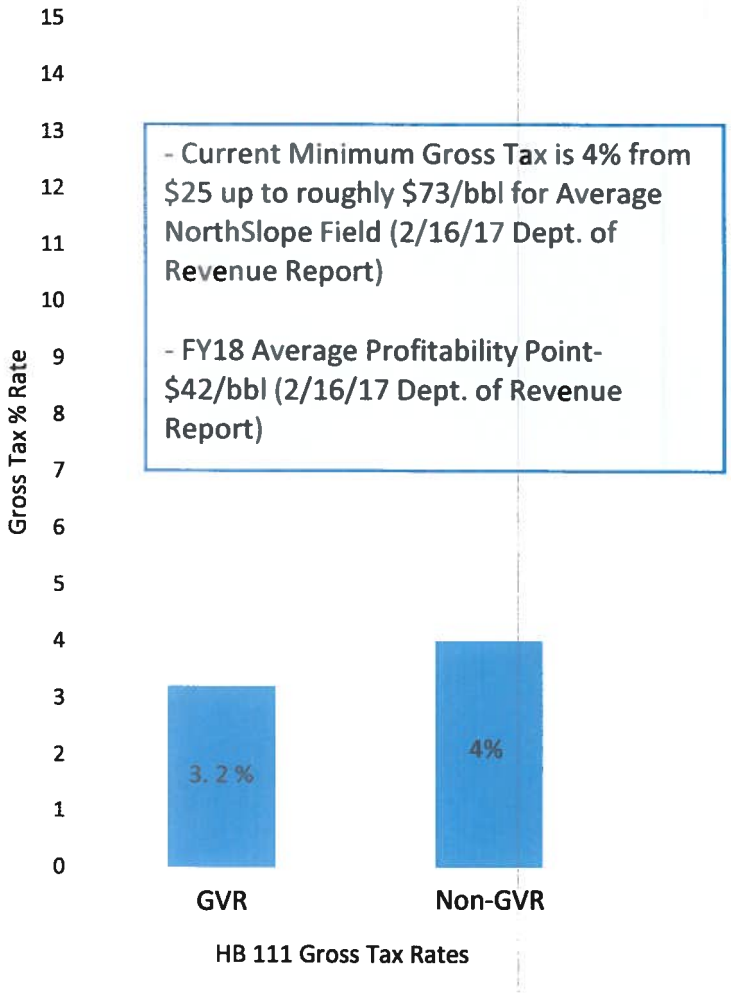
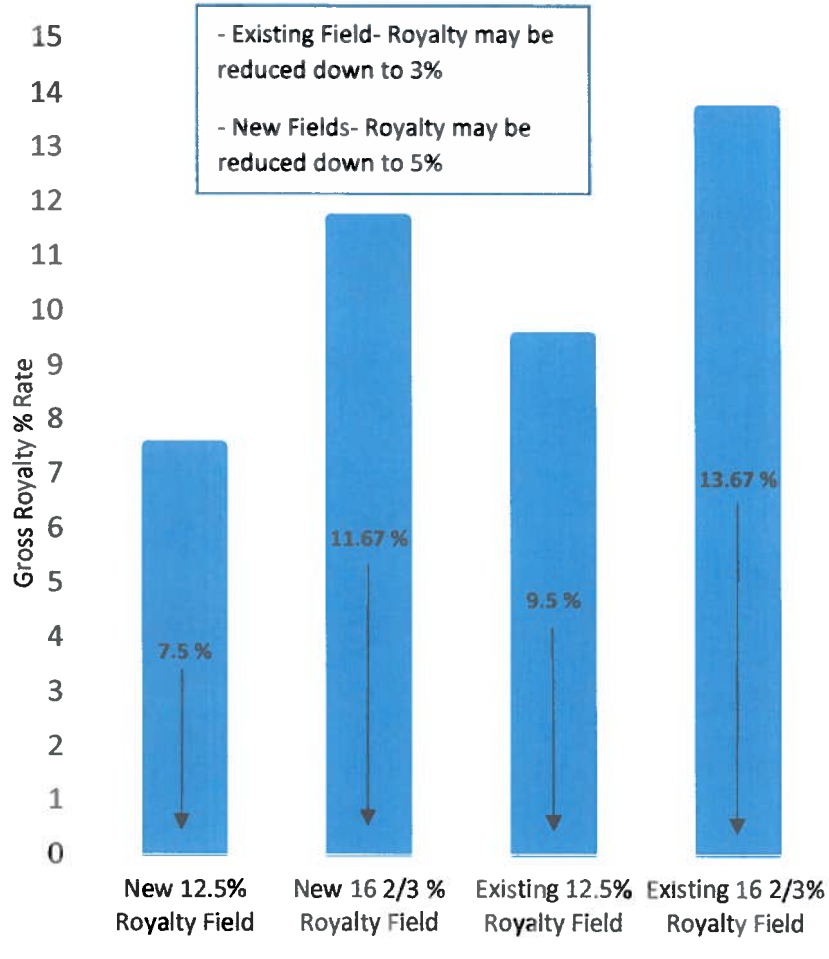
Royalty Relief Can More Than Offset Modest Profits of Gross Tax Rates

Proprosed 3.2% and 4% Minimum Gross Taxes



Reduction Allowed By Royalty Relief Statute



Distributed by the Office of Rep. Gara

Source: Office of Rep. Gara

Effective Tax Rates on Net Value using Current Assumptions*

Oil Price	Non-GVR	20% GVR Eligible
$60	12.1%	0.0%
$70	9.1%	0.3%
$80	13.1%	7.9%
$90	20.0%	12.2%
$100	24.4%	15.0%
$110	27.5%	17.0%
$120	29.8%	18.4%
$130	31.5%	19.5%
$140	32.9%	20.4%
$150	34.1%	21.1%

*Current assumptions include transport costs of $9.77 per barrel and deductible lease expenditures of $33.64 per taxable barrel, based on the North Slope average for FY 2018 as estimated in the Fall 2016 forecast. For this table, net value is the same as "production tax value," defined in AS 43.55.160. The effective tax rates in this table are calculated by dividing the production tax after credits by the production tax value.

2. ***At what prices does the 35% tax rate kick in for non-GVR fields?***

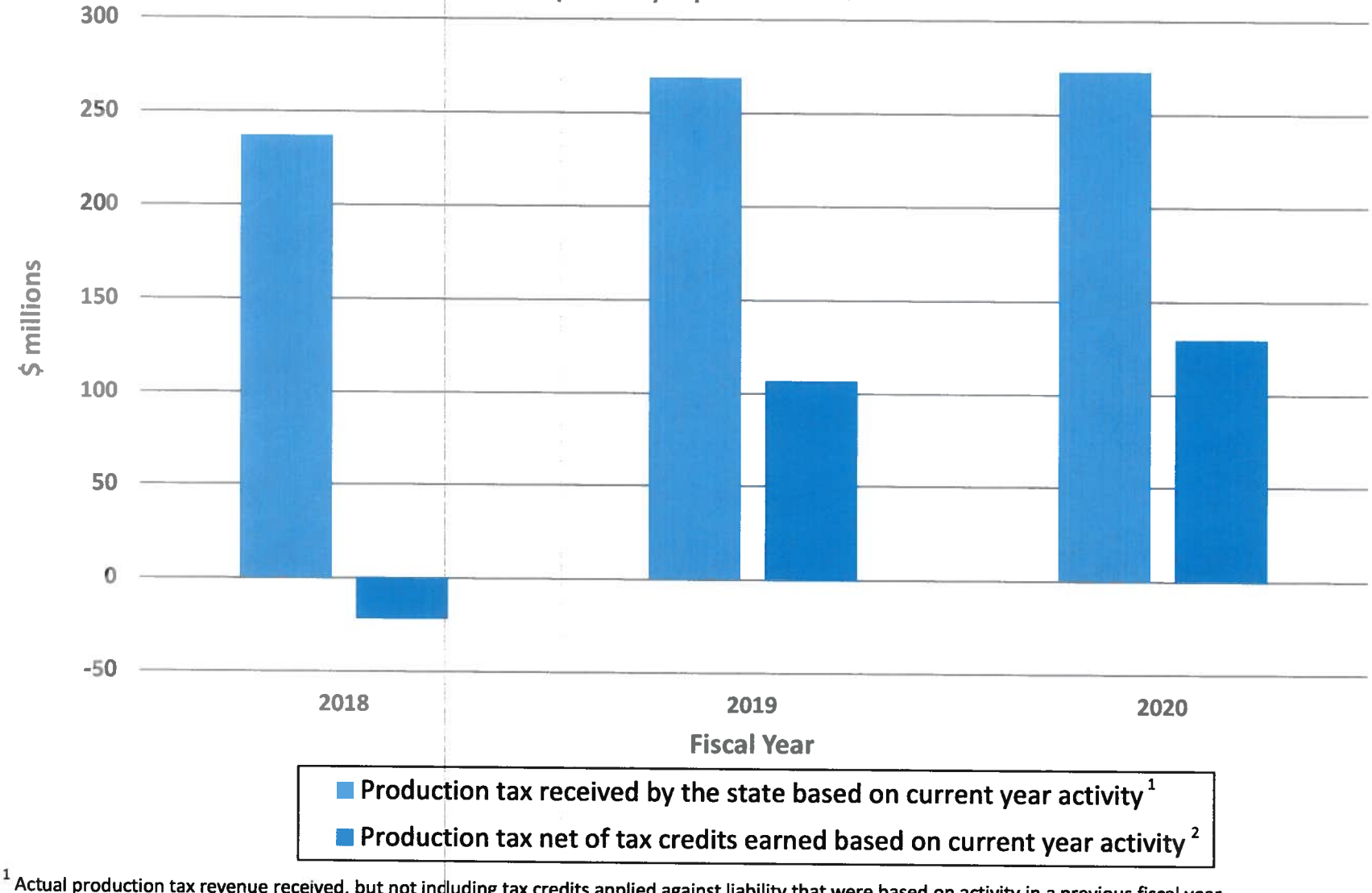
3. ***At what price does the profits tax fall so low that the 4% minimum gross tax becomes the tax rate?***

We interpret questions 2 and 3 to be related and we have reframed them as follows: For non-GVR fields, at what prices does the minimum tax of 4% of gross value at the point of production exceed the base tax of 35% of production tax value minus per-taxable-barrel credits? In other words, at what price point do non-GVR fields begin to lose their sliding scale per-taxable-barrel credits? And secondarily, at what price point do non-GVR fields lose all of their sliding scale per-taxable-barrel credits? We have answered these questions with the example below.

Using assumptions of $9.77 in transport costs and $33.64 per taxable barrel in deductible lease expenditures, applied to a typical field, we estimate that the minimum tax of 4% of gross value at the point of production exceeds 35% of production tax value minus sliding scale per-taxable-barrel credits at between $73 and $74 per barrel, for a typical field. This is illustrated in the calculation below.

Oil and Gas Tax Credits vs Production Tax, FY 2018 - FY 2020

As requested by Representative Gara



[1] Actual production tax revenue received, but not including tax credits applied against liability that were based on activity in a previous fiscal year

[2] Production tax credits earned during the fiscal year that will be eligible for refund or application against a liability in a future year