



Alaska Department of Revenue



Credits

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Randall Hoffbeck, Commissioner
Alaska Department of Revenue



Tax Credits In Alaska's Oil and Gas Production Tax



History of Oil and Gas Tax Credits

- **The first “modern era” credit was the Exploration Tax Credit, AS 43.55.025 (SB 185, 2003)**
 - **20%-40% credit depending on type and location of work**
 - **Could be taken against liability, sold to a producer with tax liability, or carried forward**
 - **No state reimbursement option**
 - **This was still during the ELF tax regime**

History of Oil and Gas Tax Credits

- **Several Credits added with passage of PPT and switch to a net-profits tax (HB3001, 2006)**
 - **20% Loss Carry Forward (NOL) Credit**
 - **20% Qualified Capital Expenditure (QCE) Credit**
 - **Small Producer & New Areas Credit**
 - **Transitional Expenditure Credit**
- **Added a mechanism for state buyback of credits from smaller producers (less than 50,000 bbl / day), for up to \$25 million / year**

History of Oil and Gas Tax Credits

- **Credits Modified with ACES (HB2001, 2007)**
 - **Minor changes to credits themselves**
 - **Loss Carry Forward Credit increased to 25%**
 - **Eliminated \$25 million cap and created the Tax Credit Fund (AS 43.55.028).**

History of Oil and Gas Tax Credits

- **Several Cook Inlet Specific Credits added in 2010**
 - **Gas Storage Facility Credit (HB280)**
 - **40% Well Lease Expenditure Credit (HB280)**
 - **Jack-up Rig Credit (SB309)**
- **Frontier Areas Credit (modeled on Jack-up Rig Credit) and LNG Storage Facility Credit (modeled on Gas Storage Facility Credit) added in 2012 (SB23)**

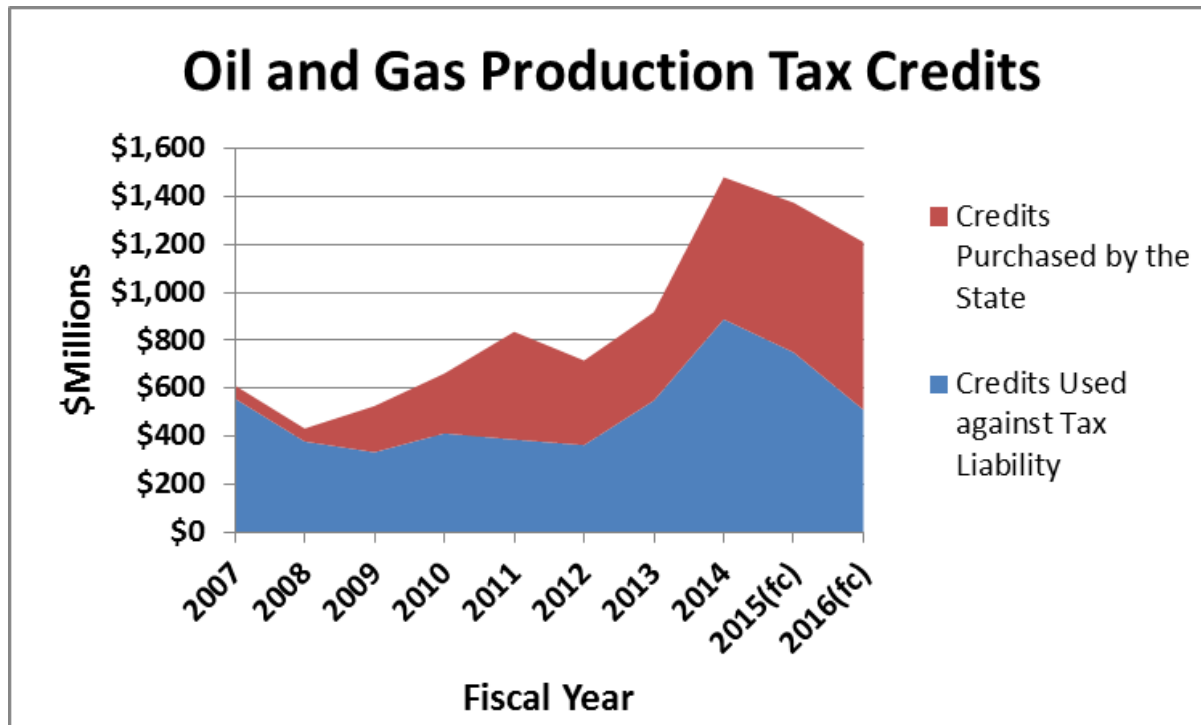
History of Oil and Gas Tax Credits

➤ **Credits Modified with SB21 (2013)**

- **Eliminate the 20% Capital Credit**
- **Create the Per-Barrel Credit**
- **Increase the Loss Carry Forward (NOL) credit to 35%. (45% for 2014 and 2015)**

So to sum all that up...

- Over the last 10 years the size and the applicability of the oil and gas tax credit program has increased



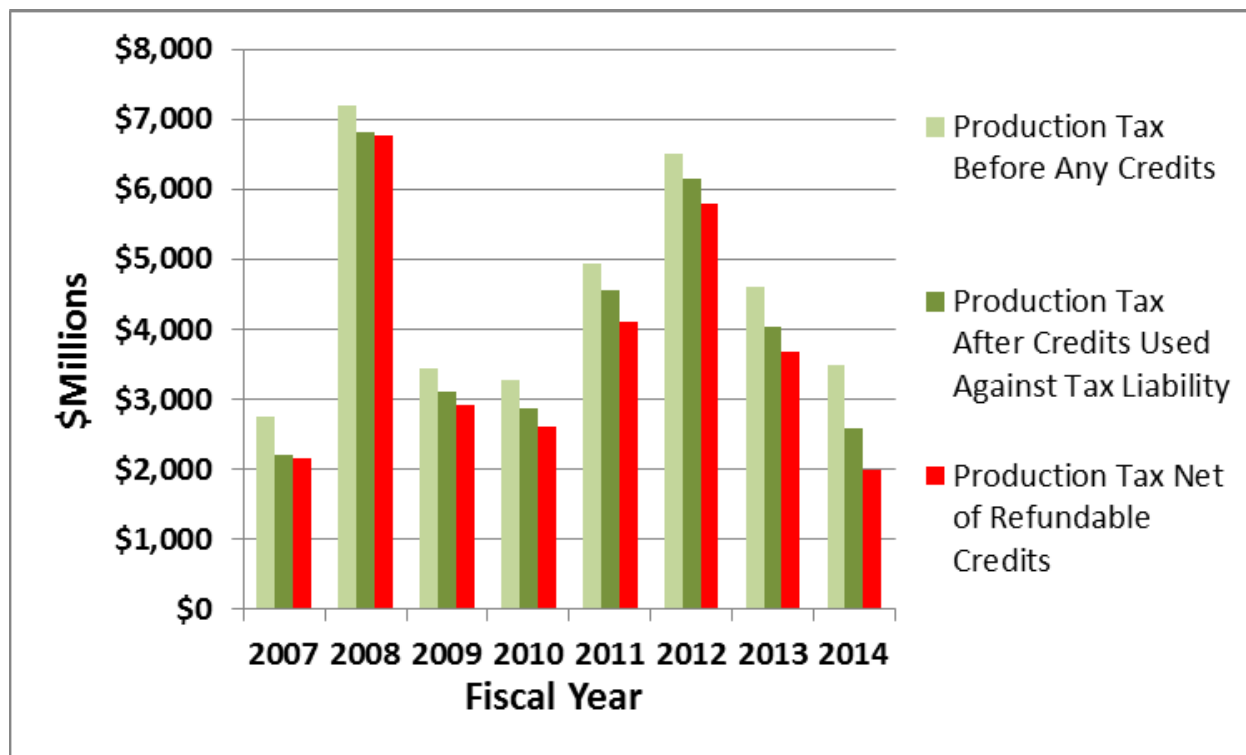
Source: Fall 2014 Revenue Sources Book, p.68-69

➤ Not All Credits Should be Viewed as a “Cost”

- The largest credits, the 20% capital credit in ACES and the per-barrel credit in SB21, are integral parts of the tax system. They are built-in offsets to the tax rate.
 - Most of the “credits used against tax liability” fall into this category
- Other credits were created to encourage a desired behavior by industry.
 - Most of the “refunded credits” fall into this category

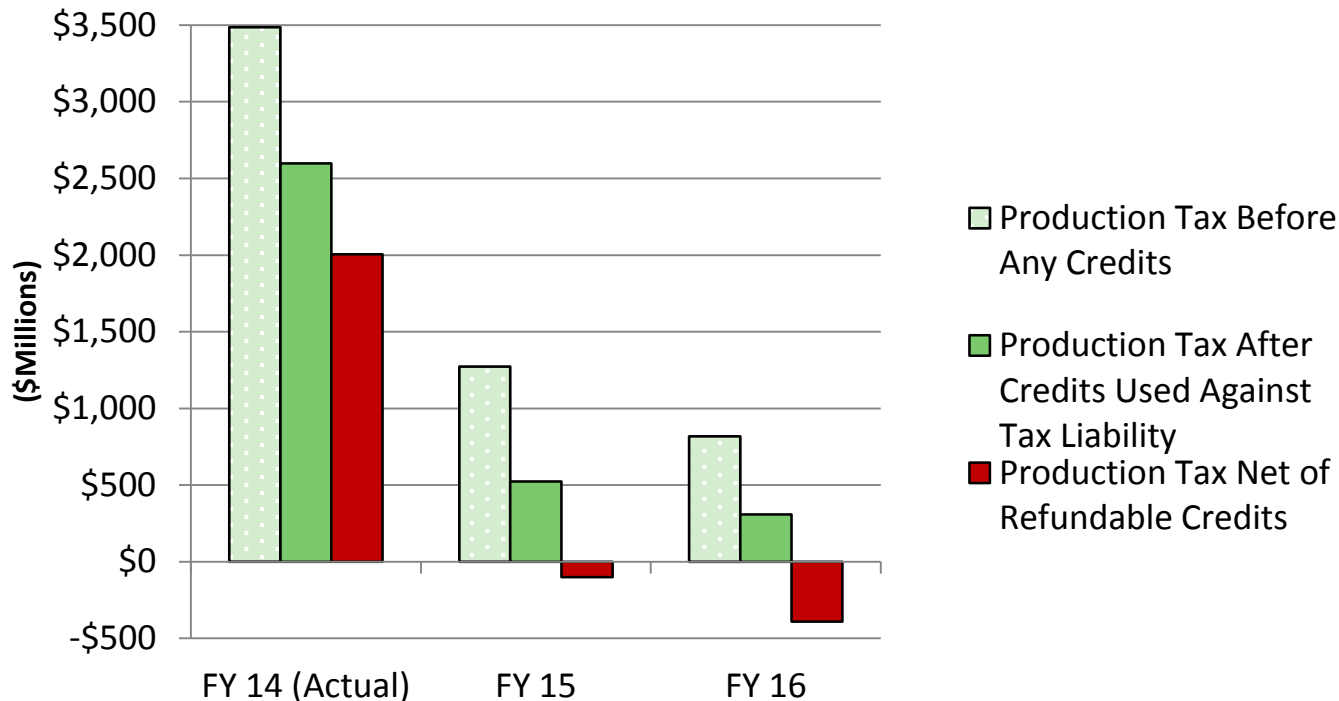
Net Tax Credits versus Production Tax

- Refundable credits were implemented as an investment in the future



Net Tax Credits versus Production Tax

- But in today's low oil price environment, the refundable credits exceed the tax revenue



Taxes and Credits are Different Companies

- The production tax is paid by the companies with taxable profits producing oil in Alaska
 - This is primarily the large companies working on the North Slope
- The refundable credits go to companies who have no tax liability
 - This is generally the smaller companies exploring and developing oil and gas fields on the North Slope and Cook Inlet

Alaska's Credit Burden will Naturally Decline

- **Carry Forward Annual Loss Credit for the North Slope will decrease from 45% to 35% in January, 2016**
- **Small Producer Credit stops accepting new producers in May, 2016**
- **Exploration Incentive Credits for North Slope and Cook Inlet expire in July, 2016**

THANK YOU

Please find our contact information below:

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



dor.alaska.gov

