Department of Revenue
Sectional Review
HCS CSSB 21(RES)
April 5, 2013
House Finance Committee

Main Provisions

- **Interest Rate for Delinquent Tax Payments and Refunds of Overpayments of Taxes**
- **Income Tax Credit for Qualified Oil and Gas Service Industry Expenditures**
- **Production Tax Rate - 33%**
- **Repeal of Progressivity**
- **Gross Value Reduction**
  - Establishes 20 % reduction from the gross value at the point of production for North Slope oil and gas produced from

    1) new units,

    2) new participating areas in existing units and,

    3) expanded acreage.

- **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 33% for the North Slope after December 31, 2013.
  - Establishes a $5 per barrel of oil tax credit for some production.
  - Establishes a sliding scale credit for production not qualified for the $5 credit.
  - Extends small producer credit.
  - **Revenue report to legislature in 2016**
  - **Lease expenditures and joint interest billings**
  - **Oil and gas infrastructure fund in AIDEA**

Interest Rate for Delinquent Taxes

- **Amends AS 43.05.225(1)** to set 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.**
- **Interest rate change as of January 1, 2014.**

Qualified Oil and Gas Industry Service Expenditure Tax Credit

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

AS 43.55 Tax Rate

- **AS 43.55.011(e)** is amended to levy an annual flat tax rate of **<u>33%</u>**. Applies to oil and gas produced after December 31, 2013.

- AS 43.55.011(g), the monthly progressivity tax, is repealed as of January 1, 2014.

- Producers of oil and gas still make estimated monthly installment payments.

Community Revenue Sharing Fund

- Amends AS 29.60.850(b) to eliminate the reference to AS 43.55.011(g) and substitutes the corporate income tax.
  - Statute directs appropriation not to exceed $60,000,000 or amount when added to fund balance, equals $180,000,000.
- **<u>No change</u>** is made to the eligibility determinations for community revenue sharing payments or **<u>to authority of legislature to appropriate any amount.</u>**

Qualified Capital Expenditure Tax Credit

- The **20%** qualified capital expenditure tax credit is limited to expenditures incurred **before January 1, 2014** to explore for, develop, or produce oil and gas deposits on the **North Slope**.
- 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.

Carried-Forward Tax Credit
AS 43.55.023(b)

- Based on the amount of a producer's or explorer's adjusted lease expenditures that were not deductible in calculating the annual production tax values for that year.
- Retains **25%** credit for a carried-forward annual loss for adjusted lease expenditures incurred **outside of the North Slope**.
- Provides a tax credit of **33%** for a carried-forward annual loss for adjusted lease expenditures incurred **after December 31, 2013 on the North Slope.**

AS 43.55.024 Credit

- Extends the **small producer credit** to **2022** (from 2016) for producers of less than 100,000 BTU equivalent barrels of daily production.
- Non-transferable, only applies against AS 43.55.011(e) tax.
- Establishes a **$5 per barrel credit** for each barrel of taxable oil that qualifies for a gross revenue exclusion.
- Establishes a **sliding scale credit** from **$8 to zero** based on monthly gross value of oil produced on the North Slope that does not qualify for the gross revenue exclusion. Not applicable against the minimum tax.

Gross Revenue Exclusion for North Slope Oil and Gas (*Gross Value Reduction*)

- For oil and gas produced **<u>north of 68 degrees North latitude</u>**, the gross value at the point of production is reduced by **<u>20 percent</u>** for the oil or gas produced from:
  1) Leases in a unit established after January 1, 2003;
  2) New reservoirs in an **<u>expanded participating area</u>** within a unit formed before January 1, 2003; or
  3) **<u>Acreage added to an existing participating area</u>** with approval by the Department of Natural Resources.

Lease Expenditures

- Lease expenditures are ordinary and necessary costs of upstream operations for exploration, development, and production deducted to determine production tax value. Currently lease expenditures are allowed by regulation as required by AS 43.55.165(a)(1)(B).

- The bill restores 2006 language that allows Revenue to consider JIBs that are substantially similar to Revenue's definition of lease expenditure and rely on audits performed by joint interest owners in performing state audits. Field operators bill other working interest owners via Joint Interest Billings (JIBs) which are invoices for operating agreements.

Other Key Provisions

- Allows the Alaska Industrial Development and Export authority to issue bonds for an oil processing facility and to establish an oil and gas infrastructure fund. AS 44.88.168. The fund consists of appropriated funds and is not in the revolving loan fund, AS 44.88.060.

- Requires DOR to issue a report in 2016 under AS 43.55.180 on the effects of AS 43.55 on oil and gas exploration, development, and production; new entrants, and other development matters.

Summary

- Four principles:
  - Tax reform that is fair to Alaskans.
  - To encourage new production.
  - Simple and balanced system.
  - Competitive for the long term.