) costs incurred to construct, acquire, or operate a refinery or crude
27 oil topping plant, regardless of whether the products of the refinery or topping plant
28 are used in oil or gas exploration, development, or production operations; however, if
29 a producer owns a refinery or crude oil topping plant that is located on or near the
30 premises of the producer's lease or property in the state and that processes the
31 producer's oil produced from that lease or property into a product that the producer

1 uses in the operation of the lease or property in drilling for or producing oil or gas, the
 2 producer's lease expenditures include the amount calculated by subtracting from the
 3 fair market value of the product used the prevailing value, as determined under
 4 AS 43.55.020(f), of the oil that is processed;

5 (21) costs of lobbying, public relations, public relations advertising, or
 6 policy advocacy.

7 * **Sec. 34.** AS 43.55.165(f) is amended to read:

8 (f) For purposes of AS 43.55.023(b) [AS 43.55.023(a) AND (b)] and only as
 9 to expenditures incurred to explore for an oil or gas deposit located within land in
 10 which an explorer does not own a working interest, the term "producer" in this section
 11 includes "explorer."

12 * **Sec. 35.** AS 43.55.170(c) is amended to read:

13 (c) For purposes of AS 43.55.023(b) [AS 43.55.023(a) AND (b)] and only as
 14 to expenditures incurred to explore for an oil or gas deposit located within land in
 15 which an explorer does not own a working interest, the term "producer" in this section
 16 includes "explorer."

17 * **Sec. 36.** AS 43.55.890 is amended to read:

18 **Sec. 43.55.890. Disclosure of tax information.** Notwithstanding any contrary
 19 provision of AS 40.25.100, and regardless of whether the information is considered
 20 under AS 43.05.230(e) to constitute statistics classified to prevent the identification of
 21 particular returns or reports, the department may publish the following information
 22 under this chapter, if aggregated among three or more producers or explorers, showing
 23 by month or calendar year and by lease or property, unit, or area of the state:

- 24 (1) the amount of oil or gas production;
- 25 (2) the amount of taxes levied under this chapter or paid under this
 26 chapter;
- 27 (3) the effective tax rates under this chapter;
- 28 (4) the gross value of oil or gas at the point of production;
- 29 (5) the transportation costs for oil or gas;
- 30 (6) qualified capital expenditures [, AS DEFINED IN AS 43.55.023];
- 31 (7) exploration expenditures under AS 43.55.025;

- 1 (8) production tax values of oil or gas under AS 43.55.160;
2 (9) lease expenditures under AS 43.55.165;
3 (10) adjustments to lease expenditures under AS 43.55.170;
4 (11) tax credits applicable or potentially applicable against taxes levied
5 by this chapter.

6 * Sec. 37. AS 43.55.895(b) is amended to read:

7 (b) A municipal entity subject to taxation because of this section

8 (1) is eligible for [ALL] tax credits **proportionate to its production**
9 **taxable under AS 43.55.011(e); and**

10 **(2) shall allocate its lease expenditures in proportion to its**
11 **production taxable under AS 43.55.011(e)** [UNDER THIS CHAPTER TO THE
12 SAME EXTENT AS ANY OTHER PRODUCER].

13 * Sec. 38. AS 43.55.900 is amended by adding new paragraphs to read:

14 (26) "qualified capital expenditure"

15 (A) means, except as otherwise provided in (B) of this
16 paragraph, an expenditure that is a lease expenditure under AS 43.55.165 and
17 is

18 (i) incurred for geological or geophysical exploration;

19 (ii) treated as a capitalized expenditure under 26 U.S.C.
20 (Internal Revenue Code), as amended, regardless of elections made
21 under 26 U.S.C. 263(c) (Internal Revenue Code), as amended, and is
22 treated as a capitalized expenditure for federal income tax reporting
23 purposes by the person incurring the expenditure; or

24 (iii) treated as a capitalized expenditure under 26 U.S.C.
25 (Internal Revenue Code), as amended, regardless of elections made
26 under 26 U.S.C. 263(c) (Internal Revenue Code), as amended, and is
27 eligible to be deducted as an expense under 26 U.S.C. 263(c) (Internal
28 Revenue Code), as amended;

29 (B) does not include an expenditure incurred to acquire an asset
30 the cost of previously acquiring which was a lease expenditure under
31 AS 43.55.165 or would have been a lease expenditure under AS 43.55.165 if it

1 had been incurred after March 31, 2006, or that has previously been placed in
2 service in the state; an expenditure to acquire an asset is not excluded under
3 this subparagraph if not more than an immaterial portion of the asset meets a
4 description under this subparagraph; for purposes of this subparagraph, "asset"
5 includes geological, geophysical, and well data and interpretations;

6 (27) "regular production" has the meaning given in AS 31.05.170.

7 * **Sec. 39.** AS 43.70 is amended by adding new sections to read:

8 **Sec. 43.70.025. Bond or cash deposit required for an oil or gas business.** (a)

9 At the time of applying for a license under this chapter, an applicant engaged in the
10 business of oil or gas exploration, development, or production shall file a surety bond
11 in the amount of \$250,000 running to the state, conditioned upon the applicant's
12 promise to pay all

13 (1) taxes and contributions due the state and political subdivisions;

14 (2) persons furnishing labor or material or renting or supplying
15 equipment to the applicant; and

16 (3) amounts that may be adjudged against the applicant because of
17 negligent or improper work or breach of contract while engaged in the business of oil
18 or gas exploration, development, or production.

19 (b) In lieu of the surety bond required under this section, the applicant may
20 file with the commissioner a cash deposit or other negotiable security acceptable to the
21 commissioner in the amount of \$250,000.

22 (c) The bond required by this section remains in effect until cancelled by
23 action of the surety, the principal, or if the commissioner finds that the business is
24 producing oil or gas in commercial quantities, by the commissioner.

25 **Sec. 43.70.028. Claims against an oil or gas business.** (a) A person having a
26 claim against a person required to file a surety bond under AS 43.70.025 because of
27 the failure to pay a liability described in AS 43.70.025(a) may bring suit upon the
28 bond. A copy of the complaint shall be served by registered or certified mail on the
29 commissioner at the time suit is filed, and the commissioner shall maintain a record,
30 available for public inspection, of all suits commenced. This service on the
31 commissioner shall constitute service on the surety, and the commissioner shall

1 transmit the complaint or a copy of it to the surety within 72 hours after it is received.
2 The surety on the bond is not liable in an aggregate amount in excess of that named in
3 the bond, but if claims pending at any one time exceed the amount of the bond, the
4 claims shall be satisfied from the bond in the following order:

- 5 (1) labor, including employee benefits;
- 6 (2) taxes and contributions due the state, city, and borough, in that
7 order;
- 8 (3) material and equipment;
- 9 (4) claims for negligent or improper work or breach of contract;
- 10 (5) repair of public facilities.

11 (b) If a judgment is entered against a cash deposit, the commissioner, upon
12 receipt of a certified copy of a final judgment, shall pay the judgment from the amount
13 of the deposit in accordance with the priorities set out in (a) of this section.

14 (c) An action described in (a) of this section may not be commenced on the
15 bond more than three years after the cancellation of the bond.

16 * **Sec. 40.** AS 38.05.180(i); AS 41.09.010, 41.09.020, 41.09.030, 41.09.090;
17 AS 43.20.053(j)(4); and AS 43.55.011(m) are repealed January 1, 2017.

18 * **Sec. 41.** AS 43.20.053; AS 43.55.023(a), 43.55.023(l), 43.55.023(n), 43.55.023(o),
19 43.55.028(i), 43.55.075(d)(1), 43.55.165(j), and 43.55.165(k) are repealed January 1, 2018.

20 * **Sec. 42.** The uncodified law of the State of Alaska is amended by adding a new section to
21 read:

22 **APPLICABILITY.** (a) AS 43.20.046(e), as amended by sec. 8 of this Act,
23 AS 43.20.047(e), as amended by sec. 9 of this Act, AS 43.20.053(e), as amended by sec. 11 of
24 this Act, AS 43.55.028(e), as amended by sec. 23 of this Act, AS 43.55.028(j), as amended by
25 sec. 26 of this Act, and regulations related to a tax credit certificate purchase preference for
26 applicants with a workforce of resident workers and tax credit purchase rates, adopted under
27 AS 43.55.028(g), as amended by sec. 25 of this Act, apply to a purchase applied for on or
28 after the effective date of secs. 8, 9, 11, 23, 25, and 26 of this Act.

29 (b) AS 43.55.011(k), as amended by sec. 13 of this Act, applies to oil produced after
30 the effective date of sec. 13 of this Act.

31 * **Sec. 43.** The uncodified law of the State of Alaska is amended by adding a new section to

1 read:

2 TRANSITION: QUALIFIED IN-STATE OIL REFINERY INFRASTRUCTURE
3 EXPENDITURES TAX CREDIT. (a) Notwithstanding the repeal of AS 43.20.053 by sec. 41
4 of this Act and the amendments to AS 43.55.028(a) and (g) by secs. 22 and 25 of this Act, a
5 taxpayer who incurs a qualified infrastructure expenditure before the repeal of AS 43.20.053
6 by sec. 41 of this Act that qualifies for a qualified in-state oil refinery infrastructure
7 expenditures tax credit under AS 43.20.053 may apply for a tax credit under AS 43.20.053, as
8 that section read the day before the repeal of AS 43.20.053 by sec. 41 of this Act, apply for a
9 refund or payment under AS 43.55.028(a) and (g), as those sections read the day before the
10 effective date of secs. 22 and 25 of this Act, carry forward a credit subject to the limitations of
11 AS 43.20.053, as that section read the day before the repeal of AS 43.20.053 by sec. 41 of this
12 Act, or be subject to additional tax liability under AS 43.20.053, as that section read the day
13 before the repeal of AS 43.20.053 by sec. 41 of this Act.

14 (b) The Department of Revenue may continue to apply and enforce AS 43.20.053, as
15 that section read the day before the repeal of AS 43.20.053 by sec. 41 of this Act.

16 * **Sec. 44.** The uncodified law of the State of Alaska is amended by adding a new section to
17 read:

18 TRANSITION: QUALIFIED CAPITAL EXPENDITURES AND WELL LEASE
19 EXPENDITURES. (a) Notwithstanding the repeal of AS 43.55.023(a), (l), (n), and (o) by sec.
20 41 of this Act, and the amendments to AS 43.55.023(d) and (e) by secs. 19 and 20 of this Act,
21 AS 43.55.029(a) by sec. 27 of this Act, AS 43.55.165(f) by sec. 34 of this Act, and
22 AS 43.55.170(c) by sec. 35 of this Act, a taxpayer who incurs

23 (1) a qualified capital expenditure before the repeal of AS 43.55.023(a) and
24 (o) by sec. 41 of this Act that qualifies for a qualified capital expenditure credit under
25 AS 43.55.023(a) and (o) may apply for a credit or transferable tax credit certificate under
26 AS 43.55.023 and assign the tax credit under AS 43.55.029, as those sections read on the day
27 before the repeal of AS 43.55.023(a) and (o) by sec. 41 of this Act;

28 (2) a well lease expenditure before the repeal of AS 43.55.023(l) and (n) by
29 sec. 41 of this Act that qualifies for a well lease expenditure credit under AS 43.55.023(l) and
30 (n) may apply for a credit or transferable tax credit certificate under AS 43.55.023 and assign
31 the tax credit under AS 43.55.029, as those sections read on the day before the repeal of

1 AS 43.55.023(l) and (n) by sec. 41 of this Act.

2 (b) The Department of Revenue may continue to apply and enforce AS 43.55.023(a),
3 (l), (n), and (o) and AS 43.55.029, as those sections read on the day before the repeal of
4 AS 43.55.023(a), (l), (n), and (o) by sec. 41 of this Act, for qualified capital expenditures and
5 well lease expenditures incurred before the repeal of AS 43.55.023(a), (l), (n), and (o) by sec.
6 41 of this Act.

7 * **Sec. 45.** The uncodified law of the State of Alaska is amended by adding a new section to
8 read:

9 **TRANSITION: CARRY FORWARD ANNUAL NET OPERATING LOSS CREDIT.**
10 Notwithstanding the amendment of AS 43.55.023(b) by sec. 18 of this Act, a taxpayer who
11 incurs a carried-forward annual loss before the effective date of sec. 18 of this Act that
12 qualifies for a carried-forward annual loss credit under AS 43.55.023(b) may apply for a
13 credit or tax credit certificate under AS 43.55.023(d) and assign the tax credit under
14 AS 43.55.029, subject to the requirements of AS 43.55.160(d) and (e), as those sections read
15 on the day before the effective date of sec. 18 of this Act.

16 * **Sec. 46.** The uncodified law of the State of Alaska is amended by adding a new section to
17 read:

18 **TRANSITION: LEASE EXPENDITURES FOR A CALENDAR YEAR AFTER**
19 **2006 AND BEFORE 2010.** Notwithstanding AS 43.55.165(a), as amended by sec. 32 of this
20 Act, and the repeal of AS 43.55.165(j) and (k) by sec. 41 of this Act, AS 43.55.165(j) and (k)
21 apply to a producer's total lease expenditures for a calendar year after 2006 and before 2010
22 under AS 43.55.165, as that section read on the day before the repeal of AS 43.55.165(j) and
23 (k) by sec. 41 of this Act.

24 * **Sec. 47.** The uncodified law of the State of Alaska is amended by adding a new section to
25 read:

26 **TRANSITION: REGULATIONS.** The Department of Revenue, the Department of
27 Natural Resources, the Department of Commerce, Community, and Economic Development,
28 and the Alaska Oil and Gas Conservation Commission may adopt regulations necessary to
29 implement the changes made by this Act. The regulations take effect under AS 44.62
30 (Administrative Procedure Act), but not before the effective date of the law implemented by
31 the regulation. The Department of Revenue shall adopt regulations governing the use of tax

1 credits under AS 43.55 for a calendar year for which the applicable tax credit provisions of
2 AS 43.55 differ as between parts of the year as a result of this Act.

3 * **Sec. 48.** The uncodified law of the State of Alaska is amended by adding a new section to
4 read:

5 **TRANSITION: RETROACTIVITY OF REGULATIONS.** Notwithstanding any
6 contrary provision of AS 44.62.240,

7 (1) if the Department of Revenue expressly designates in a regulation that the
8 regulation applies retroactively, a regulation adopted by the Department of Revenue to
9 implement, interpret, make specific, or otherwise carry out this Act may apply retroactively to
10 the effective date of the law implemented by the regulation;

11 (2) if the Department of Natural Resources expressly designates in the
12 regulation that the regulation applies retroactively, a regulation adopted by the Department of
13 Natural Resources to implement, interpret, make specific, or otherwise carry out the statutory
14 amendments in this Act affecting the administration of oil and gas leases issued under
15 AS 38.05.180(f)(3)(B), (D), or (E), to the extent the regulation relates to the treatment of oil
16 and gas production taxes in determining net profits under those leases, may apply
17 retroactively to the effective date of the law implemented by the regulation.

18 * **Sec. 49.** Sections 47 and 48 of this Act take effect immediately under AS 01.10.070(c).

19 * **Sec. 50.** Sections 18 - 20, 22, 25, 27 - 29, 32 - 36, 41, 43 - 46, and AS 43.55.900(26),
20 added by sec. 38 of this Act, take effect January 1, 2018.

21 * **Sec. 51.** Except as provided in secs. 49 and 50 of this Act, this Act takes effect January 1,
22 2017.

ALASKA STATE LEGISLATURE

SENATE FINANCE COMMITTEE

Senator Pete Kelly, Co-Chair
State Capitol, Room 518
Juneau, AK 99801-1182
Phone - (907) 465- 3709
Senator.Pete.Kelly@akleg.gov



Senator Anna MacKinnon, Co-Chair
State Capitol, Room 516
Juneau, AK 99801-1182
Phone - (907) 465- 3777
Senator.Anna.MacKinnon@akleg.gov

Official Business

Sectional Analysis House Bill 247 TAX;CREDITS;INTEREST;REFUNDS;O & G Version Z

- *Section 1: Relates to the Alaska Oil and Gas Conservation Commission's determination of the commencement of regular production of oil eligible for a Gross Value Reduction. Conforms to Section 31
- *Section 2: Removes reference to the explorer incentive credit from the provisions of the Department of Natural Resources audit statutes
- *Section 3: Removes reference to the explorer incentive credit from the provisions of the Department of Revenue royalty and net profits payments
- *Section 4: Removes reference to the explorer incentive credit from information the Department of Natural Resources would obtain to carry out their responsibilities and functions
- *Section 5: Removes reference to the explorer incentive credit from information that is kept confidential as the result of an audit
- *Section 6: Removes reference to the explorer incentive credit from the publishing of statistics
- *Section 7: Changes the interest rate of delinquent taxes effective January 1, 2017 to 7% above the Federal Reserve rate, compounded quarterly for three years. For the following years of the statute of limitations, no interest would be accrued
- *Section 8: Conforms to the new definition of outstanding liability found in Section 26
- *Section 9: Conforms to the new definition of outstanding liability found in Section 26
- *Section 10: Reduces, then eliminates, the in state refinery tax credit. Reduces by 50% January 1, 2017 and eliminates the credit January 1, 2018
- *Section 11: Conforms to the new definition of outstanding liability found in Section 26
- *Section 12: Removes the sunset on the Cook Inlet gas tax cap
- *Section 13: Removes the sunset on the Cook Inlet oil calculation, and imposes a tax not to exceed \$1 per barrel of oil

- *Section 14: Removes the sunset on the cap for gas produced in state for use in state
- *Section 15: Calculation for Cook Inlet oil and gas taxes
- *Section 16: Reduces the qualified capital expenditure in Cook Inlet sedimentary basin from 20% to 10%
- *Section 17: Reduces the net operating loss in the Cook Inlet sedimentary basin from 25% to 15%, prevents the Gross Value Reduction on the North Slope from increase the size of the net operating loss when calculating the net operating loss
- *Section 18: Eliminates the net operating loss for the Cook Inlet
- *Section 19: Conforms to the elimination of the qualified expenditure found in Section 16
- *Section 20: Conforms to the elimination of the qualified expenditure found in Section 16
- *Section 21: Reduces the well lease expenditure in the Cook Inlet from 40% to 20%
- *Section 22: Conforms to subsequent changes related to the tax credit fund (43.55.028)
- *Section 23: Establishes a per company limit of \$70 million annually for eligible purchases from the Department of Revenue; prevents an applicant from dividing into multiple entities; and reestablished the 50,000 barrel per day limit on accessibility to the fund
- *Section 24: Restricts repurchasing for tax credits to a preference of at least 75% of the applicants workforce being Alaska residents. Divides the annual repurchase limit per company into two categories: first 50% of the annual eligible appropriation can be repurchased at 100% of the certificate value; and the second 50% can be repurchased at 75% of the certificate value
- *Section 25: Conforms to Section 24
- *Section 26: Creates a definition of outstanding liability to the state. Allows the Department of Revenue to restrict repurchase of credits after notifying the applicant for any liability related directly to the applicant's oil or gas exploration development or production
- *Section 27: Conforms to the elimination of the well expenditure credit and the qualified capital expenditure credit found in Section 41 effective January 1, 2018
- *Section 28: Conforms to the elimination of the qualified capital expenditure found in Section 41
- *Section 29: Conforms to the elimination of the qualified capital expenditure found in Section 41
- *Section 30: Imposes a lifespan on the Gross Value Reduction for a term of seven years, or three years, consecutive or nonconsecutive, in which the annual price on Alaska North Slope crude oil sales averages more than \$70 per barrel

- *Section 31: Conforms to the Gross Value Reduction lifespan found in Section 30, and directs the Alaska Oil and Gas Conservation Commission to determine the commencement of regular production of eligible oil
- *Section 32: Conforms to the elimination of the qualified capital expenditure found in Section 41
- *Section 33: Conforms to the elimination of the qualified capital expenditure found in Section 41
- *Section 34: Conforms to the elimination of the qualified capital expenditure found in Section 41
- *Section 35: Conforms to the elimination of the qualified capital expenditure found in Section 41
- *Section 36: Conforms to the elimination of the qualified capital expenditure found in Section 41
- *Section 37: Limits a municipality from receiving a credit to only an amount that is proportionate to its taxable gas
- *Section 38: Creates a new definition of the qualified capital expenditure to conform with the elimination of the qualified capital expenditure found in Section 41
- *Section 39: Requires an applicant engaged in oil or gas exploration, development, or production to file a surety bond in the amount of \$250,000 to the state; creates new Alaska Statute 43.70.028, stating that the surety bond is meant to satisfy claims for labor, employee benefits, taxes and contributions due to the state, city, and borough, material and equipment claims for negligent or improper work or breach of contract, repair of public facilities
- *Section 40: Repeals listed statutes effective January 1, 2017
- *Section 41: Repeals listed statutes effective January 1, 2018
- *Section 42: Applicability language
- *Section 43: Transition language for oil refinery credits
- *Section 44: Transition for the qualified capital expenditure and well lease expenditure credits
- *Section 45: Transition language for the net operating loss credit
- *Section 46: Transition language for lease expenditure language removed
- *Section 47: Regulations language for Department of Revenue, Department of Natural Resources, Department of Commerce, Community, and Economic Development, and the Alaska Oil and Gas Conservation Commission
- *Section 48: Retroactivity clause
- *Section 49: Effective dates for authorization of regulations effective immediately

*Section 50: Effective date of January 1, 2018 for Sections 18 -20, 22, 25, 27 – 29, 32 – 36, 41, 43 – 46, and for the new definition of qualified capital expenditure

*Section 51: Effective date of all previously unlisted sections of January 1, 2017

NEW SUSTAINABLE

ALASKA

PLAN



Pulling Together to Build Our Future

Oil and Gas Tax Credit Reform

Senate CS to CS HB247(FIN)

Department of Revenue

Initial Review of Changes in Senate Finance CS

May 16, 2016

Introduction

- This bill is substantially changed from what passed the House
- We have attempted to describe the changes made in the current CS, but have only had the document for a few hours. We apologize for any oversights
- We're using the same format as we did on Friday and Saturday before this committee, describing the prior two versions of the bill
- To color-code our text:
 - Purple items are as they are in the "House" version
 - Red items are as they are in CSSB130(RES)
 - Black items are current law but not in either version
 - Blue items are new to this version

Major Provisions in SCS-CSHB247(FIN)

1. Exploration Credits

- House bill
 - Allows existing credits to sunset on 7/1/16
 - Keeps “middle earth” extension to 1/1/22
 - Repeals older dormant DNR exploration credits
 - Extends the “Frontier Basin” credit one year to protect ongoing AHTNA investment
- Senate Finance CS
 - Keeps the first three changes from the House
 - Does not include the Frontier Basin extension

Major Provisions in SCS-CSHB247(FIN)

2. Cook Inlet (and Middle Earth) Credits

- House bill
 - NOL kept at 25% in 2017 but only if producing by end of 2016. To 0% in 2018
 - QCE repealed 7/1/16
 - WLE reduced to 20% for 2017 and zero in 2018
 - Middle Earth maintained at 25% NOL if under a POD, along with a 10% QCE
- Senate Finance CS
 - NOL reduced to 15% in 2017 and zero in 2018
 - QCE reduced to 10% in 2017 and zero in 2018
 - WLE reduced to 20% in 2017 and zero in 2018
 - Middle Earth same as Cook Inlet with full elimination of all three credits by 2018

Major Provisions in SCS-CSHB247(FIN)

3. Cook Inlet (and Middle East) Taxes

- House bill
 - Moves up 2022 tax cap sunset to 2019, for Cook Inlet gas, Cook Inlet oil, and Gas Used in State (GUIS)
 - Imposes a high underlying tax in 2019; expectation of new system as proposed by “working group”
- Senate Finance CS
 - Eliminates sunset of Cook Inlet Gas and GUIS tax caps
 - This extends indefinitely the Cook Inlet Gas and GUIS tax at an average of 17.5 cents / mcf
 - Adds a new Cook Inlet oil tax cap of \$1.00 / bbl
 - **No sunsets, no working group. These are intended to be long term changes**

Major Provisions in SCS-CSHB247(FIN)

4. North Slope Credits, Limits, Carry-Forwards

- House bill
 - No NOL credit or carry-forwards after 2016 for companies producing over 15,000 barrels / day
 - Smaller producers still eligible for refunded NOLs with cap of \$70 million / company / year
 - Must be from a lease from which the state receives a royalty, under a plan of development, and in which the producer has a working interest
 - NOL rate ramps down: 32% in 2017; 29% in 2019; 26% in 2021; 25% in 2023

Major Provisions in SCS-CSHB247(FIN)

4. North Slope Credits, Limits, Carry-Forwards

- Senate Finance CS
 - Limit for cashing credits remains 50,000 barrel / day
 - Cap for refunds \$70 million / company / year
 - First half of each credit certificate, up to the cap, is paid at face value. Second half is paid at 75% of face value or, at the company's option, can be carried forward into a future year
 - NOL rate remains 35%
 - In the case of a company with \$70 million in certificates, they will receive \$61.25 million in payment ($\$35 + 75\% \times \35), which equals an effective NOL rate of 30.6%

Major Provisions in SCS-CSHB247(FIN)

5. Minimum Tax Changes

- House bill
 - Adds a 5% “floor” but only if yearly price is over \$70 / bbl. Doesn’t harden against additional credits
 - Because NOLs are no longer carried forward by large producers, floor indirectly hardened
 - Revenue impact delayed to 2020 because pre-effective date NOLs can still be used to go below floor
- Senate Finance CS
 - No increase to minimum tax
 - No hardening of floor against NOLs, new oil per-barrel credits, or other credits

Major Provisions in SCS-CSHB247(FIN)

6. New Oil “GVR” Provisions

- House bill
 - 7-year “graduation” of GVR oil to become legacy oil
 - 5-year graduation for 10% additional GVR for high-royalty fields
 - If the average price of oil exceeds \$70 for any three years, the GVR sunsets early, with the production reverting to legacy oil
- Senate Finance CS
 - 7-year “graduation” of GVR oil to become legacy oil, for all royalty levels
 - If the average price of oil exceeds \$70 for any three years, the GVR sunsets early, with the production reverting to legacy oil

Major Provisions in SCS-CSHB247(FIN)

7. New Provisions from House Bill

- “Migrating Credits / True-up”: Prevent per-barrel credits not usable in one month, due to minimum tax, from being applied in another month.
- “ARM Board Alternative Purchase Option”: Authorizes Alaska Retirement Management Board to repurchase credits at 60% of face value. DOR mandated to repurchase at full value within 5 years
- **Senate Finance CS**
 - Neither provision retained

Major Provisions in SCS-CSHB247(FIN)

8. New Provision in Senate Finance CS

- Refinery Credit
 - Refinery credit repealed early.
 - Rate reduced from 40% to 20% in 2017, and eliminated in 2018
 - Credit was scheduled to sunset at end of 2019, so effectively this removes 2 ½ out of the 5 years of initial eligibility and value

Major Provisions in SCS-CSHB247(FIN)

9. Misc. and Technical Provisions

- a) **House:** GVR can't be used to increase the size of an NOL
Sen Fin: Same as House
- b) **House:** Municipal Utility Lease Expenditure pro-ration
Sen Fin: Same as House
- c) **House:** Transparency, can release name of company and amount of refundable credits received
Sen Fin: Amendment provides amounts but not names
- d) **House:** Increase to 5% over Fed, compounding, with simple interest after four years
Sen. Fin: Increase to 7% over Fed, compounding, with zero interest after three years (5% in draft text)

Major Provisions in SCS-CSHB247(FIN)

9. Misc. and Technical Provisions (cont'd)

e) House: Level of Alaska Hire as prioritization for repurchase given limited funds, including contractors

Sen Fin: Priority for repurchase for companies with Alaska Hire greater than 75%, not including contractors

f) House: Credits can be used to offset other delinquent obligations to the state related to oil and gas business

Sen Fin: Same as House, requires notice if credit funds are used to pay liability on company's behalf

g) House: \$250k surety bond with local vendor priority

Sen Fin: Same as House

Summary of Fiscal Impact

Summary Analysis of Bill Versions (\$millions) (based on Spring 2016 Forecast)

| | FY 2017 | | | FY 2018 | | | FY 2019 | | | FY 2020 | | |
|--------------------------------------|----------------|----------------------------|--------------------------|----------------|----------------------------|--------------------------|----------------|----------------------------|--------------------------|----------------|----------------------------|--------------------------|
| | HB247 (GOV) | CS HB247 (RLS) amd H | SCS CS HB247 (FIN) | HB247 (GOV) | CS HB247 (RLS) amd H | SCS CS HB247 (FIN) | HB247 (GOV) | CS HB247 (RLS) amd H | SCS CS HB247 (FIN) | HB247 (GOV) | CS HB247 (RLS) amd H | SCS CS HB247 (FIN) |
| Reduced Spending | | | | | | | | | | | | |
| Credits Eliminated or Reduced | | | | | | | | | | | | |
| North Slope | \$15 | \$0 | \$0 | \$15 | \$30 | \$50 | \$25 | \$60 | \$45 | \$20 | \$55 | \$35 |
| Cook Inlet / Mid Earth | \$35 | \$15 | \$10 | \$65 | \$50 | \$55 | \$45 | \$50 | \$75 | \$35 | \$50 | \$75 |
| Credits Deferred | | | | | | | | | | | | |
| North Slope | \$30 | \$0 | \$0 | \$80 | \$0 | \$0 | \$95 | \$0 | \$0 | \$45 | \$0 | \$0 |
| Cook Inlet / Mid Earth | \$0 | \$0 | \$0 | \$30 | \$0 | \$0 | \$40 | \$0 | \$0 | \$20 | \$0 | \$0 |
| Budget Subtotal | \$80 | \$15 | \$10 | \$190 | \$80 | \$105 | \$205 | \$110 | \$120 | \$120 | \$105 | \$110 |
| Increased Revenue | | | | | | | | | | | | |
| Floor "Hardening" | \$130 | \$0 | \$0 | \$185 | \$0 | \$0 | \$185 | \$0 | \$0 | \$160 | \$65 | \$0 |
| Floor Increase to 5% | \$45 | \$0 | \$0 | \$45 | \$0 | \$0 | \$55 | \$0 | \$0 | \$80 | \$0 | \$0 |
| CI Credit Repeal / Tax | \$15 | \$0 | \$0 | \$10 | \$5 | \$10 | \$15 | \$50 | \$20 | \$15 | \$110 | \$20 |
| Revenue Subtotal | \$190 | \$0 | \$0 | \$240 | \$5 | \$10 | \$255 | \$50 | \$20 | \$255 | \$175 | \$20 |
| Total Bill Impact | \$270 | \$15 | \$10 | \$430 | \$85 | \$115 | \$460 | \$160 | \$140 | \$375 | \$280 | \$130 |
| NOL Carry-Forward | \$773 | \$432 | \$610 | \$1,128 | \$280 | \$720 | \$1,226 | \$118 | \$680 | \$1,223 | \$69 | \$510 |

NEW SUSTAINABLE

ALASKA

PLAN



Pulling Together to Build Our Future

Thank You!

Contact Information

Randall Hoffbeck
Commissioner
Department of Revenue
Randall.Hoffbeck@Alaska.gov
(907) 465-2300

Ken Alper
Director, Tax Division
Department of Revenue
Ken.Alper@Alaska.gov
(907) 465-8221

Provisions in preliminary SCS HB247(FIN) and their Estimated Fiscal Impact as compared to Spring 2016 Forecast (\$millions) - FORECAST PRICE¹

Note: this table attempts to value the impact of each of the items independently, except where noted. In some cases, the total value of several impacts will not equal the sum of the individual impact values.

| Brief Description of Provision - Includes only provisions anticipated to have a direct fiscal impact | FY 2017 | FY 2018 | FY 2019 | FY 2020 | FY 2021 | FY 2022 |
|---|--------------------|----------------------|-----------------------|-----------------------|-----------------------|-----------------------|
| 1. The QCE credits for Cook Inlet and Middle Earth are reduced to 10% on 1/1/17 then eliminated 1/1/18; the well lease exp credits for Cook Inlet and Middle Earth are reduced to 20% on 1/1/17, then eliminated 1/1/18; the NOL credits for Cook Inlet and Middle Earth are reduced to 15% on 1/1/17 then eliminated 1/1/18. | \$0 | \$0-\$5 | \$10-\$15 | \$10-\$15 | \$10-\$15 | \$30-\$40 |
| 2. Sunset removed for Cook Inlet tax caps on gas; for oil, sunset removed and tax limitation changed from zero to \$1 per barrel of oil effective 1/1/17 (represents additional revenue to provision #1). | \$0 | \$0-\$10 | \$0-\$10 | \$0-\$10 | \$0-\$10 | (\$75)-(\$50) |
| 3. The GVR cannot be used to create or increase a net operating loss | \$0 | \$0 | \$0 | \$0 | \$0 | \$5-\$15 |
| 4. GVR-eligible production qualifies for the GVR for a period of 7 years; benefit ends early if average ANS price exceeds \$70 for any 3 years of production. | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 |
| 5. The interest rate on delinquent taxes is changed to 7% above the Fed Res Discount rate, compounded quarterly for the first three years, then to zero interest thereafter. | Indeterminate | | | | | |
| 6. A tax exempt entity may earn credits applicable to only those lease expenditures subject to tax | Indeterminate | | | | | |
| Total Revenue Impact | \$0 | \$0 to \$15 | \$10 to \$25 | \$10 to \$25 | \$10 to \$25 | (\$40) to \$5 |
| A. Budget impact of changes to Cook Inlet credits (provision 1 above) | \$5-\$15 | \$25-\$45 | \$40-\$60 | \$40-\$60 | \$75-\$100 | \$75-\$100 |
| B. Budget impact of changes to tax caps for Cook Inlet (provision 2 above) | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 |
| C. For credits paid after 1/1/17, limit refunded credits to \$70 million per company per year. Half of credits are paid at full value and half are paid at 75% of value. (Fiscal impacts assume all companies receive maximum refunds each year and are after other credit provisions of bill) | \$0 | \$50-\$60 | \$35-\$45 | \$20-\$30 | \$15-\$25 | \$15-\$25 |
| D. The refinery credit under AS 43.20 is reduced to 20% of eligible expenditures on 1/1/17 then eliminated on 1/1/18. | \$0 | \$0 | \$5 | \$15 | \$20 | \$10 |
| E. The GVR cannot be used to create or increase a net operating loss (provision 3 above) | \$0 | \$10-\$20 | \$20-\$30 | \$15-\$25 | \$5-\$15 | \$0-\$10 |
| F. Budget impact of GVR applying to fields for a period of 7 years or less (provision 4 above) | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 |
| Total Budget Impact² | \$5 to \$15 | \$85 to \$125 | \$100 to \$140 | \$90 to \$130 | \$115 to \$160 | \$100 to \$145 |
| Total Fiscal Impact - does not include revenue impacts from potential changes in investment³ | \$5 to \$15 | \$85 to \$140 | \$110 to \$165 | \$100 to \$155 | \$125 to \$185 | \$60 to \$150 |
| Non-refundable carry-forward credits balance at fiscal year end - current law ⁴ | \$618 | \$751 | \$732 | \$585 | \$265 | \$136 |
| Non-refundable carry-forward credits balance at fiscal year end - proposed ⁴ | \$610 | \$720 | \$680 | \$510 | \$260 | \$130 |
| Change in year-end balance due to bill | -\$8 | -\$31 | -\$52 | -\$75 | -\$5 | -\$6 |

¹The impacts listed are based on production and prices as forecasted in DOR's Spring 2016 revenue forecast. The forecasted oil prices are between \$38.89 and \$61.64.²This proposal stipulates that credits can only be earned for expenditures to carry out a DNR approved Plan of Development; our analysis assumes that all expenditures in forecast would qualify.³NOTE: "Total Fiscal Impact" includes best estimates of both revenue and operating budget impacts.⁴These rows include estimates of carried-forward credits for previous calendar years, plus estimates of credits that will be earned on activity through June 30 of the fiscal year.

NOTE: The fiscal impact of this bill is an estimate based on the Spring 2016 revenue forecast. Estimates shown here are draft / preliminary based on our interpretation of possible changes. We reserve the right to make modifications to estimates for any forthcoming fiscal notes.

Provisions in **preliminary SCS HB247(FIN)** and their Estimated Fiscal Impact as compared to Spring 2016 Forecast (\$millions) - **FORECAST PRICE¹**

Note: this table attempts to value the impact of each of the items independently, except where noted. In some cases, the total value of several impacts will not equal the sum of the individual impact values.

| Brief Description of Provision - Includes only provisions anticipated to have a direct fiscal impact | FY 2017 | FY 2018 | FY 2019 | FY 2020 | FY 2021 | FY 2022 | FY 2023 | FY 2024 | FY 2025 |
|---|---------------|-------------|--------------|--------------|--------------|---------------|-------------------|-------------------|-------------------|
| 1. The QCE credits for Cook Inlet and Middle Earth are reduced to 10% on 1/1/17 then eliminated 1/1/18; the well lease exp credits for Cook Inlet and Middle Earth are reduced to 20% on 1/1/17, then eliminated 1/1/18; the NOL credits for Cook Inlet and Middle Earth are reduced to 15% on 1/1/17 then eliminated 1/1/18. | \$0 | \$0-\$5 | \$10-\$15 | \$10-\$15 | \$10-\$15 | \$30-\$40 | \$30-\$40 | \$30-\$40 | \$30-\$40 |
| 2. Cook Inlet tax caps and sunset replaced with per-unit tax of 17.5 cents / mcf for gas and \$1.05 / bbl for oil effective 1/1/17, with no offsetting credits after 1/1/18. Gas used in state (GUIS) receives the 17.5 cents rate. (represents additional revenue to provision #1). | \$0 | \$0-\$10 | \$0-\$10 | \$0-\$10 | \$0-\$10 | (\$75)-(\$50) | (\$150)-(\$100) | (\$150)-(\$100) | (\$150)-(\$100) |
| 3. The GVR cannot be used to create or increase a net operating loss | \$0 | \$0 | \$0 | \$0 | \$0 | \$5-\$15 | \$5-\$15 | \$5-\$15 | \$0 |
| 4. GVR-eligible production qualifies for the GVR for a period of 7 years; benefit ends early if average ANS price exceeds \$70 for any 3 years of production. | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0-\$10 | \$10-\$20 | \$10-\$20 |
| 5. The interest rate on delinquent taxes is changed to 7% above the Fed Res Discount rate, compounded quarterly for the first three years, then to zero interest thereafter. | Indeterminate | | | | | | | | |
| 6. A tax exempt entity may earn credits applicable to only those lease expenditures subject to tax | Indeterminate | | | | | | | | |
| Total Revenue Impact | \$0 | \$0 to \$15 | \$10 to \$25 | \$10 to \$25 | \$10 to \$25 | (\$40) to \$5 | (\$115) to (\$35) | (\$105) to (\$25) | (\$110) to (\$40) |
| A. Budget impact of changes to Cook Inlet credits (provision 1 above) | \$5-\$15 | \$25-\$45 | \$40-\$60 | \$40-\$60 | \$75-\$100 | \$75-\$100 | \$75-\$100 | \$75-\$100 | \$75-\$100 |
| B. Budget impact of changes to tax caps for Cook Inlet (provision 2 above) | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 |
| C. Effective 1/1/17, limit refunded credits to \$70 million per year. First \$35 million per company are purchased at full value; next \$35 million may be purchased at 75% of value at company option. (Fiscal impacts assume all companies receive maximum refunds each year) | \$0 | \$0-\$10 | \$10-\$30 | \$10-\$30 | (\$10)-\$0 | \$0 | \$0 | \$0 | \$0 |
| D. The refinery credit under AS 43.20 is reduced to 20% of eligible expenditures on 1/1/17 then eliminated on 1/1/18. | \$0 | \$0 | \$0-\$10 | \$10-\$20 | \$15-\$25 | \$5-\$15 | \$0 | \$0 | \$0 |
| E. The GVR cannot be used to create or increase a net operating loss (provision 3 above) | \$0 | \$10-\$20 | \$20-\$30 | \$15-\$25 | \$5-\$15 | \$0-\$10 | \$0-\$10 | \$0-\$10 | \$0-\$10 |
| F. Budget impact of GVR applying to fields for a period of 7 years or less (provision 4 above) | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 |
| Total Budget Impact² | \$5-\$15 | \$35-\$75 | \$70-\$130 | \$75-\$135 | \$85-\$140 | \$80-\$125 | \$75-\$110 | \$75-\$110 | \$75-\$110 |
| Total Fiscal Impact - does not include revenue impacts from potential changes in investment³ | \$5-\$15 | \$35-\$90 | \$80-\$155 | \$85-\$160 | \$95-\$165 | \$40-\$130 | (\$40)-\$75 | (\$30)-\$85 | (\$35)-\$70 |
| Non-refundable carry-forward credits balance at fiscal year end - current law ⁴ | \$618 | \$751 | \$732 | \$585 | \$265 | \$136 | \$59 | \$0 | \$0 |
| Non-refundable carry-forward credits balance at fiscal year end - proposed ⁴ | \$610 | \$720 | \$695 | \$525 | \$245 | \$130 | \$50 | \$0 | \$0 |
| Change in year-end balance due to bill | -\$8 | -\$31 | -\$37 | -\$60 | -\$20 | -\$6 | -\$9 | \$0 | \$0 |

¹The impacts listed are based on production and prices as forecasted in DOR's Spring 2016 revenue forecast. The forecasted oil prices are between \$38.89 and \$61.64.²This proposal stipulates that credits can only be earned for expenditures to carry out a DNR approved Plan of Development; our analysis assumes that all expenditures in forecast would qualify.³NOTE: "Total Fiscal Impact" includes best estimates of both revenue and operating budget impacts.⁴These rows include estimates of carried-forward credits for previous calendar years, plus estimates of credits that will be earned on activity through June 30 of the fiscal year.

NOTE: The fiscal impact of this bill is an estimate based on the Spring 2016 revenue forecast. Estimates shown here are draft / preliminary based on our interpretation of possible changes. We reserve the right to make modifications to estimates for any forthcoming fiscal notes.



Good Morning;

My name is Jeff Hastings. I am the Executive Chairman for SAExploration, a managing member of Kuukpik/SAE, our Joint Venture with the native village of Nuiqsut. My family has lived and labored in the state since 1987. Our companies employ an average of 400 Alaskans annually.

I would like to start by extending our appreciation for the long hours that have been clocked and the efforts of legislators and their staff. We acknowledge that these are difficult times and there is no easy or, single solution to the fiscal gap we Alaskans currently face.

Today we would like to draw attention to the condition and state of many of the prime contractors and subcontractors that are being effected by the uncertainty and lack of confidence in the current tax credit program and the provisions in the current version of HB247.

Over the past 7-8 months we have seen the erosion of third party lenders willing to project finance, or lend against outstanding tax certificates. The State's tax certificates, once regarded as AAA credit worthy are now wrought with enough uncertainty that even high risk lenders and factoring firms will not entertain lending against the program. Our clients, who have had program financing at the closing table, have watched the money needed to fund or continue their programs, vaporize as the uncertainty of monetization under current programs increases.

The timing of the audit and certification process, which is now a "first application in, first certificate out" process, is an unknown variable adding to the inability to finance the receivable of the state.

Once a certificate is awarded there is no schedule, current funding, or apparent plan for the state to fund and pay for those credits that have already been earned.

This lack of a viable plan to pay the State's obligation under the current tax credit program is causing a trickle down of financial distress that extends from the explorer, to the prime contractor, to the subcontractors that depend on the state to meet it's obligation timely.

The latest version of HB247 has several provisions that will cause further stress on a long line of Alaskan companies who employ thousands of Alaskans.

This version of the bill further restricts a holder of a certificate from assigning those certificates to "The Secondary Market", those entities who currently pay production tax.

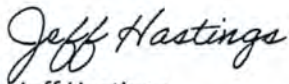
This version of the bill also provides for purchase of the tax certificates by the pension fund at the rate of 60%. The fund can then turn around and cash the certificate back into the Department of Revenue for 100% of the face value. When did the State of Alaska get into the factoring business? Is the State and expecting Alaskan companies who have earned and are now owed the funds to take a 40% haircut and in the same motion provide a windfall to another group of Alaskans that are participants through the pension fund?

In essence, the State, through the months of uncertainty of how currently earned credits will be treated and new provisions contained in the current version of HB247, has all but eliminated the opportunity for third party lending, restricted or nominalized the secondary market to trade or assign certificates and appears to be taking advantage of the distress this situation has caused by offering a factoring facility that will cause damage to many Alaskans families while providing a windfall for others.

We all know change is needed in many areas of our spending. However, to claw back monies earned by Alaska companies, or not to provide payment visibility on obligations of the State is negatively effecting thousands of families in the State. There has to be a better way to fund the program and provide visibility to allow companies to help themselves and the State through this trough.

Thank you for your time this morning. If there is any information or, support we can provide to you or your staff we are available anytime.

Respectfully



Jeff Hastings
Executive Chairman
SAExploration Inc.
jhastings@saexploration.com
907 229 0150

Talking Points

- Over the past 7-8 months we have seen the erosion of third party lenders willing to project finance, or lend against outstanding tax certificates. The State's tax certificates, once regarded as AAA credit worthy are now wrought with enough uncertainty that even high risk lenders and factoring firms will not entertain lending against the program. Our clients, who have had program financing at the closing table, have watched the money needed to fund or continue their programs, vaporize as the uncertainty of monetization under current programs increases.
- The timing of the audit and certification process, which is now a "first application in, first certificate out" process, is an unknown variable adding to the inability to finance the receivable of the state.
- Once a certificate is awarded there is no schedule, current funding, or apparent plan for the state to fund and pay for those credits that have already been earned.
- This lack of a viable plan to pay the State's obligation under the current tax credit program is causing a trickle down of financial distress that extends from the explorer, to the prime contractor, to the subcontractors that depend on the state to meet it's obligation timely.
- This version of the bill further restricts a holder of a certificate from assigning those certificates to "The Secondary Market", those entities who currently pay production tax.
- This version of the bill also provides for purchase of the tax certificates by the pension fund at the rate of 60%. The fund can then turn around and cash the certificate back into the Department of Revenue for 100% of the face value. When did the State of Alaska get into the factoring business? Is the State and expecting Alaskan companies who have earned and are now owed the funds to take a 40% haircut and in the same motion provide a windfall to another group of Alaskans that are participants through the pension fund?
- In essence, the State, through the months of uncertainty of how currently earned credits will be treated and new provisions contained in the current version of HB247, has all but eliminated the opportunity for third party lending, restricted or nominalized the secondary market to trade or assign certificates and appears to be taking advantage of the distress this situation has caused by offering a factoring facility that will cause damage to many Alaskans families while providing a windfall for others.

Caelus North Slope Exploration & Development Program



Smith Bay Exploration Tulimaniq

Oooguruk Unit (ODS / OTP)

Nuna Drill Site

Eastern ANS Exploration Acreage





Senate Finance Committee

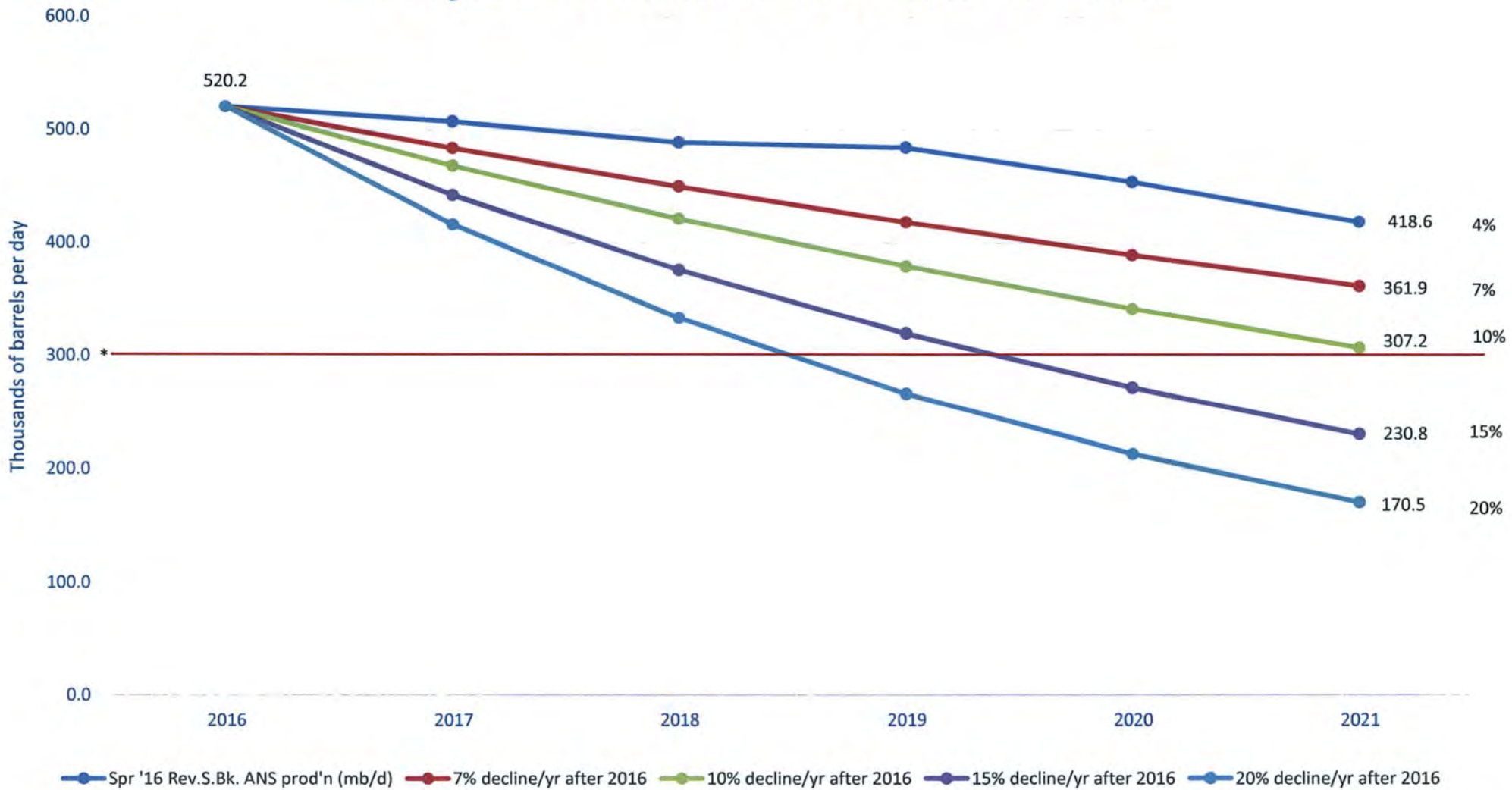
Kara Moriarty –President/CEO

May 15, 2016

OIL & GAS:
FUELING
ALASKA'S
ECONOMY



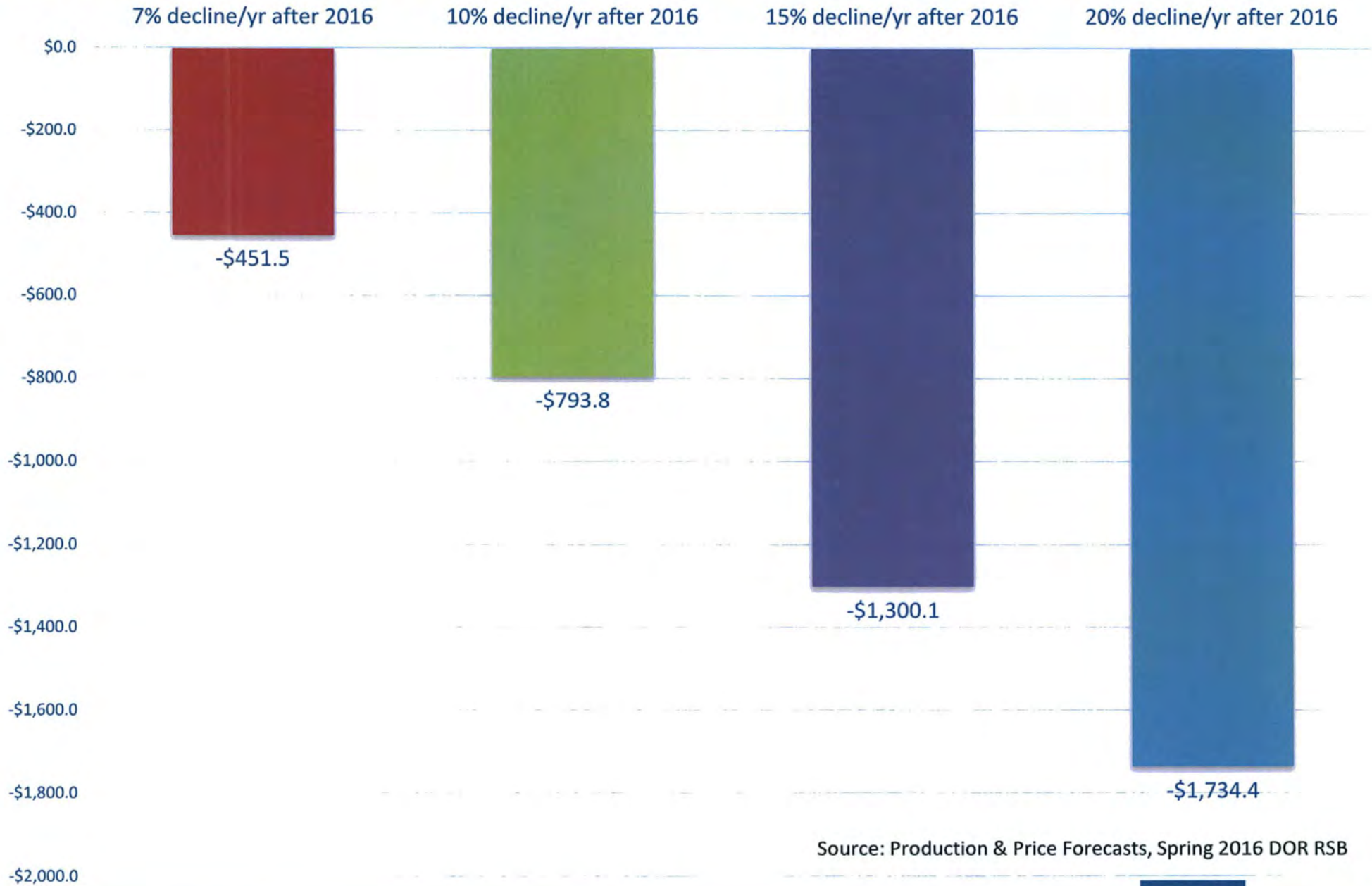
Projected Production Decline Curves



Source: Production & Price Forecasts, Spring 2016 DOR RSB

*According to Alyeska Pipeline Service Company, the Trans-Alaska Pipeline System (TAPS) faces a significant operational obstacle at 300,000 barrels per day. Despite some of the best and most innovative people in the industry focused on this scenario, an operational solution has not yet been identified to sustain TAPS operations below this level.

Cumulative Reduction in Royalty Value after 5 years/Decline (\$MM)



Source: Production & Price Forecasts, Spring 2016 DOR RSB

Title: Estimated General Fund Unrestricted Revenue under Spring 2016 forecast, at ANS Prices of \$20 to \$130 per Barrel

Preparer: Dan Stickel, Assistant Chief Economist, Economic Research Group

Date: April 9, 2016

Purpose: To show estimated unrestricted revenue for FY 2017 through FY 2025 at a range of prices.

Data Source: DOR Spring 2016 forecast model.

Key Assumptions: Spring 2016 production, lease expenditures, and non-oil revenue are held constant in this analysis. The only variable changed is ANS price. Additional production would likely increase revenue from amounts shown here.

History: First version based on Spring 2016.

Disclaimer: The Department of Revenue is in the process of reviewing and updating the data on which this analysis is based. As a result, future analysis could have different results.

The information contained in this workbook may be privileged, confidential or otherwise protected from disclosure. If you are not the intended recipient, any use, dissemination, disclosure, distribution or copying is strictly prohibited.

This table presents revenue estimates at a range of ANS prices, holding all other variables constant. Analysis assumes that the given price is in place for all years shown. Only production tax, royalties, and corporate income tax are adjusted for purposes of this analysis. Users should be cautioned that changes in any number of variables may cause revenue to vary significantly from amounts shown. These variables include but are not limited to production, lease expenditures, and netback costs. In addition, revenues may vary from amount shown due to changes in company decision making, company specific tax calculation issues, month to month variation in price or production, and changes in non-oil revenue.

Revenue estimates do not include refundable production tax credits which are paid for via appropriation in the operating budget.

Estimated GFUR at various prices, Spring 2016 forecast, \$million

Prepared 4/9/2016 by Dan Stickel based on Spring 2016 forecast

| Price | FY 2017 | FY 2018 | FY 2019 | FY 2020 | FY 2021 | FY 2022 | FY 2023 | FY 2024 | FY 2025 |
|-------------------|----------|----------|----------|----------|----------|----------|----------|----------|----------|
| Official Forecast | \$ 1,246 | \$ 1,346 | \$ 1,446 | \$ 1,523 | \$ 1,606 | \$ 1,651 | \$ 1,734 | \$ 1,699 | \$ 1,734 |
| \$ 20 | \$ 880 | \$ 873 | \$ 877 | \$ 870 | \$ 865 | \$ 876 | \$ 932 | \$ 937 | \$ 947 |
| \$ 25 | \$ 969 | \$ 950 | \$ 953 | \$ 941 | \$ 932 | \$ 940 | \$ 996 | \$ 996 | \$ 1,001 |
| \$ 30 | \$ 1,058 | \$ 1,028 | \$ 1,029 | \$ 1,011 | \$ 998 | \$ 1,007 | \$ 1,061 | \$ 1,055 | \$ 1,055 |
| \$ 35 | \$ 1,147 | \$ 1,105 | \$ 1,105 | \$ 1,082 | \$ 1,062 | \$ 1,073 | \$ 1,124 | \$ 1,114 | \$ 1,110 |
| \$ 40 | \$ 1,281 | \$ 1,238 | \$ 1,198 | \$ 1,153 | \$ 1,125 | \$ 1,135 | \$ 1,184 | \$ 1,170 | \$ 1,162 |
| \$ 45 | \$ 1,436 | \$ 1,381 | \$ 1,336 | \$ 1,263 | \$ 1,190 | \$ 1,197 | \$ 1,244 | \$ 1,227 | \$ 1,214 |
| \$ 50 | \$ 1,558 | \$ 1,544 | \$ 1,524 | \$ 1,416 | \$ 1,336 | \$ 1,316 | \$ 1,343 | \$ 1,308 | \$ 1,283 |
| \$ 55 | \$ 1,738 | \$ 1,680 | \$ 1,700 | \$ 1,644 | \$ 1,590 | \$ 1,516 | \$ 1,503 | \$ 1,455 | \$ 1,407 |
| \$ 60 | \$ 1,907 | \$ 1,879 | \$ 1,941 | \$ 1,873 | \$ 1,778 | \$ 1,709 | \$ 1,746 | \$ 1,667 | \$ 1,575 |
| \$ 65 | \$ 2,029 | \$ 1,999 | \$ 2,091 | \$ 2,017 | \$ 1,981 | \$ 1,934 | \$ 1,901 | \$ 1,781 | \$ 1,723 |
| \$ 70 | \$ 2,155 | \$ 2,116 | \$ 2,242 | \$ 2,155 | \$ 2,119 | \$ 2,070 | \$ 2,064 | \$ 1,974 | \$ 1,886 |
| \$ 75 | \$ 2,289 | \$ 2,287 | \$ 2,397 | \$ 2,299 | \$ 2,255 | \$ 2,204 | \$ 2,192 | \$ 2,091 | \$ 2,000 |
| \$ 80 | \$ 2,547 | \$ 2,502 | \$ 2,587 | \$ 2,453 | \$ 2,396 | \$ 2,339 | \$ 2,319 | \$ 2,210 | \$ 2,110 |
| \$ 85 | \$ 2,900 | \$ 2,747 | \$ 2,818 | \$ 2,642 | \$ 2,562 | \$ 2,483 | \$ 2,444 | \$ 2,326 | \$ 2,219 |
| \$ 90 | \$ 3,258 | \$ 3,086 | \$ 3,150 | \$ 2,947 | \$ 2,776 | \$ 2,655 | \$ 2,604 | \$ 2,461 | \$ 2,330 |
| \$ 95 | \$ 3,761 | \$ 3,562 | \$ 3,617 | \$ 3,383 | \$ 3,186 | \$ 3,000 | \$ 2,816 | \$ 2,620 | \$ 2,469 |
| \$ 100 | \$ 4,129 | \$ 3,908 | \$ 3,961 | \$ 3,709 | \$ 3,492 | \$ 3,313 | \$ 3,180 | \$ 2,951 | \$ 2,736 |
| \$ 105 | \$ 4,640 | \$ 4,387 | \$ 4,438 | \$ 4,154 | \$ 3,909 | \$ 3,680 | \$ 3,456 | \$ 3,204 | \$ 2,968 |
| \$ 110 | \$ 5,007 | \$ 4,736 | \$ 4,786 | \$ 4,487 | \$ 4,225 | \$ 4,006 | \$ 3,832 | \$ 3,549 | \$ 3,284 |
| \$ 115 | \$ 5,516 | \$ 5,221 | \$ 5,260 | \$ 4,933 | \$ 4,648 | \$ 4,376 | \$ 4,110 | \$ 3,809 | \$ 3,525 |
| \$ 120 | \$ 5,880 | \$ 5,570 | \$ 5,613 | \$ 5,265 | \$ 4,965 | \$ 4,704 | \$ 4,488 | \$ 4,155 | \$ 3,845 |
| \$ 125 | \$ 6,389 | \$ 6,057 | \$ 6,086 | \$ 5,711 | \$ 5,388 | \$ 5,045 | \$ 4,766 | \$ 4,416 | \$ 4,085 |
| \$ 130 | \$ 6,757 | \$ 6,408 | \$ 6,439 | \$ 6,043 | \$ 5,704 | \$ 5,403 | \$ 5,140 | \$ 4,762 | \$ 4,405 |

Key Spring 2016 forecast assumptions included in this analysis

| | FY 2017 | FY 2018 | FY 2019 | FY 2020 | FY 2021 | FY 2022 | FY 2023 | FY 2024 | FY 2025 |
|---|---------|---------|---------|---------|---------|---------|---------|---------|---------|
| ANS production (ths bbl/day) | 507.1 | 488.8 | 484.4 | 454.1 | 418.6 | 387.1 | 356.8 | 327.0 | 300.5 |
| ANS total lease expenditures (\$ million) | \$6,046 | \$6,290 | \$5,959 | \$5,589 | \$5,405 | \$5,119 | \$4,830 | \$4,535 | \$4,265 |
| ANS total lease expenditures per barrel | \$33 | \$35 | \$34 | \$34 | \$35 | \$36 | \$37 | \$38 | \$39 |

Source: DOR Spring 2016 forecast model

Notes:

This table presents revenue estimates at a range of ANS prices, holding all other variables constant. Analysis assumes that the given price is in place for all years shown. Only production tax, royalties, and corporate income tax are adjusted for purposes of this analysis. Users should be cautioned that changes in any number of variables may cause revenue to vary significantly from amounts shown. These variables include but are not limited to production, lease expenditures, and netback costs. In addition, revenues may vary from amount shown due to changes in company decision making, company specific tax calculation issues, month to month variation in price or production, and changes in non-oil revenue.

Impact of HB 247 on Oil and Gas Tax Credits (\$ millions)

| | FY17 | FY18 | FY19 | FY20 | FY21 | FY22 | FY23 | FY24 | FY25 |
|----------------------------------|---------------|---------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|
| Projected Credits--No Action (1) | 775.0 | 500.0 | 375.0 | 270.0 | 250.0 | 250.0 | 250.0 | 250.0 | 250.0 |
| Cumulative Credits--No Action | 775.0 | 1,275.0 | 1,650.0 | 1,920.0 | 2,170.0 | 2,420.0 | 2,670.0 | 2,920.0 | 3,170.0 |
| Projected Impact of HB 247 (2) | | | | | | | | | |
| Low | (5.0) | (55.0) | (85.0) | (80.0) | (105.0) | (100.0) | (100.0) | (100.0) | (100.0) |
| High | (25.0) | (100.0) | (135.0) | (130.0) | (160.0) | (155.0) | (155.0) | (155.0) | (155.0) |
| Average | (15.0) | (77.5) | (110.0) | (105.0) | (132.5) | (127.5) | (127.5) | (127.5) | (127.5) |
| Net Credit Claims under HB 247 | | | | | | | | | |
| Net Credit Claims under HB 247 | 760.0 | 422.5 | 265.0 | 165.0 | 117.5 | 122.5 | 122.5 | 122.5 | 122.5 |
| Cumulative Claims | 760.0 | 1,182.5 | 1,447.5 | 1,612.5 | 1,730.0 | 1,852.5 | 1,975.0 | 2,097.5 | 2,220.0 |
| Cumulative Change | | | | | | | | | |
| Cumulative Change | (15.0) | (92.5) | (202.5) | (307.5) | (440.0) | (567.5) | (695.0) | (822.5) | (950.0) |

(1) Source: DOR Spring 2016 Revenue Sources Book

(2) Source: DOR analysis of House version of HB 247

Comparison of HB 247 Impact, FY17-25

| Bill Version | Gov | H Rules | House |
|----------------------------|-------------------|-------------------|-------------------|
| Revenue Impact (Midpoint) | \$ 1,885.0 | \$ 480.0 | \$ 1,097.5 |
| Credit Impact (Midpoint) | \$ (917.5) | \$ (1,335.0) | \$ (950.0) |
| Total Fiscal Impact | \$ 2,802.5 | \$ 1,815.0 | \$ 2,047.5 |

| | | | |
|--|-------------------|-------------------|-------------------|
| Credit/Lease Expenditure Balance Carried Forward, FY25 | \$ 1,277.0 | \$ 685.0 | \$ - |
| Total Fiscal Impact Minus Carry-Forward Balance | \$ 1,525.5 | \$ 1,130.0 | \$ 2,047.5 |

NEW SUSTAINABLE

ALASKA

PLAN



Pulling Together to Build Our Future

Oil and Gas Tax Credit Reform

CS HB247(RLS)\C amended H

Department of Revenue

Overview of House-passed CS for Senate Finance

May 14, 2016

Introduction

Thank you for welcoming us back

- This bill is substantially changed from what we presented yesterday
- The major amendment which rewrote much of the bill, from Reps. Seaton and Wilson, was largely based on the House Finance CS
- We're using the same format as yesterday. Changes from the House Rules version, as we described it in our prior presentation, are *indicated with purple italics*
- ❖ *Major new items are also indicated with a different form of bullet*

Major Provisions in House-Passed Bill

1. Exploration Credits

- Governor's bill
 - Allows existing credits to sunset on 7/1/16
 - Keeps "middle earth" extension to 1/1/22
 - Repeals older dormant DNR exploration credits
- House bill
 - Also keeps the change made in several earlier versions to extend the "Frontier Basin" credit to protect ongoing AHTNA investment
 - Extends this language *one year* due to additional delay in acquiring a rig

Major Provisions in House-Passed Bill

2. Cook Inlet (and Middle Earth) Credits

- Governor's bill
 - Eliminated 20% QCE and 40% WLE, kept 25% NOL
 - Kept 2022 "tax cap" sunset
- House bill
 - NOL kept at 25% in 2017 but only if producing by end of 2016. To 0% in 2018
 - QCE repealed 1/1/17
 - WLE reduced to 20% for 2017 and repealed in 2018
 - ❖ *Moves up 2022 tax cap sunset to 2019. This imposes the high underlying tax in 2019 with expectation of new system as proposed by "working group"*
 - *Maintains Middle Earth 25% NOL if under a plan of development, along with 10% QCE*

Major Provisions in House-Passed Bill

3. North Slope Credits, Limits, Carry-Forwards

- Governor's bill
 - Kept 35% NOL rate (not current administration policy)
 - Capped repurchase at \$25 million / company / year, large company exclusion, 10 year sunset
- House bill
 - ❖ *No NOL credit or carry-forwards after 2016 for companies producing over 15,000 barrels / day*
 - Smaller producers still eligible for refunded NOLs with cap of \$70 million / company / year.
 - ❖ *Must be from a lease from which the state receives a royalty, under a plan of development, and in which the producer has a working interest*
 - ❖ *NOL rate ramps down: 32% in 2017; 29% in 2019; 26% in 2021; 25% in 2023*

Major Provisions in House-Passed Bill

4. Minimum Tax Changes

- Governor's bill
 - Increased "floor" to 5%
 - "Hardened" minimum tax against NOLs, \$5 per-barrel credit for new (GVR) oil, small producer, and exploration credits
- House bill
 - ❖ *Adds a 5% "floor" but only if yearly price is over \$70 / bbl. Doesn't harden against additional credits*
 - *Because NOLs are no longer carried forward by large producers, floor indirectly hardened*
 - Revenue impact delayed to 2020 because pre-effective date NOLs can still be used to go below floor

Major Provisions in House-Passed Bill

5. New Oil “GVR” Provisions

- Governor’s bill
 - No changes
- House bill
 - 7-year “graduation” of GVR oil to become legacy oil
 - ❖ *If the average price of oil exceeds \$70 for any three years, the GVR sunsets early, with the production reverting to legacy oil*

Major Provisions in House-Passed Bill

6. New Provisions

- ❖ **“Migrating Credits”**: *(Provision from Governor’s original bill.) Prevent per-barrel credits not usable in one month, due to minimum tax, from being applied in another month.
No impact unless substantial price volatility within a year*
- ❖ **“ARM Board Alternative Purchase Option”**: *Authorizes Alaska Retirement Management Board to repurchase credits at 60% of face value. DOR mandated to repurchase these credits at full value, notwithstanding any per-company limits, within 5 years*

Major Provisions in House-Passed Bill

7. Misc. and Technical Provisions

- a) **Gov:** GVR can't be used to increase the size of an NOL
House: Kept as written
- b) **Gov:** Municipal Utility Lease Expenditure pro-ration
House: Kept as written
- c) **Gov:** Transparency, can release amount of credits received and the work done to earn them
House: Limited to refunded credits, and dollar total only
- d) **Gov:** Interest Rate increase from 3% over Federal Reserve, simple to 7% over Fed, compounding
House: Increase to 5% over Fed, compounding, *with simple interest after four years*

Major Provisions in House-Passed Bill

7. Misc and Technical Provisions (con't)

e) **Gov:** Alaska Hire tied to percentage of credit that can be refunded

❖ **House:** *Level of Alaska Hire as prioritization for repurchase given limited funds, including contractors*

f) **Gov:** Credits can be used to offset other delinquent obligations to the state such as royalties

House: Credits can be held back *if obligation is related to company's oil and gas business*

g) **Gov:** No bonding or other formal means to protect local vendors from bankruptcy

House: \$250k surety bond with local vendor priority

Summary of Fiscal Impact

Summary Analysis of Bill Versions (\$millions) (based on Spring 2016 Forecast)

| | FY 2017 | | | FY 2018 | | | FY 2019 | | | FY 2020 | | |
|-------------------------------|----------------|-------------------|----------------------------|----------------|-------------------|----------------------------|----------------|-------------------|----------------------------|----------------|-------------------|----------------------------|
| | HB247 (GOV) | CS SB130 (RES) | CS HB247 (RLS) amd H | HB247 (GOV) | CS SB130 (RES) | CS HB247 (RLS) amd H | HB247 (GOV) | CS SB130 (RES) | CS HB247 (RLS) amd H | HB247 (GOV) | CS SB130 (RES) | CS HB247 (RLS) amd H |
| Reduced Spending | | | | | | | | | | | | |
| Credits Eliminated or Reduced | | | | | | | | | | | | |
| North Slope | \$15 | \$0 | \$0 | \$15 | \$15 | \$30 | \$25 | \$25 | \$60 | \$20 | \$20 | \$55 |
| Cook Inlet / Mid Earth | \$35 | \$10 | \$15 | \$65 | \$40 | \$50 | \$45 | \$50 | \$50 | \$35 | \$50 | \$50 |
| Credits Deferred | | | | | | | | | | | | |
| North Slope | \$30 | \$0 | \$0 | \$80 | \$0 | \$0 | \$95 | \$0 | \$0 | \$45 | \$0 | \$0 |
| Cook Inlet / Mid Earth | \$0 | \$0 | \$0 | \$30 | \$0 | \$0 | \$40 | \$0 | \$0 | \$20 | \$0 | \$0 |
| Budget Subtotal | \$80 | \$10 | \$15 | \$190 | \$55 | \$80 | \$205 | \$75 | \$110 | \$120 | \$70 | \$105 |
| Increased Revenue | | | | | | | | | | | | |
| Floor "Hardening" | \$130 | \$0 | \$0 | \$185 | \$0 | \$0 | \$185 | \$0 | \$0 | \$160 | \$0 | \$65 |
| Floor Increase to 5% | \$45 | \$0 | \$0 | \$45 | \$0 | \$0 | \$55 | \$0 | \$0 | \$80 | \$0 | \$0 |
| CI Credit Repeal | \$15 | \$0 | \$0 | \$10 | \$0 | \$5 | \$15 | \$0 | \$50 | \$15 | \$0 | \$110 |
| Revenue Subtotal | \$190 | \$0 | \$0 | \$240 | \$0 | \$5 | \$255 | \$0 | \$50 | \$255 | \$0 | \$175 |
| Total Bill Impact | \$270 | \$10 | \$15 | \$430 | \$55 | \$85 | \$460 | \$75 | \$160 | \$375 | \$70 | \$280 |
| NOL Carry-Forward | \$773 | \$605 | \$432 | \$1,128 | \$718 | \$280 | \$1,226 | \$677 | \$118 | \$1,223 | \$508 | \$69 |

NEW SUSTAINABLE

ALASKA

PLAN



Pulling Together to Build Our Future

Thank You!

Contact Information

Randall Hoffbeck
Commissioner
Department of Revenue
Randall.Hoffbeck@Alaska.gov
(907) 465-2300

Ken Alper
Director, Tax Division
Department of Revenue
Ken.Alper@Alaska.gov
(907) 465-8221

Provisions in CSHB 247 (RLS) and their Estimated Fiscal Impact as compared to Spring 2016 Forecast (\$millions) - FORECAST PRICE¹

Note: this table attempts to value the impact of each of the items independently, except where noted. In some cases, the total value of several impacts will not equal the sum of the individual impact values.

| Brief Description of Provision - Includes only provisions anticipated to have a direct fiscal impact | FY 2017 | FY 2018 | FY 2019 | FY 2020 | FY 2021 | FY 2022 | FY 2023 | FY 2024 | FY 2025 |
|--|---|--------------|--------------|----------------|----------------|----------------|----------------|----------------|----------------|
| 1. Cook Inlet changes: The QCE credit is eliminated 1/1/17. The well lease expenditure credit is reduced to 20% on 1/1/17 but then eliminated on 1/1/19. The net operating loss credit is eliminated effective 1/1/18. | \$0 | \$0-\$5 | \$5-\$10 | \$10-\$15 | \$10-\$15 | \$30-\$40 | \$30-\$40 | \$30-\$40 | \$30-\$40 |
| 2. North Slope changes: The net operating loss credit for North Slope is eliminated effective 1/1/17; lease expenditures not used in a calendar year may be carried forward effective 1/1/17; 3-year transition period for refunds at 35% of loss for companies with less than 15,000 barrels per day of production, or with no production but under a DNR approved plan of exploration or development. GVR cannot be used to create or increase a net operating loss. | \$0 | \$0 | \$0 | \$60-\$80 | \$60-\$80 | \$60-\$80 | \$40-\$60 | \$40-\$60 | (\$10)-\$0 |
| 3. GVR-eligible production qualifies for the GVR for a period of 10 years or until 1/1/26. | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 |
| 4. The interest rate on delinquent taxes is changed to 5% above the Fed Res Discount rate, compounded quarterly | Indeterminate | | | | | | | | |
| 5. A tax exempt entity may earn credits applicable to only those lease expenditures subject to tax | Indeterminate | | | | | | | | |
| Total Revenue Impact | \$0 | \$0 to \$5 | \$5 to \$10 | \$70 to \$95 | \$70 to \$95 | \$90 to \$120 | \$70 to \$100 | \$70 to \$100 | \$20 to \$40 |
| A. Budget impact of change in net operating loss credits, and QCE/WLE credits for Cook Inlet (provision 1 above) | \$0-\$10 | \$25-\$35 | \$40-\$50 | \$40-\$50 | \$100-\$125 | \$100-\$125 | \$75-\$100 | \$75-\$100 | \$75-\$100 |
| B. Budget impact of change in net operating loss credits, lease expenditures applicability, and GVR calculation for North Slope (provision 2 above) | \$0 | \$10-\$20 | \$25-\$35 | \$40-\$50 | \$100-\$125 | \$100-\$125 | \$125-\$150 | \$125-\$150 | \$125-\$150 |
| C. Budget impact of exploration credit extension in Copper River Basin for well spudded by 1/1/17. | (\$5)-\$0 | (\$5)-\$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 |
| D. Budget impact of GVR applying to fields for a period of 10 years (provision 3 above) | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 |
| E. Budget impact of limiting refunds to \$75 million per company per year (only shifts timing of refunds - impact is after all other provisions of bill) | No impact under forecast when combined with other provisions of bill. | | | | | | | | |
| Total Budget Impact | (\$5) to \$10 | \$30 to \$55 | \$65 to \$85 | \$80 to \$100 | \$200 to \$250 | \$200 to \$250 | \$200 to \$250 | \$200 to \$250 | \$200 to \$250 |
| Total Fiscal Impact - does not include revenue impacts from potential changes in investment² | (\$5) to \$10 | \$30 to \$60 | \$70 to \$95 | \$150 to \$195 | \$270 to \$345 | \$290 to \$370 | \$270 to \$350 | \$270 to \$350 | \$220 to \$290 |
| Non-refundable carry-forward credits balance at fiscal year end - current law ³ | \$618 | \$751 | \$732 | \$585 | \$265 | \$136 | \$59 | \$0 | \$0 |
| Non-refundable carry-forward credits balance (or equivalent) at fiscal year end - proposed ³ | \$610 | \$720 | \$655 | \$670 | \$610 | \$600 | \$605 | \$640 | \$685 |
| Change in year-end balance due to bill | -\$8 | -\$31 | -\$77 | \$85 | \$345 | \$464 | \$546 | \$640 | \$685 |

¹The impacts listed are based on production and prices and company investment as forecasted in DOR's Spring 2016 revenue forecast. The forecasted oil prices are between \$38.89 and \$65.90.²NOTE: "Total Fiscal Impact" includes best estimates of both revenue and operating budget impacts.³These rows include estimates of carried-forward credits, and carried-forward lease expenditures, for previous calendar years, plus estimates of credits and carried-forward lease expenditures that will be earned on activity through June 30 of the fiscal year. For carried-forward lease expenditures, the balance shown is the credit-equivalent value of those expenditures assuming a 35% tax rate (for example, \$100 million of carried-forward lease expenditures equate to \$35 million of credits).

NOTE: The fiscal impact of this bill is an estimate based on the Spring 2016 revenue forecast. Estimates shown here are draft / preliminary based on our interpretation of possible changes. We reserve the right to make modifications to estimates for any forthcoming fiscal notes.

Provisions in Seaton Wilson amendment to CSHB247(RLS) and their Estimated Fiscal Impact as compared to Spring 2016 Forecast (\$millions) - FORECAST PRICE¹

Note: this table attempts to value the impact of each of the items independently, except where noted. In some cases, the total value of several impacts will not equal the sum of the individual impact values.

| Brief Description of Provision - Includes only provisions anticipated to have a direct fiscal impact | FY 2017 | FY 2018 | FY 2019 | FY 2020 | FY 2021 | FY 2022 | FY 2023 | FY 2024 | FY 2025 |
|--|---|---------------|---------------|----------------|----------------|----------------|----------------|----------------|--------------|
| 1. The QCE credits for Cook Inlet eliminated 7/1/16; the well lease exp credits for Cook Inlet are reduced to 20% on 1/1/17, then eliminated 1/1/18; the NOL credits for Cook Inlet remain at 25% until they are eliminated 1/1/18. Credits are eligible in 2017 and beyond only to companies with production prior to 1/1/17. | \$0 | \$0-\$10 | \$10-\$15 | \$10-\$15 | \$10-\$15 | \$30-\$40 | \$30-\$40 | \$30-\$40 | \$30-\$40 |
| 2. Cook Inlet tax caps sunset on 1/1/19, replaced by 35% net tax on oil and 13% gross tax on gas (no GVR or per-taxable-barrel credits). (represents additional revenue to provision #1). | \$0 | \$0 | \$25-\$50 | \$75-\$125 | \$75-\$125 | \$50-\$100 | \$0 | \$0 | \$0 |
| 3. For North Slope companies with >15,000 b/d, NOL credit eliminated on 1/1/17; credits earned in 2016 can be carried forward to be used against tax liability | \$0 | \$0 | \$0 | \$50-\$75 | \$150-\$175 | \$125-\$150 | \$75-\$100 | \$75-\$100 | \$0 |
| 4. For North Slope companies with <15,000 b/d, NOL credit rate changed to 32% on 1/1/17, 29% on 1/1/19, 26% on 1/1/21, and 25% on 1/1/2023 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 |
| 5. The minimum tax rate is expanded to include one more bracket, with a minimum tax of 5%, when oil prices are \$70 and above. | Not triggered based on forecast prices | | | | | | | | |
| 6. The interest rate on delinquent taxes is changed to 5% above the Fed Res Discount rate, compounded quarterly | Indeterminate | | | | | | | | |
| 7. The GVR cannot be used to create or increase a net operating loss | \$0 | \$0 | \$0 | \$0 | \$0 | \$5-\$15 | \$5-\$15 | \$5-\$15 | \$0 |
| 8. GVR-eligible production qualifies for the GVR for a period of 7 years; benefit ends early if average ANS price exceeds \$70 for any 3 years of production. | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0-\$10 | \$10-\$20 | \$10-\$20 |
| 9. GVPP cannot be less than zero | Indeterminate | | | | | | | | |
| 10. A tax exempt entity may earn credits applicable to only those lease expenditures subject to tax | Indeterminate | | | | | | | | |
| 11. No true-up of sliding scale per-taxable-barrel credits on annual return | No impact at forecast price - could benefit State under volatile prices | | | | | | | | |
| 12. Companies with over 15,000 b/d production can write off losses against a Corporate Income Tax liability | Indeterminate | | | | | | | | |
| Total Revenue Impact | \$0 | \$0 to \$10 | \$35 to \$65 | \$135 to \$215 | \$235 to \$315 | \$210 to \$305 | \$110 to \$165 | \$120 to \$175 | \$40 to \$60 |
| A. Budget impact of changes to Cook Inlet credits (provision 1 above) | \$10-\$25 | \$40-\$60 | \$40-\$60 | \$40-\$60 | \$75-\$100 | \$75-\$100 | \$75-\$100 | \$75-\$100 | \$75-\$100 |
| B. Budget impact of changes to tax caps for Cook Inlet (provision 2 above) | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 |
| C. Budget impact of changes to North Slope credits (provision 3 and 4 above) | \$0 | \$10-\$20 | \$25-\$45 | \$25-\$45 | \$25-\$45 | \$25-\$45 | \$25-\$45 | \$25-\$45 | \$25-\$45 |
| D. Budget impact of limiting refunds to \$70 million per company per year (only shifts timing of refunds - impact is after all other provisions of bill) | Limited impact under forecast - net neutral between FY18-19-20 | | | | | | | | |
| E. The GVR cannot be used to create or increase a net operating loss (provision 7 above) | \$0 | \$10-\$20 | \$20-\$30 | \$15-\$25 | \$5-\$15 | \$0-\$10 | \$0-\$10 | \$0-\$10 | \$0-\$10 |
| F. Budget impact of exploration credit extension for well spudded by 7/1/16 | (\$5)-\$0 | (\$5)-\$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 |
| G. Budget impact of GVR applying to fields for a period of 7 years or less (provision 8 above) | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 |
| Total Budget Impact² | \$5-\$25 | \$55-\$100 | \$85-\$135 | \$80-\$130 | \$105-\$160 | \$100-\$155 | \$100-\$155 | \$100-\$155 | \$100-\$155 |
| Total Fiscal Impact - does not include revenue impacts from potential changes in investment³ | \$5-\$25 | \$55-\$110 | \$120-\$200 | \$215-\$345 | \$340-\$475 | \$310-\$460 | \$210-\$320 | \$220-\$330 | \$140-\$215 |
| Non-refundable carry-forward credits balance at fiscal year end - current law ⁴ | \$618 | \$751 | \$732 | \$585 | \$265 | \$136 | \$59 | \$0 | \$0 |
| Non-refundable carry-forward credits balance at fiscal year end - proposed ⁴ | \$432 | \$280 | \$118 | \$69 | \$0 | \$0 | \$0 | \$0 | \$0 |
| Change in year-end balance due to bill | -\$186 | -\$471 | -\$614 | -\$516 | -\$265 | -\$136 | -\$59 | \$0 | \$0 |

¹The impacts listed are based on production and prices as forecasted in DOR's Spring 2016 revenue forecast. The forecasted oil prices are between \$38.89 and \$61.64.

²This proposal stipulates that credits can only be earned for expenditures to carry out a DNR approved Plan of Development; our analysis assumes that all expenditures in forecast would qualify.

³NOTE: "Total Fiscal Impact" includes best estimates of both revenue and operating budget impacts.

⁴These rows include estimates of carried-forward credits for previous calendar years, plus estimates of credits that will be earned on activity through June 30 of the fiscal year.

NOTE: The fiscal impact of this bill is an estimate based on the Spring 2016 revenue forecast. Estimates shown here are draft / preliminary based on our interpretation of possible changes. We reserve the right to make modifications to estimates for any forthcoming fiscal notes.

Title: **Final Spring 2016 Forecast Production Tax Credits Detail,
FY 2007 to FY 2025**

Preparer: Mackenzie Merrill, Economist, 465-5636

Purpose: Provide detailed data on refunded production tax credits and production tax credits against liability historically from FY 07 to FY 15, and forecasted from FY 16 to FY 25; broken out by North Slope and Non-North Slope.

Date: 4/25/2016

Data Source: Final Spring 2016 revenue forecast and supporting data/models.

Key Assumptions: All assumptions are as of the Final Spring 2016 revenue forecast. Also see notes and comments embedded in the spreadsheet.

History: First version that provides a summary of historical and forecasted refunded credits broken out by credit type and geographic region for FY 2007 through FY 2025.

Disclaimer: The Department of Revenue is in the process of reviewing and updating the data on which this analysis is based. As a result, future analysis could have different results.

Table 8-4: Detail on Historical Production Tax Credits and Forecast per Final Spring 2016 Forecast

| (\$millions) | Historical | | | | | | | | Preliminary FY 15 ¹ | Forecast ² | | | | | | | | | |
|---|-------------------------|--------------|--------------|--------------|--------------|--------------|--------------|----------------|-----------------------------------|-----------------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
| | FY 07 | FY 08 | FY 09 | FY 10 | FY 11 | FY 12 | FY 13 | FY 14 | | FY 16 | FY 17 | FY 18 | FY 19 | FY 20 | FY 21 | FY 22 | FY 23 | FY 24 | FY 25 |
| Refunded Credits³ | | | | | | | | | | | | | | | | | | | |
| North Slope | | | | | | | | | | | | | | | | | | | |
| Qualified capital expenditure, AS 43.55.023(a); Carry-forward annual loss, AS 43.55.023(b) | 55 | * | 173 | 223 | 399 | 267 | * | * | 203 | * | 370 | 283 | 251 | 180 | 111 | 118 | 163 | 144 | 141 |
| Credits under AS 43.55.025 ⁴ | 0 | * | 14 | 23 | 12 | 53 | * | * | 21 | * | 76 | 35 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Total North Slope | 55 | 53 | 187 | 246 | 411 | 320 | 261 | 281 | 224 | 214 | 447 | 318 | 251 | 180 | 111 | 118 | 163 | 144 | 141 |
| Non-North Slope | | | | | | | | | | | | | | | | | | | |
| Qualified capital expenditure, AS 43.55.023(a); Carry-forward annual loss, AS 43.55.023(b); Well lease expenditure, AS 43.55.023(l) | 0 | * | * | * | * | 29 | * | * | 384 | * | 260 | 136 | 96 | 64 | 114 | 117 | 82 | 104 | 109 |
| Credits under AS 43.55.025 ⁴ | 0 | * | * | * | * | 4 | * | * | 21 | * | 41 | 24 | 5 | 5 | 5 | 5 | 5 | 3 | 0 |
| Credits under AS 43.20 ⁵ | 0 | * | * | * | * | 0 | * | 15 | 0 | 0 | 25 | 20 | 20 | 20 | 20 | 10 | 0 | 0 | 0 |
| Total Non-North Slope | 0 | 1 | 7 | 4 | 39 | 33 | 108 | 312 | 404 | 286 | 325 | 181 | 121 | 89 | 139 | 132 | 87 | 106 | 109 |
| Total Refunded Credits | 55 | 54 | 193 | 250 | 450 | 353 | 369 | 592 | 628 | 500 | 775 | 500 | 375 | 270 | 250 | 250 | 250 | 250 | 250 |
| Credits Used Against Tax Liability^{6,7} | | | | | | | | | | | | | | | | | | | |
| North Slope | | | | | | | | | | | | | | | | | | | |
| Qualified capital expenditure, AS 43.55.023(a); Carry-forward annual loss, AS 43.55.023(b) | 292 | 219 | 279 | 339 | 313 | 306 | 486 | 332 | 0 | 12 | 82 | 152 | 166 | 175 | 187 | 129 | 77 | 59 | 0 |
| Transitional investment expenditure: AS 43.55.023(i) ⁸ | 171 | 73 | 0 | 0 | 0 | * | * | * | 516 | 595 | 29 | 16 | 24 | 55 | 97 | 105 | 90 | 76 | 64 |
| Per taxable barrel credit, AS 43.55.024(i)-(j) ⁹ | * | * | * | * | * | * | * | * | * | 23 | 27 | 14 | 14 | 19 | 17 | 13 | 5 | 4 | 3 |
| Small producer credit, AS 43.55.024(a)(c) | * | * | * | * | * | * | * | * | * | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Credits under AS 43.55.025 ⁴ | * | * | * | * | * | * | * | * | * | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Total North Slope | 541 | 368 | 328 | 402 | 345 | 347 | 536 | 907 | 655 | 63 | 125 | 190 | 235 | 291 | 309 | 232 | 158 | 126 | 55 |
| Non-North Slope | | | | | | | | | | | | | | | | | | | |
| Qualified capital expenditure, AS 43.55.023(a); Carry-forward annual loss, AS 43.55.023(b); Well lease expenditure, AS 43.55.023(l) | * | * | 0 | * | 11 | * | * | * | * | 7 | 11 | 11 | 11 | 11 | 11 | 34 | 34 | 34 | 33 |
| Small producer credit, AS 43.55.024(a)(c) | * | * | 6 | * | 6 | * | * | * | * | 0 | 0 | 3 | 5 | 5 | 5 | 12 | 12 | 12 | 6 |
| Total Non-North Slope | 16 | 10 | 6 | 10 | 17 | 16 | 14 | 12 | 9 | 7 | 11 | 14 | 16 | 16 | 16 | 46 | 46 | 46 | 39 |
| Total Credits Used Against Tax Liability | 557¹⁰ | 378 | 334 | 412 | 361 | 363 | 550 | 919 | 664 | 70 | 135 | 205 | 250 | 305 | 325 | 275 | 205 | 170 | 95 |
| Total Credits North Slope | 596 | 421 | * | 647 | 756 | 667 | 797 | 1188 | 879 | 277 | 521 | 507 | 487 | 471 | 420 | 350 | 322 | 270 | 195 |
| Total Credits Non-North Slope | 16 | 11 | * | 14 | 56 | 49 | 122 | 323 | 413 | 293 | 387 | 195 | 137 | 105 | 155 | 177 | 132 | 152 | 148 |
| Total Statewide Production Tax Credits | \$612 | \$432 | \$526 | \$662 | \$811 | \$716 | \$918 | \$1,511 | \$1,292 | \$570 | \$910 | \$705 | \$625 | \$575 | \$575 | \$525 | \$455 | \$420 | \$345 |
| Carried-Forward Credits Balance for Companies Not Eligible for Refund ¹¹ | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 357 | 618 | 751 | 732 | 585 | 265 | 136 | 59 | 0 | 0 |

Source: Final Spring 2016 Revenue Sources Book Backup

* An asterisk indicates that the data is restricted to protect confidentiality.

¹ These numbers are preliminary pending Annual Returns.

² Forecasted total refunded credits are rounded to the nearest \$5 million and forecasted credits against liability are also rounded to the nearest \$5 million.

³ Forecasted refunded credits in the near-term are based on known projects and company activities. For FY 2020 and beyond, the forecast of credits available for refund is held constant at \$250 million per year.

⁴ Credits under AS 43.55.025 include the Alternative Credit for Exploration, the Frontier Basin Credit, and for Cook Inlet only the Cook Inlet Jack-up Rig Credit.

⁵ Credits under AS 43.20 include the Gas Exploration and Development Credit, Gas Storage Facility Credit, the In-State Gas Refinery Credit, and the LNG Storage Facility Credit.

⁶ The Education Credit, AS 43.55.019, though not reported in its own credit category in the summary was less than \$1 million in each year reported and is calculated in the total.

⁷ For historical credits against tax liability, geographic location was determined by attributing all .023(l) credits to Non-North Slope, all .025 Credits to North Slope, and the other credits were placed according to where the company primarily operated. Since multiple companies had operations in multiple areas, these numbers should be treated as rough estimates.

⁸ The Transitional Investment Expenditure Credit sunset on Dec 31, 2013.

⁹ For FY 2014, the Per Taxable Barrel Credit was in effect for only the last six months of the fiscal year. Credits applied against liability in the forecast are limited by a company's tax liability including the minimum tax.

¹⁰ Three months of 2006 credits data are included in the FY 2007 credits used against tax liability number.

¹¹ This row includes estimates of carried-forward credits for previous calendar years for companies with over 50,000 BOE of production, plus an estimate of credits that will be earned on activity through June 30 of the fiscal year. Carried-forward credits are primarily for net operating losses under AS 43.55.023(b).

Comparison of Provisions of HB247- Oil and Gas Tax Credits

updated 5/14/16

| Item | Current Law | GOV | CSHB247(FIN) amd H =>RLS | CSSB130(RES) | CSHB247(RLS) | Passed House CSHB247(RLS) amd |
|--|---|--|--|---|---|---|
| Cook Inlet Taxes | ELF caps until 2022 | no change | no change | Caps repealed and zero tax added 1/1/18 | no change; intent for new system in 2019 | Caps repealed 1/1/19 |
| Cook Inlet Credits | | | | | | |
| Net Operating Loss (NOL) | 25% | 25% | 25%; 20% in 2018 | 15% in 2017, 0% in 2018 | 25% in 2017 if producing; 0% in '18 | 25% in 2017 if producing; 0% in '18 |
| Qualified Capital Expenditure (QCE) | 20% | 0% on 7/1/16 | 0% on 7/1/16 | 10% in 2017, 0% in 2018 | repealed 1/1/17 | 0% on 7/1/16 |
| Well Lease Expenditure (WLE) | 40% | 0% on 7/1/16 | 0% on 1/1/17 | 20% in 2017, 0% in 2018 | 20% in 2017-18, 0% in '19 | 20% in 2017; 0% in 2018 |
| Avg. Total Support for Developers | 55% | 25% | 25% in 2017, 20% in 2018 | 30% in 2017, 0% in 2018 | 35% in 2017-18; 0% in 2019 | 35% in 2017; 0% in 2018 |
| Avg. Total Support for Producers | 30% | 0% | 20% after 7/1/16; 0% in 2017 | 15% in 2017, 0% in 2018 | 10% in 2017-18; 0% in 2019 | 10% in 2017; 0% in 2018 |
| Middle Earth Credits | same as CI | same as CI | NOL 25%; QCE 10%; WLE stays 30% through 2018 | NOL / QCE / WLE stay at 15% / 10% / 20% | same as CI | NOL / QCE / WLE is 25% (if POD or producing) / 10% / 30% (to 0% in '19) |
| North Slope NOL Credit | 35% | No changes to current law | No changes to current law | No changes to current law | 35% in 2017-19 only for small producers. Convert to lease expenditure carry forward | None for large producers after 2016. Rampdown from 32% to 25% for small producers by 2023 |
| North Slope Minimum Tax "Floor" | 4%, but many credits incl. NOLs can reduce to zero | Harden so all NS production must pay the min tax; increased 4% to 5% | No changes to current law | No changes to current law | 4%, but "hardened" once NOLs from before effective date used up | 5% if oil price >\$70; loss of carryforward NOLs hardens legacy production |
| "Migrating Credits" | Unused per-barrel credits can be used in other months | Prevent migration in years of high volatility | no change from current law | no change from current law | no change from current law | Prevent migration in years of high volatility |
| Repurchase Caps | none | \$25 million / company / year; none for large companies > \$10 billion revenue | \$100 million / company / year | \$85 million / company / year | \$75 million / company / year | \$70 million / company / year |
| Gross Value Reduction (North Slope new oil) | | | | | | |
| GVR interaction with an Operating Loss | Loophole; NOL credits can approach 100% of loss | GVR can't artificially increase size of an NOL | Kept GOV language | Kept GOV language | Kept GOV language | Kept GOV language |

Comparison of Provisions of HB247- Oil and Gas Tax Credits

updated 5/14/16

| Item | Current Law | GOV | CSHB247(FIN) amd H =>RLS | CSSB130(RES) | CSHB247(RLS) | Passed House CSHB247(RLS) amd |
|------------------------------------|---|--|---|---|--|--|
| GVR oil reverts to "legacy" oil | GVR-eligible oil remains "new" forever | No change | New oil becomes legacy oil after 7 years | New oil becomes legacy oil after 5 years | New oil becomes legacy oil after 10 years | New oil becomes legacy oil after 7 years or 3 years with oil price >\$70 |
| Interest on Delinquent Taxes | 3% over fed, simple interest | 7% over fed, compounding | 5% over fed, compounding, for only 1st 4 years | 7% over fed, compounding, for only 1st 3 years | 5% over fed, compounding | 5% over fed, compounding, for only 1st 4 years |
| Exploration Credits | Most sunset 7/1/16 | Allow sunset, repeal older unused credits | Same as GOV; extend Frontier credit to allow single well completion | Same as GOV; extend Frontier credit to allow single well completion | Same as GOV; extend Frontier credit to 1/1/17 and allow single well completion | Same as GOV; extend Frontier credit to 7/1/17 and allow single well completion |
| Effective Dates | n/a | Most 7/1/16 | Most 1/1/17 | Most 1/1/17 | Most 1/1/17 | Most 1/1/17 |
| Misc / Non-Dollar Issues | | | | | | |
| Confidentiality | Absolute | Can report indiv. companies' credits received & activities | not in CS | not in CS | Can report how much indiv. companies get in cash credits | Can report how much indiv. companies get in cash credits |
| Alaska Hire | n/a | Limit repurchases to percent of AK hire | DOR must give repurchase priority to high % AK hire | DOR must give repurchase priority to high % AK hire | DOR must give repurchase priority to high % AK hire | DOR must give repurchase priority based on % AK hire incl. contractors |
| Other obligation to the state | Can withhold part of credit if company owes tax | Can withhold part of credit if company has other obligation to the state | Limit to oil and gas business; requires consent to pay obligation | Kept HFIN language | Kept HFIN language with minor modification | Kept HFIN language, removed needing producer consent |
| Bonding / Bankruptcy Protection | n/a | none | Local vendor priority | Local vendor priority | Local vendor priority | Local vendor priority Can purchase credits at 60% of face value |
| ARM Board | n/a | n/a | n/a | n/a | n/a | |
| Est. Fiscal Impact- FY18 | n/a | \$435 million | \$80 million | \$55 million | \$45 million | \$85 million |
| Est. Fiscal Impact- FY19 | n/a | \$465 million | \$85 million | \$75 million | \$85 million | \$160 million |
| Est. Fiscal Impact- FY20 | n/a | \$375 million | \$75 million | \$70 million | \$175 million | \$280 million |
| Est. NOL carryforward- end of FY20 | \$732 million | \$1,223 million | \$498 million | \$508 million | \$670 million | \$69 million |

Impact of HB 247 on Oil and Gas Tax Credits (\$ millions)

| | FY17 | FY18 | FY19 | FY20 | FY21 | FY22 | FY23 | FY24 | FY25 |
|---------------------------------------|---------------|---------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|
| Projected Credits--No Action (1) | 775.0 | 500.0 | 375.0 | 270.0 | 250.0 | 250.0 | 250.0 | 250.0 | 250.0 |
| Cumulative Credits--No Action | 775.0 | 1,275.0 | 1,650.0 | 1,920.0 | 2,170.0 | 2,420.0 | 2,670.0 | 2,920.0 | 3,170.0 |
| Projected Impact of HB 247 (2) | | | | | | | | | |
| Low | (5.0) | (55.0) | (85.0) | (80.0) | (105.0) | (100.0) | (100.0) | (100.0) | (100.0) |
| High | (25.0) | (100.0) | (135.0) | (130.0) | (160.0) | (155.0) | (155.0) | (155.0) | (155.0) |
| Average | (15.0) | (77.5) | (110.0) | (105.0) | (132.5) | (127.5) | (127.5) | (127.5) | (127.5) |
| Net Credit Claims under HB 247 | 760.0 | 422.5 | 265.0 | 165.0 | 117.5 | 122.5 | 122.5 | 122.5 | 122.5 |
| Cumulative Claims | 760.0 | 1,182.5 | 1,447.5 | 1,612.5 | 1,730.0 | 1,852.5 | 1,975.0 | 2,097.5 | 2,220.0 |
| Cumulative Change | (15.0) | (92.5) | (202.5) | (307.5) | (440.0) | (567.5) | (695.0) | (822.5) | (950.0) |

(1) Source: DOR Spring 2016 Revenue Sources Book

(2) Source: DOR analysis of House version of HB 247

Comparison of HB 247 Impact, FY17-25

| Bill Version | Gov | H Rules | House |
|----------------------------|-------------------|-------------------|-------------------|
| Revenue Impact (Midpoint) | \$ 1,885.0 | \$ 480.0 | \$ 1,097.5 |
| Credit Impact (Midpoint) | \$ (917.5) | \$ (1,335.0) | \$ (950.0) |
| Total Fiscal Impact | \$ 2,802.5 | \$ 1,815.0 | \$ 2,047.5 |

| | | | |
|--|-------------------|-------------------|-------------------|
| Credit/Lease Expenditure Balance Carried Forward, FY25 | \$ 1,277.0 | \$ 685.0 | \$ - |
| Total Fiscal Impact Minus Carry-Forward Balance | \$ 1,525.5 | \$ 1,130.0 | \$ 2,047.5 |

Doniece Gott

From: Yahoo <bigwalt4@yahoo.com>
Sent: Sunday, May 15, 2016 11:16 AM
To: Senate Finance Committee
Subject: HB247 comments

Finance committee,

I wasn't able to share my verbal comments but I was hoping to take a few moments to share my general concerns and considerations regarding oil tax legislation.

I represent myself and my family (wife, 8yr old daughter, 5yr old son, and 2yr old daughter). We have lived in Anchorage for the past 12 years.

I am a licensed CPA in Alaska and I have been watching the state's interactions with the oil industry going back to when Frank Murkowski was governor. I have seen numerous tax changes over the years and it's disruptive impact on the oil companies. Even more concerning is the pipeline throughput decline and when oil prices are low and companies are losing money, it seems that tinkering with taxes again will be very detrimental to our overall economy.

When companies like BP make decisions to lay off all of their drilling contractors the result is going to be less and less throughput which will eventually result in fewer taxes to the state, fewer oil sector jobs, less spending in my community which will likely result in a depressed real estate market, lower property tax assessments, which will all reduce the quality of life for myself and my family. Increasing taxes when companies are losing money is bad policy and will only cause other smaller companies to put off projects, halt production, and take other cost-cutting measures to compensate for the increased taxes. Mess with taxes enough and the smaller players would likely leave Alaska altogether, as is being witnessed in the lower 48 right now.

Though I am also concerned about the states large deficit, I would much prefer to see my PFD go away and I would even prefer to pay sales or other taxes than to discourage an industry that has such a positive impact on jobs and overall prosperity for our state. Without knowing the specifics of the tax credit programs and the various oil tax programs my instinct is that if we have to change something, we should reduce the tax credits before we increase the oil taxes and I would think that Cook inlet tax credits are less valuable to the state in the long-term than north slope credits (if only for the fact that throughput should be a critical consideration).

When prices are low, both the oil industry and the state need to cut back on their expenses but it doesn't seem right that the state uses low prices as an opportunity to renegotiate key terms of its relationship with the industry.

Thanks for your time and deliberations on this issue.

Sincerely,

Walter Williams IV
Sent from my iPhone

Doniece Gott

From: yatsa_yex <yatsa_yex@yahoo.com>
Sent: Sunday, May 15, 2016 10:57 AM
To: Senate Finance Committee
Subject: HB247 Oil Tax Credits

There are many things in life I don't understand and this is one that stands out among the rest. We are in a financial disaster that is only forecast to get worse. I've heard legislators say that everything is on the table... But it's not! On the table are programs, offices, people, jobs, kids (K-12) education, the prospect of keeping college students in Alaska, public safety, resources that are for the betterment of the citizens of Alaska. In addition to the cuts, you are asking for additional monetary support from individual Alaskans. Most Alaskans would gladly help fund the treasury as this is our home. But, the betrayal, from you - the legislators - is that what is not on the table to be cut... is the money you want from us... Is to be given to the oil & gas industry. \$700 million projected this year - in addition, the \$30 million a year given to oil refineries that don't need it. That \$30 million alone could put money back into the public safety budget and put back into schools - thereby saving jobs. You say that the reason for the oil tax credits is to promote jobs for Alaskans in the oil industry. My family members are all on pins and needles wondering if their oil industry job is safe. You are pitting us one against another. Why is an oilfield job more important than any other job? This insanity must stop! Please search your hearts and serve the people of Alaska over the desires of an oil company.

Sincerely,
Nelma Treider
Soldotna, Alaska
yatsa_yex@yahoo.com

Sent from my iPhone

Doniece Gott

From: David Boyle <pennyak@earthlink.net>
Sent: Sunday, May 15, 2016 10:37 AM
To: Senate Finance Committee
Subject: Natural gas credits in Cook Inlet

Senators,

I'm a pretty simple person so I try to understand facts and numbers. Can anyone explain why the State of Alaska is providing tax credits to those companies exploring for natural gas in Cook Inlet? Today, the price of natural gas Outside is about \$2/unit whereas my latest Enstar bill shows that it is paying from \$6 to \$7 per unit. Why not just import LNG for SouthCentral Alaska?

This would be analogous for me buying Alaskan grown bananas that cost 3X the cost of imported bananas. To me, a no-brainer.

Please provide your rationale and numbers for this, which to me, is an irrational tax structure. Thank you for working this Sunday.

David Boyle

May 15, 2016 (8:41 am)

Testimony regarding HB247 (Tax Credit Adjustments)

From: Lynn Willis, Eagle River, Alaska

I urge you to pass this legislation. To protect their interests the producers are adjusting to cope with this paradigm shift in petroleum economics and now so should the State of Alaska to protect the economic interests of Alaska. The purpose and interests of a sovereign are seldom the same as those of a private enterprise; therefore, your "partnership" theory is mostly a self-delusion. In that vein, can you tell the people of Alaska how you can possibly determine the "correct" taxation formula to apply to our "partners" who refuse to report the income and loss from their Alaska operations?

Thank you.

Doniece Gott

From: Iniakuk Lake Wilderness Lodge <iniakuk@gmail.com>
Sent: Sunday, May 15, 2016 9:11 AM
To: Senate Finance Committee
Subject: HB 247 - Oil Tax Subsidies

With all the tax credits and deductions currently allowed, Alaskans will be paying out more in refundable tax credits than we get in production taxes *through 2024*.

I voted against SB21 anticipating that the combined drop in oil prices with the oil tax structure would benefit Big Oil, not Alaska. And here we are.

I resent Sen. Kelly's remarks comparing Alaska's oil tax structure to changing his dirty underwear. We need representatives in the legislature who work for Alaskans first, not Big Oil.

Cuts to the PFD will not come before Big Oil subsidy reductions or elimination.

Patricia Gaedeke, Owner
Iniakuk Lake Wilderness Lodge, LLC



Remote. Exceptional. Unforgettable. Since 1974.

www.gofarnorth.com

907.479.6354

Visit us on Alaska.org

[Trip Advisor](#)

[Facebook](#)

[Iniakuk Blog](#)

Doniece Gott

From: Ahr Kipling <ahrkip@gmail.com>
Sent: Sunday, May 15, 2016 8:58 AM
To: Senate Finance Committee
Subject: public testimony Sunday morning (5/15) at 9am on the Bill to fix the oil tax credits.

greetings committee members and all alaska legislators:

please do not forego this opportunity to correct the now obvious errors in judgement made by former legislative committees/bodies! this "tax credit" giveaway must be stopped! the oil industry has derived an almost free pass because of our state's overly generous "business climate". they do not enjoy this peaceful and profitable status anywhere else they conduct business. we WILL NOT resolve our state's financial dilemma by giving out free money!

Meanwhile, in light of the overall lack of diversity in our state's economy, senate bill 8 lies languishing in your committee as well! please inform yourselves of what a boost to the local and global economy passage of this bill would bring! hemp-based construction materials MADE IN ALASKA! income-generating, research provoking technologies EXIST! in order to create change, we need to focus on solutions rather than correcting problems in an economy and an industry which, for years, has only proven destructive economically and environmentally!

in short, it should be obvious to ALL by now that the age of oil is at an end and it is time to relinquish it's addictive hold on this world. new industries and technologies exist today and seeding and nurturing hemp industries, (<http://www.thehia.org/>), as well as reinvigorating our commercial fisheries, developing and investing in renewable power technologies, and making education AFFORDABLE are some ways to wean ourselves away from the insanity of continuing to pursue fossil fuels. doing the same thing over and over again and expecting different results is a self destructive logic loop! PLEASE - get us OFF this track!

sincerely,

darlene coyle
box 193
kasilof AK 99610

Doniece Gott

From: William Reiner <wreiner@gci.net>
Sent: Sunday, May 15, 2016 8:37 AM
To: Senate Finance Committee
Subject: SB247/ HB247

Well great working on Sunday. Public testimony on Sunday 9am to 11am not many voices from evangelical constituents. Okay all business know things change overnight. So that dog don't hunt.

The State paying for somebody to sell our oil & gas at a loss is wrong.

When the Majority gave away the Farm and the promises made by new share croppers was deliberate lies. Why should we subsidies failure? Let the Feds eat it through reorganization. SEC 10-K tells it all and do any of you check out these companies? No just the committee testimony. While anything can be said with no accountability.

Well here you go hard numbers at \$775 million last year and bigger debt next year the Oil and Gas Tax Credits worked to give them a leg up not live on it forever.

Stop the Oil and Gas Tax Credits Now. June 1st 2016. No soft landing.

Cash and carry free market principles need enforced now.

Respectfully,
William Reiner
Alaska Voter
01468049

Bill Reiner

Doniece Gott

From: Deborah Heebner <deborahheebner@yahoo.com>
Sent: Sunday, May 15, 2016 8:33 AM
To: Senate Finance Committee
Subject: House Bill 247

UNDER THE PROPOSED TAX POLICY in House Bill 247:

§ Companies will have less incentive to invest in Alaska § Companies would be forced to pay additional taxes even when they are already losing money.

§ Elimination of Cook Inlet credits could create a decline in available natural gas to heat our homes § Forcing companies to make further cuts to planned Alaska exploration and production projects will also hurt the state's economy, now and in the future.

Last but not least...

PROPOSALS TO CHANGE OIL AND GAS TAX SYSTEM AND CREDIT CREATES UNCERTAINTY AND INSTABILITY.

"More than anything, changing rules and taxes every few years is a sure way to scare investment away and is short sighted."

I WANT MORE INVESTMENT DOLLARS IN ALASKA AND YOU SHOULD TOO!!

Companies will not keep investing in Alaska if you do not provide some stability in the current tax policy.

Thanks,

Deborah Heebner

P.O. Box 240942

Anchorage, AK, 99524

Doniece Gott

From: Pat Race <pat@lrcd.com>
Sent: Sunday, May 15, 2016 3:00 AM
To: Senate Finance Committee
Subject: HB 247 -- Public Comment -- "Good Neighbor" Amendment

Senators,

Our tax credit program is ineffective. It doesn't generate meaningful public data or provide the state with any guarantees or leverage. If we're going to spend several hundreds of millions, we should be getting a lot more in return.

Currently, I support either the elimination of these tax credits OR increased value to the state in terms of data and leverage.

One idea I would like to propose is a "Good Neighbor" amendment to HB 247. The idea is to sever credits to any company that causes a major environmental disaster or is found guilty of ongoing negligence that could endanger human life.

For example, Company X spills 10 million gallons of crude into Alaska waters. Company X will not be eligible for tax credits from the state until remediation is complete and any litigation has ended.

In this way, the tax credits become an incentive and reward for continued good behavior.

This idea could also be put to work in deterring frivolous litigation against the state by credit recipients.

The "Good Neighbor" amendment could be implemented with specific language or by tasking a department or board with ongoing review of credit recipients eligibility. I believe this is similar to how the film incentive program worked to protect the state from granting tax credits to organizations that were not working in the state's best interests.

Thank you and happy legislating,

Patrick Race
Juneau, AK

Doniece Gott

From: John Duffy <jduffy@alaska.edu>
Sent: Saturday, May 14, 2016 8:48 PM
To: Senate Finance Committee
Subject: Comments on HB247

May 14, 2016

Senate Finance Committee:

Please pass reasonable reform to our oil and gas tax credit system. If the law is not changed, we'll be paying more in credits than we'll receive in unrestricted general fund revenue from the oil industry in FY 17. If the law is not changed, oil tax credits would be the third-largest line item in Alaska's operating budget in FY 17 (unrestricted general fund spending). The current oil and gas tax credit system puts oil tax credits ahead of the University of Alaska; ahead of the Departments of Corrections & Public Safety combined; and ahead of the Department of Transportation and Public Facilities & the capital budget combined.

The Legislature should not be cutting spending on education, public safety, support for seniors, health care, local government, resource management while giving tax credits to the oil and gas industry. Moreover, we can't afford to continue paying these credits and it threatens the viability of the Permanent Fund Dividend program.

Just as oil companies have a duty to protect their shareholders' interests, the governor and lawmakers have a duty to protect Alaskans' financial interests.

Simply put, the oil and gas industry should pay a minimum tax and there should be zero credits allowed.

Oil and gas companies speak often of the need for a stable fiscal climate. The current system of tax credits at current low oil prices is far from stable. The state treasury cannot withstand the impact of tax credit payments, and the imposition of other taxes on Alaskans cannot pass the red face test if the money is going to go directly to oil and gas companies to compensate them for their business losses.

Alaska needs a stable fiscal regime that is not based on give-aways to industry, especially when the give-aways result in reduced support for our State Troopers, education and road maintenance and construction.

Thank you for the opportunity to provide comments.

Sincerely,

John Duffy

P.O. Box 459

Palmer, AK 99645

jduffy@alaska.edu
907-830-7307