

Loss Recovery: Under SB 21 and Possible Modifications

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Preamble

- SB 21 is a net tax with a 35% rate
- There is a floor on that net tax equal to 4% of gross value
- Looked at North Slope non-GVR oil
 - Loss mechanisms for GVR oil are similar

Definition of Loss Recovery

- 35% of loss value is used to reduce taxes in future years

Losses under SB21

- Definition of loss:
 - Because there is a floor of zero on production tax value (PTV) (net value)
 - A loss is a cost (upstream “lease expenditure”) not deductible in calculating PTV
- Costs are recovered under SB 21 where 35% of losses becomes a credit to either:
 - Reduce tax in future years
 - Sell to another taxpayer
 - Cashed out by State with limitations
- Can bring tax below gross floor
- Any unused loss credits can be carried forward

SB 21: Generating a Loss Year 1

ANS Price	\$30
Transp Cost	<u>(\$10)</u>
Gross Value	\$20
Upstream Costs	<u>(\$25)</u>
PTV	\$0
Loss	\$5
Loss Carryforward Credit (LCFC)	
35% of loss	\$1.75

SB 21 Year 2: Using the Loss Credit @ \$55 Price

ANS Price	\$55
Transp Cost	<u>(\$10)</u>
Gross Value	\$45
Upstream Costs	<u>(\$25)</u>
PTV	\$20
Tax before LCFC	\$7
LCFC	<u>(\$1.75)</u>
Tax before p/bbl credit	\$5.25
Per barrel credit	<u>(\$3.45)</u>
Tax	\$1.80
Gross minimum	\$1.80

Modifications

- Instead of converting the loss to a credit at 35%, the loss itself is carried forward and deducted along with the other lease expenditures
 - No longer refundable
 - No longer transferable: losses stay with the company that earned it
- Floor is “hardened”: cannot use losses to bring tax below the gross minimum
- Unused losses can still be carried forward

Modification: Generating a Loss Year 1

ANS Price	\$30
Transp Cost	<u>(\$10)</u>
Gross Value	\$20
Upstream Costs	<u>(\$25)</u>
PTV	\$0

Loss \$5

Loss is Carried Forward

Modification Year 2: Carrying the Loss Forward @ \$55 Price

ANS Price	\$55
Transp Cost	<u>(\$10)</u>
Gross Value	\$45
Upstream Costs	<u>(\$25)</u>
PTV	\$20
Loss carried forward	<u>(\$5)</u>
Tax base	\$15
Tax before p/bbl credit	\$5.25
Per barrel credit	<u>(\$3.45)</u>
Tax	\$1.80
Gross minimum	\$1.80

SB 21 Year 2: Using the Loss Credit @ \$40 Price

ANS Price	\$40
Transp Cost	<u>(\$10)</u>
Gross Value	\$30
Upstream Costs	<u>(\$25)</u>
PTV	\$5
Tax before LCFC	\$1.75
LCFC	<u>(\$1.75)</u>
Tax before p/bbl credit	\$0.00
Per barrel credit	<u>(\$0.00)</u>
Tax	\$0
Gross minimum	\$1.20

LCFC brought tax below the gross minimum

Modification Year 2: Carrying the Loss Forward @ \$40 Price

ANS Price	\$40
Transp Cost	<u>(\$10)</u>
Gross Value	\$30
Upstream Costs	<u>(\$25)</u>
PTV	\$5
Loss carried forward	<u>(\$1.57)</u>
Tax base	\$3.43
Tax before p/bbl credit	\$1.20
Per barrel credit	<u>(\$0.00)</u>
Tax	\$1.20
Gross minimum	\$1.20

LCFC could not bring tax below the gross minimum

Tax increases under the proposal from \$0 to gross minimum



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