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ALASKA

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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

Ken Alper, Tax Division Director
Alaska Department of Revenue

June 2, 2017





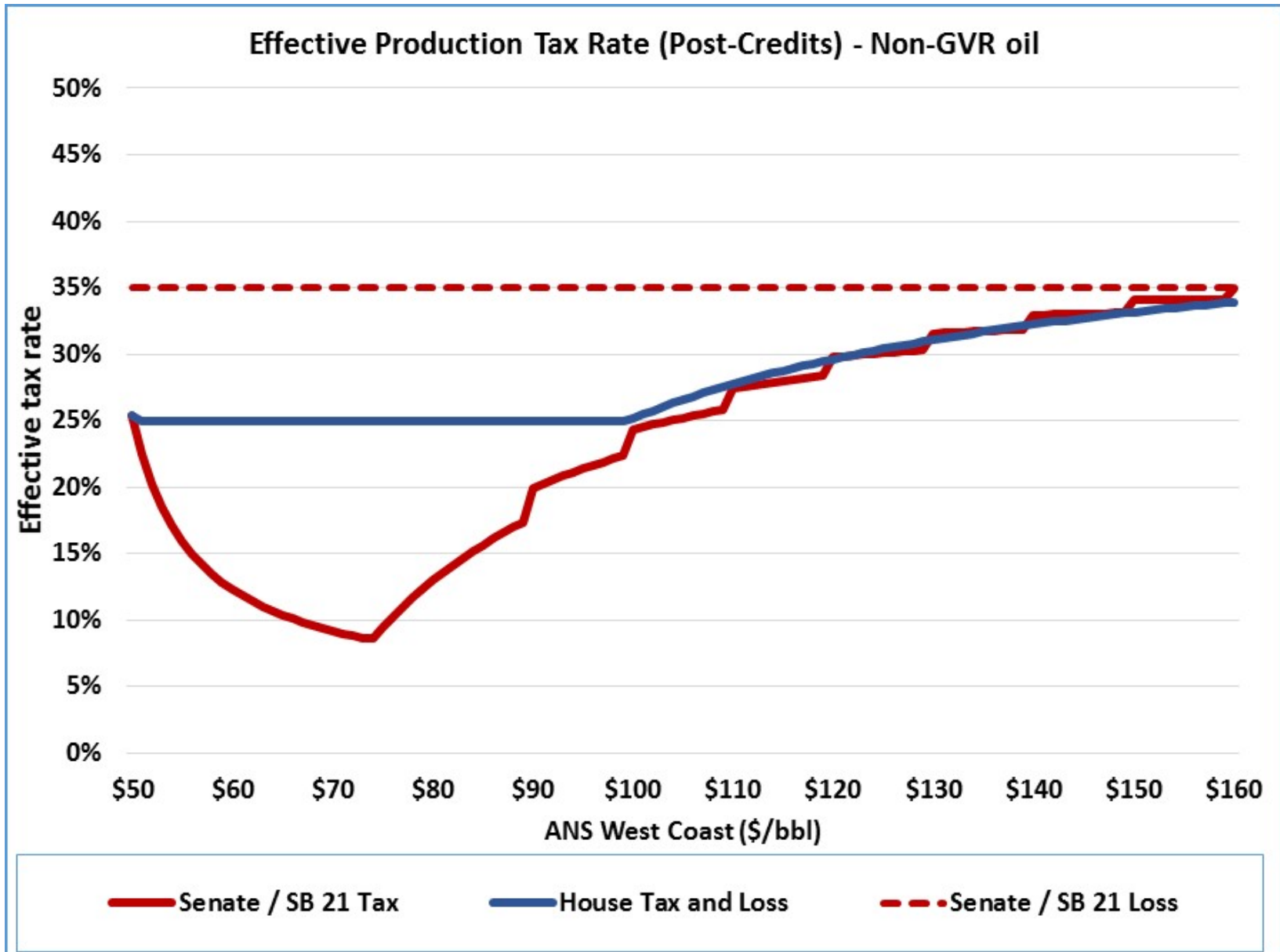
Summary of Fiscal Impacts

Comparative Fiscal Note Analysis- Tax

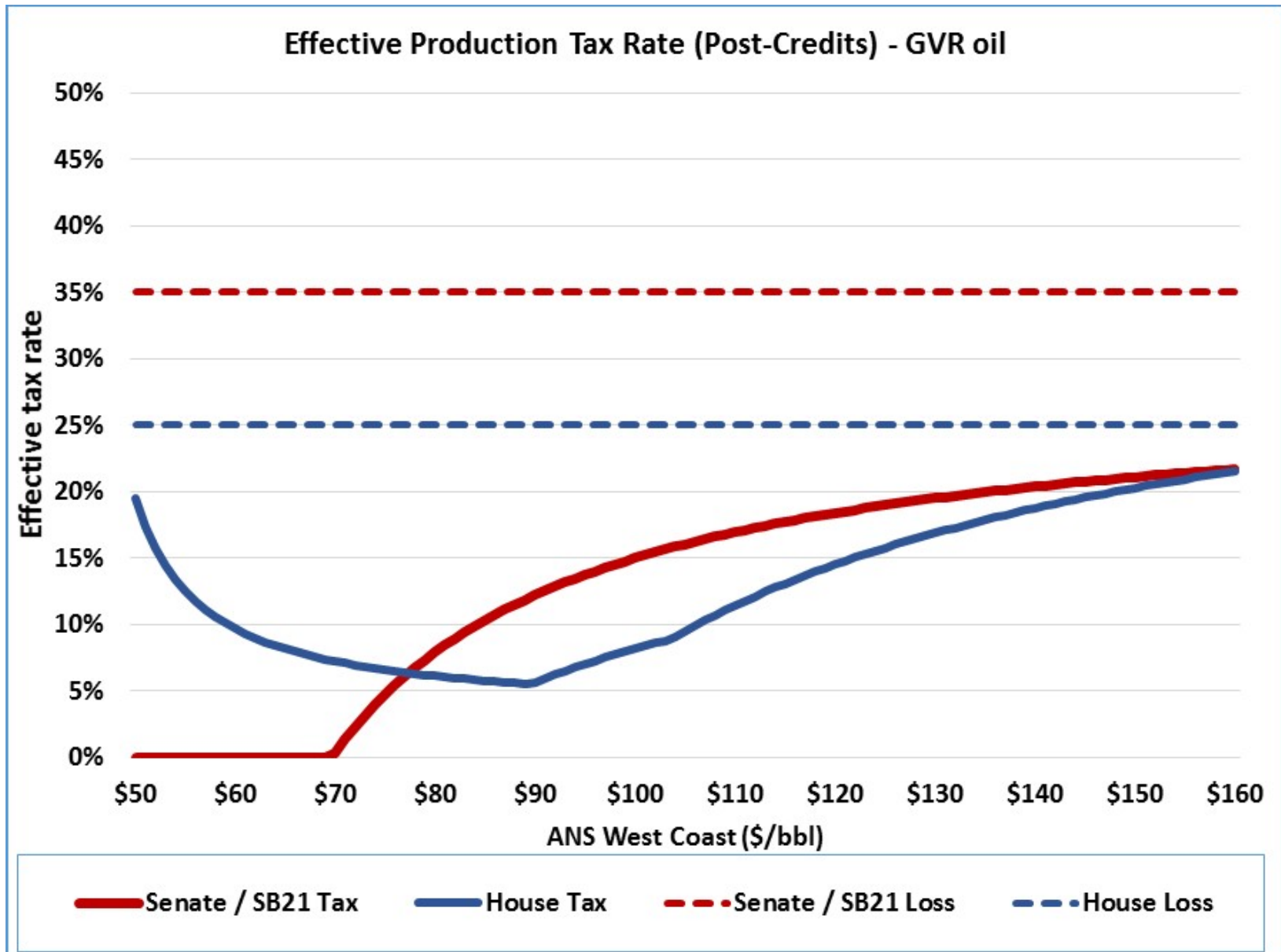
(Millions of dollars, based on Spring 2017 forecast oil prices and production)

	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 “tax equivalent,” 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
 - 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.
 - 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 financier
- 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!

Contact Information

Ken Alper
Director, Tax Division
Department of Revenue
Ken.Alper@Alaska.gov
(907) 465-8221