Departments of Revenue and Law: Sectional Review

CSSB 21(FIN)

28-GS1647\R.A

March 22, 2013

House Resources Committee

Main Provisions

- **Interest Rate for Delinquent Tax Payments and Refunds of Overpayments of Taxes**
  - Decreased to 3% points above the annual rate charged by the 12th Federal Reserve District
- **Corporate Income Tax Credit for Qualified Oil and Gas Service Industry Expenditures**
- **Production Tax Rate**
  - Establishes a 35% flat tax rate
  - Repeals progressivity.
- **Tax Credits**
  - Eliminates current 20% capital expenditure tax credit for North Slope after December 31, 2013.
  - Increases tax credit for carried-forward annual losses to 35% for the North Slope after December 31, 2013.
  - Establishes a $5 per barrel of oil tax credit.
- **Gross Revenue Exclusion**
  - Establishes 20 % exclusion from the gross value at the point of production for oil and gas produced from
    - 1) new units,
    - 2) new participating areas in existing units and,
    - 3) metered wells subject to demonstration by the producer of certain conditions to the Department of Natural Resources and the Department of Revenue.
- **Oil and Gas Competitiveness Review Board**
- **Hold Cook Inlet and Middle Earth harmless**

Sec. 4 – Interest Rate for Delinquent Taxes

- **Amends AS 43.05.225(1).**
- **Sets the interest rate at 3% points above the annual rate charged member banks for advances by the 12th Federal Reserve District compounded quarterly.**
    - Currently, the interest rate is the greater of either 5% points above the annual rate charged member banks for advances by the 12th Federal Reserve District OR the annual rate of 11% compounded quarterly.
- **Eliminates the 11% alternate annual rate.**
- **Applies to many tax types.**
- **Applies against the State for refunds of overpayments of taxes.**
- **12 % interest rate under AS 43.05.225(2) is unchanged.**

Sec. 7 - Qualified Oil and Gas Industry Service Expenditure Tax Credit

- **Amends AS 43.20, the Alaska Net Income Tax Act, by adding a new section, AS 43.20.049.**
- **Provides a tax credit for the lesser of 10 % of qualified oil and gas industry service expenditures incurred in the state or $10,000,000.**
- **Applies against tax liability, may be carried-forward for no more than 5 tax years after the expenditures were incurred.**
- **Qualified oil and gas service industry expenditure must be directly attributable to the in-state manufacture or modification of tangible personal property that has a useful life of 3 years or more used in the exploration, development, or production of oil or gas.**

Sec. 9 - Tax Rate

- **AS 43.55.011(e) is amended to levy an annual flat tax rate of <u>35%</u>.**
- **AS 43.55.011(g), the monthly progressivity tax, is repealed.**
- **Applies to oil and gas produced after December 31, 2013.**

Sec. 2- Community Revenue Sharing Fund

- **Amends AS 29.60.850(b) to eliminate the reference to AS 43.55.011(g), progressivity, to conform to the repeal of progressivity.**
- **Provides guidelines for the amount the legislature may appropriate to the community revenue sharing fund.**
- **No change to the eligibility determinations for community revenue sharing payments to communities.**

Sec. 15 - Qualified Capital Expenditure Tax Credit

- **AS 43.55.023(a)(3) is a new provision limiting the 20% qualified capital expenditure tax credit for expenditures incurred to explore for, develop, or produce oil and gas deposits on the North Slope to expenditures incurred before January 1, 2014.**
- **Tax credits for expenditures incurred to explore for, develop, or produce oil and gas deposits south of the North Slope are not impacted.**
- **The full amount of a tax credit certificate may be issued in a single year.**

Sec. 9 - Carried-Forward Tax Credit AS 43.55.023(b)

- **Amends AS 43.55.023(b) to retain a tax credit of <u>25%</u> for a carried-forward annual loss for adjusted lease expenditures incurred <u>outside of the North Slope</u>.**
- **Provides a tax credit of <u>35%</u> for a carried-forward annual loss for adjusted lease expenditures incurred <u>after December 31, 2013 on the North Slope.</u>**
- **A carried forward annual loss is the amount of a producer's or explorer's lease adjusted lease expenditures that were not deductible in calculating the annual production tax values for that year.**

Sec. 22 - $5 Per Oil Barrel Tax Credit AS 43.55.024(i)

- **Amends AS 43.55.024 by adding a new a tax credit of <u>$5 for each barrel of oil</u> subject to tax under AS 43.55.011(e)**
- **Applicable to the producer's tax liability for the <u>year the oil was produced</u>.**
- **The tax credit is <u>not</u> transferable.**
- **Any unused portion may <u>not</u> be carried forward for use in a later calendar year**
- **May <u>not</u> be applied to reduce the producer's tax liability to below zero.**

Sec. 29 - Gross Revenue Exclusion for North Slope Oil and Gas

- **Provides that for the determination of the annual production tax value of oil and gas produced <u>north of 68 degrees North latitude</u>, that the gross value at the point of production is reduced by <u>20 percent</u> for the oil or gas:**
  1) **Produced from a <u>lease or property</u> that does <u>not</u> contain a lease that was <u>within a unit</u> as of <u>January 1, 2003</u>;**
  2) **Produced from a <u>participating area</u> established <u>after December 31, 2011</u> that was <u>within a unit</u> formed under AS 38.05.180(p) <u>before January 1, 2003</u>, if the participating area does not contain a reservoir previously established in a participating area;**

Sec. 29 - Gross Revenue Exclusion for North Slope Oil and Gas

3) Produced from a well that

- has been accurately metered and measured by the operator to the satisfaction of the Commissioner of the Department of Revenue, and
- the producer demonstrates to the Department of Revenue that the well is producing from a reservoir that the Department of Natural Resources has certified was not contributing to production before January 1, 2013, and
- the producer demonstrates to the Department of Revenue the volume of oil or gas produced from that well.

- **May not apply 20 percent exclusion to reduce the gross value at the point of production below zero.**
- **Participating area defined a reservoir or portion of a reservoir producing or contributing to production as approved by the Department of Natural Resources.**

Sec. 33 - Oil and Gas Competitiveness Review Board AS 43.98.040-070

- **AS 43.98.040 , establishes a 9 member board**
  - Governor designates chair every 2 years. Governor may replace and remove members.
  - Members serve 6 year terms, may be reappointed.
  - Board meets once a year
- **AS 43.98.050 details the duties of the Board, including annual written findings and recommendations to the Legislature**
- **AS 43.98.060 relates to information provided to the Board**
- **AS 43.98.070 defines the board**
- **The Board sunsets December 31, 2022.**