Alaska State Legislature
House Resources Committee

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SPONSOR STATEMENT

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

HB 111: "OIL AND GAS PRODUCTION TAX; PAYMENTS; CREDITS" was introduced to reform the oil and gas 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 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 "NOL").

With current oil prices, the primary way HB 111 will generate additional revenue is with an increase in the minimum production tax from 4%, at oil prices above $25 per barrel, to 5% at all oil prices per barrel. Currently taxpayers generally pay the minimum tax until oil reaches $74 dollars a barrel. At prices below the $74 per barrel crossover HB 111 is estimated to generate between $50 and $75 million per year of additional revenue. 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 reduce the per-taxable-barrel credit from $0-$8 to $0-$5. This change will increase revenue when prices are between $80 and $110 per barrel. It is estimated that this provision will generate an additional $100-$300 million revenue when oil is in this price range. 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 reduces repurchasable credits in a variety of ways. The bill will reduce NOL credits on the North Slope from 35% to 15%. This change reduces the state's future liability from this credit by more than half beginning on January 1, 2018. The NOL credit is the last major credit remaining on the North Slope.

With the passage of HB 111 NOL credits will no longer be able to be purchased 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.

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. Furthermore, HB 111 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. HB 111 is one component of a fiscal solution that will ensure Alaska has a balanced, sustainable budget for years to come.