NEW SUSTAINABLE ALASKA PLAN

Pulling Together to Build Our Future

HB 111
Oil and Gas Production Tax / Tax Credits
Comparison of House and Senate Versions

Presentation to House Finance Committee

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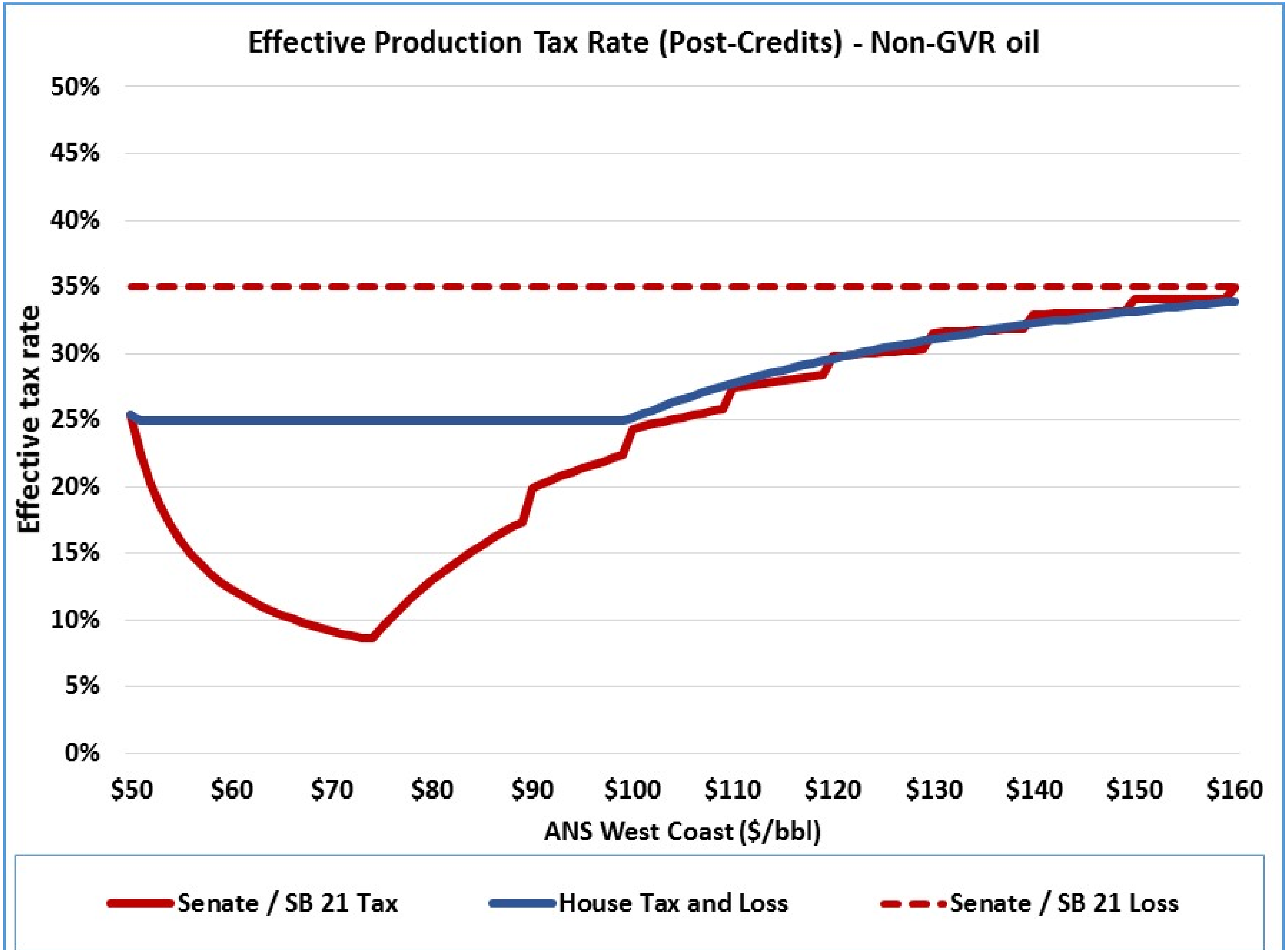
Summary of Fiscal Impacts

Comparative Fiscal Note Analysis- Tax

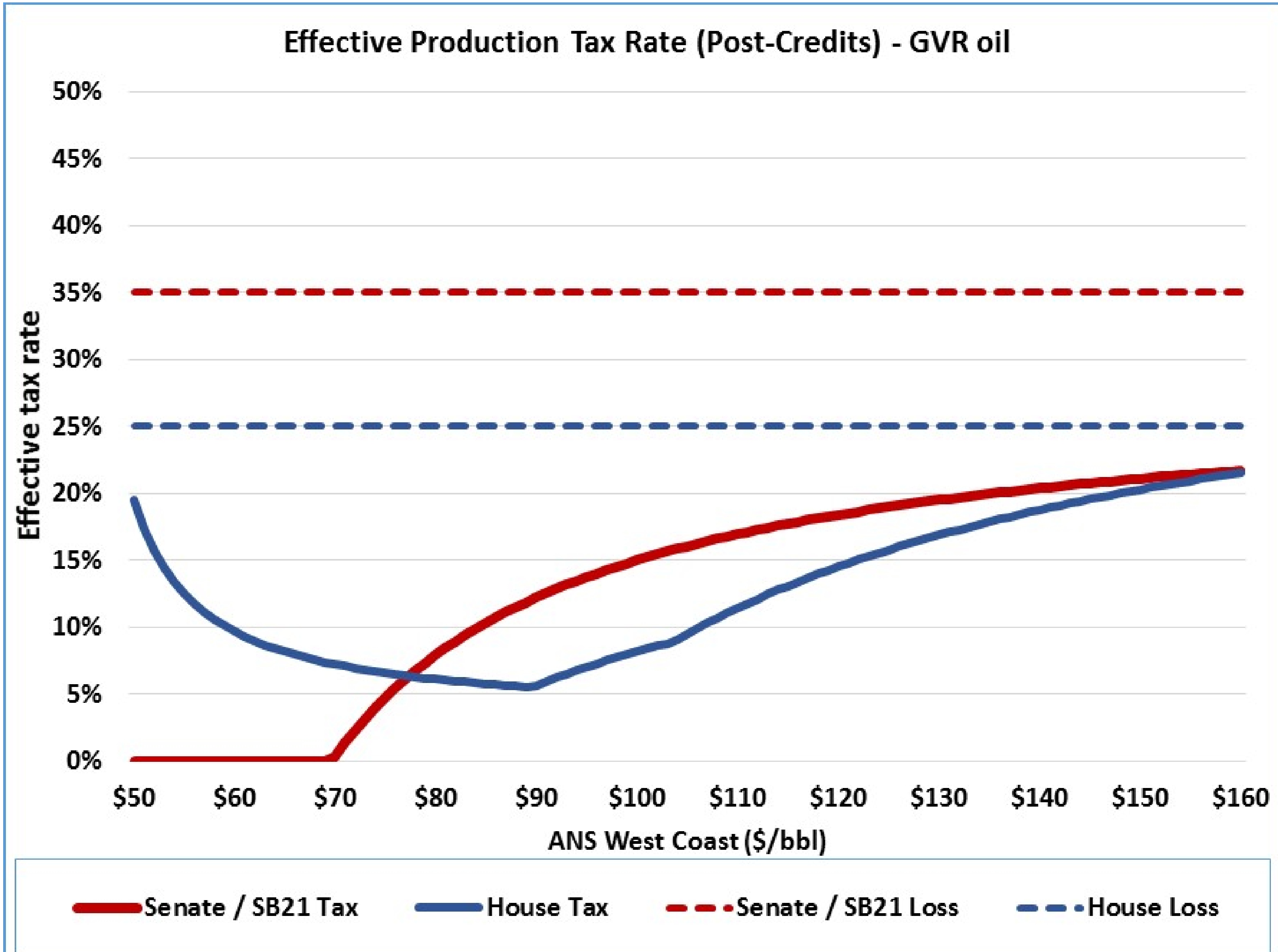
(Millions of dollars, based on Spring 2017 forecast oil prices and production)

	2019		2022		2025	
	House	**Senate**	**House**	**Senate**	**House**	**Senate**
Carry Forwards Used due to Elimination of Cash Credits	$0	$0	($10)	($10)	$0	$0
Hardening Minimum Tax for GVR-Eligible "New" Oil	$20	$0	$15	$0	$5	$0
Greater Ability to use Middle Earth Credits against Taxes	$0	($10)	$0	($5)	$0	($5)
Changes to Tax Rate	($20)	$0	($145)	$0	($250)	$0
Progressive Surcharge	$0	$0	$0	$0	$0	$0
Elimination of Per-Barrel Credit	$95	$0	$275	$0	$565	$0
Total	**$95**	**($10)**	**$135**	**($15)**	**$320**	**($5)**

Effective Tax Rates- “Legacy” Oil



Effective Tax Rates- “New” Oil



Comparative Fiscal Note Analysis- Budget

- Because both bills effectively eliminate cash credits, they are very similar in the way they reduce the future demand for state spending
- The slight differences have to do mostly with the Senate also eliminating cash for Middle Earth credits
- The long term figure of $150 million per year reflects the forecast assumption for credit cash demand
  - This number could be substantially higher if one or more large projects is sanctioned
  - In that case, either bill would have a much greater budget impact.

Comparative Fiscal Note Analysis- Impact of Carried Forward Liability

With the elimination of cash credits, an important variable is the future impact of carried forward losses

These are listed as a "<u>tax equivalent</u>," as they will be used to offset future taxes outside the fiscal note period

Tax Value of Carry-Forwards in Fiscal Year 2027

House is $610 million; Senate is $1,445 million

The difference is primarily driven by four factors:

1. Senate includes Middle Earth carry forwards (~$60 million)
2. House requires using carry forward lease expenditures to zero PTV while still paying minimum tax (~$60 million)
3. Tax value of carry forwards is 35% in Senate bill vs. 25% in House bill (~$400 million)
4. House bill reduces value of carry forwards after 7 years (~$300 million)

Differences Between House and Senate-Credit Issues

Treatment of Carry Forward Losses

- Both bills eliminate the NOL credit for the North Slope and replace it with a structure of carried forward lease expenditures
- Both bills allow for 100% of carry-forward, without any “uplift” (interest)
- House bill has provision where carry-forward balances lose 10% of their value per year after seven years
- Senate bill also eliminates the NOL credit for Middle Earth, and repeals the underlying NOL credit statute AS 43.55.023(b)

Use of Carry Forward Losses

Ringfence Issue

- Both bills have no restriction if the producer does not have an overall loss in the year the costs are incurred; spending on a new project can offset current taxes
- House bill requires carry forwards to only be used to offset value from the property where originally incurred
- Senate bill allows carry forwards to be used off lease

Minimize Loss of Credits Issue

- House bill requires carry-forwards to be used to zero production tax value, while producer still pays minimum tax
- Senate bill allows taxpayer to use only as much as they want / need to protect use of per-barrel credits so that no carry forwards are "lost"

Middle Earth Issues

- House bill made no changes to existing Middle Earth credits (15% NOL; 10% Capital; 20% Well) plus the 40% Exploration credit (through 2021)
- Remaining credits remain eligible for cash refund
- Senate bill eliminates the 15% NOL credit for Middle Earth, in effect reducing state support from between 25%-55% to between 10%-40%
- Senate bill makes remaining Middle Earth credits ineligible for cash refund
- Senate bill allows ME Exploration Credits to offset the company's corporate income tax
  - Provisional (unusable) certificates awarded at time of application in order to preserve place in line
  - Seismic Exploration credits repealed in 2018

Purchasable Credits and Tax Credit Fund

- Both bills retain ability to get cash for remaining “corporate income tax” (refinery, LNG storage) credits which will all be sunset by 2020
- House bill retains the tax credit fund structure, primarily due to the continuation of Middle Earth credits
- Senate bill repeals the tax credit fund once all outstanding credits are paid off, or in 2022, whichever is later

Differences Between House and Senate-Tax Issues

Tax Rates and Production Credits

- House bill reduces the base tax rate from 35% of Production Tax Value to 25%, and eliminates the $0 to $8 sliding scale per barrel credit
- House bill has a "surtax" of 15% of that portion of PTV greater than $60
- Net effect is a tax increase of $100 to $300 million at oil prices between $50 and $100 with the greatest impact in the $60-$80 range. Revenue neutral at higher oil prices
- Senate bill retains all major SB21 features, so that it is essentially neutral from a revenue perspective

Minimum Tax "Floor" and GVR "New Oil"

- Both bills retain the 4% "floor tax rate
- Both bills, by eliminating the North Slope NOL credit, effectively harden the floor against major producer losses
  - o Only a material impact at oil prices of about $40 or below
- House bill hardens the minimum tax for GVR-eligible "new" oil, preventing the $5 per-barrel credit from being used below the floor.
  - o House adds a modified 3.2% minimum tax for GVR, based on a 20% reduction below the base 4% tax rate
- House bill eliminates the 30% GVR for high royalty fields
- Senate bill makes no changes to either issue

Interest on Delinquent Taxes

- Both bills eliminate the “three years then zero” interest provision for Oil and Gas Production Tax as passed by HB247 in 2016
- House bill retains the 7% plus federal reserve rate, compounding for Oil and Gas Production Tax
- House bill retains the 3% plus federal reserve rate, simple interest, for all other taxes
- Senate bill recombines all taxes under the same interest structure, as it was before 2017
- Senate bill has 3% plus federal reserve, compounding, for all taxes

Other / Miscellaneous Issues

House

- Prevents Gross Value at the Point of Production from going below zero for a particular property
- Eliminates the ability assign tax credit certificate payments to a third party financer
- Adds transparency / public reporting related to credits and lease expenditures held by companies
- Adds a new legislative working group to look at Cook Inlet and Middle Earth taxes

Senate

- In certain circumstances allows use of purchased credit certificates against prior-year tax liabilities, including penalties and interest

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Thank You!

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