Alaska State Legislature
House Rules Committee
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Summary of \Q version

The Q version work draft closes out the state's tax credit program, except for the Middle Earth 30-40% exploration credit that sunsets in 2022, phasing out credits between Jan. 1, 2017, and Jan. 1, 2020.

In phasing out the Net Operating Loss carry-forward on the North Slope, the bill implements a system of carrying forward lease expenditures that a business is unable to deduct in the current year. This approach is consistent with Federal tax treatment of business losses.

Statewide:

- No more than $85 million per company in credits cashed back, per year.
- Refunds are prioritized to companies with at least 80% Alaska hire.
- Disclosure of some information to the public: the Department of Revenue will make public, annually, the name of a company receiving refunds for credits, as well as the total dollars refunded to the company for the year.
- Outstanding liability – providing a liability is not contested, DOR can apply a withheld credit against a liability without the taxpayer's consent.
- Includes requirement for a $250,000 surety bond and provisions for prioritizing claims.
- Municipal producers must allocate lease expenditure to taxable production, so credits are not received/earned for nontaxable production.
- Maintaining assignability of credit certificates, even without transferability: While tax certificates for work done in 2017 and forward will no longer be transferrable to entities for application against production tax liability, they can be assigned to other parties for cash.
- The income tax credits for the instate refinery and LNG storage facilities remain in statute, but as those are not oil and gas production tax-related credits, they are no longer refundable from the Oil and Gas Tax Credit Fund. They are refundable by the Department of Revenue generally.
- Interest rates increase from 3 points above the federal discount rate in current statute, simple interest, to five points above, compounding quarterly. The switch to simple interest after the first four years of a delinquency is removed.

Specific to the Cook Inlet and Middle Earth:

- For 2016, all credits currently in statute continue: 20% QCE, 40% WLE, 25% NOL

- In order to receive any Cook Inlet credits from 2017 on, a company must have oil or gas production in Cook Inlet by the end of 2016.
- For 2017, the 40% WLE is repealed. Companies are eligible for a 30% capital credit, and for a 25% NOL credit; the 25% NOL credit terminates at the end of 2017.
- For 2018, companies are eligible for a 20% capital credit only; this credit terminates at the end of 2018.
- Legislative working group with tighter language, being explicit that the new regime to be developed would take place with the expiration of credits, in Jan. 1, 2019.
- There is an additional benefit for Middle Earth; this is the extension of the 025(a)(6) credit for a well spudded, but not completed, by July 2016.
- And, for Middle Earth, this bill does not change the 2022 sunset of the Middle Earth exploration credit.

Specific to the North Slope:

- The 35% NOL credit sunsets at the end of 2016 for companies producing more than 20,000 barrels per day and companies with no production. Companies producing oil or gas on the North Slope by the end of 2016, up to 20,000 barrels per day, continue to receive the 35% refundable NOL through 2019.
- Except for those smallest producers, the NOL no longer applies. Instead, companies in pre-production development or with more than 20,000 barrels per day production will be able to carry forward lease expenditures they were unable to deduct in the current year. Changing the NOL from a credit to carry-forward lease expenditure deductions hardens the 4% gross minimum floor; unlike credits, deductions cannot reduce production tax value before the gross minimum tax.
- The GVR reduction for new oil goes from a timeless benefit under current statute, to a 10-year benefit once regular production starts. The new oil per-barrel-credit also applies only while the new oil is receiving the GVR reduction. Once new oil 'graduates' into normal oil after 10 years, and no longer receives the new-oil benefits, it is taxed as any other normal oil and is eligible for the sliding scale per-barrel reduction, like all normal oil.
- Previous bill versions have all included a provision to prevent the use of the GVR from increasing the amount of a loss. This bill retains that provision, but moves the language from the NOL credit section.