Alaska State Legislature
House Resources Committee

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SPONSOR STATEMENT

HB 111: OIL AND GAS PRODUCTION TAX; PAYMENTS; CREDITS

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HB 111: "OIL AND GAS PRODUCTION TAX; PAYMENTS; CREDITS" was introduced to reform the oil and gas production tax regime as a component of protecting Alaska's fiscal future. This legislation builds on the passage of HB 247 in 2016, which primarily scaled back tax credits available in Cook Inlet. If the oil and gas tax structure is left untouched it is estimated by the Alaska Department of Revenue that there will be $1.6 billion in purchasable credits outstanding in 2026.

The introduction of HB 111 came with the goals of minimizing the downside risk for the state, reducing the state's annual cash outlay, strengthening the minimum tax and limiting who can earn Carried Forward Annual Loss Credits (known as net operating loss or NOL).

HB 111 changes the minimum production tax from 4%, at oil prices above $25 per barrel to 5% at oil prices of $50 per barrel or more and 4% at oil prices less than $50. In addition, HB 111 will harden the floor so no credits can bring the tax rate below the minimum production tax rate.

HB 111 will also change the sliding scale per-taxable-barrel credit to $8 at oil prices less than $60 moving incrementally to $3 at prices less than $110 and zero above $110 per barrel. Additionally, HB 111 eliminates the current "zero interest rate" provision after three years of oil and gas production tax delinquency. This provision will encourage companies to settle tax disputes with the state.

Furthermore, HB 111 eliminates the North Slope net operating loss credit. A new provision will allow 50 percent of North Slope net operating losses to carry forward to when a taxpayer has production. The bill provides for an uplift on the carried forward loss of seven percentage points above the Federal Reserve rate for seven years. An explorer who encounters a dry hole is eligible for a 15 percent purchasable tax credit of exploration expenditures subject to specified conditions including payment of all service contracts associated with the exploration activity.

With the passage of HB 111, NOL credits will no longer be subject to purchase by the state beginning in 2018. Furthermore, the amount of cash each company can receive per year for purchasable credits is reduced to $35 million from $70 million and eligibility for cash payment for credits is limited to companies producing less than 15,000 barrels per day. The current law allows companies producing less than 50,000 barrels per day to be eligible for cash payment for credits.

HB 111 adds information requirements to help legislative decision-making and ensure that cost effective exploration and development methods are employed by companies. The bill establishes a process for confidential taxpayer information to be provided to legislators, provides for public disclosure of information related to tax credits, and calls for the Department of Natural Resources to develop regulations to establish a review process for pre-approval of lease expenditures that wll generate a carry-forward annual loss.

In addition, HB 111 specifies that the Gross Value at the Point of Production for a given property cannot go below zero. This has an impact on high tariff fields at low prices. HB 111 also limits the use of per-taxable-barrel credits to the month in which they are earned. This has a revenue impact during a year with volatile oil prices. It prevents per barrel credits earned, but unused in a month, from being used to offset taxes during a month with higher oil prices. This is also known as the migrating credit issue.

HB 111 strengthens the State of Alaska's oil and gas tax regime and significantly reduces the state's liability for the repayment of purchasable credits in future years. It is estimated that there will be $900 million in purchasable credits by the end of 2017. HB 111 ends this generous tax credit system without retroactively eliminating a company's ability to receive cash for the credits they accrued through 2017. Intent language in the bill encourages the purchase of outstanding purchasable credit applications contingent on passage of a fiscal plan. HB 111 is one component of a fiscal solution that will ensure Alaska has a balanced, sustainable budget for years to come.