SB21/MAPA – Summary

Formal bill title:

- An Act relating to the interest rate applicable to certain amounts due for fees, taxes and payments made and property delivered to the Department of Revenue; relating to appropriations from taxes paid under the Alaska Net Income Tax Act; providing a tax credit against the corporation income tax for qualified oil and gas service industry expenditures; relating to the oil and gas production tax rate; relating to gas used in the state; relating to monthly installment payments of the oil and gas production tax; relating to oil and gas production tax credits for certain losses and expenditures; relating to oil and gas production tax credit certificates; relating to nontransferable tax credits based on production; relating to the oil and gas tax credit fun; relating to annual statements by producers and explorers; establishing an Oil and Gas Competitiveness Review Board; relating to the determination of annual oil and gas production tax value including adjustments based on a percentage of gross value at the point of production from certain leases or properties; and making conforming amendments.

Following are the key provision of the legislation:

- This Bill makes several changes to the oil and gas production tax system. Each of the major changes, along with its potential revenue impact, is discussed separately below. The effective date of each of the bill's provision listed below is assumed to be January 1, 2014 with the exception of provision 6, which is effective for expenditures beginning January 1, 2013.

1. **The progressive portion of the production tax at AS 43.55.011(g) is repealed.** Based on our Spring 2013 forecast, this change decreases production tax revenue over the forecast period analyzed. See detailed summary table on page 4 of Fiscal Note.

2. **The production tax rate under AS 43.55.011(e) has been increased to a tax rate of 35% of production tax value.** Based on our Spring 2013 forecast, this change increases production tax revenue over the forecast period analyzed from this portion of the tax. Please see detailed summary table on page 4 of fiscal note.

3. **Production tax credits under AS 43.55.023(a) for qualified capital expenditures are limited to expenditures incurred before January 1, 2014 on leases or properties that contain land north of 68 degrees North latitude.** Based on our Spring 2013 forecast, this change increases production tax revenue annually over the forecast period analyzed. Please see detailed summary table on page 4 of fiscal note.

4. **Companies that incur net losses from leases or properties that contain land north of 68 degrees North latitude will earn a credit of 45% of those losses; on January 1, 2016, the credits for these losses changes to 35%.** These losses are transferable and

eligible for refund by the state. The impact of this provision is on the operating budget and is expected to increase credit refunds appropriated through the operating budget by approximately $80 million per year over the amount anticipated under current law for CY 2014 and CY 2015 (shown in FY 2015 and FY 2016), decreasing to $40 million per year over the amount anticipated under current law in the following years.

5. **A gross revenue exclusion (GRE) of 20% of the gross value at the point of production is applicable to production from certain areas with an additional 10% GRE available to a limited amount of that production**. The GRE applies to oil or gas production from wells north of 68 degrees North Latitude that meet one or more of the following criteria: (1) is produced within a lease or property that does not contain a lease that was within a unit on January 1, 2003; (2) is produced within a participating area established after December 31, 2011, in a unit formed before January 1, 2003, if the participating area does not contain a reservoir that had been in a participating area established before December 31, 2011; (3) is produced from acreage that was added to an existing participating area by the Department of Natural Resources on or after January 1, 2014, and the producer demonstrates that the volume of oil or gas produced is from acreage added to an existing participating area. **Production that qualifies for (1) of this provision may also qualify for an additional 10% GRE if the production comes from a unit which is comprised entirely of leases greater than 12.5% royalty.** Please see detailed summary table on page 4 of fiscal note for revenue impacts of this provision.

6. **The provision requiring that credits be taken over two years is eliminated.** This provision would result in companies using credits earlier than they would without this change, and except for the time value of money impact, it is revenue neutral. This provision applies to expenditures after December 31, 2012.

7. **The community revenue sharing fund is amended to allow the legislature to make an appropriation from the state corporate income tax under AS 43.20 as opposed to tying the appropriation to revenue collected under AS 43.55.011(g).** This provision has no revenue impact under our Spring 2013 forecast.

8. **A credit of $5 per taxable barrel may be applied against a producer's production tax liability for oil produced from GRE - eligible areas.** This credit cannot be transferred, carried forward, or used to reduce the producer's tax liability to less than zero. Please see detailed summary table on page 4 of fiscal note for the revenue impact of this provision.

9. **A sliding scale credit ranging from zero to $8 per taxable barrel may be applied against a producer's production tax liability for areas not eligible for a GRE.** The sliding scale credit is a dollar-per-taxable-barrel credit ranging from zero dollars per barrel at per-barrel GVPP values greater than $150 to $8 per barrel at per-barrel GVPP values less than $80. The credit cannot be transferred, carried forward, or used to reduce the producer's tax liability to less than zero. The credit may not reduce the producer's tax liability to less than the minimum tax established under AS 43.55.011(f). Please see

detailed summary table on page 4 of this fiscal note for the revenue impact of this provision.

10. **A credit of 10% of qualified oil and gas industry service expenditures may be applied to tax liabilities under AS 43.20 in amounts up to $10 million per taxpayer per year.** The credit applies to qualified oil and gas service expenditures that are for in-state manufacture or in-state modification of oil and gas tangible personal property with a service life of 3 years or more. The credit is not transferable, however, any amount of the credit that exceeds the taxpayer's liability under AS 43.20 may be carried forward for up to five years. We have no data with which to quantify the revenue impact of this provision, although it is possible that the impact may be as high as -$25 million per year. The revenue impact of this provision is indeterminate.

11. **The interest rate on delinquent taxes is changed from the greater of 5 percentage points above the annual rate of interest charged by the 12th Federal Reserve District or 11 percent, to 3 percentage points above the annual rate of interest charged by the 12th Federal Reserve District**. There will be one-time contractor costs to implement this change in the DOR accounting system. Over the past five fiscal years (FY 2008-FY 2012), interest on delinquent taxes and refunds has resulted in a net positive revenue to the state. The average annual net revenue to the state in these years was $26 million in revenue to the General Fund and $71 million in revenue to the Constitutional Budget Reserve Fund. The Department of Revenue does not forecast interest on taxes. Over the time horizon of this fiscal note, this provision is estimated to impact state revenues in amounts up to -$25 million per year. The impact will increase over time as more delinquent taxes are calculated under the new interest rates established with this provision. Our estimates do not take into account changes in taxpayer behavior as a result of this reduction in interest rate.
12. **The 3-mile requirement for frontier basin tax credit under AS 43.55.025(m) is removed**. The frontier basin credit is a credit of 80% of eligible expenses up to $25 million per well for first 4 qualifying wells and a seismic basin credit of $7.5 million or 80 percent, whichever is less. This bill removes the provision wells must be at least 3 miles from an existing well to qualify for the credit. This provision has no expected fiscal impact under the Spring 2013 forecast, as the forecast already assumes spending for the 4 eligible wells for the frontier basin credit will take place and credits will be issued.

13. **The 4 percent gross tax ceiling for production of oil or gas outside the North Slope or Cook Inlet is extended**. The sunset date for this provision is extended from January 1, 2022 to January 1, 2027. This provision has no expected fiscal impact under the Spring 2013 forecast, as it is beyond the time horizon of this fiscal note and we are not forecasting any qualifying production.

14. **The exploration credit under AS 43.55.025(a)(1)-(4) is extended through January 1, 2022 for areas outside the North Slope and Cook Inlet**. This is a refundable credit of 30% or 40% of eligible seismic and well exploration expenditures. This provision has an indeterminate fiscal impact. **15. An Oil and Gas Competitiveness Review Board is established in the Department of Revenue.** The board will be tasked with collecting

and evaluating data on oil and gas development and providing recommendations to the Legislature on proposed changes to improve the regulatory workforce infrastructure and fiscal systems of the state to improve Alaska's investment climate.

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