HB 247 Oil & Gas Tax Credits

Summary of Passed Legislation

June 14, 2016

HB 247 makes changes to the oil and gas tax credit system as well as certain aspects of the production tax. Various oil and gas tax credits have been added to the statutes since 2003, with direct state repurchase beginning in 2007. Through the end of FY 2016, about $8 billion in tax credits will have been received by companies. This includes both credits used against tax liability and credits repurchased by the state; it also includes activity on both the North Slope and other areas of the state. Currently and in recent years, the state has paid up to 55%-65% of the cost of a project during the development phase, and up to 85% of exploration costs. These large numbers result from the "stacking" of multiple credits.

As introduced, this legislation was a comprehensive attempt to reform and reduce the cost of Alaska's current program of providing direct tax rebates and other advantages to oil and gas companies. The bill changed dramatically during the legislative process and the overall impact of the legislation that passed varies dramatically by region. In Cook Inlet, credit support will drop to zero by 2018. In "Middle Earth," support is roughly cut in half. Changes in North Slope credits are primarily technical, although the GVR graduation provision will become substantial over time.

The final bill includes several components that were in the governor's originally submitted bill, as well as others added by the legislature. Broadly stated, the bill does the following:

- Phases out the three major credits available to developers and producers in Cook Inlet (Net Operating Loss, Qualified Capital Expenditure, and Well Lease Expenditure). The credits are reduced to roughly ½ the current level in 2017, and are eliminated in 2018. In current law, these credits used in tandem result in state participation of up to 65% of a project's cost.
- Implements a $1/bbl flat tax on oil produced in Cook Inlet and Middle Earth.
- Reduces those same three credits roughly in half in areas outside the North Slope and Cook Inlet (so-called "middle earth.") to roughly half their current level.
- Adds a cap on how much in repurchased tax credits can be received by a single company in a year. Currently there is no cap; in this bill each company could receive up to $35 million at full face value and up to another $35 million at a 25% discount from face value. Additional credits would have to be carried into a future year, to be repurchased then or used against tax liability.
- Adds a "graduation" provision to the Gross Value Reduction (GVR) for new North Slope oil. After seven years of production, or three years if the price of oil is greater than $70 / bbl, new oil would revert to be taxed in the same manner as legacy oil.
- Removes several loopholes that artificially increase net operating losses eligible for tax credits.

- Increases the interest rates charged on delinquent or assessed production taxes for the first three years that a tax is delinquent. The interest rate is reduced to zero after three years.
- Provides a waiver of confidentiality so the state can discuss and release information regarding what companies are receiving refunded state tax credits and how much they are receiving.
- Provides for prioritization of credit payments to companies with higher local hirer ratios in years where there is insufficient appropriations to cover all credit liabilities.
- Repeals several dormant exploration credits so as to prevent attempts to use them once the current "alternative credit for exploration" sunset in most parts of the state on July 1, 2016. Also repeals sections in statute that are obsolete or superseded;
- Most changes take effect on January 1, 2017.