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Key Goals and Features of SB 130 / HB 247

Governor's Oil and Gas Tax Credit Reform Bill

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Major Bill Goals

1. Reduce the state's annual cash outlay
2. Protect Net Operating Loss credits as essential playing field leveler between incumbent producers and newcomers
3. Limit repurchases to companies who meet certain financial criteria
4. Strengthen the minimum tax
5. Be more open and transparent
6. Honor and pay credits earned to date and through a transition period

Major Bill Features

Exploration Credits

- Most credits (other than "middle earth," which has been extended to 2022) expire 7/1/16. Allow them to sunset
- Add current DNR data requirements as a condition of the Net Operating Loss credit
- Preemptively repeal other dormant exploration credit programs

Non-North Slope Credits

- Repeal the 20% "capital" and 40% "well" expenditure credits
- Maintain state cash support for Cook Inlet development at 25% of net operating losses while eliminating cash credits to profitable companies

Repurchase Limits

- Credits must be held until there is a tax liability for companies with global revenue greater than $10 billion
- Repurchase limit of $25 million per company per year
- Percentage of repurchase tied to percentage of Alaska resident hire
- Net operating loss credits expire after 10 years

Remove Exceptions / Loopholes

- Eliminate ability to use Gross Value Reduction (new oil tax reduction) to increase the size of a net operating loss
- For municipal entities who own production, limit credits to only the pro-rata share of expenses for that share of production that is sold

Strengthen Minimum Tax "Floor"

- Limit the use of net operating loss and other credits such that they cannot reduce tax payments below the minimum tax. Unused credits can be carried forward into a future tax year
- Limit the use of the $5 per-taxable-barrel credit for GVR-eligible "new oil" so that payments cannot be reduced below the minimum tax
- Prevent per-barrel credits used in one month from being used against another month's taxes at annual true up
- Increase minimum tax rate from 4% (at prices above $25) to 5% (at all prices)

Other Provisions

- Increase interest rates to the state's rate of investment return
- Limited confidentiality waiver so the state can report which companies receive credits as well as the amount

Transition

- Bill has a 7/1/16 effective date for nearly all changes
- On the effective date there will be nearly $1 billion in anticipated in credit liability. This is the total of any remaining FY16 credits in excess of the governor's veto, in addition to all credits earned in 2015 that will be expected to be paid in FY17, as well as those credits earned in the first half of 2016
- In the operating budget, $1 billion is deposited into a transition fund to pay this liability

Fiscal Impact in First Full Year is $500 million

- $200 million from repeal of certain credits and elimination of loopholes
- $200 million in deferred payments due to certificates having to be held against future tax liability, due to new repurchase limits
- $100 million in additional revenue primarily from strengthening the minimum tax