

## **SPONSOR STATEMENT – HB 294**

### **Tax Credit for Natural Gas Exploration and Development**

HB 294 is an act that amends and extends the exploration and development incentive tax credit that was originally enacted in the 23rd legislature in 2003 as HB 61. This tax credit continues to apply under the Alaska Net Income Tax Act for operators and working interest owners directly engaged in the exploration for and development of natural gas primarily in the Cook Inlet area.

To more strongly encourage companies to invest additional capital in exploring for and developing new natural gas reserves, this legislation makes four significant changes to current law

1. Increases the amount of the credit to 25% (from 10%) of the amount of qualified capital investment and qualified services spending.
2. Removes the 50% limitation on the amount of credits that can apply in a single year.
3. Removes the “successful efforts” requirement that developers must find and deliver new gas resources to market to qualify for the credit.
4. Extends the sunset date of the investment tax credit from January 1, 2013 to January 1, 2020.

This legislation makes no changes to definitions of qualified capital investment or qualified services.

Annual natural gas production and supply in the Cook Inlet area have been declining for a number of years. During the same time, demand has been increasing steadily. Therefore, a sharp increase in drilling to find new reserves is drastically needed. The original Investment Tax Credit enacted in 2003, while modestly successful in stimulating new drilling, needs to be made a much more effective incentive to developers to increase capital spending in a large manner. These changes will go a long way to achieving that goal.