CS (working draft 2.22.2013) for SB 21

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President, Board of Directors

Tax Rate

- Change
  - SB 21: retains the 25% base tax rate currently in ACES
  - CS: substitutes a tax rate equal to 35%, minus $5/bbl
- Effect of CS (compared to SB 21):
  - Attempt to address the tax neutral point at prices where projects are evaluated
  - Levels out the tax rate but leaves a somewhat progressive feature
- Comment:
  - Accomplishes needed change at lower end of the price range
  - Some concern about competitive effect of increased rate at the higher end of the price range against our North American competitors
  - Perhaps an offset to the progressive nature is a slightly lower base rate

Expansion of GRE

- Change
  - SB 21: 20% GRE available for production from *new* units and participating areas (PA's)
  - CS: GRE available also for production from *expansion* of existing PA's and increased to 30%
- Effect of CS (compared to SB 21)
  - Responds to the goal of leveling the playing field for new investments that produce new oil within existing fields and increases the incentive to develop new oil
- Comment
  - This is a step in the right direction however the known and currently producing legacy areas are still the best opportunity for increased production. Investment in the currently producing areas of the legacy fields will be best stimulated by a competitive base rate. The correct level of base rate is one that induces significant new investment in the currently producing legacy areas.

Expansion of Exploration Credit

- Change
  - SB 21: does not change existing law, which limits exploration credit to wells drilled beyond 3 miles from previous well
  - CS: eliminates 3 mile limitation; retains existing requirement for advance DNR determination
- Effect of CS (compared to SB 21):
  - Significantly expands geographic area available for the credit
- Comment:
  - Improves the economics of exploration in affected areas

Qualified industry service credit

- Change
  - SB 21: No similar provision
  - CS: Establishes a credit to Alaska corporate income tax for manufacture or modification in Alaska of tangible personal property "used in the exploration, development and production of oil or gas"
- Effect of CS (compared to SB 21):
  - Intent is to encourage in state manufacture of tangible personal property that will create jobs, stimulate our local economy, and make local suppliers more competitive with companies outside of Alaska
- Comment:
  - This is a positive step towards local job creation and continued improvement in the number of Alaskans working in the industry
  - Most likely this will result in downstream property taxes and income for businesses that will more than offset the value of the credits

ce Membership Total Annual Wages and Average Employment, by Sector, 2

	Total Annual Wages (in $millions)	Average Employmen
Mining, Oil and Gas Extraction, and Support Activities	$571.8	5,883
Construction	$182.8	1,745
Manufacturing	$22.0	389
Wholesale & Retail Trade	$116.5	2,005
Transportation & Utilities	$301.2	4,964
Information	N/A	N/A
Finance, Insurance, and Real Estate	$161.5	2,738
Professional and Business Services	$408.9	5,174
Education and Health Services	$21.0	545
Leisure and Hospitality	$76.9	2,395
Other Services	N/A	N/A
State Total for Alliance Members	$1,996.1	27,965

Source: ADOLWD, compiled by McDowell Group.