

NEW SUSTAINABLE

ALASKA

PLAN



Pulling Together to Build Our Future

Oil and Gas Tax Credit Reform

CS HB247(RLS)\C

Department of Revenue

Overview of House Rules CS for Senate Finance

May 13, 2016

Major Provisions in Rules Committee Substitute

1. Exploration Credits

- Governor's bill
 - Allows existing credits to sunset on 7/1/16
 - Keeps "middle earth" extension to 1/1/22
 - Repeals older dormant DNR exploration credits
- Rules CS
 - Also keeps the change made in several earlier versions to extend the "Frontier Basin" credit to protect ongoing AHTNA investment
 - Extends this language six months due to additional delay in acquiring a rig

Major Provisions in Rules Committee Substitute

2. Cook Inlet (and Middle Earth) Credits

- Governor's bill
 - Eliminated 20% QCE and 40% WLE, kept 25% NOL
 - Kept 2022 "tax cap" sunset
- Rules CS
 - NOL kept at 25% in 2017 but only if producing by 1/1
 - QCE repealed 1/1/17
 - WLE reduced to 20% for 2017-18 and repealed in 2019
 - Keeps 2022 tax cap sunset but "working group" section explicitly calls for new tax system to take effect in 2019

Major Provisions in Rules Committee Substitute

3. North Slope Credits, Limits, Carry-Forwards

- Governor's bill
 - Kept 35% NOL rate (not current administration policy)
 - Capped repurchase at \$25 million / company / year, large company exclusion, 10 year sunset
- Rules CS
 - 35% NOL for 2017-19 transition period, only for small producers and pre-production developers
 - Capped at \$75 million / company / year
 - After 2020 all companies must "carry forward" lease expenditures to use against future revenue
 - Effectively keeps the 35% tax value for carry-forward

Major Provisions in Rules Committee Substitute

4. Minimum Tax Changes

- Governor's bill
 - Increased "floor" to 5%
 - "Hardened" minimum tax against NOLs, \$5 per-barrel credit for new (GVR) oil, small producer, and exploration credits
- Rules CS
 - Keeps current 4% floor and doesn't harden against additional credits
 - Because NOLs end (2017 for majors, 2020 for others), floor indirectly hardened because no NOLs to use
 - Revenue impact delayed to 2020 because pre-effective date NOLs can still be used to go below floor

Major Provisions in Rules Committee Substitute

5. New Oil “GVR” Provisions

- Governor’s bill
 - No changes
- Rules CS
 - 10-year “graduation” of GVR oil to become legacy oil
 - (Note- concept of “graduation” started with House Finance CS; various versions in the 5-7 year range)

Major Provisions in Rules Committee Substitute

6. Misc and Technical Provisions

- a) Gov:** GVR can't be used to increase the size of an NOL
Rules: Kept as written
- b) Gov:** Municipal Utility Lease Expenditure pro-ration
Rules: Kept as written
- c) Gov:** Transparency, can release amount of credits received and the work done to earn them
Rules: Limited to refunded credits, and dollar total only
- d) Gov:** Interest Rate increase from 3% over Federal Reserve, simple to 7% over Fed, compounding
Rules: Increase to 5% over Fed, compounding

Major Provisions in Rules Committee Substitute

6. Misc and Technical Provisions (con't)

e) Gov: Alaska Hire tied to percentage of credit that can be refunded

Rules: Alaska Hire as prioritization for repurchase given limited funds

f) Gov: Credits can be used to offset other delinquent obligations to the state such as royalties

Rules: Credits can be held back, but if contested must get company's consent to use to pay obligation

g) Gov: No bonding or other formal means to protect local vendors from bankruptcy

Rules: \$250k surety bond with local vendor priority

Summary of Fiscal Impact

Summary Analysis of Bill Versions (\$millions) (based on Spring 2016 Forecast)

	FY 2017			FY 2018			FY 2019			FY 2020		
	HB247 (GOV)	CS SB130 (RES)	CS HB247 (RLS)	HB247 (GOV)	CS SB130 (RES)	CS HB247 (RLS)	HB247 (GOV)	CS SB130 (RES)	CS HB247 (RLS)	HB247 (GOV)	CS SB130 (RES)	CS HB247 (RLS)
Reduced Spending												
Credits Eliminated or Reduced												
North Slope	\$15	\$0	\$0	\$15	\$15	\$15	\$25	\$25	\$30	\$20	\$20	\$45
Cook Inlet / Mid Earth	\$35	\$10	\$5	\$65	\$40	\$30	\$45	\$50	\$45	\$35	\$50	\$45
Credits Deferred												
North Slope	\$30	\$0	\$0	\$80	\$0	\$0	\$95	\$0	\$0	\$45	\$0	\$0
Cook Inlet / Mid Earth	\$0	\$0	\$0	\$30	\$0	\$0	\$40	\$0	\$0	\$20	\$0	\$0
Budget Subtotal	\$80	\$10	\$5	\$190	\$55	\$45	\$205	\$75	\$75	\$120	\$70	\$90
Increased Revenue												
Floor "Hardening"	\$130	\$0	\$0	\$185	\$0	\$0	\$185	\$0	\$0	\$160	\$0	\$70
Floor Increase to 5%	\$45	\$0	\$0	\$45	\$0	\$0	\$55	\$0	\$0	\$80	\$0	\$0
CI Credit Repeal	\$15	\$0	\$0	\$10	\$0	\$0	\$15	\$0	\$10	\$15	\$0	\$15
Revenue Subtotal	\$190	\$0	\$0	\$240	\$0	\$0	\$255	\$0	\$10	\$255	\$0	\$85
Total Bill Impact	\$270	\$10	\$5	\$430	\$55	\$45	\$460	\$75	\$85	\$375	\$70	\$175
NOL Carry-Forward	\$773	\$605	\$610	\$1,128	\$718	\$720	\$1,226	\$677	\$660	\$1,223	\$508	\$685

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Thank You!

Contact Information

Randall Hoffbeck
Commissioner
Department of Revenue
Randall.Hoffbeck@Alaska.gov
(907) 465-2300

Ken Alper
Director, Tax Division
Department of Revenue
Ken.Alper@Alaska.gov
(907) 465-8221