

# Technical Aspects of SB 267 (Version A)

Dan E. Dickinson, CPA

Senate Resources Committee  
Feb 17, 2010

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## 6 Changes in SB 267

1. Change progressivity from .4% to .2% per dollar
2. 30% credit for well work
3. Tax rate tied to Resident Hire
4. Interest not due on retroactive reg changes prior to implementation
5. Interest rate is lower of fed funds +2 or 11%
6. Restore 3 year statute of limitations

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## Structure of SB 267

### Structure of SB 267

26-LS14521A

Key Provision

Need  
2011  
Eff Dt

section:	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	21	22	23	24	25	
5	Interest rate is lower of fed funds + 2 or 11%					6																			25	
4	Interest not due on retroactive regs changes prior to implementation						7							14											25	
1	Change progressivity from .4 % to .2 %										11													24		
	Housekeeping - reference to interest	1			5	6		8	9	10		12	13			16		18	19		21	22		25		
3	Tax rate tied to Resident hire		2	3	4										15			18					23	25		
2	30% credit for well work																17							24		
6	Restore 3 year statute of limitations																			20				25		

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## What is Progressivity?

- Base Production Tax rate is 25% (AS 43.55.011(e)(1)) of net value or "PTV"
- Combined Progressivity Tax (on same PTV base) can range from 0 to 50%
- Sum= Total tax rate can range from 25% to 75%
- Progressivity rate is calculated as net value of all the (oil and gas produced less royalty)/taxable barrels (boe)= PTV/per barrel
- No progressivity charge when PTV/bbl<\$30,
- Current Law:
- For each dollar above \$30, .4% added to tax rate
- At PTV/bbl of \$92.5, rate drops to .1% for each dollar
- SB 267 (Section 11): drop rate to .2%, increase bend-over point to \$155

## Progressivity Effect (FY 2008)

- FY 2008 Estimate (year of high prices)
- 25% Base tax – \$4.2 billion
- Progressivity – \$3.2 billion
- (less credits of \$.5 billion)
- Compare to FY 2008
- Royalties (2.4 to GF, .8 to PF) \$3.2 billion
- Oil and Gas Income Taxes \$.6 billion
- Oil and Gas Property Taxes (State and Local) \$.4 billion

## Progressivity in AS 43.55.011(g) vs. Personal Income Tax

- Under AS 43.55.011(g) the progressivity rate generated at high net values (PTVs)/bbl is applied to all the net value.
- $((PTV/bbl - 30) * .004) + 25\% * PTV = \text{Tax}$
- Under federal personal income tax rules:

Schedule X—If your filing status is Single

If your taxable income is:		The tax is:	
Over—	But not over—		of the amount over—
\$0	\$9,350	----- 10%	\$0
9,350	33,950	\$935.00 + 15%	9,350
33,950	82,250	4,675.00 + 25%	33,950
82,250	171,550	16,750.00 + 28%	82,250
171,550	372,950	41,754.00 + 33%	171,550
372,950	-----	108,216.00 + 35%	372,950

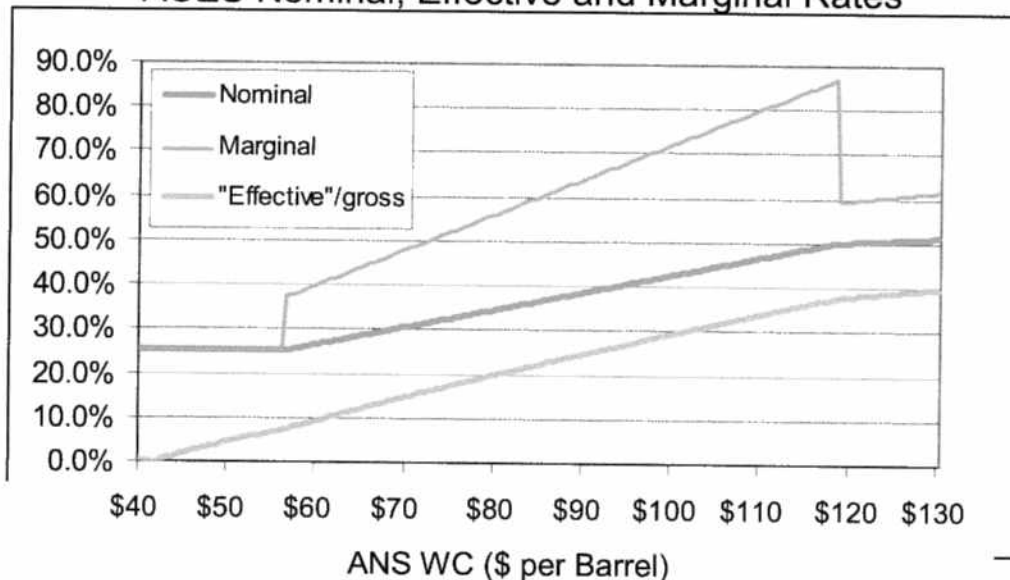
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## Production Tax: Progressivity + 25%

- Reproduction of Figure G from DOR January 14 Report
- "ACES Nominal, Effective and Marginal Rates"



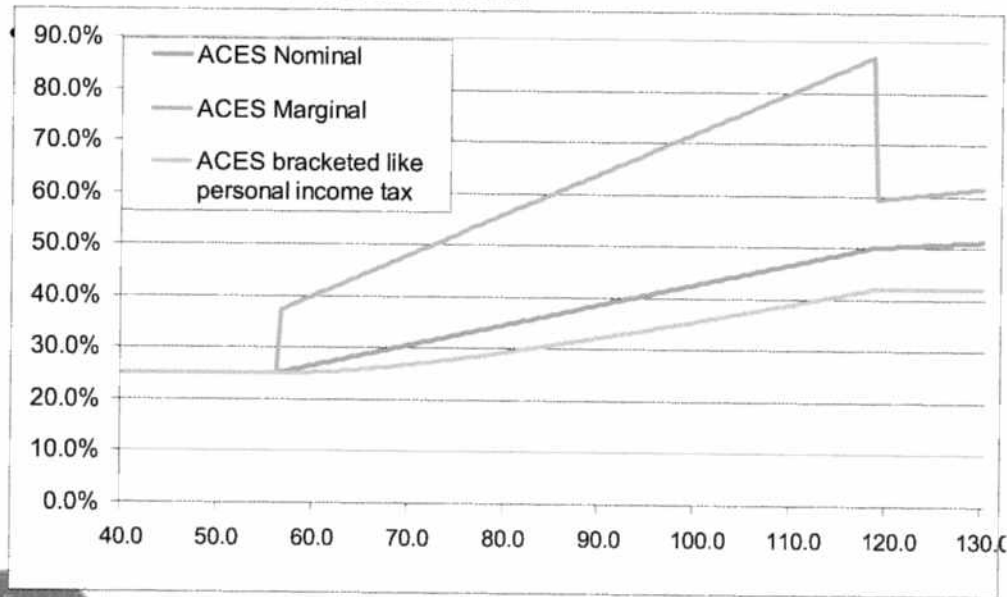
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## Production Tax: Progressivity + 25%

- What if the progressivity bracket was like personal federal income tax brackets.



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## Crossing the Progressivity/Bracket Threshold

25.4% higher bracket starts when net value (PTV) passes \$30 a barrel

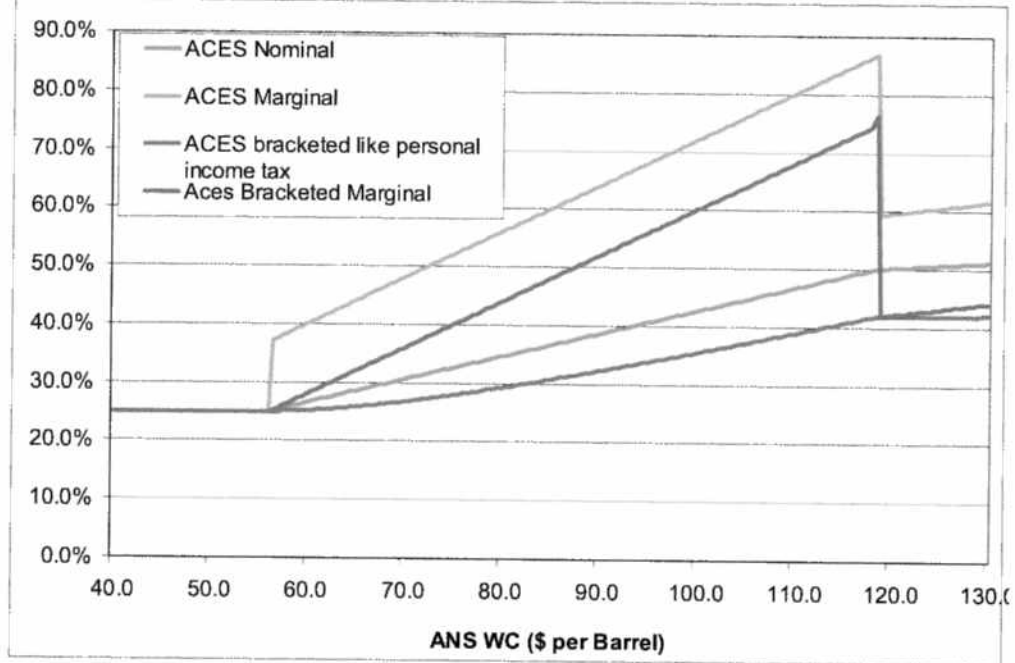
	30	31	Difference
<b>Personal federal income tax progressivity</b>			
PTV	\$ 30.00	\$ 30.00 + \$ 1.00 = \$ 31.00	\$ 1.00
Tax Rate	25.0%	25.0% 25.4% 25.4%	
Tax	\$ 7.500	\$ 7.500 + \$ 0.254 = \$ 7.754	\$ 0.254
Marginal Tax Rate:			25.4%
<b>AS 43.55.011(g) Progressivity</b>			
PTV	\$ 30.00	\$ 30.00 + \$ 1.00 = \$ 31.00	\$ 1.00
Tax Rate	25.0%	25.4% 25.4% 25.4%	
Tax	\$ 7.500	\$ 7.620 + \$ 0.254 = \$ 7.874	\$ 0.374
Marginal Tax Rate:			37%
Difference	\$ -	\$ 0.12	\$ 0.12

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## Production Tax: Progressivity + 25%



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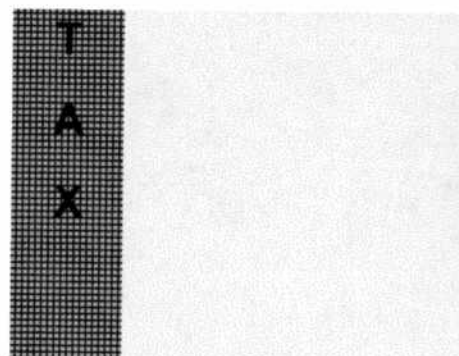
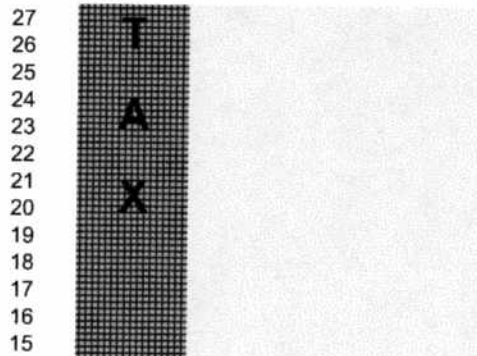
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## Progressivity in AS 43.55.011(g) vs. Personal Income Tax

"Income" Progressivity in Federal Income Tax

Progressivity in AS 43.55.011(g)



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## Progressivity in AS 43.55.011(g) vs. Personal Income Tax

"Income"

Progressivity in Federal Income Tax

Progressivity in AS 43.55.011(g)

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## Progressivity in AS 43.55.011(g) vs. Personal Income Tax

"Income"

Progressivity in Federal Income Tax

Progressivity in AS 43.55.011(g)

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## Progressivity in AS 43.55.011(g) vs. Personal Income Tax

"Income"

Progressivity in Federal Income Tax

Progressivity in AS 43.55.011(g)

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## Progressivity in AS 43.55.011(g) vs. Personal Income Tax

"Income"

Progressivity in Federal Income Tax

Progressivity in AS 43.55.011(g)

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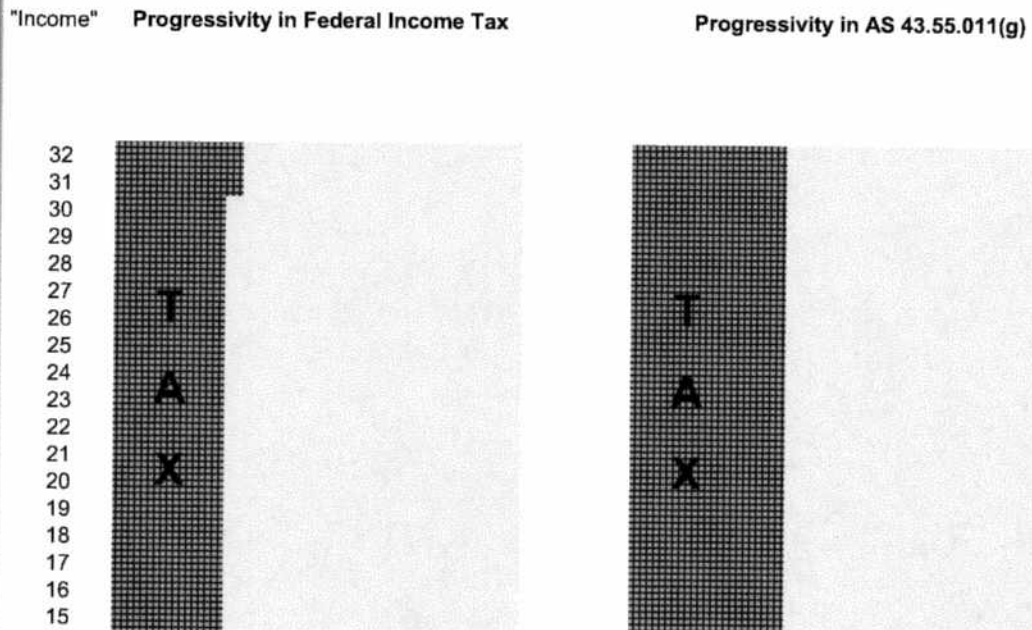
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## Progressivity in AS 43.55.011(g) vs. Personal Income Tax



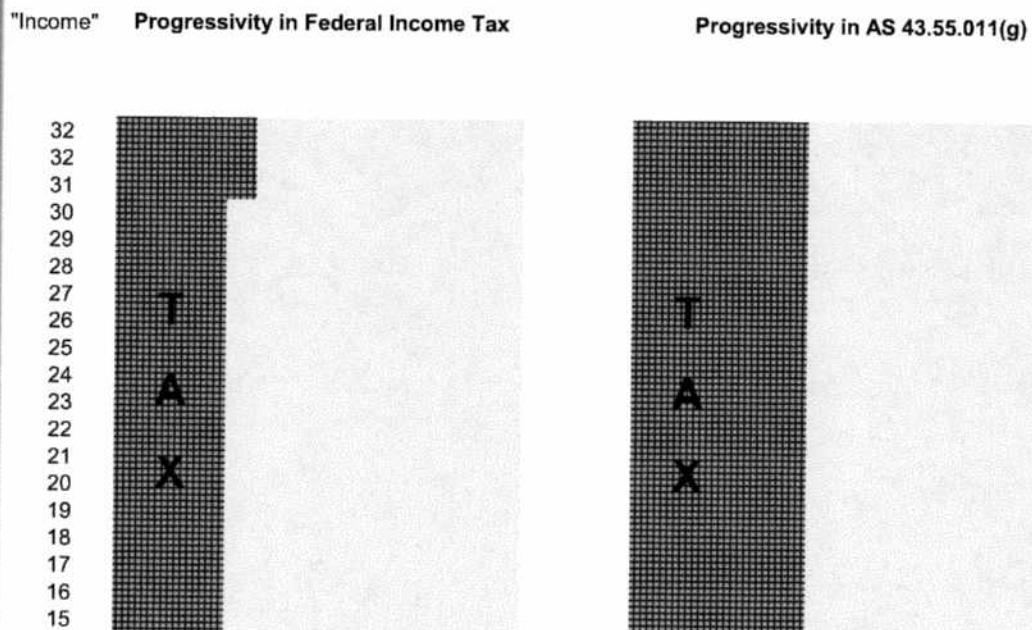
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## Progressivity in AS 43.55.011(g) vs. Personal Income Tax



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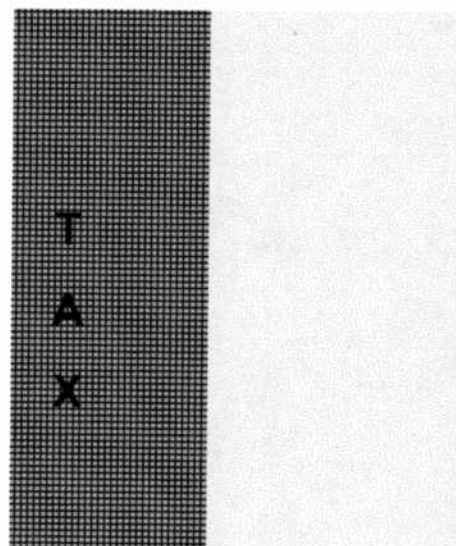
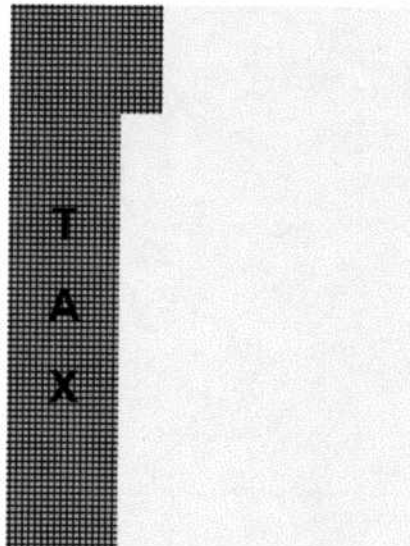
## Progressivity in AS 43.55.011(g) vs. Personal Income Tax

"Income"

Progressivity in Federal Income Tax

Progressivity in AS 43.55.011(g)

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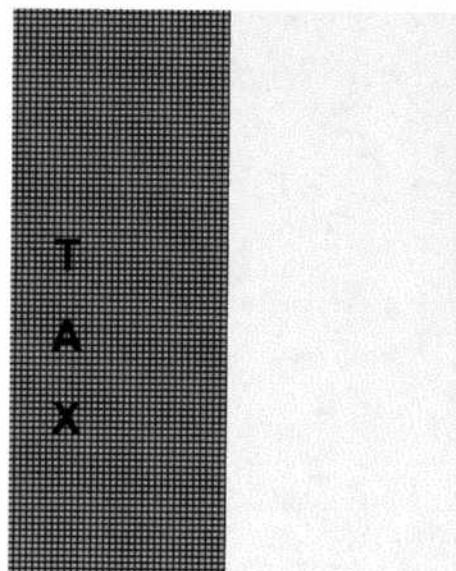
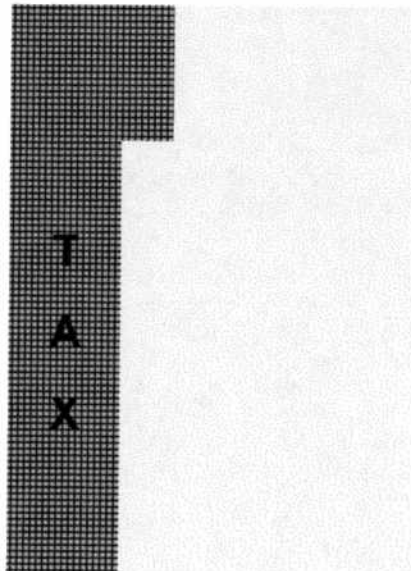
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"Income"

Progressivity in Federal Income Tax

Progressivity in AS 43.55.011(g)

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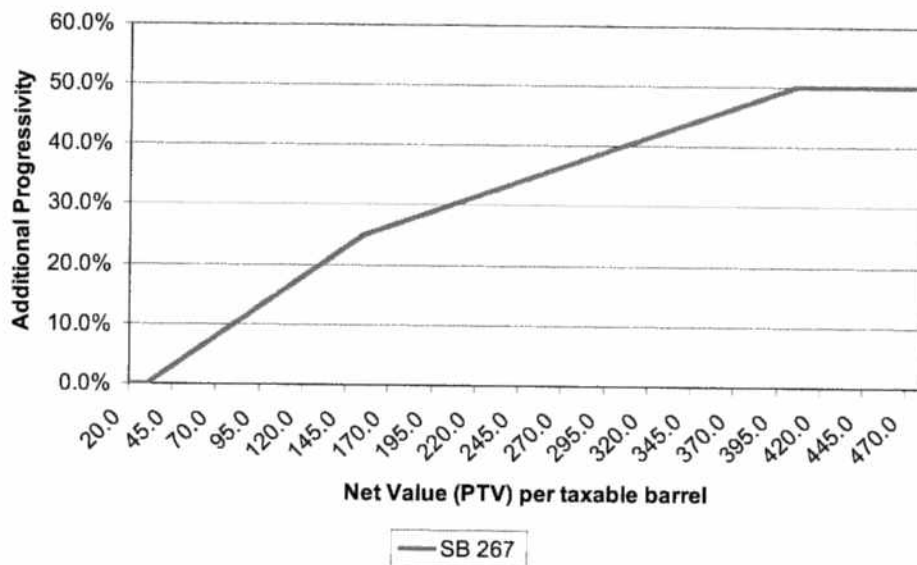
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## Progressivity Only

**Nominal Progressivity Rates in SB 267**



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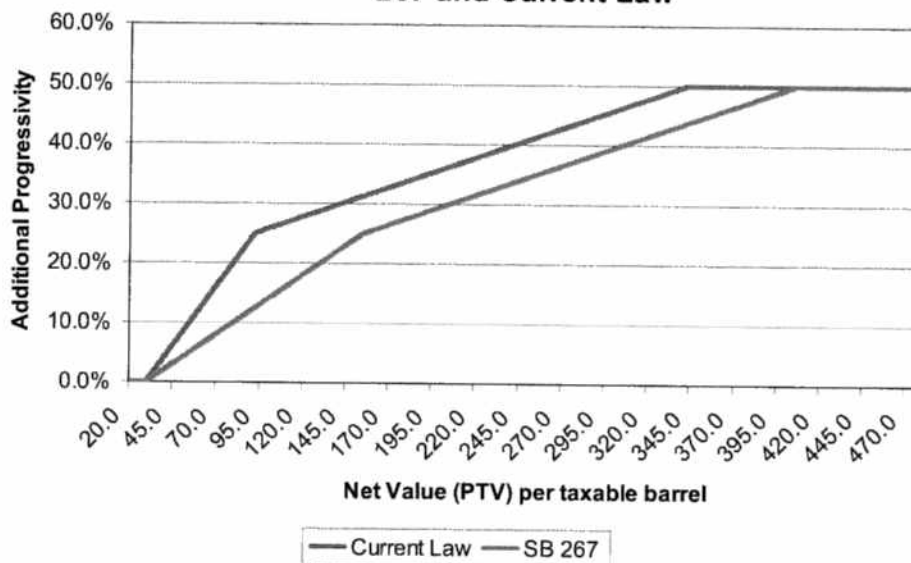
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## Progressivity Only

**Comparison of Nominal Progressivity Rates in SB 267 and Current Law**



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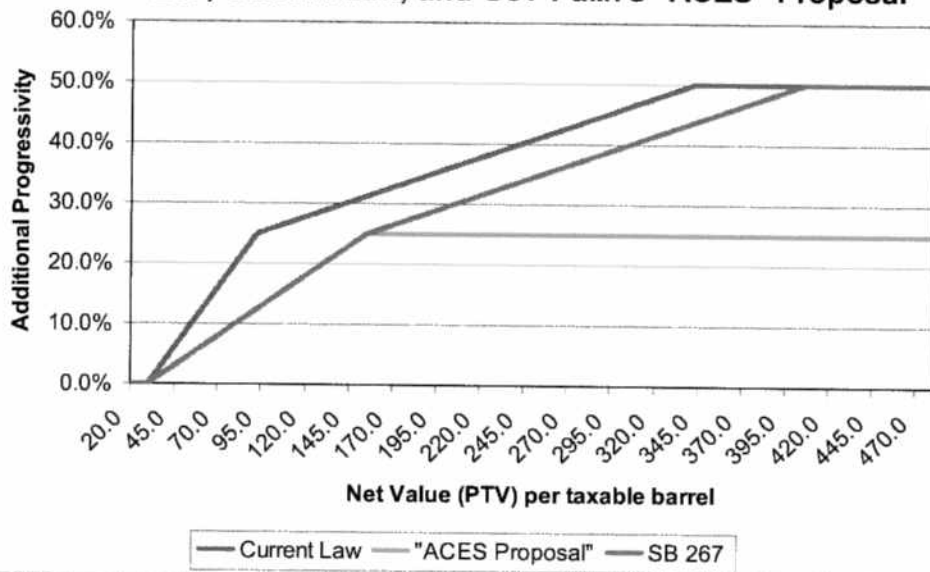
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## Progressivity Only

**Comparison of Nominal Progressivity Rates in SB 267, Current Law, and Gov Palin's "ACES" Proposal**



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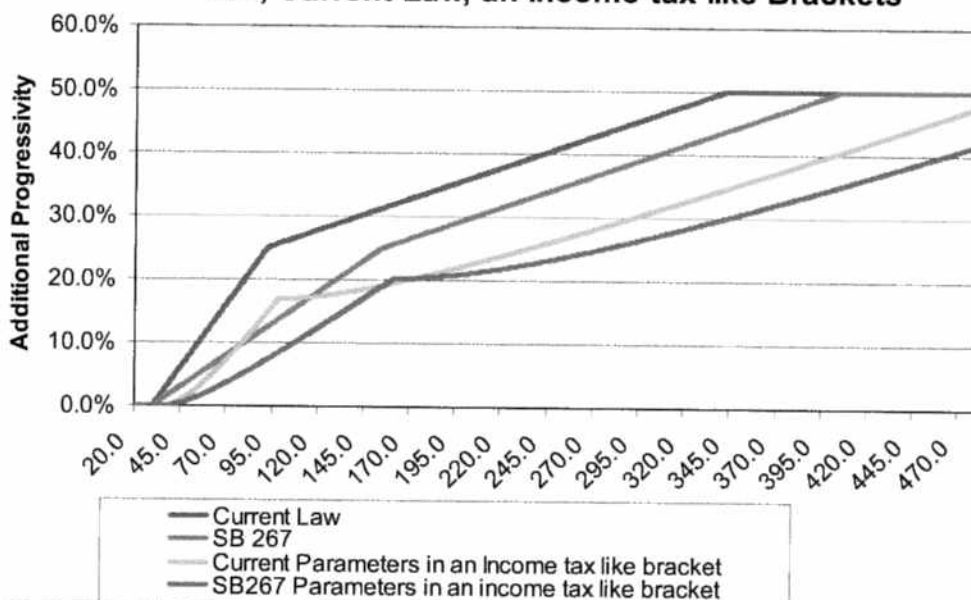
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## Progressivity Only

**Comparison of Nominal Progressivity Rates in SB 267, Current Law, an Income-tax like Brackets**



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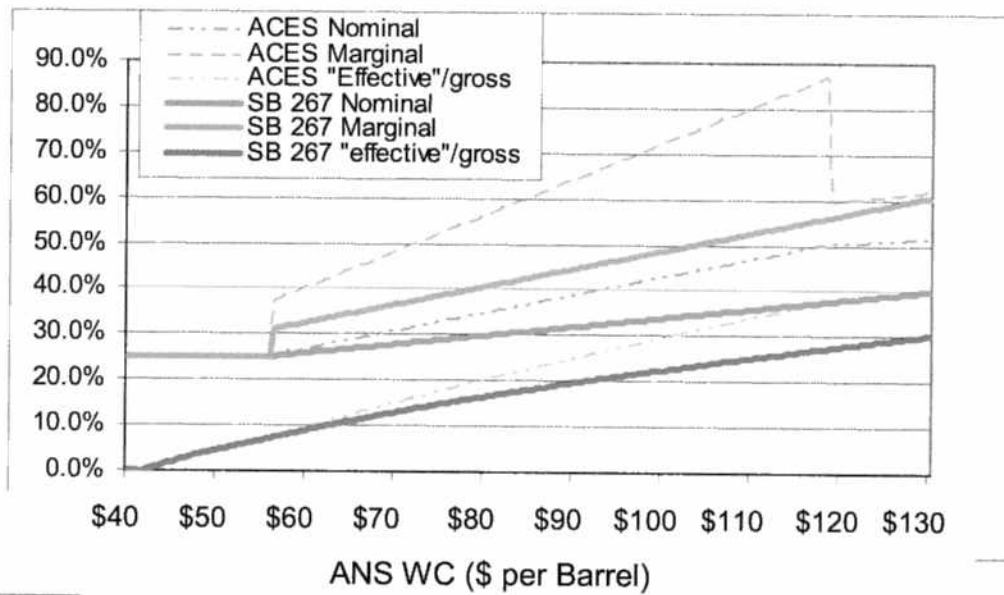
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## Production Tax: Progressivity + 25%

- Add SB 267 Nominal, Marginal and "effective"/gross

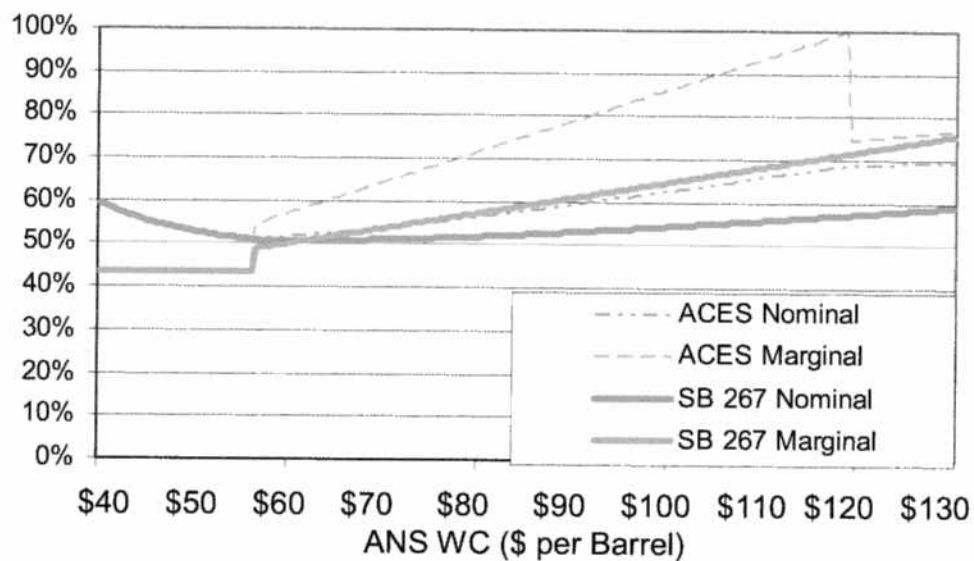


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## Total State of Alaska Take (Prod/Prop/Inc Tax + Royalty)

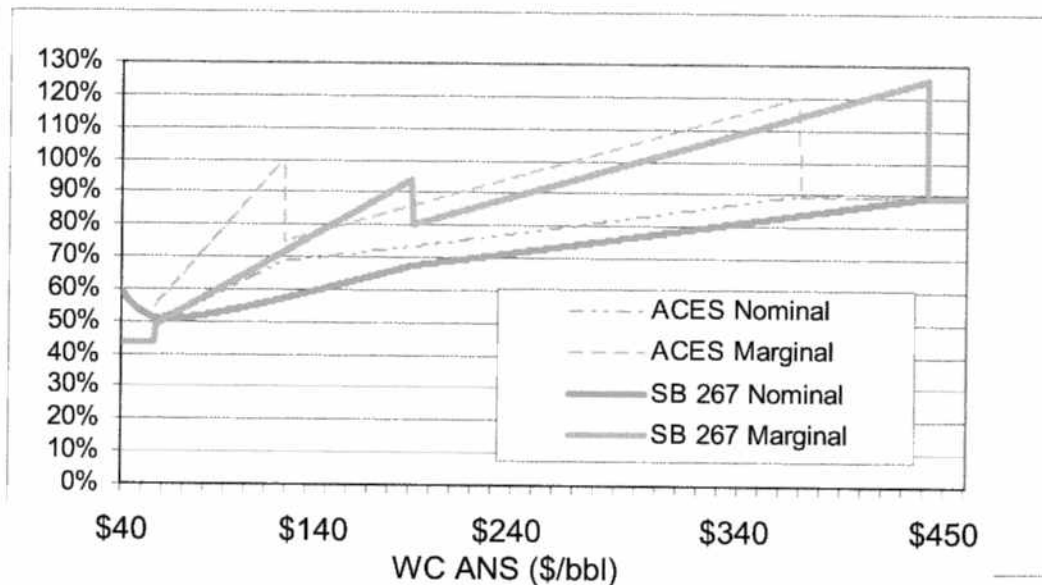


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## Total State of Alaska Take (Prod/Prop/Inc Tax + Royalty)



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## Investment Credits

- Section 17 adds 30% well work credit to investment credits
- Under Current Law –
- 30% Credit for exploration wells (AS 43.55.025)
- 40% Credit for seismic work outside of existing unit,
  - or exploration wells 25 miles from existing unit, and
  - 3 miles from any prior well (or with certification from DNR that it is for a new target in the Cook Inlet)(AS 43.55.025)
- 20% Credit for any capital investment (AS 43.55.023(a))
- No change to Exploration Credits AS 43.55.025 under this bill

## Compare with Other Well Work Proposals

- How does this compare with Governor's "Well Credits" proposal
- Both create a 30% credit for well work
- Both include pertinent capex and opex
- CS should be effective on the first day of a month (Gov's bill is July 1, 2010) year.
- Differences:
- CS for HB 308 places the credit among the .023 "Tax Credits for certain losses and expenditures" Governor's bill changes name of .025 from "Exploration" to "Exploration and Development" and places it there.
- Different definition of well related expense.
- (Other changes to AS 43.55.025 in Gov's bill)

## Differences between AS .023 and .025

AS 43.55.023 – Tax credits for certain losses and expenditures	AS 43.55.025 – Alternative tax credit for oil and gas exploration
AS 43.55.023 deals with capital costs in (a), lease expenditures in (b), and both in sections (c), (d), (e), (g), (h) and (j). (note – (f) repealed and (i) and (k) deal only with capital).	AS 43.55.025 deals only with exploration costs –by explorers. Administration suggests totally re-writing and re-titling to cover this work by explorers and producers.
21 specific exclusions from lease expenditures listed in AS 43.55.165 (e) (1) – (21) including exclusion of 30 cents a barrel from any capital cost, and certain transactions with affiliates or related parties.	Prohibitions summed up in one paragraph (AS 43.55.025(b)(3))
Restrictions in AS 43.55.011(m) (“credits clawback”) do not apply.	AS 43.55.011(m) (“credits clawback”) does apply.

**Question: Are we certain that the restructuring of AS 43.55.025 will not result in inadvertent changes to the rules?**

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## Definitions of well work compared

SB 267 proposed AS 43.55.023(m)(3)	Governor's Language proposed AS 43.55.025(b) (3) and (4)
“Well-related expenditures” means	Development well expenditures are for
A lease expenditure	Goods, services and rentals of personal property reasonable required for
related to a well	
and <b>includes</b> a lease expenditure for the purposes of sidetracking, well deepening, well recompletion, well workover,	Re-drilling, casing , cementing or logging, Completing, workover operations or other operations intended to increase or enhance well production
	From a known productive pool;
an injection well and well related seismic work and	And the well is not a service well [injector] or stratigraphic test well.
an intangible drilling and development cost authorized under 26 USC (IRC) as amended, and 26 CFR 1.612-4, regardless of the elections make under 26 USC 263(C) as amended	
up to the flange connecting the well head to the well line.	

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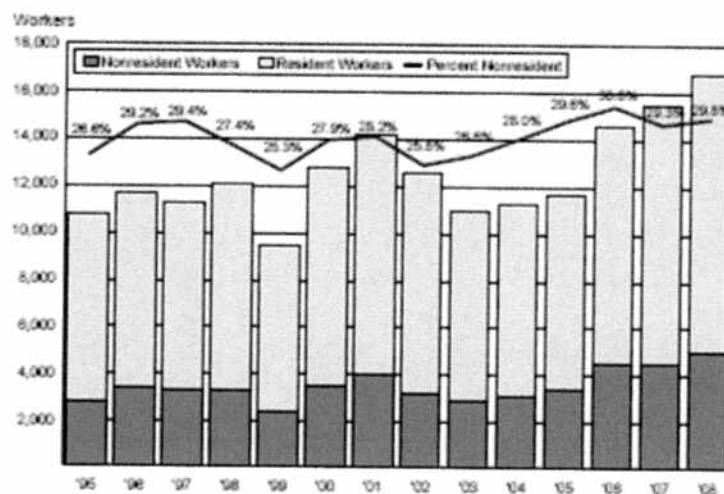
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## Non Resident Workers

### 6 Oil Industry Number and Percent Nonresident Workers Alaska 1995-2008



Note: Private Sector Only

Source: Alaska Department of Labor and Workforce Development, Research and Analysis Section

Source: Nonresidents Working in Alaska, 2008, State of Alaska, Dept of Labor and Workforce Development (Jan 2010) <http://www.labor.state.ak.us/research/reshire/nonres.pdf>

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## Rate tied to Resident Hire

- General Approach – (section 15)
- Base Tax rate (in AS 43.55.011(e)) is 25%, and Taxpayers makes monthly payments at that rate
- Any direct labor that is a lease expenditure is accounted for as Resident or non-Resident.
- At the end of the year total hours of labor are used to calculate a ratio for the year: or resident hire %
- New effective rate is calculated:
  - 20% for a 100% Resident Hire ratio up to
  - 25% (current law) for an 80% Resident Hire ratio.
- Taxpayer can then apply for a rebate of the difference for the prior year.
- Note: effective date should be beginning of a year.

## Rates in CS HB 308 proposed 43.055.022 (b)

For Resident Hire Ratios		Rebate of amount under AS 43.55.011(e)(1)	Tax Rate in AS 43.55.011(e)(1)	Rebate as % of PTV	Effective Tax Rate
equal or above	but below				
70.0%	72.5%	0.0%	25.0%	0.0%	25.0%
72.5%	75.0%	0.0%	25.0%	0.0%	25.0%
75.0%	77.5%	0.0%	25.0%	0.0%	25.0%
80.0%	82.5%	2.0%	25.0%	0.5%	24.5%
82.5%	85.0%	4.0%	25.0%	1.0%	24.0%
85.0%	87.5%	6.0%	25.0%	1.5%	23.5%
87.5%	90.0%	8.0%	25.0%	2.0%	23.0%
90.0%	92.5%	10.0%	25.0%	2.5%	22.5%
92.5%	95.0%	12.0%	25.0%	3.0%	22.0%
95.0%	97.5%	14.0%	25.0%	3.5%	21.5%
97.5%	100.0%	16.0%	25.0%	4.0%	21.0%
100.0%		20.0%	25.0%	5.0%	20.0%

## Resident Hire -- What will it cost per job?

- "In an extreme example, [according to DOR] hiring just one Alaskan could mean \$30 million in tax savings" (Anchorage Daily News 2/11/2010, backpage (A-14))

All figures in Millions of Dollars:

FY2008 Estimated PTV (\$millions)	\$ 16,837.7
FY2009 Estimated PTV (\$millions)	9,313.1
Average for CY 2009	<u>13,075.4</u>

Assumption: One company is responsible for half AS 43.55.011(e)(1) taxes at 25%	6,537.7
	1,634.4

If one incremental employee (hour) moves taxpayer by one bracket in between 80 - 97.5% then effect is (.5%)	<b>32.7</b>
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Function of "brackets rate applied to base"  
Opposite effect also occurs.

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## Resident Hire – What will it cost per job?

Opposite effect also occurs.

Assumption: Company has 6,500 employees and contractors at the statewide average of 70% Residents

1. When Below 70%

	Total Workers	Resident Workers	Ratio	Tax rate
year one	6,500	4,550	70.00%	25.0%
add		649		
year two	6,500	5,199	79.98%	25.0%

	Total Worker Hours	Resident Worker Hours	Ratio	Tax rate
year one	13,000,000	9,100,000	70.00%	25.0%
add		1,298,000		
year two	13,000,000	10,398,000	79.98%	25.0%

"need to be at 80% to start the conversation"

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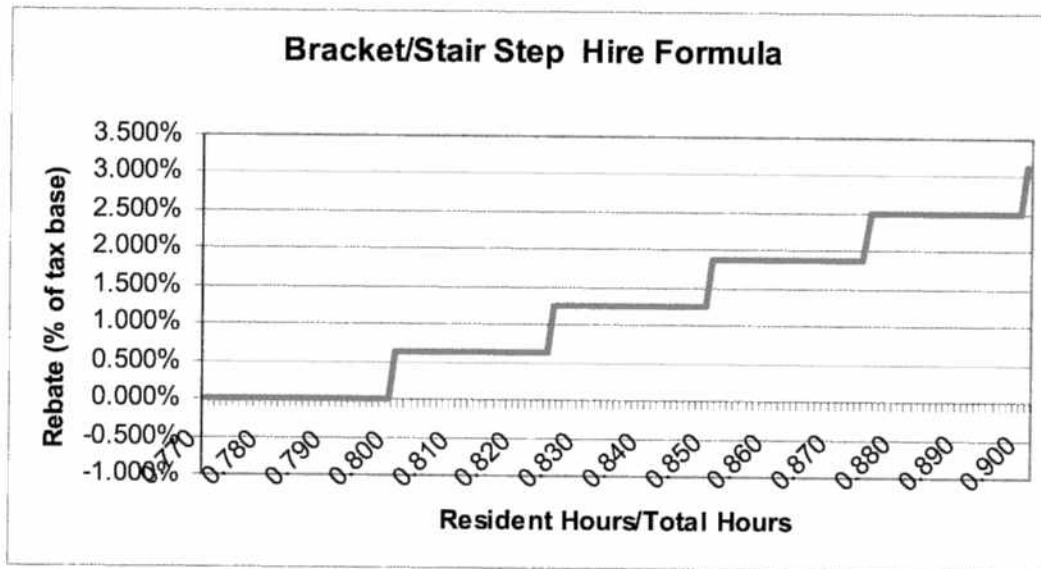
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## Resident Hire – What will it cost per job?

### Bracket/Stair Step Hire Formula



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## Resident Hire – What will it cost per job?

Opposite effect also occurs.

Assumption: Company has 6,500 employees and contractors at the statewide average of 70% Residents

(2) When between brackets

	Total Workers	Resident Workers	Ratio	Tax rate
year one	6,500	5,200	80.00%	24.5%
add		162		
year two	6,500	5,362	82.49%	24.5%

	Total Worker Hours	Resident Worker Hours	Ratio	Tax rate
year one	13,000,000	10,400,000	80.00%	24.5%
add		324,000		
year two	13,000,000	10,724,000	82.49%	24.5%

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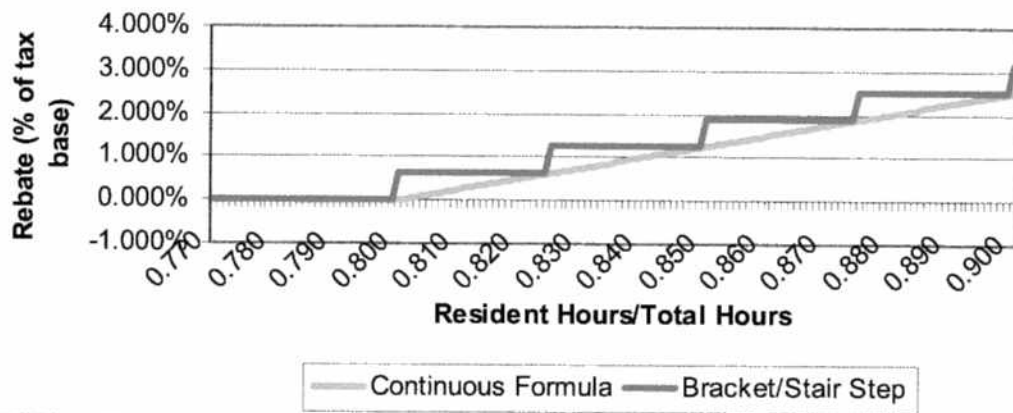
## Stair Step versus Continuous Function

Solution – Continuous function (with rounding)

- Rebate equal to tax base (PTV) times
  - Higher of ((Resident Hours/Total hours) or .8)
  - Less .8
- 
- That transforms Resident Hire rates between 80% and 100% into a series from 0% to 20%

## 2. Stair Step versus Continuous Function

**Bracket/Stair Step vs Continuous Resident Hire Formula**



## Problem of "no reporting of nonresident wages"

	Actual	Rounded
FY2008 Estimated PTV (\$millions)	\$ 16,837.7	
FY2009 Estimated PTV (\$millions)	9,313.1	
Average for CY 2009	13,075.4	10,000
AS 43.55.011(e)(1) taxes at 25%	3,268.8	2,500
Maximum Rebate (20% of taxes, 5% of base)	653.8	500
Non Resident Workers in industry in 2008	5043	5,000
Average Wages ( 2008) per worker (\$million)	0.083601	0.100000
Total Non- Resident Wages	422	500
Effect of not claiming Non resident wages as lease expense (25%) (\$millions)	105.4	125
So by simply not reporting or deducting the 5043 non residents Decrease in taxes: (\$millions)	548.4	375

Sources: State of Alaska, Dept. of Labor and Workforce Development, Nonresidents Working in Alaska, 2008 (Jan 2010), derivations from figures in Dept of Revenue, Revenue Sources Book (Fall 2009)

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## Some solutions to "no reporting of nonresident wages"

1. Shift the scale so maximum tax savings are not \$500 million by \$100 million and tax rate could range from 24% to 25%.
2. Require that for any labor to be allowed as a lease expense, all the labor from that company must be calculated in Resident Hire calculation – (with additional rules for pass through).
3. Focus on new hires only, and specific dollar rebate for every new resident hire.
4. Given structure of industry, have the DOR determine a tax rate every year based on the Resident Hire Ratios of 10 (20?) largest employers in the industry or largest generators of lease expenditures.

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## Structure of Industry in Alaska

- Producers (taxpayers) have employees & hire
  - Operator who has employees & hires
    - Contractors, and buys "stuff"
- According to the Dept of Labor & Workforce Development (2008) employment in
 

• Oil and gas (direct)	4,055
• <u>Oilfield Services</u>	<u>12,875</u>
• Total	16,930

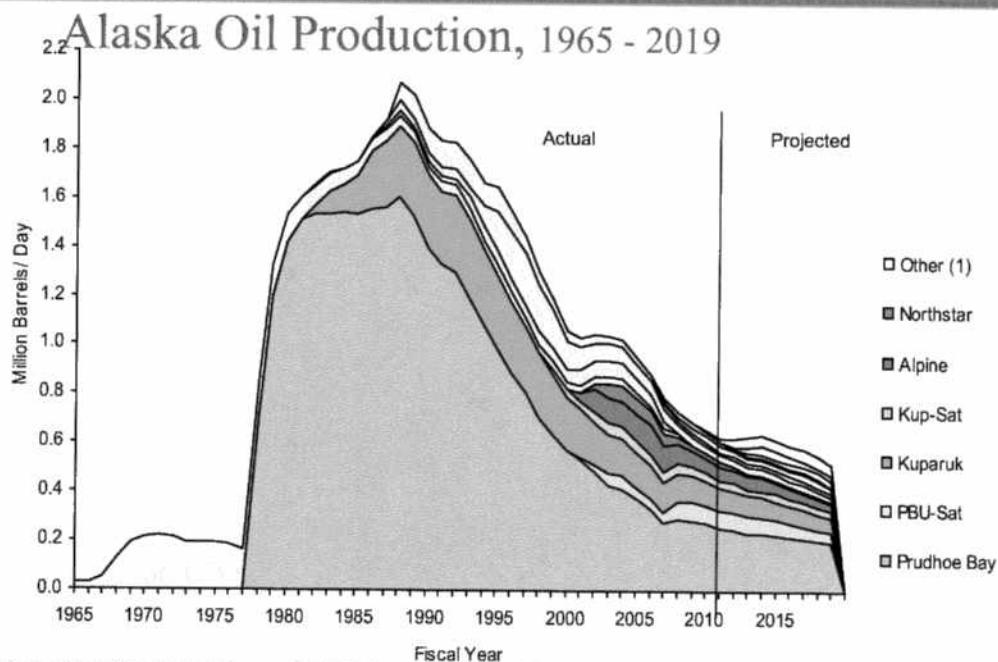
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Sources: State of Alaska, Dept. of Labor and Workforce Development, Nonresidents Working in Alaska, 2008 (Jan 2010).

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Source: Alaska Department of Revenue, Fall 2009 Revenue Sources Book. Extrapolated  
(1) Cook Inlet, Duck Island, Milne Point, Greater Point McIntyre, Liberty, Known On & Offshore, Fiord and NPRA.

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## Who are the 15 Tax Production Tax Filers (2009)?

	1 CP	2 BP	3 EM	4 Anadarko	5 Chevron	6 Pioneer	7-10 4 Others(1)	Total
Production in Millions of Bbls a day								
PBU & Sat	0.1317	0.0962	0.1328	-	0.0042	-	0.0001	0.365
KRU & Sat	0.0785	0.0558	0.0006	-	0.0071	-	-	0.142
North Star	-	0.0270	-	-	-	-	-	0.027
Alpine & Sat	0.0827	-	-	0.0233	-	-	-	0.106
Endicott	0.0004	0.0074	0.0045	-	0.0017	-	0.0001	0.014
Milne	-	0.0310	-	-	-	-	-	0.031
Oooguruk	-	-	-	-	-	0.0028	0.0012	0.004
Total bbl/day	0.2933	0.2174	0.1379	0.0233	0.0130	0.0028	0.0013	0.689

<b>MM bbl/yr</b>	<b>107.0</b>	<b>79.4</b>	<b>50.3</b>	<b>8.5</b>	<b>4.8</b>	<b>1.0</b>	<b>0.5</b>	<b>251.5</b>
% of NS	43%	32%	20%	3%	2%	0%	0%	100%

Cook Inlet 2009

Cook Inlet Production

oil	4.0
10% of production	gas (boe) 24.9
1/2 of 1% of tax due to AS 43.55.011(j) and (k) limitations	Total CI 28.9
	<b>Total AK 280.43</b>

Cook Inlet:

(1) Others

- |   |            |
|---|------------|
| 11 Aurora                                     | 7 Nana     |
| *Chevron (heritage Unocal & Chevron)          | 8 Doyen    |
| *CP (heritage Arco and Phillips)              | 9 Forest & |
| 12 Pacific Energy (acquired Forest interests) | 10 ENI     |
| 13 Marathon                                   |            |
| 14 ML&P                                       |            |
| *EM (heritage Mobil & XTO)                    |            |
| 15 Pioneer (Lawrenceville, Ill)               |            |

Source: DNR Division of Oil and Gas 2006 & 2009 Annual Reports, DOR, Fall 2009 Revenue Sources Book

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| 15 Pioneer (Lawrenceville, Ill)               |            |

DED estimate covered  
by AS 43.55.024 credit

Source: DNR Division of Oil and Gas 2006 & 2009 Annual Reports, DOR, Fall 2009 Revenue Sources Book

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## Who are the Employers in the Oil and Gas Industry

- Recall EM, BP and CP are largest taxpayers – they would put pressure on employers to qualify for lower rate

Ranking in Top 100	Total Employees			Non Resident %
5 ASRC	2250	2499	Oil Field Services	24.1%
8 CH2MHill	1750	1999	Oil Field Services	35.5%
9 BP Exploration			Oil & Gas Extraction	27.7%
17 Conoco Phillips	1000	1249	Oil & Gas Extraction	20.7%
36 Nabors Alaska Drilling	500	749	Oil Field Services	
43 Schlumberger Technologies			Oil Field Services	30.5%
49 Udelhoven Oilfield System Services			Oil Field Services	30.5%
52 Peak Oilfield Service Company	250	499	Oil Field Services	26.8%
69 Norcon			Oil Field Services	23.2%
73 Chevron			Oil & Gas Extraction	
78 Halliburton			Oil Field Services	32.3%
95 Doyon Drilling			Oil Field Services	
Veritas Dgc Land Inc				47.9%
Baker Hughes Oilfield Operations Inc.				54.1%

NOTE: Does Not Include "Catering/Security", Engineering, Transportation, Communications, Construction

Sources: State of Alaska, Dept. of Labor and Workforce Development, 100 Largest Private Employers, 2008 (Alaska Economic Trends, July 2009); Nonresidents Working in Alaska, 2008 (Jan 2010)

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## To be addressed by Statute (or Regulations)

- Is the "overhead labor" that is replaced by a formula in 15 AAC 55.270 part of the resident labor calculation?
- If a contractor has a fixed price contract, or charges a fee that includes labor (such as for transportation, turnkey modules, any manufactured good) who determines, or how is it determined whether and how to analyze the labor in that transaction for resident labor?
- Are billed professional services (say by an engineer) "labor" for the resident hire calculation.

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## To be addressed by Statute

- If tax was not paid due to limitations in AS 43.55.011(j), (k) and (o) – CI or instate gas, can it be rebated?
- If tax was not paid due to applications of .023 Capitol and Loss Carry Forward Credits, .024 “Low Production” Credits and/or .025 Exploration Credits, can it be rebated?
- If times are tough and taxpayers have to pay the “alternative minimum tax” under AS 43.55.011(f), can that be rebated? It is a tax based on gross – but will still require the calculation of labor costs.
- If there is lots of investment activity and so that generates a loss – No resident hire issues if no tax base? Or should the rebate effect the loss carryforward. (Perverse incentive)

## 6 Changes in SB 267

1. Change progressivity from .4% to .2% per dollar
2. 30% credit for well work
3. Tax rate tied to Resident Hire
4. Interest not due on retroactive reg changes prior to implementation
5. Interest rate is lower of fed funds +2 or 11%
6. Restore 3 year statute of limitations



## How is interest calculated?

### Current Law

- Production Tax is due on last day of the month following the month of production (AS 43.55.020 (a)).
- Amount of tax due changes because of audit, revised reporting by taxpayer, retroactive revision of tariff due to a regulatory order in a rate case, retroactive change in regulations.
- Interest is charged back to when original tax is due.
- In a settlement Department can compromise amount of tax and amount of Penalty. (AS 43.55.070) – No mention of interest.

SB 267 (section 7) For all taxes, when retroactive regulation is passed, interest only goes back to effective date of regulation.

## Regulations required retroactive to July 2007\*

- In 2007 reforms ("ACES") Department charged with a number of specific responsibilities for regulations, as well as general implementation.
  - AS 43.55.150 "the department shall determine the reasonable cost of transportation, using the fair market value of like transportation, the fair market value of equally efficient and available modes of transportation or other reasonable methods.
  - AS 43.55.165(a) "...a producer's lease expenditures for a calendar year are ... costs ...allowed by the department by regulation..."
  - Production tax is a yearly tax – however, effective dates of most of 2007 reform was July 1, 2007, so ways of combining two half years had to be implemented.
  - New reporting requirements (AS 43.55.030 & .040)
  - \*New rules for exploration credits (AS 43.55.025)

## Status of Regulations Affecting Returns after July 2007

		Discussion Draft				Public Comment Draft		Adopted
		1	2	3	4	1	2	
Project One - Reporting Requirement								
15 AAC 55. 520	Reporting					Feb-08		May '08 effective as of June '08
Project Two - NS PV, Civil Penalties, Mid Year Statutory Changes, CI reporting								
35 sections		Feb-08	Oct-08	Nov-08		Apr-08	Sep-08	Sep '09 effective as of Oct '09
Project Three - Exploration Credits								
6 sections						Aug-08	Jun-09	Nov '09 effective as of Dec '09
Project Four - Lease Expenditures								
10 Sections		Jan-08	Mar-08	Sep-08				Jan '10 effective as of Feb '10
Project Five - Reasonable Transportation								
5 sections		Mar-08	May-08	Jan-09		Feb-10		
6. Other Projects								
15 AAC 55. 173	NS Gas PV	Feb-08				Apr-08		Aug '08 effective as of Oct 1 '08
	Facility Sharing	Oct-08	Nov-08	Feb-09	Jul-09			
	Credit Safeguards	Nov-08						
	"Affiliated" definition	Jan-09						
	PV of oil					Jan-10		

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## Interest on Retroactive Regulatory Changes

- Governor Parnell's suggested approach:
  - More thorough – explicitly recognizes that the absence of regulations is not the absence of any rules
  - Explicitly retroactive – deals with the 2007 -2010 regulatory delay
  - Does not require restructuring AS 43.05.225 (thus eliminates half the provisions in the SB 267) – however only applies to production tax.
  - (although in current version A, section 6, page 3 line 5 requires in the insertion of an "a" in any case.)

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## Interest on Retroactive Regulatory Changes

- Possible upgrades to Governor's Language:
- Instead of requiring a departmental determination of good faith by the producer in each case. Assume it, and allow the department to prove otherwise if it finds egregious behavior.
- Possible upgrades to either approach
- AS 43.55.020 (a)(1)-(3) are monthly "installment payments of estimated tax" using 1/12<sup>th</sup> of estimated credits and 1/12<sup>th</sup> estimated lease expenditures - so
  - No true up caused by retroactive regs except for annual true up already required under AS 43.55.020 (a) (4) and
  - First first day of month more than 90 days after effective date of regs.

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## Interest rate in AS 43.05.225

- Lower tax rate for all tax types (section 6)
- The interest rate applies to all 20 Alaska Tax Types\*
- Current law – higher of fed funds + 5 or 11%
- Also applies to late royalty payments.
- **Compounded** Quarterly
- Implemented in 1991 amidst settlement of major production tax and royalty litigation going back to 1977 and era of simple interest.
- Effective date should be end of year, or at the very least, quarter.

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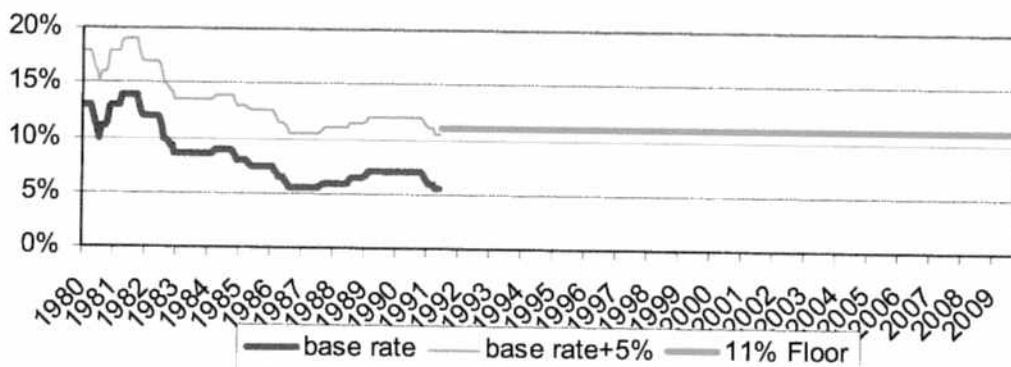
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## Interest Rates: The view from June 1991

Rate charged member banks by the 12th Federal Reserve District  
1980 - June 1991



Source: Federal Reserve Bank of San Francisco (frbsf.org)

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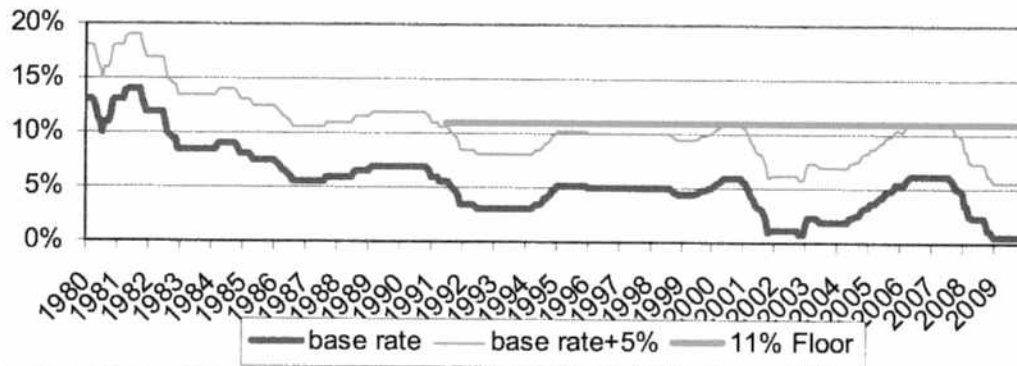
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## Interest Rates – The 11% floor since 1991

**Rate charged member banks by the 12th Federal Reserve District  
1980 - 2010**



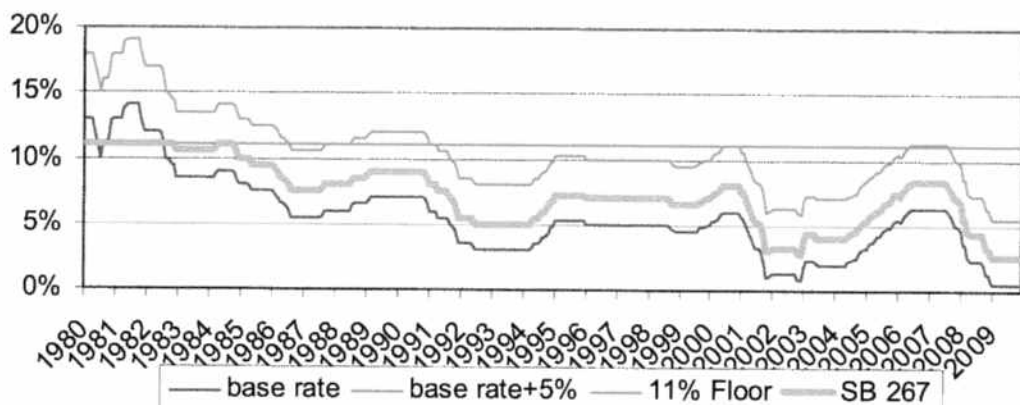
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## Looking back: What would the rate have been under SB 267

**Rate charged member banks by the 12th Federal Reserve District**



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## Alaska compared with federal rate

- How are federal interest rates computed under IRC:

	Over Payments of Tax	Under Payments of Tax
Non- Corporate	Fed Funds + 3%	Fed Funds + 3%
Corporate	Fed Funds + 2%	Fed Funds + 3%
Corporate - Large	Fed Funds + 1/2%	Fed Funds + 5%

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## Restore 3 year State of Limitations

- Section 20 Restores statute of limitations to three years for production tax - time for the state to complete a production tax audit (or, agree to an extension with taxpayer or issue a blue sky assessment)
- Three year rule would begin with 2011 tax year
- Note: in the case of False or Fraudulent returns, or failure to file a return, may proceed "at any time"
- Prior to 2007, SOL was three years for all tax types under AS 43.05.260 –
- In 2007 production tax pulled out and extended to 6 years in AS 43.55.075

## Thank You

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