

CS FOR HOUSE BILL NO. 247(RES)

IN THE LEGISLATURE OF THE STATE OF ALASKA

TWENTY-NINTH LEGISLATURE - SECOND SESSION

BY THE HOUSE RESOURCES COMMITTEE

Offered: 3/23/16

Referred: Finance

Sponsor(s): HOUSE RULES COMMITTEE BY REQUEST OF THE GOVERNOR

A BILL

FOR AN ACT ENTITLED

1 "An Act relating to interest applicable to delinquent tax; relating to the oil and gas
2 production tax, tax payments, and credits; relating to refunds for the gas storage facility
3 tax credit, the liquefied natural gas storage facility tax credit, and the qualified in-state
4 oil refinery infrastructure expenditures tax credit; relating to oil and gas lease
5 expenditures and production tax credits for municipal entities; relating to a business
6 license for an oil or gas business; establishing a legislative working group to study the
7 tax structure for oil and gas produced south of 68 degrees North latitude; and providing
8 for an effective date."

9 **BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF ALASKA:**

10 * **Section 1.** AS 38.05.036(a) is amended to read:

11 (a) The department may conduct audits regarding royalty and net profits under
12 oil and gas contracts, agreements, or leases under this chapter and regarding costs

1 related to exploration licenses entered into under AS 38.05.131 - 38.05.134 and
2 exploration incentive credits under this chapter [OR UNDER AS 41.09]. For purposes
3 of an audit under this section,

4 (1) the department may examine the books, papers, records, or
5 memoranda of a person regarding matters related to the audit; and

6 (2) the records and premises where a business is conducted shall be
7 open at all reasonable times for inspection by the department.

8 * **Sec. 2.** AS 38.05.036(b) is amended to read:

9 (b) The Department of Revenue may obtain from the department information
10 relating to royalty and net profits payments and to exploration incentive credits under
11 this chapter [OR UNDER AS 41.09], whether or not that information is confidential.
12 The Department of Revenue may use the information in carrying out its functions and
13 responsibilities under AS 43, and shall hold that information confidential to the extent
14 required by an agreement with the department or by AS 38.05.035(a)(8) [,
15 AS 41.09.010(d),] or AS 43.05.230.

16 * **Sec. 3.** AS 38.05.036(c) is amended to read:

17 (c) The department may obtain from the Department of Revenue all
18 information obtained under AS 43 relating to royalty and net profits and to exploration
19 incentive credits. The department may use the information for purposes of carrying out
20 its responsibilities and functions under this chapter [AND AS 41.09]. Information
21 made available to the department that was obtained under AS 43 is confidential and
22 subject to the provisions of AS 43.05.230.

23 * **Sec. 4.** AS 38.05.036(f) is amended to read:

24 (f) Except as otherwise provided in this section or in connection with official
25 investigations or proceedings of the department, it is unlawful for a current or former
26 officer, employee, or agent of the state to divulge information obtained by the
27 department as a result of an audit under this section that is required by an agreement
28 with the department or by AS 38.05.035(a)(8) [OR AS 41.09.010(d)] to be kept
29 confidential.

30 * **Sec. 5.** AS 38.05.036(g) is amended to read:

31 (g) Nothing in this section prohibits the publication of statistics in a manner

1 that maintains the confidentiality of information to the extent required by an
2 agreement with the department or by AS 38.05.035(a)(8) [OR AS 41.09.010(d)].

3 * **Sec. 6.** AS 43.05.225 is amended to read:

4 **Sec. 43.05.225. Interest.** Unless otherwise provided,

5 (1) a delinquent tax under this title,

6 (A) before January 1, 2014, bears interest in each calendar
7 quarter at the rate of five percentage points above the annual rate charged
8 member banks for advances by the 12th Federal Reserve District as of the first
9 day of that calendar quarter, or at the annual rate of 11 percent, whichever is
10 greater, compounded quarterly as of the last day of that quarter; [OR]

11 (B) on and after January 1, 2014, **and before January 1, 2017,**
12 bears interest in each calendar quarter at the rate of three percentage points
13 above the annual rate charged member banks for advances by the 12th Federal
14 Reserve District as of the first day of that calendar quarter;

15 **(C) on and after January 1, 2017, bears interest in each**
16 **calendar quarter at the rate of three percentage points above the annual**
17 **rate charged member banks for advances by the 12th Federal Reserve**
18 **District as of the first day of that calendar quarter, compounded quarterly**
19 **as of the last day of that quarter;**

20 (2) the interest rate is 12 percent a year for

21 (A) delinquent fees payable under AS 05.15.095(c); and

22 (B) unclaimed property that is not timely paid or delivered, as
23 allowed by AS 34.45.470(a).

24 * **Sec. 7.** AS 43.20.046(e) is amended to read:

25 (e) **Subject to the requirements in AS 43.55.028(j), the** [THE] department
26 may use available money in the oil and gas tax credit fund established in AS 43.55.028
27 to make the refund applied for under (d) of this section in whole or in part if the
28 department finds that, [(1) THE CLAIMANT DOES NOT HAVE AN
29 OUTSTANDING LIABILITY TO THE STATE FOR UNPAID DELINQUENT
30 TAXES UNDER THIS TITLE; AND (2)] after application of all available tax credits,
31 the claimant's total tax liability under this chapter for the calendar year in which the

1 claim is made is zero. [IN THIS SUBSECTION, "UNPAID DELINQUENT TAX"
 2 MEANS AN AMOUNT OF TAX FOR WHICH THE DEPARTMENT HAS ISSUED
 3 AN ASSESSMENT THAT HAS NOT BEEN PAID AND, IF CONTESTED, HAS
 4 NOT BEEN FINALLY RESOLVED IN THE TAXPAYER'S FAVOR.]

5 * **Sec. 8.** AS 43.20.047(e) is amended to read:

6 (e) **Subject to the requirements in AS 43.55.028(j), the** [THE] department
 7 may use money available in the oil and gas tax credit fund established in AS 43.55.028
 8 to make a refund or payment under (d) of this section in whole or in part if the
 9 department finds that, [(1) THE CLAIMANT DOES NOT HAVE AN
 10 OUTSTANDING LIABILITY TO THE STATE FOR UNPAID DELINQUENT
 11 TAXES UNDER THIS TITLE; AND (2)] after application of all available tax credits,
 12 the claimant's total tax liability under this chapter for the calendar year in which the
 13 claim is made is zero. [IN THIS SUBSECTION, "UNPAID DELINQUENT TAX"
 14 MEANS AN AMOUNT OF TAX FOR WHICH THE DEPARTMENT HAS ISSUED
 15 AN ASSESSMENT THAT HAS NOT BEEN PAID AND, IF CONTESTED, HAS
 16 NOT BEEN FINALLY RESOLVED IN THE TAXPAYER'S FAVOR.]

17 * **Sec. 9.** AS 43.20.053(e) is amended to read:

18 (e) **Subject to the requirements in AS 43.55.028(j), the** [THE] department
 19 may use money available in the oil and gas tax credit fund established in AS 43.55.028
 20 to make a refund or payment under (d) of this section in whole or in part if the
 21 department finds that,

22 [(1) THE CLAIMANT DOES NOT HAVE AN OUTSTANDING
 23 LIABILITY TO THE STATE FOR UNPAID DELINQUENT TAXES UNDER THIS
 24 TITLE; AND

25 (2)] after application of all available tax credits, the claimant's total tax
 26 liability under this chapter for the calendar year in which the claim is made is zero.

27 * **Sec. 10.** AS 43.55.011(m) is amended to read:

28 (m) Notwithstanding any contrary provision of [AS 38.05.180(i),
 29 AS 41.09.010,] AS 43.55.024 [,] or 43.55.025, the department shall provide by
 30 regulation a method to ensure that, for a calendar year for which a producer's tax
 31 liability is limited by (j), (k), or (o) of this section, tax credits based on a lease

1 expenditure incurred before January 1, 2011, that are otherwise available under
 2 [AS 38.05.180(i), AS 41.09.010,] AS 43.55.024 [,] or 43.55.025 and allocated to gas
 3 subject to the limitations in (j), (k), and (o) of this section are accounted for as though
 4 the credits had been applied first against a tax liability calculated without regard to the
 5 limitations under (j), (k), and (o) of this section so as to reduce the tax liability to the
 6 maximum amount provided for under (j) or (o) of this section for the production of gas
 7 or (k) of this section for the production of oil. The regulation must provide for a
 8 reasonable method to allocate tax credits to gas subject to (j) and (o) of this section.
 9 Only the amount of a tax credit remaining after the accounting provided for under this
 10 subsection may be used for a later calendar year, transferred to another person, or
 11 applied against a tax levied on the production of oil or gas not subject to (j), (k), or (o)
 12 of this section to the extent otherwise allowed.

13 * **Sec. 11.** AS 43.55.023(a) is amended to read:

14 (a) A producer or explorer may take a tax credit for a qualified capital
 15 expenditure as follows:

16 (1) notwithstanding that a qualified capital expenditure may be a
 17 deductible lease expenditure for purposes of calculating the production tax value of oil
 18 and gas under AS 43.55.160(a), unless a credit for that expenditure is taken under
 19 [AS 38.05.180(i), AS 41.09.010,] AS 43.20.043 [,] or AS 43.55.025, a producer or
 20 explorer that incurs a qualified capital expenditure may also elect to apply a tax credit
 21 against a tax levied by AS 43.55.011(e) in the amount of 20 percent of that
 22 expenditure;

23 (2) a producer or explorer may take a credit for a qualified capital
 24 expenditure incurred in connection with geological or geophysical exploration or in
 25 connection with an exploration well only if the producer or explorer

26 (A) agrees, in writing, to the applicable provisions of
 27 AS 43.55.025(f)(2); and

28 (B) submits to the Department of Natural Resources all data
 29 that would be required to be submitted under AS 43.55.025(f)(2);

30 (3) a credit for a qualified capital expenditure incurred to explore for,
 31 develop, or produce oil or gas deposits located north of 68 degrees North latitude may

1 be taken only if the expenditure is incurred before January 1, 2014.

2 * **Sec. 12.** AS 43.55.023(b) is amended to read:

3 (b) Before January 1, 2014, a producer or explorer may elect to take a tax
4 credit in the amount of 25 percent of a carried-forward annual loss. For lease
5 expenditures incurred on and after January 1, 2014, and before January 1, 2016, to
6 explore for, develop, or produce oil or gas deposits located north of 68 degrees North
7 latitude, a producer or explorer may elect to take a tax credit in the amount of 45
8 percent of a carried-forward annual loss. For lease expenditures incurred on and after
9 January 1, 2016, to explore for, develop, or produce oil or gas deposits located north
10 of 68 degrees North latitude, a producer or explorer may elect to take a tax credit in
11 the amount of 35 percent of a carried-forward annual loss. For lease expenditures
12 incurred on or after January 1, 2014, **and before January 1, 2017,** to explore for,
13 develop, or produce oil or gas deposits located south of 68 degrees North latitude, a
14 producer or explorer may elect to take a tax credit in the amount of 25 percent of a
15 carried-forward annual loss. **For lease expenditures incurred on or after January 1,**
16 **2017, to explore for, develop, or produce oil or gas deposits located south of 68**
17 **degrees North latitude, a producer or explorer may elect to take a tax credit in**
18 **the amount of 10 percent of a carried-forward annual loss.** A credit under this
19 subsection may be applied against a tax levied by AS 43.55.011(e). For purposes of
20 this subsection,

21 (1) a carried-forward annual loss is the amount of a producer's or
22 explorer's adjusted lease expenditures under AS 43.55.165 and 43.55.170 for a
23 previous calendar year that was not deductible in calculating production tax values for
24 that calendar year under AS 43.55.160;

25 (2) **for lease expenditures incurred on or after January 1, 2017,**
26 **any reduction under AS 43.55.160(f) or (g) is added back to the calculation of**
27 **production tax values for that calendar year under AS 43.55.160 for the**
28 **determination of a carried-forward annual loss.**

29 * **Sec. 13.** AS 43.55.023(d) is amended to read:

30 (d) A person that is entitled to take a tax credit under this section that wishes
31 to transfer the unused credit to another person or obtain a cash payment under

1 AS 43.55.028 may apply to the department for a transferable tax credit certificate. An
 2 application under this subsection must be in a form prescribed by the department and
 3 must include supporting information and documentation that the department
 4 reasonably requires. The department shall grant or deny an application, or grant an
 5 application as to a lesser amount than that claimed and deny it as to the excess, not
 6 later than 120 days after the latest of (1) March 31 of the year following the calendar
 7 year in which the [QUALIFIED CAPITAL EXPENDITURE OR] carried-forward
 8 annual loss for which the credit is claimed was incurred; (2) the date the statement
 9 required under AS 43.55.030(a) or (e) was filed for the calendar year in which the
 10 [QUALIFIED CAPITAL EXPENDITURE OR] carried-forward annual loss for which
 11 the credit is claimed was incurred; or (3) the date the application was received by the
 12 department. If, based on the information then available to it, the department is
 13 reasonably satisfied that the applicant is entitled to a credit, the department shall issue
 14 the applicant a transferable tax credit certificate for the amount of the credit. A
 15 certificate issued under this subsection does not expire.

16 * **Sec. 14.** AS 43.55.023(e) is amended to read:

17 (e) A person to which a transferable tax credit certificate is issued under (d) of
 18 this section may transfer the certificate to another person, and a transferee may further
 19 transfer the certificate. Subject to the limitations set out in **former (a) of this section**
 20 **and (b) - (d)** [(a) - (d)] of this section, and notwithstanding any action the department
 21 may take with respect to the applicant under (g) of this section, the owner of a
 22 certificate may apply the credit or a portion of the credit shown on the certificate only
 23 against a tax levied by AS 43.55.011(e). However, a credit shown on a transferable tax
 24 credit certificate may not be applied to reduce a transferee's total tax liability under
 25 AS 43.55.011(e) for oil and gas produced during a calendar year to less than 80
 26 percent of the tax that would otherwise be due without applying that credit. Any
 27 portion of a credit not used under this subsection may be applied in a later period.

28 * **Sec. 15.** AS 43.55.023(l) is amended to read:

29 (l) A producer or explorer may apply for a tax credit for a well lease
 30 expenditure incurred in the state south of 68 degrees North latitude after June 30,
 31 2010, as follows:

1 (1) notwithstanding that a well lease expenditure incurred in the state
 2 south of 68 degrees North latitude may be a deductible lease expenditure for purposes
 3 of calculating the production tax value of oil and gas under AS 43.55.160(a), unless a
 4 credit for that expenditure is taken under (a) of this section, [AS 38.05.180(i),
 5 AS 41.09.010,] AS 43.20.043, or AS 43.55.025, a producer or explorer that incurs a
 6 well lease expenditure in the state south of 68 degrees North latitude may elect to
 7 apply a tax credit against a tax levied by AS 43.55.011(e) in the amount of

8 (A) 40 percent of that expenditure **incurred before January 1,**
 9 **2017;**

10 (B) **30 percent of that expenditure incurred on or after**
 11 **January 1, 2017, and before January 1, 2018;**

12 (C) **20 percent of that expenditure incurred on or after**
 13 **January 1, 2018** [; A TAX CREDIT UNDER THIS PARAGRAPH MAY BE
 14 APPLIED FOR A SINGLE CALENDAR YEAR];

15 (2) a producer or explorer may take a credit for a well lease
 16 expenditure incurred in the state south of 68 degrees North latitude in connection with
 17 geological or geophysical exploration or in connection with an exploration well only if
 18 the producer or explorer

19 (A) agrees, in writing, to the applicable provisions of
 20 AS 43.55.025(f)(2); and

21 (B) submits to the Department of Natural Resources all data
 22 that would be required to be submitted under AS 43.55.025(f)(2).

23 * **Sec. 16.** AS 43.55.028(e) is amended to read:

24 (e) The department, on the written application of a person to whom a
 25 transferable tax credit certificate has been issued under AS 43.55.023(d) or former
 26 AS 43.55.023(m) or to whom a production tax credit certificate has been issued under
 27 AS 43.55.025(f), may use available money in the oil and gas tax credit fund to
 28 purchase, in whole or in part, the certificate. **The department may not purchase a**
 29 **total of more than \$200,000,000 in tax credit certificates from a person in a**
 30 **calendar year. Before purchasing a certificate or part of a certificate,** [IF] the
 31 department **shall find** [FINDS] that

1 (1) the calendar year of the purchase is not earlier than the first
2 calendar year for which the credit shown on the certificate would otherwise be allowed
3 to be applied against a tax;

4 (2) the **application is not the result of the division of a single entity**
5 **into multiple entities that would reasonably be expected to apply as a single entity**
6 **if the \$200,000,000 limitation in this subsection did not exist** [APPLICANT DOES
7 NOT HAVE AN OUTSTANDING LIABILITY TO THE STATE FOR UNPAID
8 DELINQUENT TAXES UNDER THIS TITLE];

9 (3) the applicant's total tax liability under AS 43.55.011(e), after
10 application of all available tax credits, for the calendar year in which the application is
11 made is zero;

12 (4) the applicant's average daily production of oil and gas taxable
13 under AS 43.55.011(e) during the calendar year preceding the calendar year in which
14 the application is made was not more than 50,000 BTU equivalent barrels; and

15 (5) the purchase is consistent with this section and regulations adopted
16 under this section.

17 * **Sec. 17.** AS 43.55.028 is amended by adding a new subsection to read:

18 (j) If an applicant or claimant has an outstanding liability to the state directly
19 related to the applicant's or claimant's oil or gas exploration, development, or
20 production and the department has not previously reduced the amount paid to that
21 applicant or claimant for a certificate or refund because of that outstanding liability,
22 the department may purchase only that portion of a certificate or pay only that portion
23 of a refund that exceeds the outstanding liability. With the applicant's or claimant's
24 consent, the department may apply the amount by which the department reduced its
25 purchase of a certificate or payment for a refund because of an outstanding liability to
26 satisfy the outstanding liability. Satisfaction of an outstanding liability under this
27 subsection does not affect the applicant's ability to contest that liability. The
28 department may enter into contracts or agreements with another department to which
29 the outstanding liability is owed. In this subsection, "outstanding liability" means an
30 amount of tax, interest, penalty, fee, rental, royalty, or other charge for which the state
31 has issued a demand for payment that has not been paid when due and, if contested,

1 has not been finally resolved against the state.

2 * **Sec. 18.** AS 43.55.029(a) is amended to read:

3 (a) An explorer or producer that has applied for a production tax credit under
4 **former** AS 43.55.023(a) [, (b),] or (l) **or under AS 43.55.023(b)** or 43.55.025(a) may
5 make a present assignment of the production tax credit certificate expected to be
6 issued by the department to a third-party assignee. The assignment may be made either
7 at the time the application is filed with the department or not later than 30 days after
8 the date of filing with the department. Once a notice of assignment in compliance with
9 this section is filed with the department, the assignment is irrevocable and cannot be
10 modified by the explorer or producer without the written consent of the assignee
11 named in the assignment. If a production tax credit certificate is issued to the explorer
12 or producer, the notice of assignment remains effective and shall be filed with the
13 department by the explorer or producer together with any application for the
14 department to purchase the certificate under AS 43.55.028(e).

15 * **Sec. 19.** AS 43.55.030(a) is amended to read:

16 (a) A producer that produces oil or gas from a lease or property in the state
17 during a calendar year, whether or not any tax payment is due under AS 43.55.020(a)
18 for that oil or gas, shall file with the department on March 31 of the following year a
19 statement, under oath, in a form prescribed by the department, giving, with other
20 information required, the following:

21 (1) a description of each lease or property from which oil or gas was
22 produced, by name, legal description, lease number, or accounting codes assigned by
23 the department;

24 (2) the names of the producer and, if different, the person paying the
25 tax, if any;

26 (3) the gross amount of oil and the gross amount of gas produced from
27 each lease or property, separately identifying the gross amount of gas produced from
28 each oil and gas lease to which an effective election under AS 43.55.014(a) applies,
29 the amount of gas delivered to the state under AS 43.55.014(b), and the percentage of
30 the gross amount of oil and gas owned by the producer;

31 (4) the gross value at the point of production of the oil and of the gas

1 produced from each lease or property owned by the producer and the costs of
2 transportation of the oil and gas;

3 (5) the name of the first purchaser and the price received for the oil and
4 for the gas, unless relieved from this requirement in whole or in part by the
5 department;

6 (6) the producer's qualified capital expenditures, [AS DEFINED IN
7 AS 43.55.023,] other lease expenditures under AS 43.55.165, and adjustments or other
8 payments or credits under AS 43.55.170;

9 (7) the production tax values of the oil and gas under AS 43.55.160(a)
10 or of the oil under AS 43.55.160(h), as applicable;

11 (8) any claims for tax credits to be applied; and

12 (9) calculations showing the amounts, if any, that were or are due
13 under AS 43.55.020(a) and interest on any underpayment or overpayment.

14 * **Sec. 20.** AS 43.55.030(e) is amended to read:

15 (e) An explorer or producer that incurs a lease expenditure under
16 AS 43.55.165 or receives a payment or credit under AS 43.55.170 during a calendar
17 year but does not produce oil or gas from a lease or property in the state during the
18 calendar year shall file with the department, on March 31 of the following year, a
19 statement, under oath, in a form prescribed by the department, giving, with other
20 information required, the following:

21 (1) the explorer's or producer's qualified capital expenditures, [AS
22 DEFINED IN AS 43.55.023,] other lease expenditures under AS 43.55.165, and
23 adjustments or other payments or credits under AS 43.55.170; and

24 (2) if the explorer or producer receives a payment or credit under
25 AS 43.55.170, calculations showing whether the explorer or producer is liable for a
26 tax under AS 43.55.160(d) or 43.55.170(b) and, if so, the amount.

27 * **Sec. 21.** AS 43.55.165(a) is amended to read:

28 (a) **For** [EXCEPT AS PROVIDED IN (j) AND (k) OF THIS SECTION,
29 FOR] purposes of this chapter, a producer's lease expenditures for a calendar year are

30 (1) costs, other than items listed in (e) of this section, that are

31 (A) incurred by the producer during the calendar year after

1 March 31, 2006, to explore for, develop, or produce oil or gas deposits located
 2 within the producer's leases or properties in the state or, in the case of land in
 3 which the producer does not own an operating right, operating interest, or
 4 working interest, to explore for oil or gas deposits within other land in the
 5 state; and

6 (B) allowed by the department by regulation, based on the
 7 department's determination that the costs satisfy the following three
 8 requirements:

9 (i) the costs must be incurred upstream of the point of
 10 production of oil and gas;

11 (ii) the costs must be ordinary and necessary costs of
 12 exploring for, developing, or producing, as applicable, oil or gas
 13 deposits; and

14 (iii) the costs must be direct costs of exploring for,
 15 developing, or producing, as applicable, oil or gas deposits; and

16 (2) a reasonable allowance for that calendar year, as determined under
 17 regulations adopted by the department, for overhead expenses that are directly related
 18 to exploring for, developing, or producing, as applicable, the oil or gas deposits.

19 * **Sec. 22.** AS 43.55.165(e) is amended to read:

20 (e) For purposes of this section, lease expenditures do not include

21 (1) depreciation, depletion, or amortization;

22 (2) oil or gas royalty payments, production payments, lease profit
 23 shares, or other payments or distributions of a share of oil or gas production, profit, or
 24 revenue, except that a producer's lease expenditures applicable to oil and gas produced
 25 from a lease issued under AS 38.05.180(f)(3)(B), (D), or (E) include the share of net
 26 profit paid to the state under that lease;

27 (3) taxes based on or measured by net income;

28 (4) interest or other financing charges or costs of raising equity or debt
 29 capital;

30 (5) acquisition costs for a lease or property or exploration license;

31 (6) costs arising from fraud, wilful misconduct, gross negligence,

1 violation of law, or failure to comply with an obligation under a lease, permit, or
2 license issued by the state or federal government;

3 (7) fines or penalties imposed by law;

4 (8) costs of arbitration, litigation, or other dispute resolution activities
5 that involve the state or concern the rights or obligations among owners of interests in,
6 or rights to production from, one or more leases or properties or a unit;

7 (9) costs incurred in organizing a partnership, joint venture, or other
8 business entity or arrangement;

9 (10) amounts paid to indemnify the state; the exclusion provided by
10 this paragraph does not apply to the costs of obtaining insurance or a surety bond from
11 a third-party insurer or surety;

12 (11) surcharges levied under AS 43.55.201 or 43.55.300;

13 (12) an expenditure otherwise deductible under (b) of this section that
14 is a result of an internal transfer, a transaction with an affiliate, or a transaction
15 between related parties, or is otherwise not an arm's length transaction, unless the
16 producer establishes to the satisfaction of the department that the amount of the
17 expenditure does not exceed the fair market value of the expenditure;

18 (13) an expenditure incurred to purchase an interest in any corporation,
19 partnership, limited liability company, business trust, or any other business entity,
20 whether or not the transaction is treated as an asset sale for federal income tax
21 purposes;

22 (14) a tax levied under AS 43.55.011 or 43.55.014;

23 (15) costs incurred for dismantlement, removal, surrender, or
24 abandonment of a facility, pipeline, well pad, platform, or other structure, or for the
25 restoration of a lease, field, unit, area, tract of land, body of water, or right-of-way in
26 conjunction with dismantlement, removal, surrender, or abandonment; a cost is not
27 excluded under this paragraph if the dismantlement, removal, surrender, or
28 abandonment for which the cost is incurred is undertaken for the purpose of replacing,
29 renovating, or improving the facility, pipeline, well pad, platform, or other structure;

30 (16) costs incurred for containment, control, cleanup, or removal in
31 connection with any unpermitted release of oil or a hazardous substance and any

1 liability for damages imposed on the producer or explorer for that unpermitted release;
2 this paragraph does not apply to the cost of developing and maintaining an oil
3 discharge prevention and contingency plan under AS 46.04.030;

4 (17) costs incurred to satisfy a work commitment under an exploration
5 license under AS 38.05.132;

6 (18) that portion of expenditures, that would otherwise be qualified
7 capital expenditures, [AS DEFINED IN AS 43.55.023,] incurred during a calendar
8 year that are less than the product of \$0.30 multiplied by the total taxable production
9 from each lease or property, in BTU equivalent barrels, during that calendar year,
10 except that, when a portion of a calendar year is subject to this provision, the
11 expenditures and volumes shall be prorated within that calendar year;

12 (19) costs incurred for repair, replacement, or deferred maintenance of
13 a facility, a pipeline, a structure, or equipment, other than a well, that results in or is
14 undertaken in response to a failure, problem, or event that results in an unscheduled
15 interruption of, or reduction in the rate of, oil or gas production; or costs incurred for
16 repair, replacement, or deferred maintenance of a facility, a pipeline, a structure, or
17 equipment, other than a well, that is undertaken in response to, or is otherwise
18 associated with, an unpermitted release of a hazardous substance or of gas; however,
19 costs under this paragraph that would otherwise constitute lease expenditures under (a)
20 and (b) of this section may be treated as lease expenditures if the department
21 determines that the repair or replacement is solely necessitated by an act of war, by an
22 unanticipated grave natural disaster or other natural phenomenon of an exceptional,
23 inevitable, and irresistible character, the effects of which could not have been
24 prevented or avoided by the exercise of due care or foresight, or by an intentional or
25 negligent act or omission of a third party, other than a party or its agents in privity of
26 contract with, or employed by, the producer or an operator acting for the producer, but
27 only if the producer or operator, as applicable, exercised due care in operating and
28 maintaining the facility, pipeline, structure, or equipment, and took reasonable
29 precautions against the act or omission of the third party and against the consequences
30 of the act or omission; in this paragraph,

31 (A) "costs incurred for repair, replacement, or deferred

1 maintenance of a facility, a pipeline, a structure, or equipment" includes costs
 2 to dismantle and remove the facility, pipeline, structure, or equipment that is
 3 being replaced;

4 (B) "hazardous substance" has the meaning given in
 5 AS 46.03.826;

6 (C) "replacement" includes renovation or improvement;

7 (20) costs incurred to construct, acquire, or operate a refinery or crude
 8 oil topping plant, regardless of whether the products of the refinery or topping plant
 9 are used in oil or gas exploration, development, or production operations; however, if
 10 a producer owns a refinery or crude oil topping plant that is located on or near the
 11 premises of the producer's lease or property in the state and that processes the
 12 producer's oil produced from that lease or property into a product that the producer
 13 uses in the operation of the lease or property in drilling for or producing oil or gas, the
 14 producer's lease expenditures include the amount calculated by subtracting from the
 15 fair market value of the product used the prevailing value, as determined under
 16 AS 43.55.020(f), of the oil that is processed;

17 (21) costs of lobbying, public relations, public relations advertising, or
 18 policy advocacy.

19 * **Sec. 23.** AS 43.55.165(f) is amended to read:

20 (f) For purposes of AS 43.55.023(b) [AS 43.55.023(a) AND (b)] and only as
 21 to expenditures incurred to explore for an oil or gas deposit located within land in
 22 which an explorer does not own a working interest, the term "producer" in this section
 23 includes "explorer."

24 * **Sec. 24.** AS 43.55.170(c) is amended to read:

25 (c) For purposes of AS 43.55.023(b) [AS 43.55.023(a) AND (b)] and only as
 26 to expenditures incurred to explore for an oil or gas deposit located within land in
 27 which an explorer does not own a working interest, the term "producer" in this section
 28 includes "explorer."

29 * **Sec. 25.** AS 43.55.890 is amended to read:

30 **Sec. 43.55.890. Disclosure of tax information.** Notwithstanding any contrary
 31 provision of AS 40.25.100, and regardless of whether the information is considered

1 under AS 43.05.230(e) to constitute statistics classified to prevent the identification of
 2 particular returns or reports, the department may publish the following information
 3 under this chapter, if aggregated among three or more producers or explorers, showing
 4 by month or calendar year and by lease or property, unit, or area of the state:

- 5 (1) the amount of oil or gas production;
- 6 (2) the amount of taxes levied under this chapter or paid under this
 7 chapter;
- 8 (3) the effective tax rates under this chapter;
- 9 (4) the gross value of oil or gas at the point of production;
- 10 (5) the transportation costs for oil or gas;
- 11 (6) qualified capital expenditures [, AS DEFINED IN AS 43.55.023];
- 12 (7) exploration expenditures under AS 43.55.025;
- 13 (8) production tax values of oil or gas under AS 43.55.160;
- 14 (9) lease expenditures under AS 43.55.165;
- 15 (10) adjustments to lease expenditures under AS 43.55.170;
- 16 (11) tax credits applicable or potentially applicable against taxes levied
 17 by this chapter.

18 * **Sec. 26.** AS 43.55.895(b) is amended to read:

- 19 (b) A municipal entity subject to taxation because of this section
- 20 (1) is eligible for [ALL] tax credits **proportionate to its production**
 21 **taxable under AS 43.55.011(e); and**
 - 22 (2) **shall allocate its lease expenditures in proportion to its**
 23 **production taxable under AS 43.55.011(e)** [UNDER THIS CHAPTER TO THE
 24 SAME EXTENT AS ANY OTHER PRODUCER].

25 * **Sec. 27.** AS 43.55.900 is amended by adding a new paragraph to read:

- 26 (26) "qualified capital expenditure"
- 27 (A) means, except as otherwise provided in (B) of this
 28 paragraph, an expenditure that is a lease expenditure under AS 43.55.165 and
 29 is
 - 30 (i) incurred for geological or geophysical exploration;
 - 31 (ii) treated as a capitalized expenditure under 26 U.S.C.

1 (Internal Revenue Code), as amended, regardless of elections made
 2 under 26 U.S.C. 263(c) (Internal Revenue Code), as amended, and is
 3 treated as a capitalized expenditure for federal income tax reporting
 4 purposes by the person incurring the expenditure; or

5 (iii) treated as a capitalized expenditure under 26 U.S.C.
 6 (Internal Revenue Code), as amended, regardless of elections made
 7 under 26 U.S.C. 263(c) (Internal Revenue Code), as amended, and is
 8 eligible to be deducted as an expense under 26 U.S.C. 263(c) (Internal
 9 Revenue Code), as amended;

10 (B) does not include an expenditure incurred to acquire an asset
 11 the cost of previously acquiring which was a lease expenditure under
 12 AS 43.55.165 or would have been a lease expenditure under AS 43.55.165 if it
 13 had been incurred after March 31, 2006, or that has previously been placed in
 14 service in the state; an expenditure to acquire an asset is not excluded under
 15 this subparagraph if not more than an immaterial portion of the asset meets a
 16 description under this subparagraph; for purposes of this subparagraph, "asset"
 17 includes geological, geophysical, and well data and interpretations.

18 * **Sec. 28.** AS 43.70.020 is amended by adding a new subsection to read:

19 (g) A person whose business engages in oil or gas exploration or development
 20 must, in addition to filing the regular application required by this section, file with the
 21 commissioner a surety bond of \$250,000 running to unsecured creditors licensed in the
 22 state before being entitled to a license under this chapter. The commissioner shall
 23 waive the surety bond requirement under this subsection if the business produces oil or
 24 gas in commercial quantities.

25 * **Sec. 29.** AS 38.05.180(i); AS 41.09.010, 41.09.020, 41.09.030, 41.09.090; and
 26 AS 43.20.053(j)(4) are repealed.

27 * **Sec. 30.** AS 43.55.023(a), 43.55.023(l), 43.55.023(n), 43.55.023(o), 43.55.028(i),
 28 43.55.075(d)(1), 43.55.165(j), and 43.55.165(k) are repealed.

29 * **Sec. 31.** The uncodified law of the State of Alaska is amended by adding a new section to
 30 read:

31 LEGISLATIVE WORKING GROUP. (a) A legislative working group is established

1 to analyze the Cook Inlet fiscal regime for oil and gas, review the state's tax structure and
2 rates on oil and gas produced south of 68 degrees North latitude, recommend changes to the
3 legislature for consideration during the First Regular Session of the Thirtieth Alaska State
4 Legislature, and develop terms for a comprehensive fiscal regime for the area south of 68
5 degrees North latitude including,

6 (1) a tax structure that accounts for the unique circumstances for each oil and
7 gas producing area south of 68 degrees North latitude;

8 (2) incentives for the exploration, development, and production of oil and gas
9 south of 68 degrees North latitude;

10 (3) consideration of the competitiveness of the area to attract new oil and gas
11 development;

12 (4) consideration of the unique market considerations of the Cook Inlet
13 sedimentary basin and the need to support energy supply security for communities in
14 Southcentral Alaska;

15 (5) alternative means of state support for the exploration, development, and
16 production of oil and gas in this area, including through the Alaska Industrial Export and
17 Development Authority;

18 (6) analysis of whether refundable state tax credits are still necessary for a
19 new regime;

20 (7) evaluation of the need for disclosure of some confidential information to
21 help legislators shape policy, including an evaluation of the associated state and federal
22 constitutional issues related to statutory waivers of taxpayer confidentiality.

23 (b) The working group consists of

24 (1) two co-chairs, one of whom is a member of the house appointed by the
25 speaker of the house of representatives, and one of whom is a member of the senate appointed
26 by the president of the senate; and

27 (2) members appointed by the co-chairs; members must be legislators and
28 must include members of the majority and minority caucuses.

29 (c) The co-chairs of the working group may form an advisory group to the working
30 group, composed of members who are not legislators and who have expertise and skills to
31 assist in the review and development of a new plan for the tax structure and rates on oil and

1 gas produced south of 68 degrees North latitude. The members of an advisory group may
2 include commissioners or employees of state departments, members of the oil and gas
3 industry or trade associations, and economists.

4 (d) The working group is to be supported by legislative consultants under contract
5 through the Legislative Budget and Audit Committee.

6 * **Sec. 32.** The uncodified law of the State of Alaska is amended by adding a new section to
7 read:

8 APPLICABILITY. Sections 7 - 9, 16, and 17 of this Act apply to a refund or payment
9 applied for on or after January 1, 2017.

10 * **Sec. 33.** The uncodified law of the State of Alaska is amended by adding a new section to
11 read:

12 TRANSITION: QUALIFIED CAPITAL EXPENDITURES AND WELL LEASE
13 EXPENDITURES. (a) Notwithstanding the repeal of AS 43.55.023(a), (l), (n), and (o) by sec.
14 30 of this Act, and the amendments to AS 43.55.023(d) and (e), 43.55.029(a), 43.55.165(f),
15 and 43.55.170(c) by secs. 13, 14, 18, 23, and 24 of this Act, a taxpayer who incurs

16 (1) a qualified capital expenditure before the effective date of sec. 30 of this
17 Act that qualifies for a qualified capital expenditure credit under AS 43.55.023(a) may apply
18 for a credit or transferable tax credit certificate under AS 43.55.023 and assign the tax credit
19 under AS 43.55.029, as those sections read on the day before the effective date of sec. 30 of
20 this Act;

21 (2) a well lease expenditure before the effective date of sec. 30 of this Act that
22 qualifies for a well lease expenditure credit under AS 43.55.023(l) may apply for a credit or
23 transferable tax credit certificate under AS 43.55.023 and assign the tax credit under
24 AS 43.55.029, as those sections read on the day before the effective date of sec. 30 of this
25 Act.

26 (b) The Department of Revenue may continue to apply and enforce AS 43.55.023 and
27 43.55.029, as those sections read on the day before the effective date of sec. 30 of this Act, for
28 qualified capital expenditures and well lease expenditures incurred before the effective date of
29 sec. 30 of this Act.

30 * **Sec. 34.** The uncodified law of the State of Alaska is amended by adding a new section to
31 read:

1 TRANSITION: LEASE EXPENDITURES FOR A CALENDAR YEAR AFTER
2 2006 AND BEFORE 2010. Notwithstanding AS 43.55.165(a), as amended by sec. 21 of this
3 Act, and the repeal of AS 43.55.165(j) and (k) by sec. 30 of this Act, AS 43.55.165(j) and (k)
4 apply to a producer's total lease expenditures for a calendar year after 2006 and before 2010
5 under AS 43.55.165, as that section read on the day before the effective date of sec. 30 of this
6 Act.

7 * **Sec. 35.** The uncodified law of the State of Alaska is amended by adding a new section to
8 read:

9 TRANSITION: REGULATIONS. The Department of Revenue and the Department of
10 Natural Resources may adopt regulations necessary to implement the changes made by this
11 Act. The regulations take effect under AS 44.62 (Administrative Procedure Act), but not
12 before the effective date of the law implemented by the regulation. The Department of
13 Revenue shall adopt regulations governing the use of tax credits under AS 43.55 for a
14 calendar year for which the applicable tax credit provisions of AS 43.55 differ as between
15 parts of the year as a result of this Act.

16 * **Sec. 36.** The uncodified law of the State of Alaska is amended by adding a new section to
17 read:

18 TRANSITION: RETROACTIVITY OF REGULATIONS. Notwithstanding any
19 contrary provision of AS 44.62.240,

20 (1) if the Department of Revenue expressly designates in a regulation that the
21 regulation applies retroactively, a regulation adopted by the Department of Revenue to
22 implement, interpret, make specific, or otherwise carry out this Act may apply retroactively to
23 the effective date of the law implemented by the regulation;

24 (2) if the Department of Natural Resources expressly designates in the
25 regulation that the regulation applies retroactively, a regulation adopted by the Department of
26 Natural Resources to implement, interpret, make specific, or otherwise carry out the statutory
27 amendments in this Act affecting the administration of oil and gas leases issued under
28 AS 38.05.180(f)(3)(B), (D), or (E), to the extent the regulation relates to the treatment of oil
29 and gas production taxes in determining net profits under those leases, may apply
30 retroactively to the effective date of the law implemented by the regulation.

31 * **Sec. 37.** Sections 31 and 35 of this Act take effect immediately under AS 01.10.070(c).

1 * **Sec. 38.** Sections 13, 14, 18 - 25, 27, 30, 33, and 34 of this Act take effect January 1,
2 2022.

3 * **Sec. 39.** Except as provided in secs. 37 and 38 of this Act, this Act takes effect January 1,
4 2017.