

Technical Aspects of CS for HB 308 (Version P)

Dan E. Dickinson CPA

House Resources Committee
March 17, 2010

Structure of CS for HB 308

Structure of CS for HB 308

26-LS1328\P

Key Provision

Needs

effective date & Reti 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
Housekeeping - reference to interest	1	2		4			7				11			14	15							22
2 Interest rate			3																	20		
1 Change progressivity from .4 % to .2 %					5	6															21	
3 Interest not due on retroactive regs changes prior to implementation								8									17	18	19			22
4 Credits not spread over two years									9	10									19			
5 30% credit for well work												12										22
6 Restore 3 year statute of limitations													13						19			
7 Credits purchased without matching spend																16						22
Tax rate tied to Resident hire																						

*

8 Changes in CSHB 308 Version P

- Summary
- Progressivity – Leave the rate the same, change the base (Prior draft changed the rate)
- Interest rate – Fed Funds + 3, no ceiling, (Prior draft, Fed Funds +2, with ceiling)
- Interest not due on retroactive regs changes prior to implementation – Gov's Bill Approach
- NEW - Credits over One Year, not Two
- 30% credit for well work (one definition reword since prior draft)
- Restore 3 year statute of limitations (No change from prior draft)
- NEW - No “matching spend” required to purchase credits
- Tax rate tied to Resident Hire – Not in Current Draft

8 Changes in CSHB 308 Version P

- **Progressivity**
- Interest rate
- Interest not due on retroactive regs changes prior to implementation
- NEW - Credits over One Year, not Two
- 30% credit for well work
- Restore 3 year statute of limitations
- NEW - No “matching spend” required to purchase credits
- Tax rate tied to Resident Hire

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

- Under federal personal income tax rules rate is bracketed and only applied to certain income

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

- Under current production tax law, all net value is taxed at highest rate – 25% + progressivity (which can range from 0% to 50%)

What is Progressivity?

- Under this CS – Two brackets.
- First bracket up to \$30/bbl is 25%
- Second bracket above \$30/bbl is 25%+ progressivity
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Progressivity

- Tax = Rate * Base
- Current Law for Progressivity (AS 43.55.011(g)) :
 - Rate: (PTV/bbl - \$30) times **.4%** per dollar,
 - Base: PTV (net value)
- This CS (Version S):
 - Rate: (PTV/bbl - \$30) times **.4%** per dollar,
 - Base: PTV **less (\$30 * bbl)** (net value above \$30)
- Prior Draft (Version E):
 - Rate: (PTV/bbl - \$30) times **.2%** per dollar,
 - Base: PTV (net value)

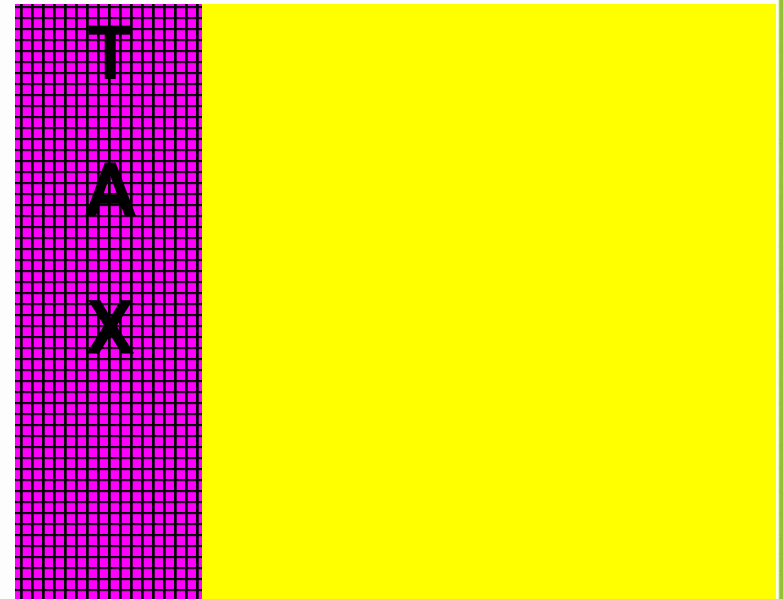
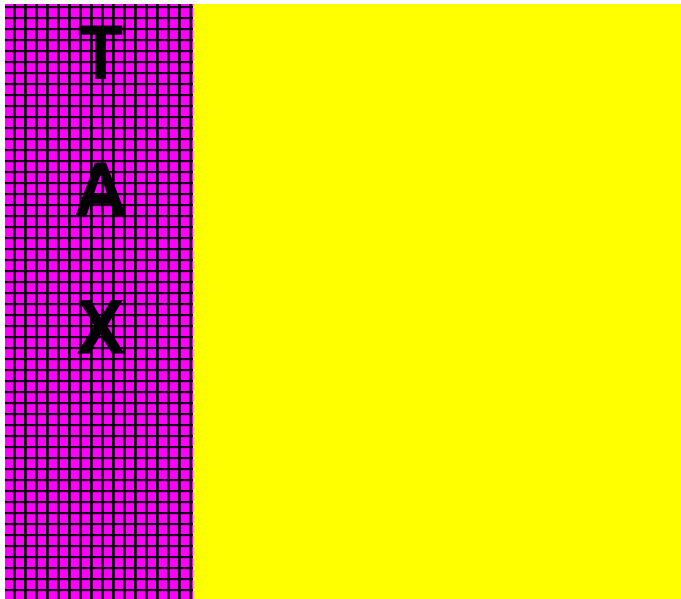
Progressivity in AS 43.55.011(g) vs. Personal Income Tax

"Income"

Progressivity in Federal Income Tax

Progressivity in AS 43.55.011(g)

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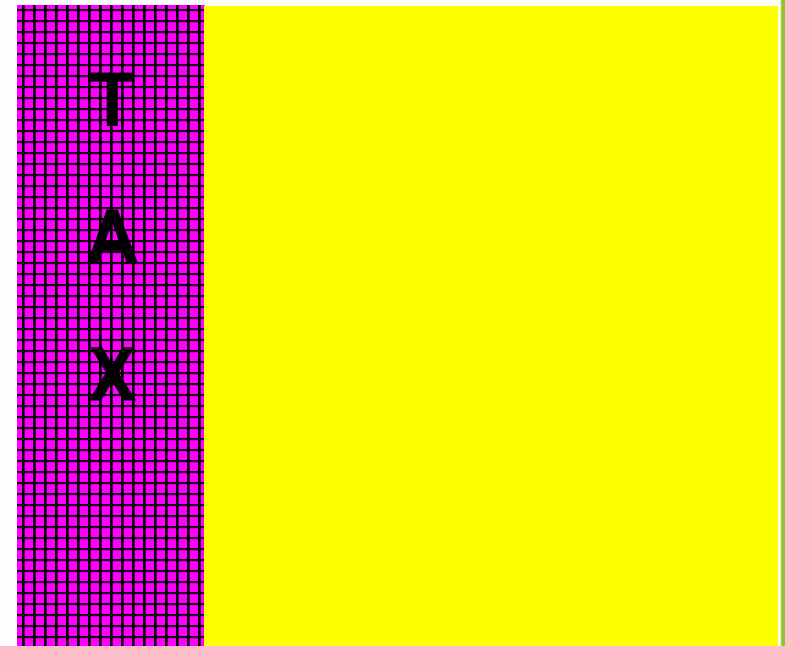
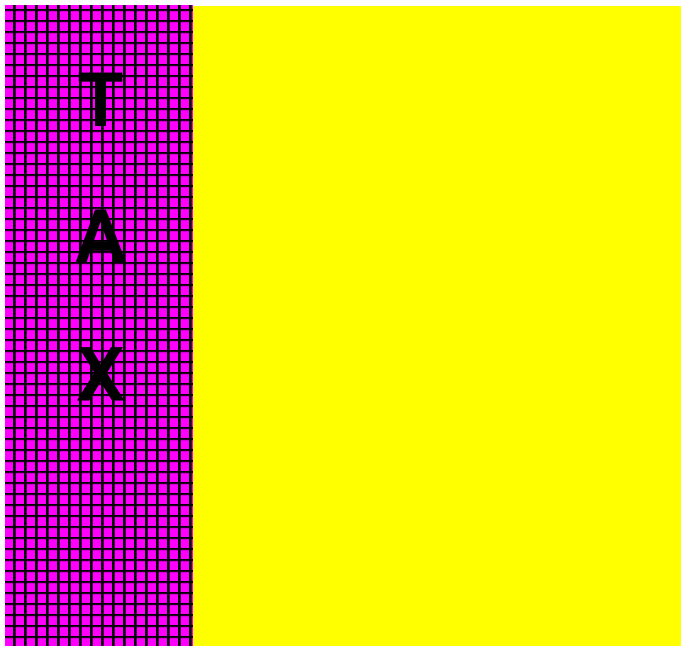
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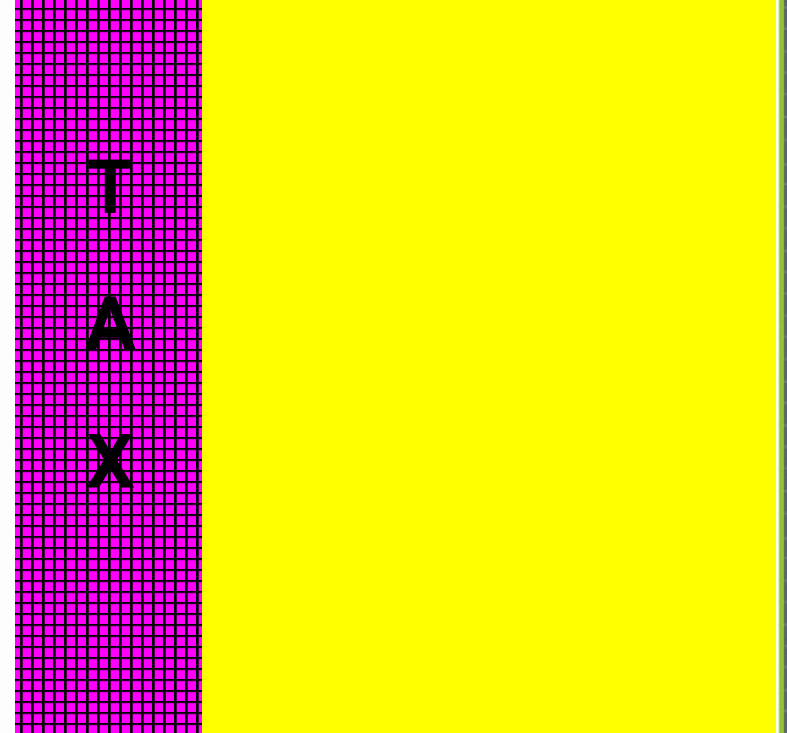
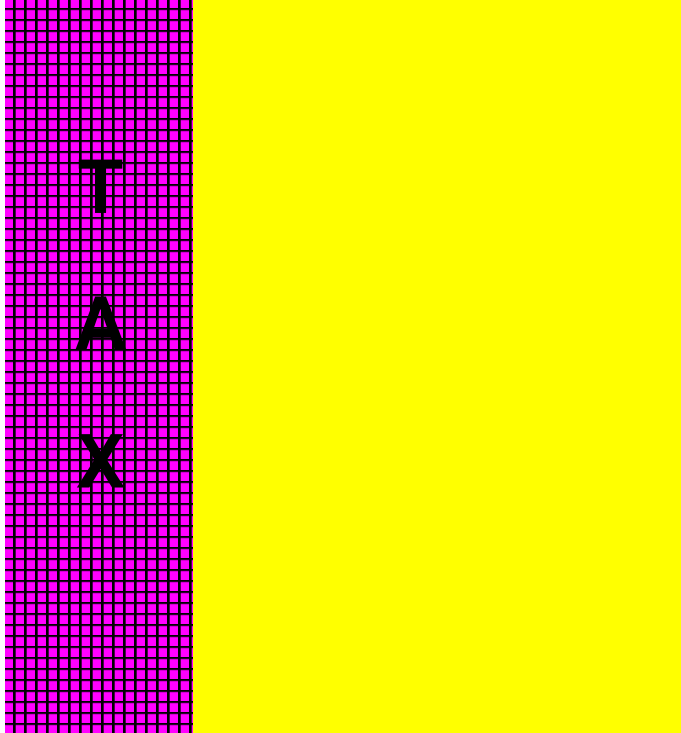
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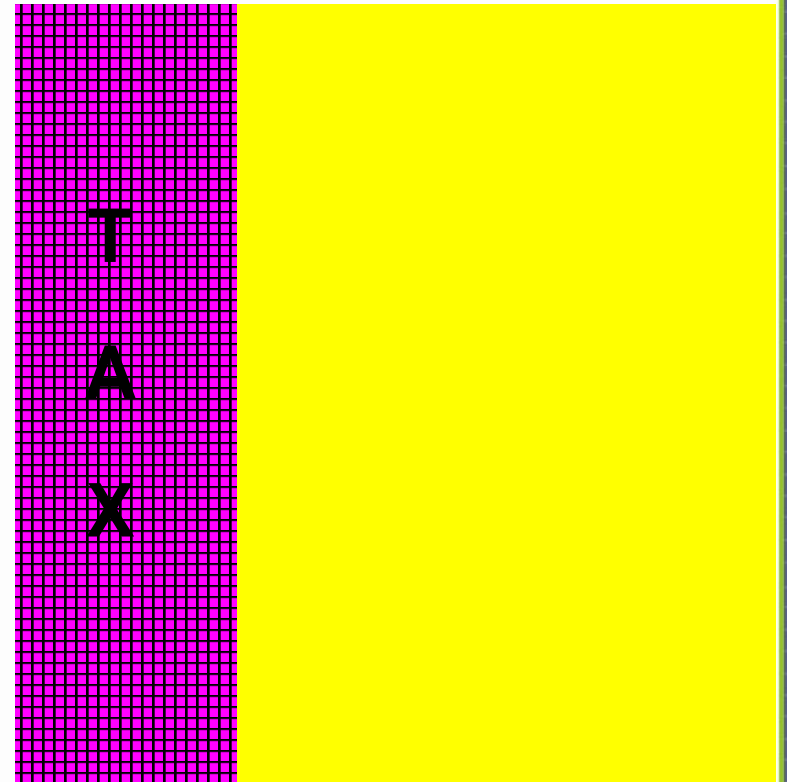
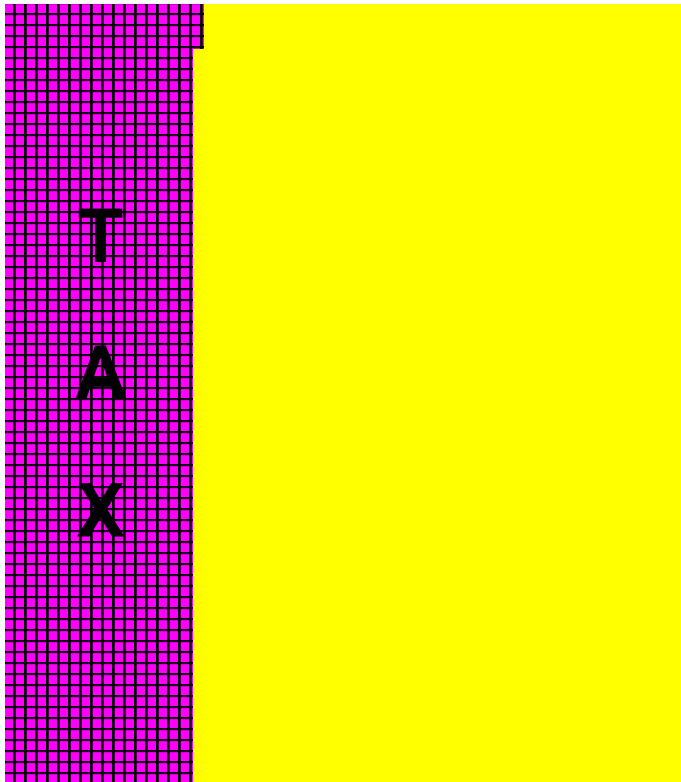
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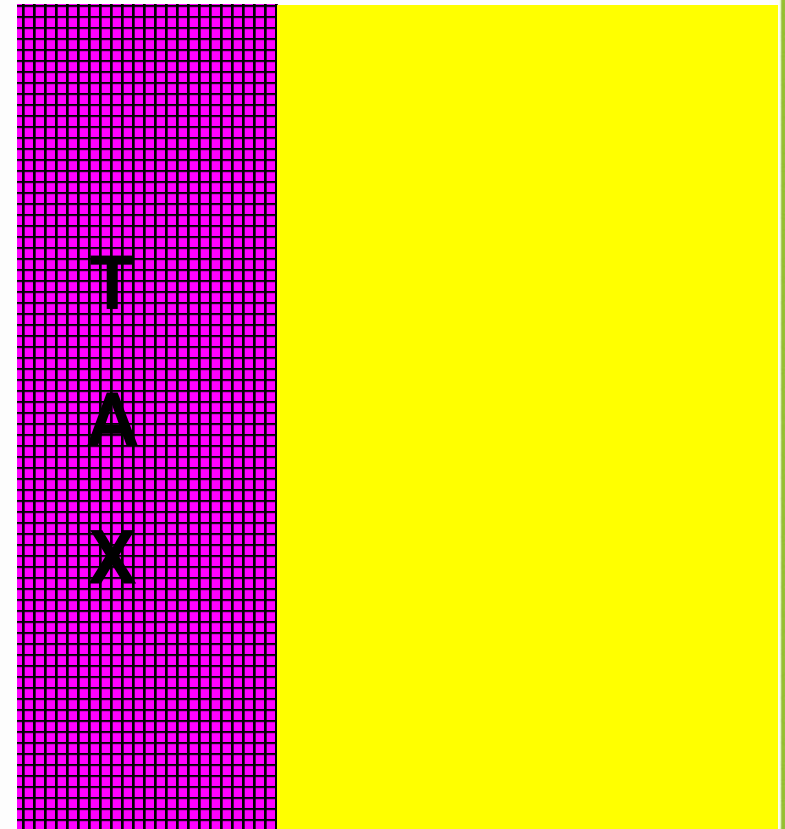
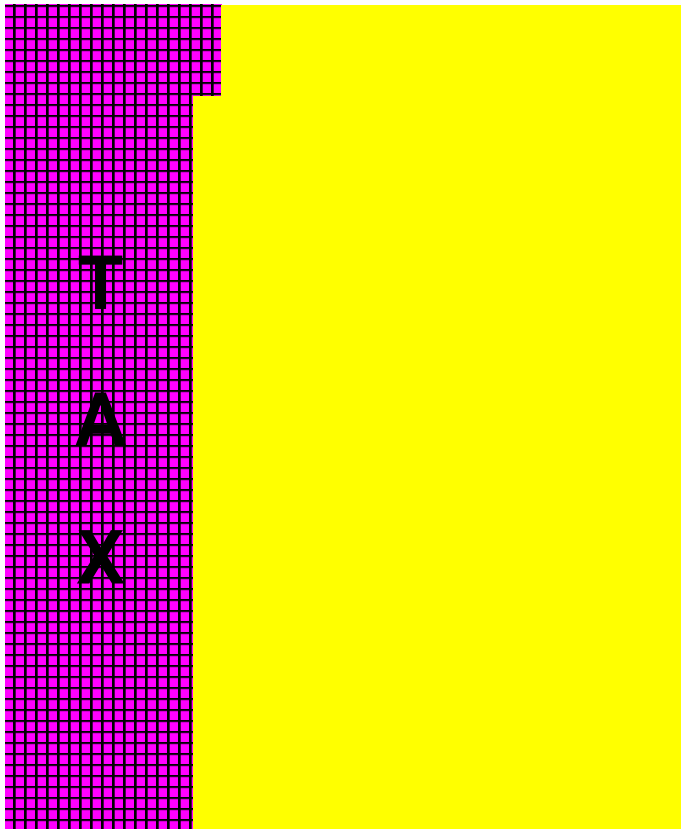
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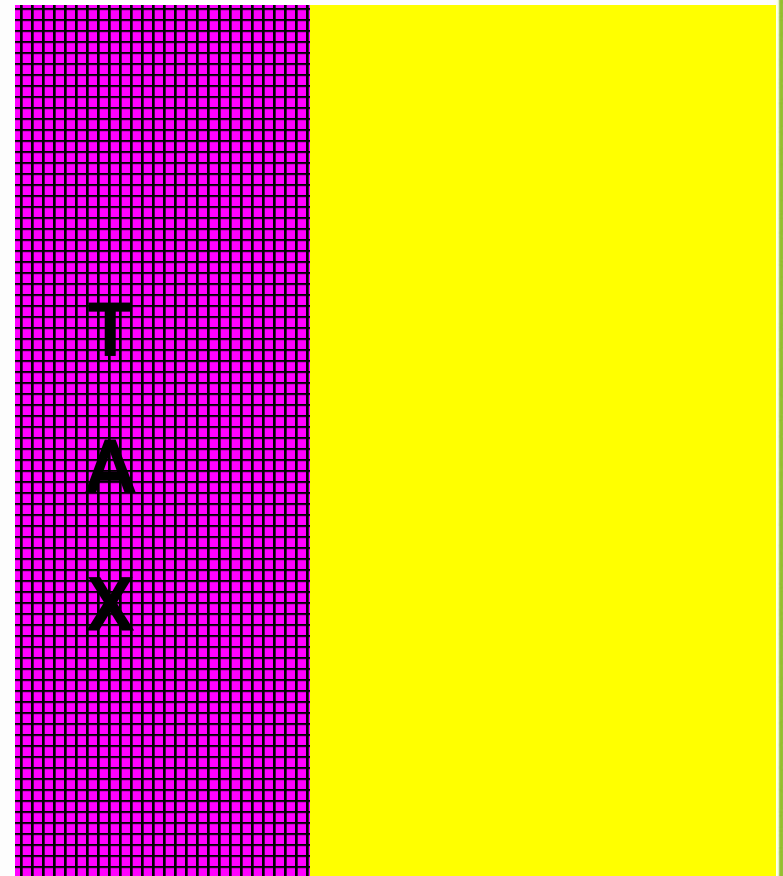
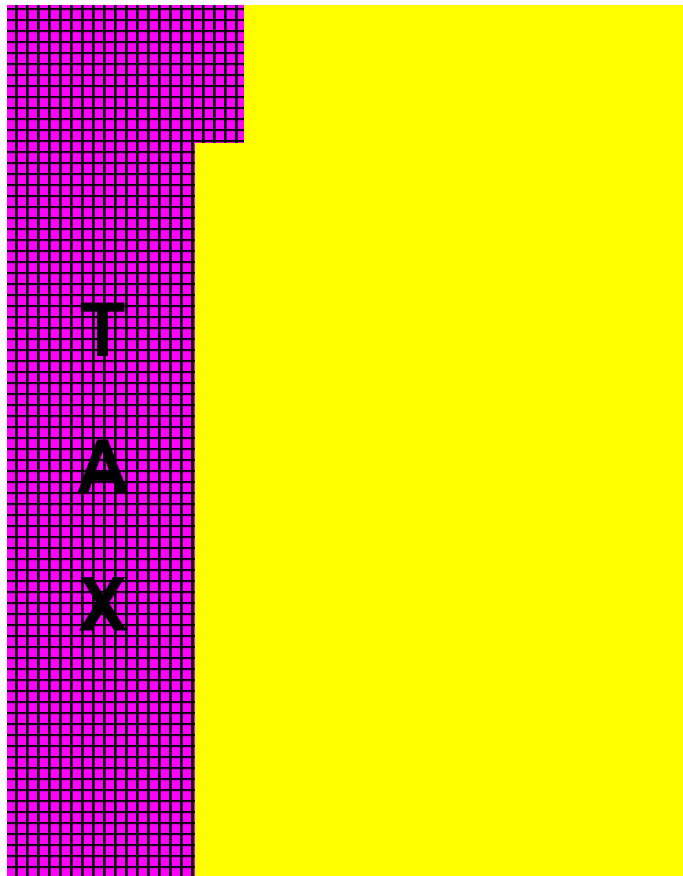
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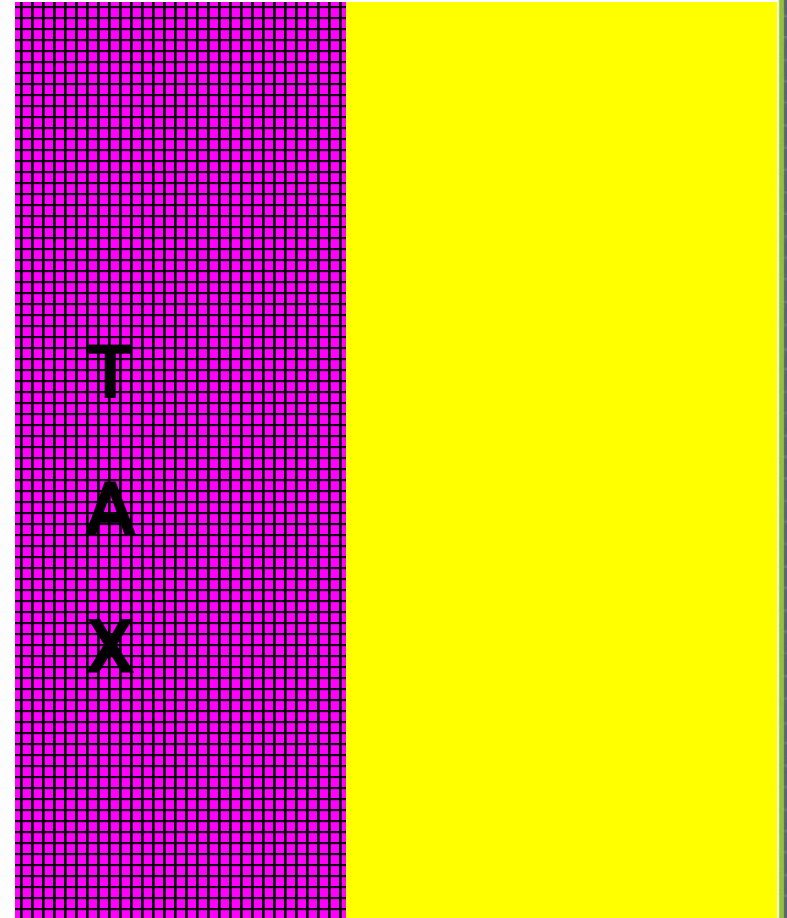
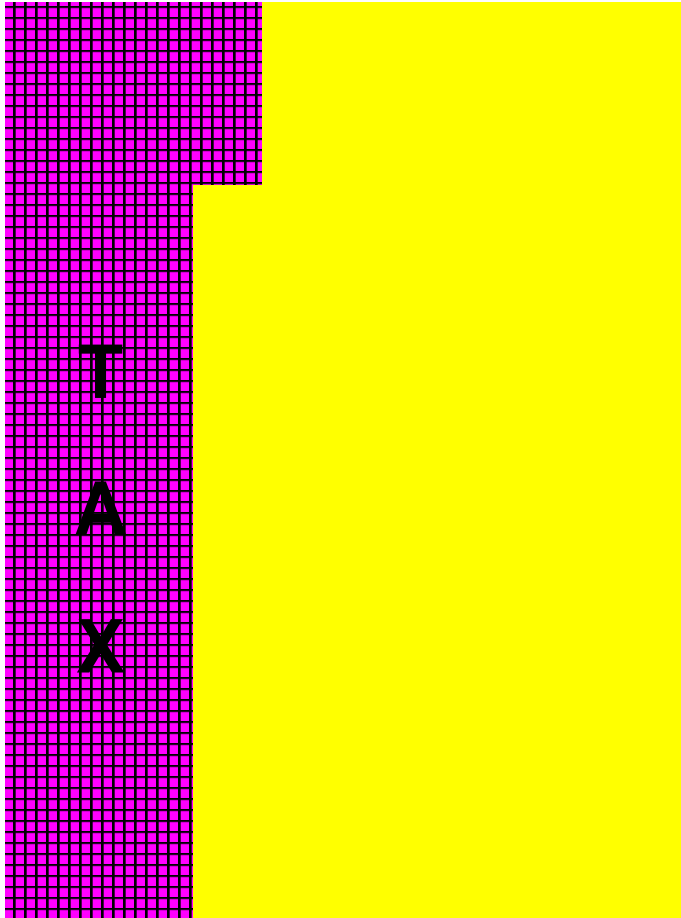
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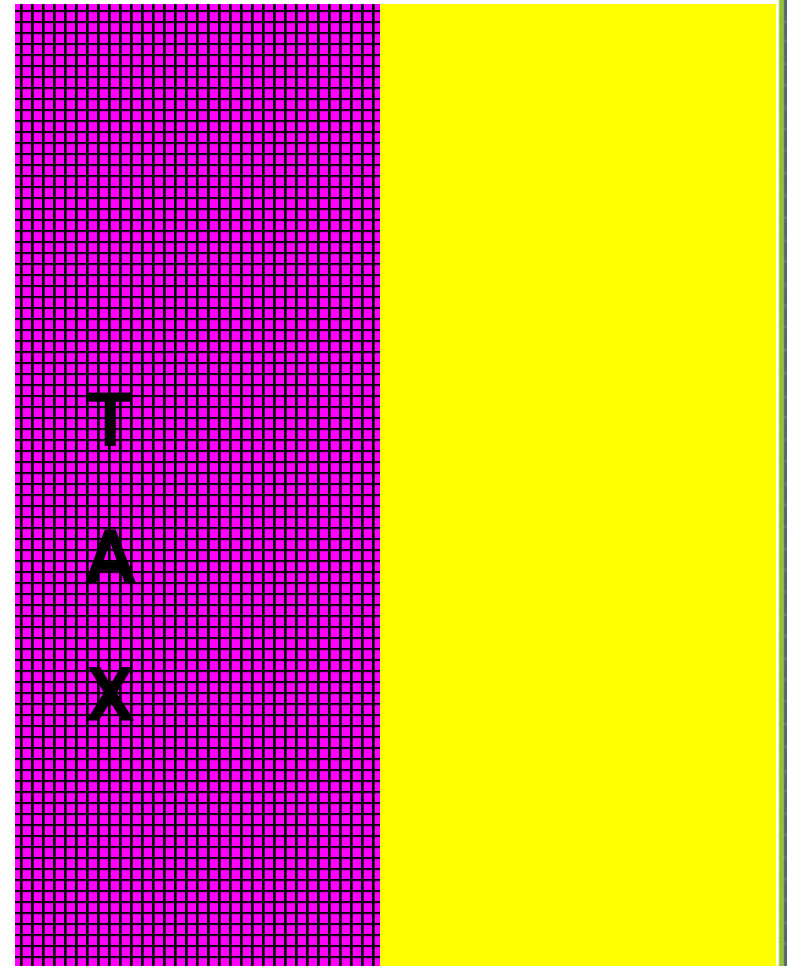
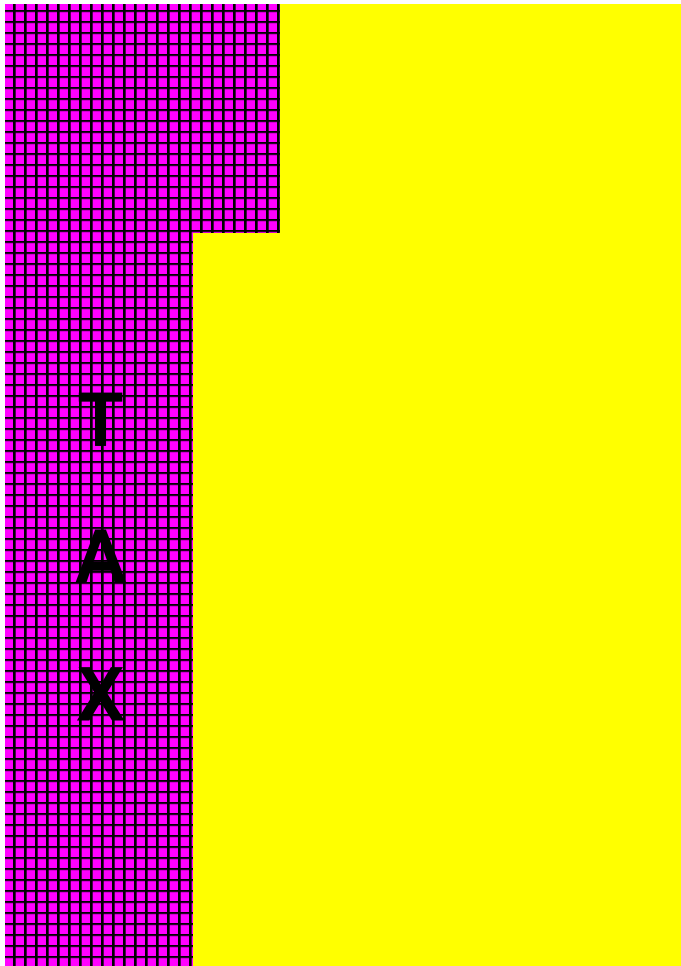
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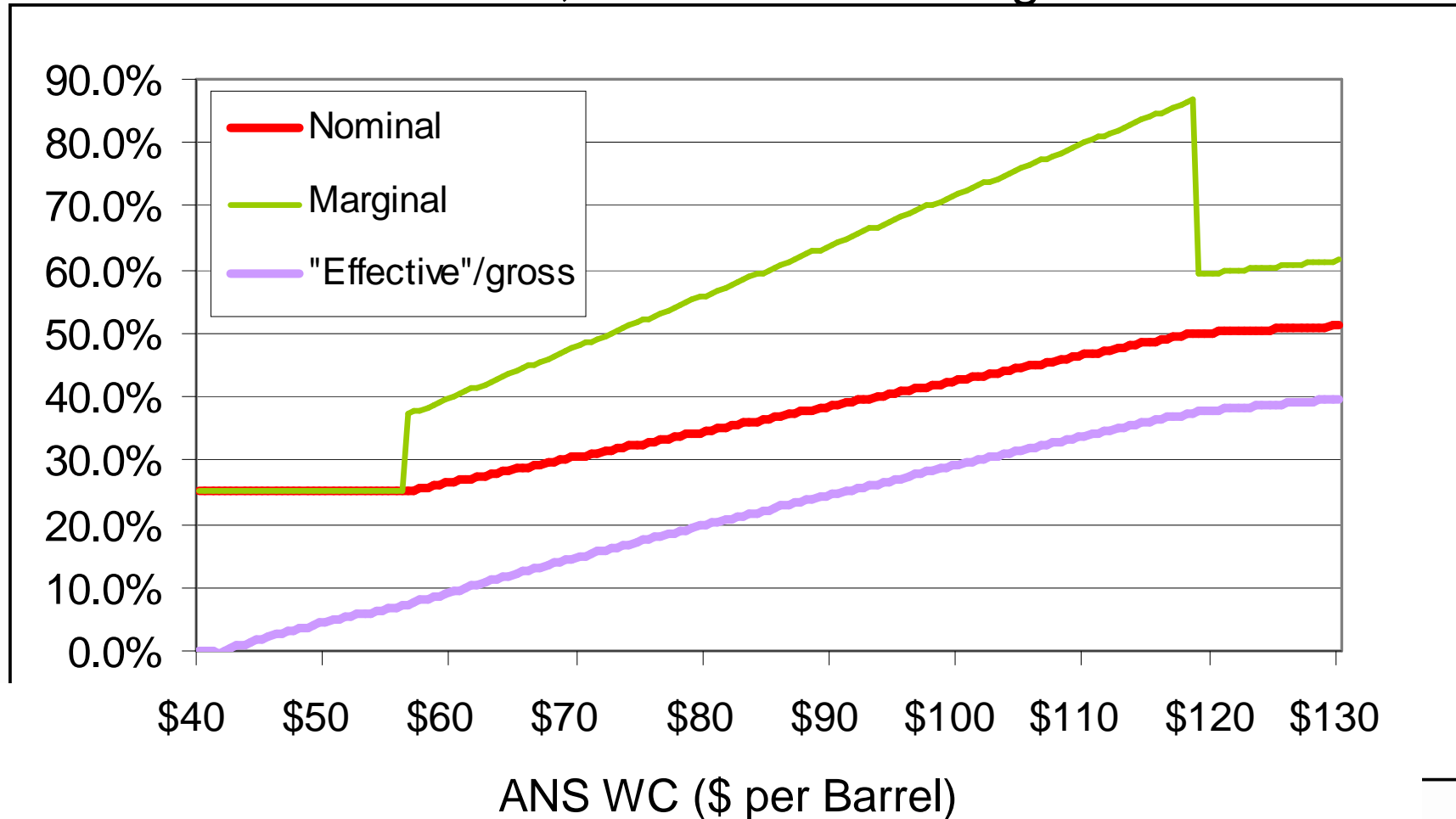
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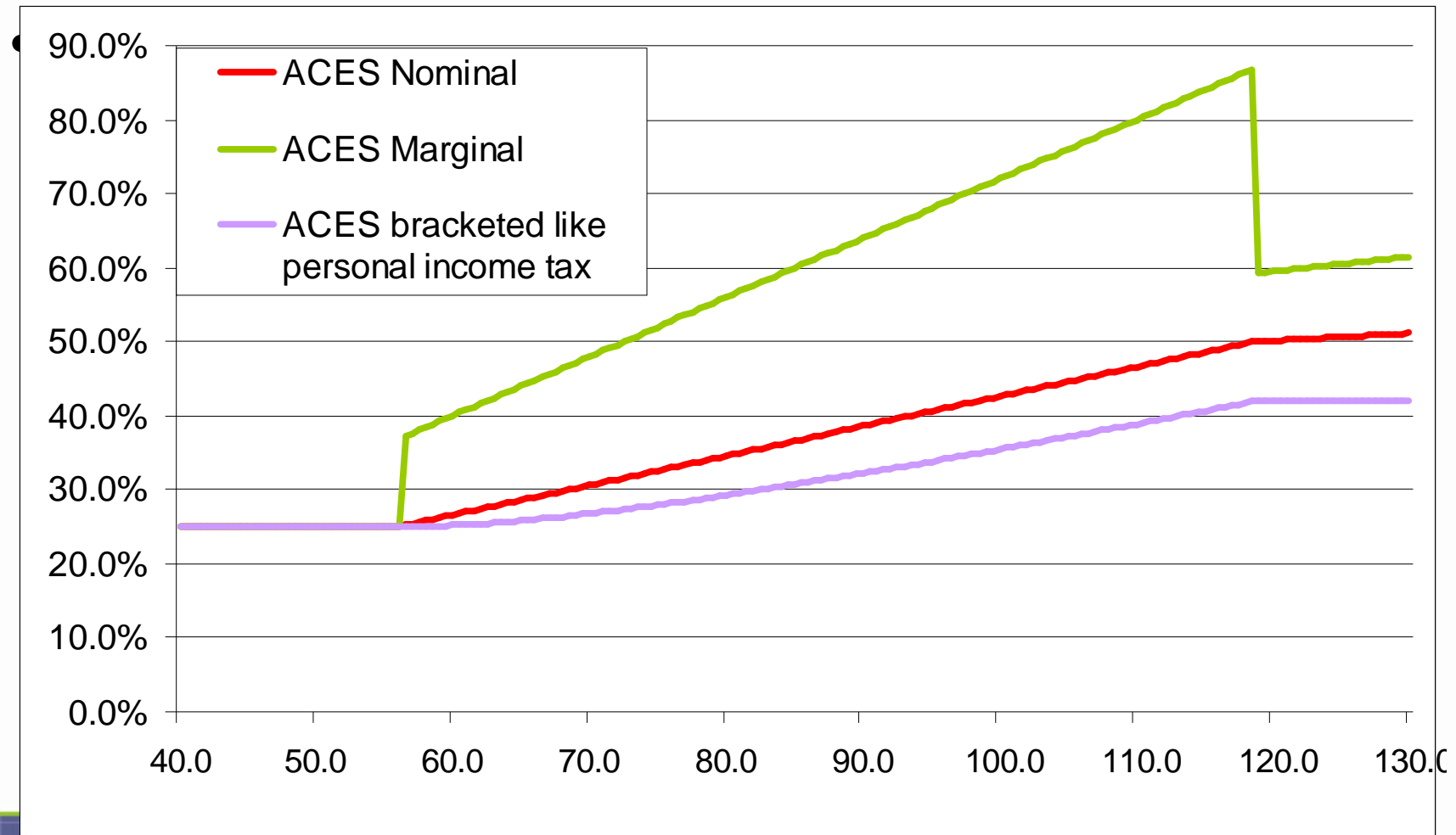
Production Tax: Progressivity + 25%

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

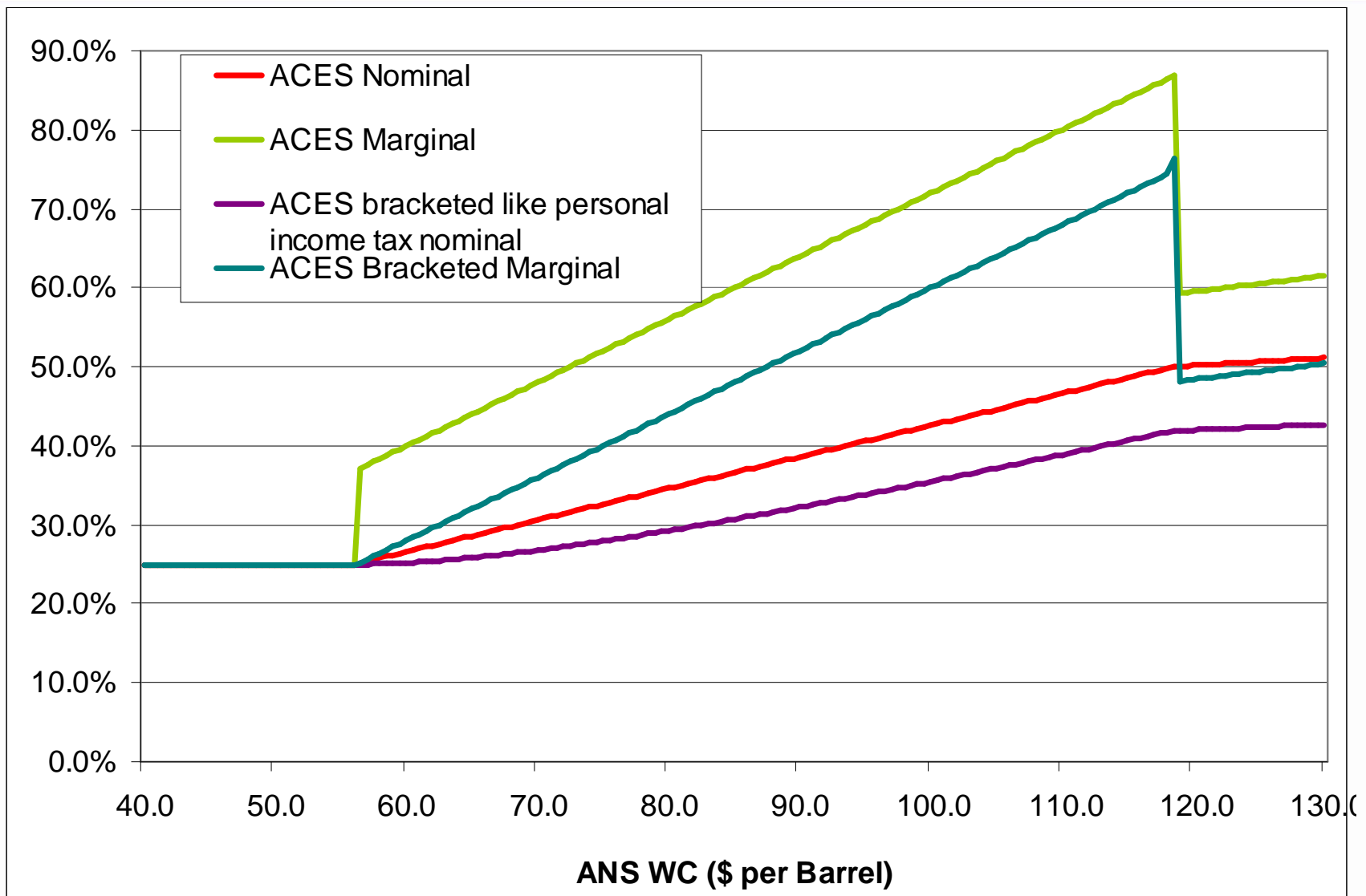


Production Tax: Progressivity + 25%

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



Production Tax: Progressivity + 25%

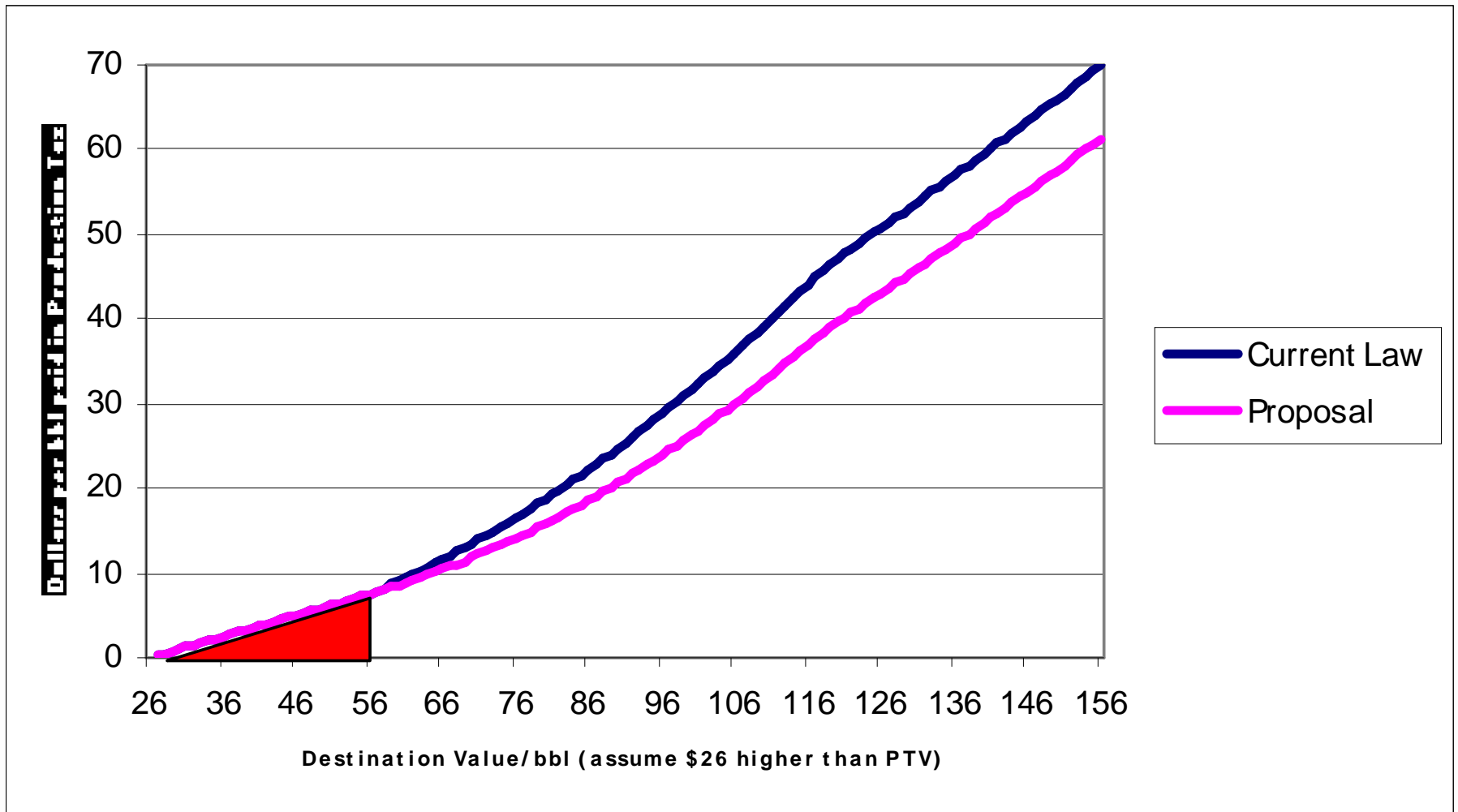


Crossing the Progressivity/Bracket Threshold

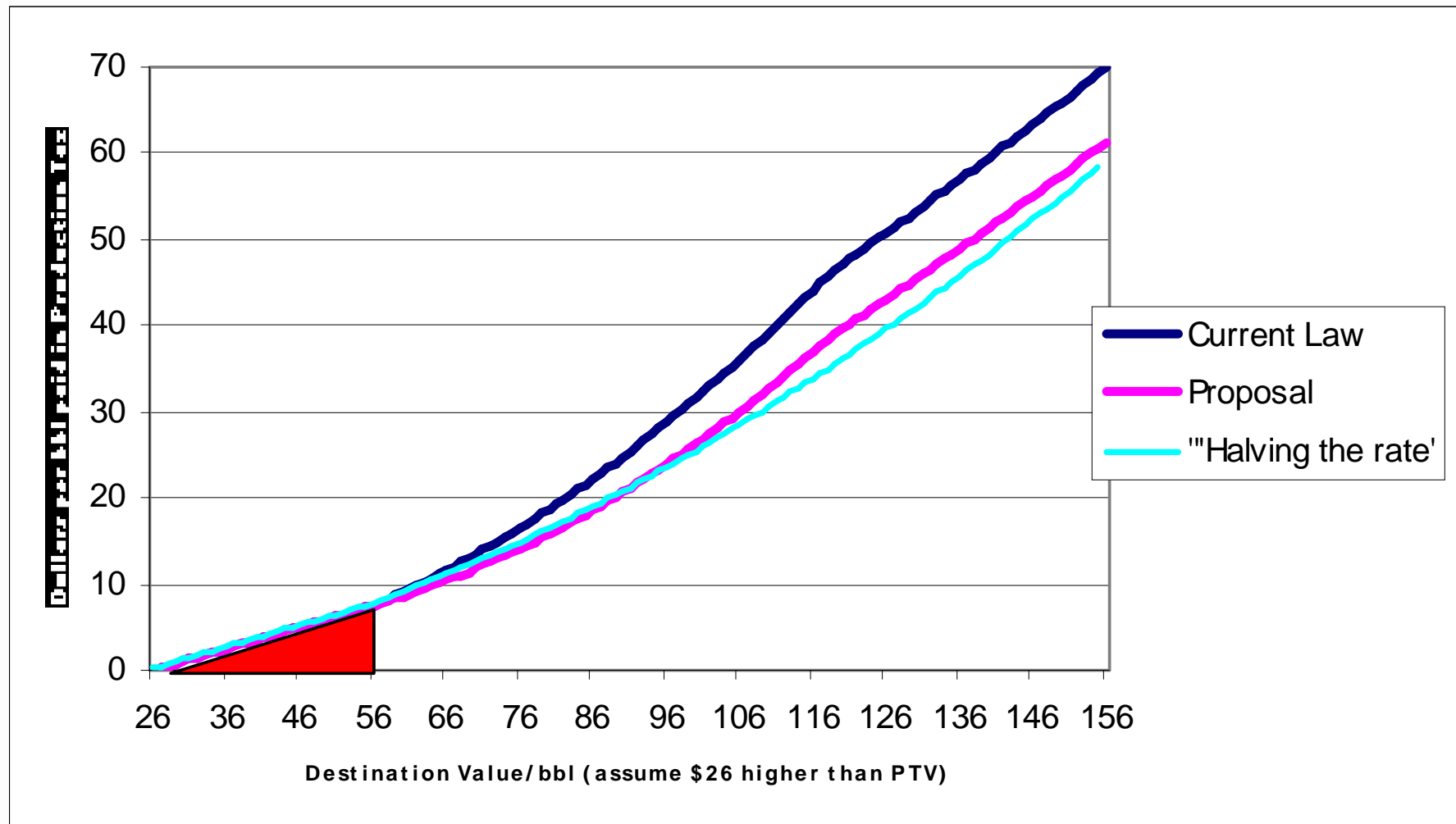
25.4% higher bracket starts when net value (PTV) passes \$30 a barrel

	30	31	Difference
Personal federal income tax progressivity			
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%
AS 43.55.011(g) Progressivity			
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

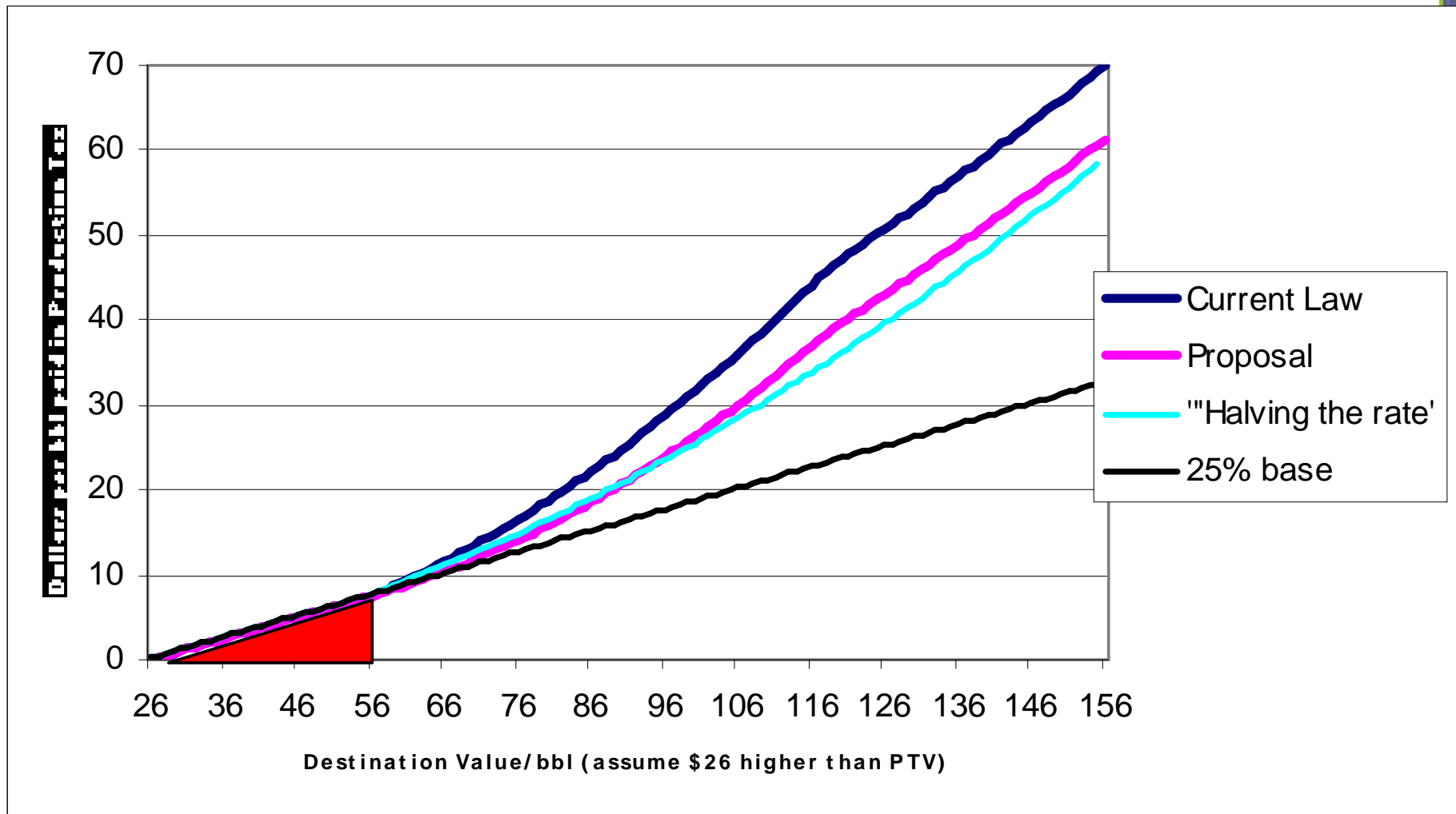
Dollar per Barrel in Production Tax at Various Prices



Dollar per Barrel in Production Tax at Various Prices

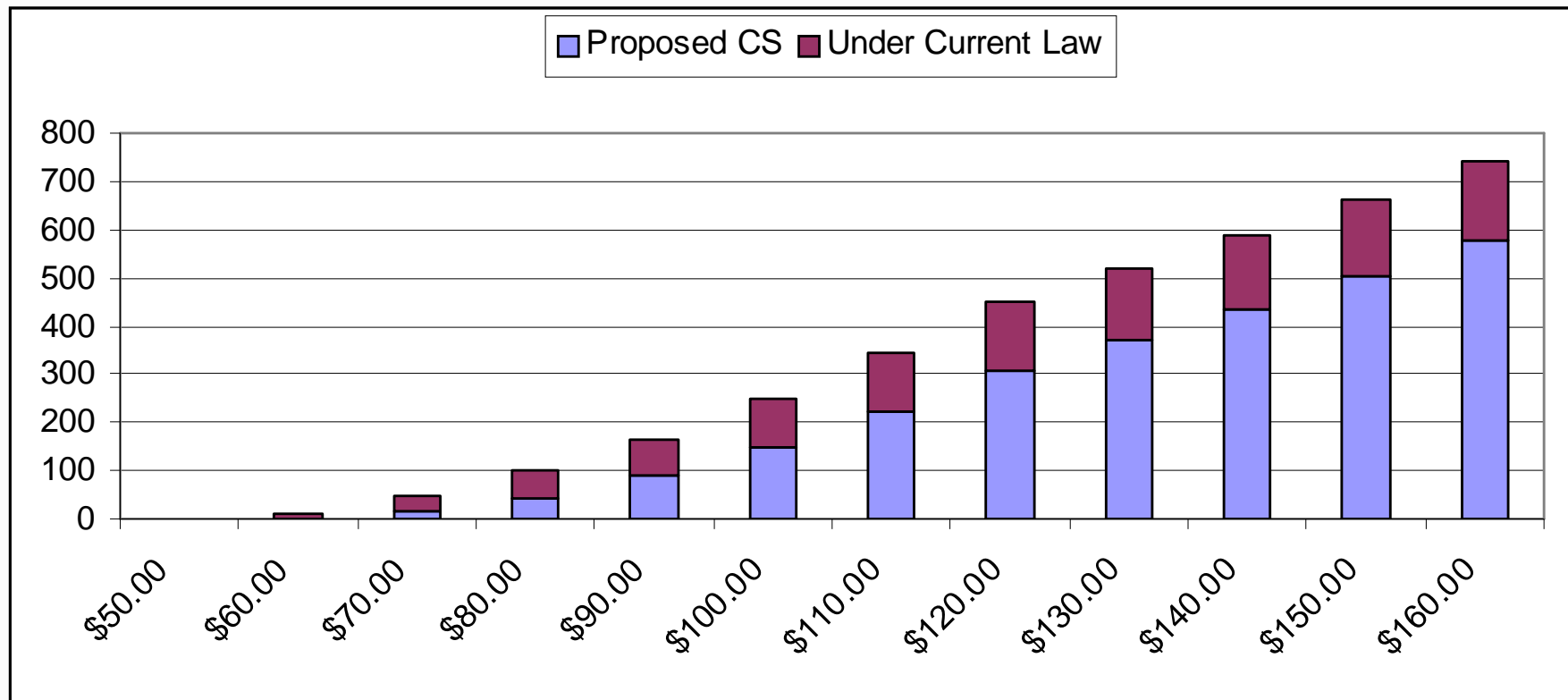


Dollar per Barrel in Production Tax at Various Prices



Total dollar effect at current volumes

- Consider a year in which each month the oil price averages \$10 higher than the prior month (With current production and costs)



8 Changes in CSHB 308 Version P

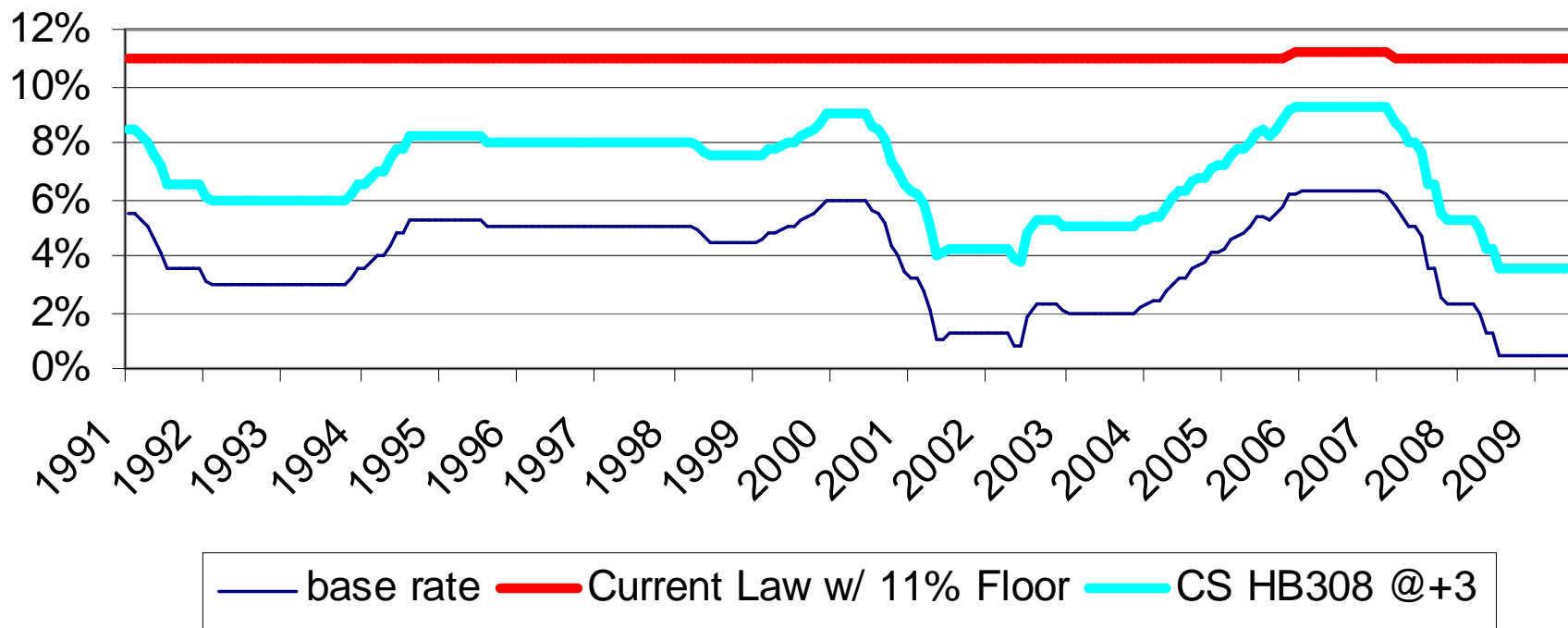
- Progressivity
- Interest rate
- Interest not due on retroactive regs changes prior to implementation
- NEW - Credits over One Year, not Two
- 30% credit for well work
- Restore 3 year statute of limitations
- NEW - No “matching spend” required to purchase credits
- Tax rate tied to Resident Hire

Interest Rate for Delinquent Taxes

- Current law is higher of fed funds rate + 5% or 11%
- This CS (Version S) does away with notion of a floor or ceiling and charges Fed Funds rate + 3%
- Applies to (almost) all taxes
- Because AS 43.05.225 specifies a quarterly reset, effective first day of first calendar quarter after rest of bill effective
- Prior CS was lower of fed funds rate + 2 or 11%

Interest Rate On Delinquent Taxes

Rate charged member banks by the 12th Federal Reserve District



Interest from Retroactive Regulations

- Interest due back to last day of month after month of production
- Current Law – Commissioner cannot forgive interest
- This CS – Same approach as Governor's bill
 - DOR will waive interest between production and implementation of regulation
 - On underpayment that arise from regulation not being in effect when payment was due
 - If DOR does not find the producer failed to make a good faith estimate {Wording Change from Gov}
 - Contains provisions for overpayment
- Prior CS – “not considered delinquent”

Recovering credits over two years

- In 2006 “PPT” reforms, credits could be used as soon as earned (then applied 1/12 in each month) or certificate issued (then can be applied immediately)
- In 2007 “ACES” reforms period extended to two years
- This CS proposes to restore to one year
- DOR conclusion two year process was complex without adding significant value.

Investment Credits

- Credits for Capital Investments
- 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))
- This Bill (and prior CS – only change is to a definition)
 - adds 30% well work – both capital and operating - to investment credits

Definitions of well work compared

SB 267 proposed AS 43.55.023(m)(3)	Governor's Language in HB 337 for AS 43.55.025(b) (3) and (4)
"Well-related expenditures" means	Development well expenditures
A lease expenditure	Goods, services and rentals of personal property reasonable required for
related to a well	
and includes a lease expenditure for the purposes of sidetracking, well deepening, well recompletion, well workover,	Redrilling, 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] stratigraphic test well, or an exploratory 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	
During production "well-related expenditure" includes the costs of operating a well and moving well fluids to the wellhead.	

3 Year SOL

- Statute of limitations time for the state to complete a production tax audit (or, agree to an extension with taxpayer or issue a blue sky assessment)
- Current Law
 - In 2007 production tax pulled out and extended to 6 years in AS 43.55.07
 - Prior to 2007, SOL was three years for all tax types under AS 43.05.260 –
- This Bill (no change from prior CS)
 - Three year rule would begin again with 2011 tax year
 - (all prior years for production tax would remain at 6 yrs)

Matching Spend

- Current law: all producers producing less than 50,000 bbls a day may sell their credits to the state (AS 43.55.028) if the following conditions are met:
 - (1) Not earlier than allowed on certificate (will become moot)
 - (2) within 24 months of applying for a certificate, the taxpayer pays out similar amount in capital investment or lease bids.
 - (3) No other outstanding tax liabilities
- This CS (not in prior CS) will delete item two

Matching Spend

- Currently all producers producing less than 50,000 bbls a day may sell their credits to the state (AS 43.55.028) if the following conditions are met:
- (1) Not earlier than allowed on certificate (will become moot)
- ~~• (2) within 24 months of applying for a certificate, the taxpayer pays out similar amount in capital investment or lease bids.~~
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Thank You

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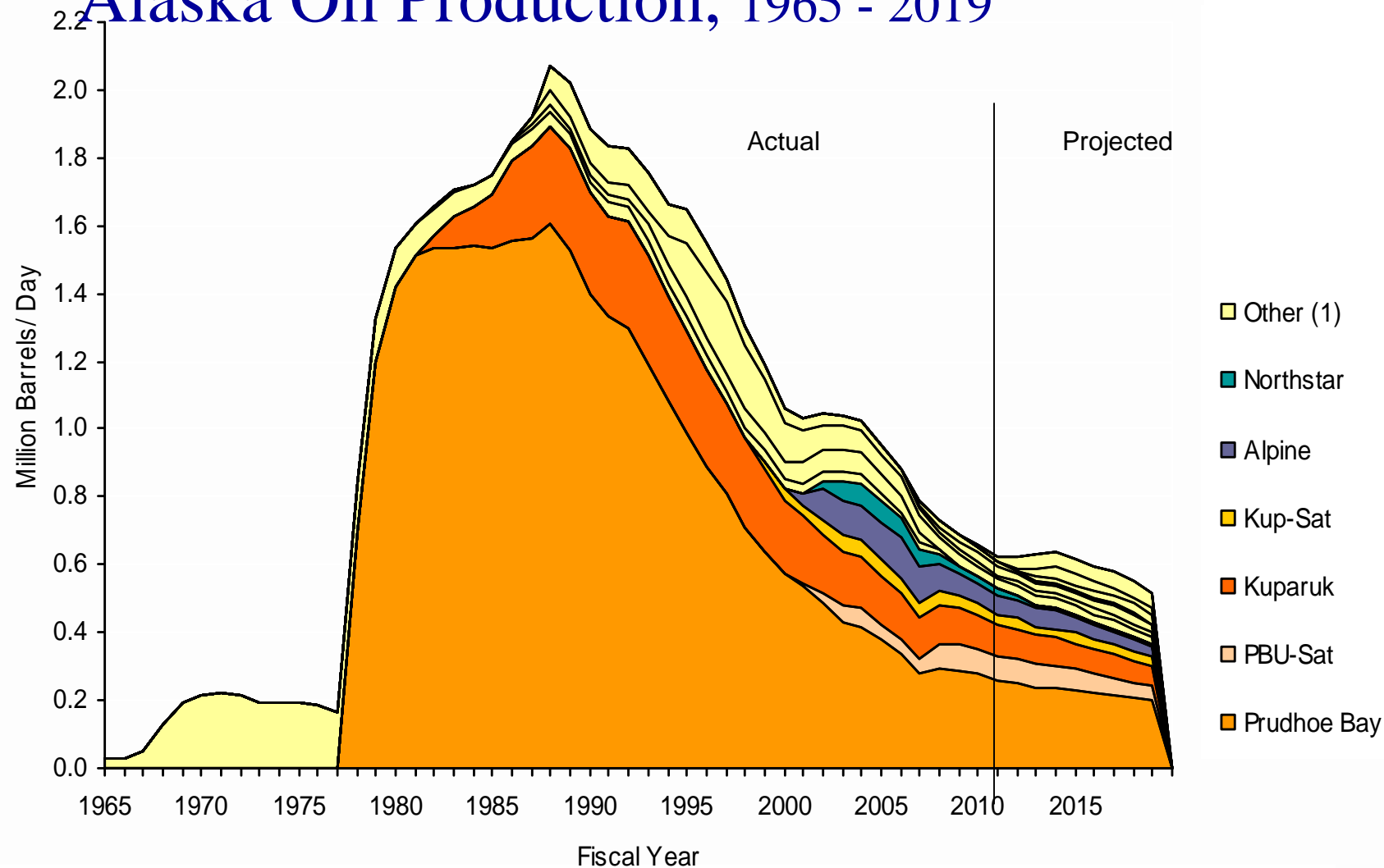
Anchorage, AK

ddickinsoncpa@gci.net

907 301 1565

<http://www.dedcpa.com/>

Alaska Oil Production, 1965 - 2019



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.