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Nauman/Shutts
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CS FOR HOUSE BILL NO. 247(FIN)

IN THE LEGISLATURE OF THE STATE OF ALASKA

TWENTY-NINTH LEGISLATURE - SECOND SESSION

BY THE HOUSE FINANCE COMMITTEE

Offered:
Referred:

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

A BILL

FOR AN ACT ENTITLED

"An Act relating to interest applicable to delinquent tax; relating to the oil and gas production tax, tax payments, and credits; relating to the minimum oil and gas production tax; repealing a maximum production tax on certain oil; 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 assessment of an oil and gas production tax imposed; relating to oil and gas lease expenditures and production tax credits for municipal entities; relating to a business license for an oil or gas business; establishing a legislative working group to study the tax structure for oil and gas produced south of 68 degrees North latitude; and providing for an effective date."

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

*** Section 1.** AS 38.05.036(a) is amended to read:

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

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

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

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

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

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

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

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

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

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

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

*** Sec. 6.** AS 43.05.225 is amended to read:

Sec. 43.05.225. Interest. Unless otherwise provided,

(1) a delinquent tax under this title,

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

(B) on and after January 1, 2014, **and before January 1, 2017,** bears interest in each calendar quarter at the rate of three percentage points above the annual rate charged member banks for advances by the 12th Federal Reserve District as of the first day of that calendar quarter**;**

(C) on and after January 1, 2017, bears interest

(i) for the first four years after a tax becomes delinquent, in each calendar quarter at the rate of five percentage points above the annual rate charged member banks for advances by the 12th Federal Reserve District as of the first day of that calendar quarter, compounded quarterly as of the last day of that quarter; and

(ii) after the first four years after a tax becomes delinquent, in each calendar quarter at a rate of five percentage points above the annual rate charged member banks for advances by the 12th Federal Reserve District as of the first day of that calendar quarter;

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

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

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

*** Sec. 7.** AS 43.20.046(e) is amended to read:

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

*** Sec. 8.** AS 43.20.047(e) is amended to read:

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

*** Sec. 9.** AS 43.20.053(e) is amended to read:

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

[(1) THE CLAIMANT DOES NOT HAVE AN OUTSTANDING

LIABILITY TO THE STATE FOR UNPAID DELINQUENT TAXES UNDER THIS TITLE; AND

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

*** Sec. 10.** AS 43.55.011(e) is amended to read:

(e) There is levied on the producer of oil or gas a tax for all oil and gas produced each calendar year from each lease or property in the state, less any oil and gas the ownership or right to which is exempt from taxation or constitutes a landowner's royalty interest or for which a tax is levied by AS 43.55.014. Except as otherwise provided under (f), (j), [(k),] (o), and (p) of this section, for oil and gas produced

(1) before January 1, 2014, the tax is equal to the sum of

(A) the annual production tax value of the taxable oil and gas as calculated under AS 43.55.160(a)(1) multiplied by 25 percent; and

(B) the sum, over all months of the calendar year, of the tax amounts determined under (g) of this section;

(2) on and after January 1, 2014, and before January 1, 2022, the tax is equal to the annual production tax value of the taxable oil and gas as calculated under AS 43.55.160(a)(1) multiplied by 35 percent;

(3) on and after January 1, 2022, the tax for

(A) oil is equal to the annual production tax value of the taxable oil as calculated under AS 43.55.160(h) multiplied by 35 percent;

(B) gas is equal to 13 percent of the gross value at the point of production of the taxable gas; if the gross value at the point of production of gas produced from a lease or property is less than zero, that gross value at the point of production is considered zero for purposes of this subparagraph.

*** Sec. 11.** AS 43.55.011(f) is amended to read:

(f) The levy of tax under (e) of this section for

(1) oil and gas produced before **<u>January 1, 2017</u>** [JANUARY 1, 2022], from leases or properties that include land north of 68 degrees North latitude, other than gas subject to (o) of this section, may not be less than

(A) four percent of the gross value at the point of production when the average price per barrel for Alaska North Slope crude oil for sale on the United States West Coast during the calendar year for which the tax is due is more than $25;

(B) three percent of the gross value at the point of production when the average price per barrel for Alaska North Slope crude oil for sale on the United States West Coast during the calendar year for which the tax is due is over $20 but not over $25;

(C) two percent of the gross value at the point of production when the average price per barrel for Alaska North Slope crude oil for sale on the United States West Coast during the calendar year for which the tax is due is over $17.50 but not over $20;

(D) one percent of the gross value at the point of production when the average price per barrel for Alaska North Slope crude oil for sale on the United States West Coast during the calendar year for which the tax is due is over $15 but not over $17.50; or

(E) zero percent of the gross value at the point of production when the average price per barrel for Alaska North Slope crude oil for sale on the United States West Coast during the calendar year for which the tax is due is $15 or less; [AND]

(2) oil **and gas** produced on and after **January 1, 2017, and before** January 1, 2022, from leases or properties that include land north of 68 degrees North latitude, **other than gas subject to (o) of this section,** may not be less than [(A)] four percent of the gross value at the point of production**, except that a credit authorized under this chapter may reduce the tax under this subsection to less than four percent, but not to less than two percent of the gross value at the point of production;**

(3) oil produced on and after January 1, 2022, from leases or properties that include land north of 68 degrees North latitude may not be less than four percent of the gross value at the point of production, except that a credit authorized under this chapter may reduce the tax under this subsection to

less than four percent, but not to less than two percent of the gross value at the point of production [WHEN THE AVERAGE PRICE PER BARREL FOR ALASKA NORTH SLOPE CRUDE OIL FOR SALE ON THE UNITED STATES WEST COAST DURING THE CALENDAR YEAR FOR WHICH THE TAX IS DUE IS MORE THAN $25;

(B) THREE PERCENT OF THE GROSS VALUE AT THE POINT OF PRODUCTION WHEN THE AVERAGE PRICE PER BARREL FOR ALASKA NORTH SLOPE CRUDE OIL FOR SALE ON THE UNITED STATES WEST COAST DURING THE CALENDAR YEAR FOR WHICH THE TAX IS DUE IS OVER $20 BUT NOT OVER $25;

(C) TWO PERCENT OF THE GROSS VALUE AT THE POINT OF PRODUCTION WHEN THE AVERAGE PRICE PER BARREL FOR ALASKA NORTH SLOPE CRUDE OIL FOR SALE ON THE UNITED STATES WEST COAST DURING THE CALENDAR YEAR FOR WHICH THE TAX IS DUE IS OVER $17.50 BUT NOT OVER $20;

(D) ONE PERCENT OF THE GROSS VALUE AT THE POINT OF PRODUCTION WHEN THE AVERAGE PRICE PER BARREL FOR ALASKA NORTH SLOPE CRUDE OIL FOR SALE ON THE UNITED STATES WEST COAST DURING THE CALENDAR YEAR FOR WHICH THE TAX IS DUE IS OVER $15 BUT NOT OVER $17.50; OR

(E) ZERO PERCENT OF THE GROSS VALUE AT THE POINT OF PRODUCTION WHEN THE AVERAGE PRICE PER BARREL FOR ALASKA NORTH SLOPE CRUDE OIL FOR SALE ON THE UNITED STATES WEST COAST DURING THE CALENDAR YEAR FOR WHICH THE TAX IS DUE IS $15 OR LESS].

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

(m) Notwithstanding any contrary provision of [AS 38.05.180(i), AS 41.09.010,] AS 43.55.024 [,] or 43.55.025, the department shall provide by regulation a method to ensure that, for a calendar year for which a producer's tax liability is limited by (j) [, (k),] or (o) of this section, tax credits based on a lease expenditure incurred before January 1, 2011, that are otherwise available under

[AS 38.05.180(i), AS 41.09.010,] AS 43.55.024 [,] or 43.55.025 and allocated to gas subject to the limitations in (j) [, (k),] and (o) of this section are accounted for as though the credits had been applied first against a tax liability calculated without regard to the limitations under (j) [, (k),] and (o) of this section so as to reduce the tax liability to the maximum amount provided for under (j) or (o) of this section for the production of gas [OR (k) OF THIS SECTION FOR THE PRODUCTION OF OIL]. The regulation must provide for a reasonable method to allocate tax credits to gas subject to (j) and (o) of this section. Only the amount of a tax credit remaining after the accounting provided for under this subsection may be used for a later calendar year, transferred to another person, or applied against a tax levied on the production of oil or gas not subject to (j) [, (k),] or (o) of this section to the extent otherwise allowed.

*** Sec. 13.** AS 43.55.019(e) is amended to read:

(e) The credit under this section may not reduce a person's tax liability **<u>for the calendar year</u>** under AS 43.55.011(e) to below **<u>the amount calculated under AS 43.55.011(f)</u>** [ZERO FOR ANY TAX YEAR]. An unused credit or portion of a credit not used under this section for a tax year may not be sold, traded, transferred, or applied in a subsequent tax year.

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

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

(1) for oil and gas produced before January 1, 2014, 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 (2) 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) 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 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 property during the month for which the installment payment is calculated;

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

(i) 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 the leases or properties during the month for which the installment payment is calculated, but not less than zero; or

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

(2) an amount calculated under (1)(C) of this subsection for [OIL OR] gas subject to AS 43.55.011(j) [, (k),] or (o) may not exceed the product obtained by carrying out the calculation set out in AS 43.55.011(j)(1) or (2) or 43.55.011(o), as applicable, for gas [OR SET OUT IN AS 43.55.011(k)(1) OR (2), AS APPLICABLE, FOR OIL,] but substituting in AS 43.55.011(j)(1)(A) or (2)(A) or 43.55.011(o), as applicable, the amount of taxable gas produced during the month for the amount of taxable gas produced during the calendar year [AND SUBSTITUTING IN AS 43.55.011(k)(1)(A) OR (2)(A), AS APPLICABLE, THE AMOUNT OF TAXABLE OIL PRODUCED DURING THE MONTH FOR THE AMOUNT OF TAXABLE OIL PRODUCED DURING THE CALENDAR YEAR];

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

sum of

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

(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) **and (10)** 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;

(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) 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 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 and gas subject to AS 43.55.160(f) or (g);

(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) 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 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 property during the month for which the installment payment is calculated;

(D) for oil and gas subject to AS 43.55.011(p), the lesser 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 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, but not less than zero; or

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

(6) an amount calculated under (5)(C) of this subsection for [OIL OR] gas subject to AS 43.55.011(j) [, (k),] or (o) may not exceed the product obtained by carrying out the calculation set out in AS 43.55.011(j)(1) or (2) or 43.55.011(o), as applicable, for gas [OR SET OUT IN AS 43.55.011(k)(1) OR (2), AS APPLICABLE, FOR OIL,] but substituting in AS 43.55.011(j)(1)(A) or (2)(A) or 43.55.011(o), as applicable, the amount of taxable gas produced during the month for the amount of taxable gas produced during the calendar year [AND SUBSTITUTING IN AS 43.55.011(k)(1)(A) OR (2)(A), AS APPLICABLE, THE AMOUNT OF TAXABLE OIL PRODUCED DURING THE MONTH FOR THE AMOUNT OF TAXABLE OIL PRODUCED DURING THE CALENDAR YEAR];

(7) for oil and gas produced on or after 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; **<u>except as provided in (10) of this subsection,</u>** 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 produced from leases or properties that include land north of 68 degrees North latitude, 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 produced from the leases or properties during the month for which the installment payment is calculated; or

(iii) 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)(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(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 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) 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(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;

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

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

(10) after December 31, 2016, for the purposes of a calculation under (5)(B)(ii) or (7)(A)(ii) of this subsection, a credit under this chapter may

__not be applied to reduce an installment payment to less than the applicable percentage under AS 43.55.011(f)__. ["]

*** Sec. 15.** AS 43.55.023(a) is amended to read:

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

(1) notwithstanding that a qualified capital expenditure may be a deductible lease expenditure for purposes of calculating the production tax value of oil and gas under AS 43.55.160(a), unless a credit for that expenditure is taken under [AS 38.05.180(i), AS 41.09.010,] AS 43.20.043 [,] or AS 43.55.025, a producer or explorer that incurs a qualified capital expenditure may also elect to apply a tax credit against a tax levied by AS 43.55.011(e) in the amount of **__10__** [20] percent of that expenditure;

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

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

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

(3) a credit for a qualified capital expenditure incurred to explore for, develop, or produce oil or gas deposits located north of 68 degrees North latitude may be taken only if the expenditure is incurred before January 1, 2014.

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

(b) Before January 1, 2014, a producer or explorer may elect to take a tax credit in the amount of 25 percent of a carried-forward annual loss. For lease expenditures incurred on and after January 1, 2014, and before January 1, 2016, to explore for, develop, or produce oil or gas deposits located north of 68 degrees North latitude, a producer or explorer may elect to take a tax credit in the amount of 45 percent of a carried-forward annual loss. For lease expenditures incurred on and after January 1, 2016, to explore for, develop, or produce oil or gas deposits located north of 68 degrees North latitude, a producer or explorer may elect to take a tax credit in the amount of 35 percent of a carried-forward annual loss. For lease expenditures incurred on or after January 1, 2014, **and before January 1, 2017,** to explore for, develop, or produce oil or gas deposits located south of 68 degrees North latitude, a producer or explorer may elect to take a tax credit in the amount of 25 percent of a carried-forward annual loss. **For lease expenditures incurred after December 31, 2016, to explore for, develop, or produce oil or gas deposits located south of 68 degrees North latitude and outside of the Cook Inlet sedimentary basin, a producer or explorer may elect to take a tax credit in the amount of 25 percent of a carried-forward annual loss. For lease expenditures incurred after December 31, 2016, to explore for, develop, or produce oil or gas deposits located in the Cook Inlet sedimentary basin, a producer or explorer may elect to take a credit in the amount of 10 percent of a carried-forward annual loss, if the producer or explorer had, before January 1, 2017, taken a credit under this subsection for an expenditure incurred in the Cook Inlet sedimentary basin.** A credit under this subsection may be applied against a tax levied by AS 43.55.011(e). For purposes of this subsection,

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

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

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

(c) A credit or portion of a credit under this section may not be used to reduce a person's tax liability under AS 43.55.011(e) for any calendar year below **the amount calculated under AS 43.55.011(f)** [ZERO], and any unused credit or portion of a credit not used under this subsection may be applied in a later calendar year.

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

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

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

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

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

(*l*) A producer or explorer may apply for a tax credit for a well lease expenditure incurred in the state [SOUTH OF 68 DEGREES NORTH LATITUDE] after June 30, 2010, as follows:

(1) notwithstanding that a well lease expenditure incurred in the state [SOUTH OF 68 DEGREES NORTH LATITUDE] may be a deductible lease expenditure for purposes of calculating the production tax value of oil and gas under AS 43.55.160(a), unless a credit for that expenditure is taken under (a) of this section, [AS 38.05.180(i), AS 41.09.010,] AS 43.20.043, or AS 43.55.025, a producer or explorer that incurs a well lease expenditure in the state [SOUTH OF 68 DEGREES NORTH LATITUDE] may elect to apply a tax credit against a tax levied by AS 43.55.011(e) in the amount of

(A) 40 percent of that expenditure **incurred south of 68 degrees North latitude before January 1, 2017;**

(B) 30 percent of that expenditure incurred south of 68 degrees North latitude after December 31, 2016, and before January 1, 2018;

(C) 20 percent of that expenditure incurred inside the Cook Inlet sedimentary basin after December 31, 2017;

(D) 30 percent of that expenditure incurred outside the Cook Inlet sedimentary basin and south of 68 degrees North latitude after December 31, 2017, and before January 1, 2019 [; A TAX CREDIT UNDER THIS PARAGRAPH MAY BE APPLIED FOR A SINGLE CALENDAR YEAR];

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

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

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

*** Sec. 21.** AS 43.55.024(f) is amended to read:

(f) A tax credit authorized by (a) of this section may not be applied to reduce a producer's tax liability for any calendar year under AS 43.55.011(e) on oil and gas produced from leases or properties outside the Cook Inlet sedimentary basin, no part of which is north of 68 degrees North latitude, below **<u>the amount calculated under AS 43.55.011(f)</u>** [ZERO].

*** Sec. 22.** AS 43.55.024(g) is amended to read:

(g) A tax credit authorized by (c) of this section may not be applied to reduce a producer's tax liability for any calendar year under AS 43.55.011(e) below **<u>the amount calculated under AS 43.55.011(f)</u>** [ZERO].

*** Sec. 23.** AS 43.55.024(i) is amended to read:

(i) A producer may apply against the producer's tax liability for the calendar year under AS 43.55.011(e) a tax credit of $5 for each barrel of oil taxable under AS 43.55.011(e) that meets one or more of the criteria in AS 43.55.160(f) or (g) and that is produced during a calendar year after December 31, 2013. A tax credit authorized by this subsection may not reduce a producer's tax liability for a calendar year under AS 43.55.011(e) below **<u>the amount calculated under AS 43.55.011(f)</u>** [ZERO].

*** Sec. 24.** AS 43.55.025(m) is amended to read:

(m) The persons that drill the first four exploration wells in the state and within the areas described in (o) of this section on state lands, private lands, or federal onshore lands for the purpose of discovering oil or gas that penetrate and evaluate a prospect in a basin described in (o) of this section are eligible for a credit under (a)(6) of this section. A credit under this subsection may not be taken for more than two exploration wells in a single area described in (o)(1) - (6) of this section. Exploration expenditures eligible for the credit in this subsection must be incurred for work performed after June 1, 2012, and before July 1, 2016**<u>, except that expenditures to complete an exploration well that was spudded but not completed before July 1, 2016, are eligible for the credit under this subsection</u>**. A person planning to drill an exploration well on private land and to apply for a credit under this subsection shall obtain written consent from the owner of the oil and gas interest for the full public release of all well data after the expiration of the confidentiality period applicable to information collected under (f) of this section. The written consent of the owner of the oil and gas interest must be submitted to the commissioner of natural resources before approval of the proposed exploration well. In addition to the requirements in (c)(1), (c)(2)(A), and (c)(2)(C) of this section and submission of the written consent of the owner of the oil and gas interest, a person planning to drill an exploration well shall obtain approval from the commissioner of natural resources before the well is spudded. The commissioner of natural resources shall make a written determination approving or rejecting an exploration well within 60 days after receiving the request for approval or as soon as is practicable thereafter. Before approving the exploration well, the commissioner of natural resources shall consider the following: the location of the well; the proximity to a community in need of a local energy source; the proximity of existing infrastructure; the experience and safety record of the explorer in conducting operations in remote or roadless areas; the projected cost schedule; whether seismic mapping and seismic data sufficiently identify a particular trap for exploration; whether the targeted and planned depth and range are designed to penetrate and fully evaluate the hydrocarbon potential of the proposed prospect and reach the level below which economic hydrocarbon reservoirs are likely to be found, or reach 12,000 feet or more true vertical depth; and whether the exploration plan provides for a full evaluation of the wellbore below surface casing to the depth of the well. Whether the exploration well for which a credit is requested under this subsection is located within an area and a basin described under (o) of this section shall be determined by the commissioner of natural resources and reported to the commissioner. A taxpayer that obtains a credit under this subsection may not claim a tax credit under AS 43.55.023 or another provision in this section for the same exploration expenditure.

*** Sec. 25.** AS 43.55.025 is amended by adding a new subsection to read:

(q) A credit or portion of a credit under this section may not be used to reduce a person's tax liability under AS 43.55.011(e) for any calendar year below the amount calculated under AS 43.55.011(f).

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

(e) The department, on the written application of a person to whom a transferable tax credit certificate has been issued under AS 43.55.023(d) or former

AS 43.55.023(m) or to whom a production tax credit certificate has been issued under AS 43.55.025(f), may use available money in the oil and gas tax credit fund to purchase, in whole or in part, the certificate**. The department may not purchase a total of more than $100,000,000 in tax credit certificates from a person in a calendar year. Before purchasing a certificate or part of a certificate,** [IF] the department **shall find** [FINDS] that

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

(2) the **application is not the result of the division of a single entity into multiple entities that would reasonably be expected to apply as a single entity if the $100,000,000 limitation in this subsection did not exist** [APPLICANT DOES NOT HAVE AN OUTSTANDING LIABILITY TO THE STATE FOR UNPAID DELINQUENT TAXES UNDER THIS TITLE];

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

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

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

*** Sec. 27.** AS 43.55.028 is amended by adding a new subsection to read:

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

* **Sec. 28.** AS 43.55.029(a) is amended to read:

(a) An explorer or producer that has applied for a production tax credit under **former** AS 43.55.023(a) [, (b),] or (*l*) **or under AS 43.55.023(b)** or 43.55.025(a) may make a present assignment of the production tax credit certificate expected to be issued by the department to a third-party assignee. The assignment may be made either at the time the application is filed with the department or not later than 30 days after the date of filing with the department. Once a notice of assignment in compliance with this section is filed with the department, the assignment is irrevocable and cannot be modified by the explorer or producer without the written consent of the assignee named in the assignment. If a production tax credit certificate is issued to the explorer or producer, the notice of assignment remains effective and shall be filed with the department by the explorer or producer together with any application for the department to purchase the certificate under AS 43.55.028(e).

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

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

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

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

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

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

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

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

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

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

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

*** Sec. 30.** AS 43.55.030(e) is amended to read:

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

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

(2) if the explorer or producer receives a payment or credit under AS 43.55.170, calculations showing whether the explorer or producer is liable for a

tax under AS 43.55.160(d) or 43.55.170(b) and, if so, the amount.

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

(e) Any adjusted lease expenditures under AS 43.55.165 and 43.55.170 that would otherwise be deductible by a producer in a calendar year but whose deduction would cause an annual production tax value calculated under (a)(1) or (h) of this section of taxable oil or gas produced during the calendar year to be less than zero may be used to establish a carried-forward annual loss under AS 43.55.023(b). However, the department shall provide by regulation a method to ensure that, for a period for which a producer's tax liability is limited by AS 43.55.011(j), [(k),] (o), or (p), <u>**or former AS 43.55.011(k),**</u> any adjusted lease expenditures under AS 43.55.165 and 43.55.170 that would otherwise be deductible by a producer for that period but whose deduction would cause a production tax value calculated under (a)(1)(C), (D), (E), or (F), or (h)(3) of this section to be less than zero are accounted for as though the adjusted lease expenditures had first been used as deductions in calculating the production tax values of oil or gas subject to any of the limitations under AS 43.55.011(j), [(k),] (o), or (p) <u>**or former AS 43.55.011(k)**</u> that have positive production tax values so as to reduce the tax liability calculated without regard to the limitation to the maximum amount provided for under the applicable provision of AS 43.55.011(j), [(k),] (o), or (p) <u>**or former AS 43.55.011(k)**</u>. Only the amount of those adjusted lease expenditures remaining after the accounting provided for under this subsection may be used to establish a carried-forward annual loss under AS 43.55.023(b). In this subsection, "producer" includes "explorer."

*** Sec. 32.** AS 43.55.160(f) is amended to read:

(f) On and after January 1, 2014, in the calculation of an annual production tax value of a producer under (a)(1)(A) or (h)(1) of this section, the gross value at the point of production of oil or gas produced from a lease or property north of 68 degrees North latitude meeting one or more of the following criteria is reduced by 20 percent: (1) the oil or gas is produced from a lease or property that does not contain a lease that was within a unit on January 1, 2003; (2) the oil or gas is produced from a participating area established after December 31, 2011, that is within a unit formed under AS 38.05.180(p) before January 1, 2003, if the participating area does not contain a reservoir that had previously been in a participating area established before December 31, 2011; (3) the oil or gas is produced from acreage that was added to an existing participating area by the Department of Natural Resources on and after January 1, 2014, and the producer demonstrates to the department that the volume of oil or gas produced is from acreage added to an existing participating area. This subsection does not apply to gas produced before 2022 that is used in the state or to gas produced on and after January 1, 2022. **For oil or gas first produced after December 31, 2016, the reduction under this subsection shall apply to oil or gas produced from a lease or property for the first five years after the commencement of production in commercial quantities of oil or gas from that lease or property. For oil or gas first produced before January 1, 2017, the reduction under this subsection for a lease or property shall expire January 1, 2021.** A reduction under this subsection may not reduce the gross value at the point of production below zero. In this subsection, "participating area" means a reservoir or portion of a reservoir producing or contributing to production as approved by the Department of Natural Resources.

*** Sec. 33.** AS 43.55.160(g) is amended to read:

(g) On and after January 1, 2014, in addition to the reduction under (f) of this section, in the calculation of an annual production tax value of a producer under (a)(1)(A) or (h)(1) of this section, the gross value at the point of production of oil or gas produced from a lease or property north of 68 degrees North latitude that does not contain a lease that was within a unit on January 1, 2003, is reduced by 10 percent if the oil or gas is produced from a unit made up solely of leases that have a royalty share of more than 12.5 percent in amount or value of the production removed or sold from the lease as determined under AS 38.05.180(f). This subsection does not apply if the royalty obligation for one or more of the leases in the unit has been reduced to 12.5 percent or less under AS 38.05.180(j) for all or part of the calendar year for which the annual production tax value is calculated. This subsection does not apply to gas produced before 2022 that is used in the state or to gas produced on and after January 1, 2022. **For oil or gas first produced after December 31, 2016, the reduction under this subsection shall apply to oil or gas produced from a lease or**

<u>property for the first five years after the commencement of production in commercial quantities of oil or gas from that lease or property. For oil or gas first produced before January 1, 2017, the reduction under this subsection for a lease or property shall expire January 1, 2021.</u> A reduction under this subsection may not reduce the gross value at the point of production below zero.

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

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

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

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

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

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

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

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

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

*** Sec. 35.** AS 43.55.165(e) is amended to read:

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

(1) depreciation, depletion, or amortization;

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

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

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

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

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

(7) fines or penalties imposed by law;

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

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

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

(11) surcharges levied under AS 43.55.201 or 43.55.300;

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

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

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

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

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

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

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

(19) costs incurred for repair, replacement, or deferred maintenance of a facility, a pipeline, a structure, or equipment, other than a well, that results in or is undertaken in response to a failure, problem, or event that results in an unscheduled interruption of, or reduction in the rate of, oil or gas production; or costs incurred for repair, replacement, or deferred maintenance of a facility, a pipeline, a structure, or equipment, other than a well, that is undertaken in response to, or is otherwise associated with, an unpermitted release of a hazardous substance or of gas; however, costs under this paragraph that would otherwise constitute lease expenditures under (a) and (b) of this section may be treated as lease expenditures if the department determines that the repair or replacement is solely necessitated by an act of war, by an

unanticipated grave natural disaster or other natural phenomenon of an exceptional, inevitable, and irresistible character, the effects of which could not have been prevented or avoided by the exercise of due care or foresight, or by an intentional or negligent act or omission of a third party, other than a party or its agents in privity of contract with, or employed by, the producer or an operator acting for the producer, but only if the producer or operator, as applicable, exercised due care in operating and maintaining the facility, pipeline, structure, or equipment, and took reasonable precautions against the act or omission of the third party and against the consequences of the act or omission; in this paragraph,

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

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

(C) "replacement" includes renovation or improvement;

(20) costs incurred to construct, acquire, or operate a refinery or crude oil topping plant, regardless of whether the products of the refinery or topping plant are used in oil or gas exploration, development, or production operations; however, if a producer owns a refinery or crude oil topping plant that is located on or near the premises of the producer's lease or property in the state and that processes the producer's oil produced from that lease or property into a product that the producer uses in the operation of the lease or property in drilling for or producing oil or gas, the producer's lease expenditures include the amount calculated by subtracting from the fair market value of the product used the prevailing value, as determined under AS 43.55.020(f), of the oil that is processed;

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

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

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

*** Sec. 37.** AS 43.55.170(c) is amended to read:

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

*** Sec. 38.** AS 43.55.890 is amended to read:

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

(1) the amount of oil or gas production;

(2) the amount of taxes levied under this chapter or paid under this chapter;

(3) the effective tax rates under this chapter;

(4) the gross value of oil or gas at the point of production;

(5) the transportation costs for oil or gas;

(6) qualified capital expenditures [, AS DEFINED IN AS 43.55.023];

(7) exploration expenditures under AS 43.55.025;

(8) production tax values of oil or gas under AS 43.55.160;

(9) lease expenditures under AS 43.55.165;

(10) adjustments to lease expenditures under AS 43.55.170;

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

*** Sec. 39.** AS 43.55.895(b) is amended to read:

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

<u>**(1)**</u> is eligible for [ALL] tax credits <u>**proportionate to its production taxable under AS 43.55.011(e); and**</u>

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

*** Sec. 40.** AS 43.55.900 is amended by adding a new paragraph to read:

(26) "qualified capital expenditure"

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

(i) incurred for geological or geophysical exploration;

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

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

(B) does not include an expenditure incurred to acquire an asset the cost of previously acquiring which was a lease expenditure under AS 43.55.165 or would have been a lease expenditure under AS 43.55.165 if it had been incurred after March 31, 2006, or that has previously been placed in service in the state; an expenditure to acquire an asset is not excluded under this subparagraph if not more than an immaterial portion of the asset meets a description under this subparagraph; for purposes of this subparagraph, "asset" includes geological, geophysical, and well data and interpretations.

*** Sec. 41.** AS 43.70.020 is amended by adding a new subsection to read:

(g) A person whose business engages in oil or gas exploration or development must, in addition to filing the regular application required by this section, file with the commissioner a surety bond of $250,000 running to unsecured creditors licensed in the state before being entitled to a license under this chapter. The commissioner shall waive the surety bond requirement under this subsection if the business produces oil or gas in commercial quantities.

*** Sec. 42.** AS 38.05.180(i); AS 41.09.010, 41.09.020, 41.09.030, 41.09.090; AS 43.20.053(j)(4); and AS 43.55.011(k) are repealed January 1, 2017.

*** Sec. 43.** AS 43.55.023(a), 43.55.023(*l*), 43.55.023(n), 43.55.023(o), 43.55.028(i), 43.55.075(d)(1), 43.55.165(j), and 43.55.165(k) are repealed January 1, 2022.

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

LEGISLATIVE WORKING GROUP. (a) A legislative working group is established to analyze the Cook Inlet fiscal regime for oil and gas, review the state's tax structure and rates on oil and gas produced south of 68 degrees North latitude, recommend changes to the legislature for consideration during the First Regular Session of the Thirtieth Alaska State Legislature, and develop terms for a comprehensive fiscal regime for the area south of 68 degrees North latitude including,

(1) a tax structure that accounts for the unique circumstances for each oil and gas producing area south of 68 degrees North latitude;

(2) incentives for the exploration, development, and production of oil and gas south of 68 degrees North latitude;

(3) consideration of the competitiveness of the area to attract new oil and gas development;

(4) consideration of the unique market considerations of the Cook Inlet sedimentary basin and the need to support energy supply security for communities in Southcentral Alaska;

(5) alternative means of state support for the exploration, development, and production of oil and gas in this area, including through the Alaska Industrial Export and Development Authority;

(6) analysis of whether refundable state tax credits are still necessary for a new regime;

(7) evaluation of the need for disclosure of some confidential information to help legislators shape policy, including an evaluation of the associated state and federal

constitutional issues related to statutory waivers of taxpayer confidentiality.

(b) The working group consists of

(1) two co-chairs, one of whom is a member of the house appointed by the speaker of the house of representatives, and one of whom is a member of the senate appointed by the president of the senate; and

(2) members appointed by the co-chairs; members must be legislators and must include members of the majority and minority caucuses.

(c) The co-chairs of the working group may form an advisory group to the working group, composed of members who are not legislators and who have expertise and skills to assist in the review and development of a new plan for the tax structure and rates on oil and gas produced south of 68 degrees North latitude. The members of an advisory group may include commissioners or employees of state departments, members of the oil and gas industry or trade associations, and economists.

(d) The working group is to be supported by legislative consultants under contract through the Legislative Budget and Audit Committee.

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

APPLICABILITY. Sections 7 - 9, 26, and 27 of this Act apply to a refund or payment applied for on or after January 1, 2017.

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

TRANSITION: QUALIFIED CAPITAL EXPENDITURES AND WELL LEASE EXPENDITURES. (a) Notwithstanding the repeal of AS 43.55.023(a), (*l*), (n), and (o) by sec. 43 of this Act, and the amendments to AS 43.55.023(d) and (e), 43.55.029(a), 43.55.165(f), and 43.55.170(c) by secs. 18, 19, 28, 36, and 37 of this Act, a taxpayer who incurs

(1) a qualified capital expenditure before the effective date of sec. 43 of this Act that qualifies for a qualified capital expenditure credit under AS 43.55.023(a) may apply for a credit or transferable tax credit certificate under AS 43.55.023 and assign the tax credit under AS 43.55.029, as those sections read on the day before the effective date of sec. 43 of this Act;

(2) a well lease expenditure before the effective date of sec. 43 of this Act that

qualifies for a well lease expenditure credit under AS 43.55.023(*l*) may apply for a credit or transferable tax credit certificate under AS 43.55.023 and assign the tax credit under AS 43.55.029, as those sections read on the day before the effective date of sec. 43 of this Act.

(b) The Department of Revenue may continue to apply and enforce AS 43.55.023 and 43.55.029, as those sections read on the day before the effective date of sec. 43 of this Act, for qualified capital expenditures and well lease expenditures incurred before the effective date of sec. 43 of this Act.

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

TRANSITION: LEASE EXPENDITURES FOR A CALENDAR YEAR AFTER 2006 AND BEFORE 2010. Notwithstanding AS 43.55.165(a), as amended by sec. 34 of this Act, and the repeal of AS 43.55.165(j) and (k) by sec. 43 of this Act, AS 43.55.165(j) and (k) apply to a producer's total lease expenditures for a calendar year after 2006 and before 2010 under AS 43.55.165, as that section read on the day before the effective date of sec. 43 of this Act.

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

TRANSITION: REGULATIONS. The Department of Revenue and the Department of Natural Resources may adopt regulations necessary to implement the changes made by this Act. The regulations take effect under AS 44.62 (Administrative Procedure Act), but not before the effective date of the law implemented by the regulation. The Department of Revenue shall adopt regulations governing the use of tax credits under AS 43.55 for a calendar year for which the applicable tax credit provisions of AS 43.55 differ as between parts of the year as a result of this Act.

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

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

(1) if the Department of Revenue expressly designates in a regulation that the regulation applies retroactively, a regulation adopted by the Department of Revenue to

implement, interpret, make specific, or otherwise carry out this Act may apply retroactively to the effective date of the law implemented by the regulation;

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

* **Sec. 50.** Sections 24, 44, and 48 of this Act take effect immediately under AS 01.10.070(c).

* **Sec. 51.** Sections 18, 19, 28 - 30, 34 - 38, 40, 43, 46, and 47 of this Act take effect January 1, 2022.

* **Sec. 52.** Except as provided in secs. 50 and 51 of this Act, this Act takes effect January 1, 2017.