

Chapter 15 Intangible drilling expenses for oil and gas property tax

(Words in **boldface and underlined** indicate language being added; words [CAPITALIZED AND BRACKETED] indicate language being deleted. Complete new sections are not in boldface or underlined.)

15 AAC 56.120(b) amended to read:

(b) For purposes of AS 43.56 and this chapter, "intangible drilling expenses" means the intangible drilling expenses defined under 26 U.S.C. 263(c) (Internal Revenue Code) in effect on January 1, 1974, and includes only expenditures for items that do not have a salvage value even if those items are used in connection with the construction or installation of physical property that has a salvage value. "Intangible drilling expenses" includes expenditures made by an operator, or under contract to an operator, for labor, fuel, repairs, hauling, and supplies incident and necessary to

(1) **drilling and initially completing wells, including rig mobilization and setup; drilling the surface, intermediate, and production sections; shooting, cleaning, and hydraulic fracturing; installation of completion equipment; subsurface data acquisition; flowback and well testing; and directly related support work and repeated completion attempts** [DRILLING WELLS];

(2) **preparing, engineering, constructing, and maintaining drilling pads necessary to support drilling and initial completion, including qualifying intangible expenses associated with gravel installation. Expenses for pads and roads serving both drilling and other purposes must be allocated using a reasonable, documented method. Continued use after drilling does not, by itself, disqualify an otherwise qualifying expense** [CLEARING GROUND, DRAINING, ROAD MAKING, SURVEYING, AND GEOLOGICAL WORKS NECESSARY TO DRILLING WELLS]; and

(3) clearing ground, draining, surveying, geological work, and engineering, constructing, and maintaining access roads necessary to transport drilling equipment or support drilling and initial completion; and

(4) [(3)] construction of derricks, tanks, pipelines, and other physical structures necessary to drilling wells.

15 AAC 56.120(c) amended to read:

(c) "Intangible drilling expenses" does not include

(1) **intangible development expenses , including expenses for well intervention or recompletion after initial completion, routine well operation and maintenance, and separate production, processing, storage, or transportation facilities not necessary to drilling or initial completion** [EXPENDITURES FOR LABOR, FUEL, REPAIRS, HAULING, SUPPLIES, AND SIMILAR ITEMS IN CONNECTION WITH THE OPERATION OF WELLS OR OTHER FACILITIES FOR THE PRODUCTION OF OIL OR GAS INTANGIBLE DEVELOPMENT EXPENSES];

(2) expenditures for tangible property ordinarily considered to have a salvage value, such as drilling tools, pipe, casing, tubing, tanks, engines, boilers, machines, and the actual materials used in the construction or installation of physical structures in the wells or on the property;

(3) expenditures made by an operator, or under contract to an operator,

(A) for wages, fuel, repairs, hauling, and supplies that are not incident and necessary to drilling wells; or

(B) that are properly allocable to the cost of depreciable property
ordinarily considered to have a salvage value.

(Eff. 3/1/75, Register 53; am 1/1/2003, Register 164; am ____/____/_____, Register _____)

Authority:	AS 43.05.080	AS 43.56.060	AS 43.56.210
	AS 43.56.020	AS 43.56.200	