

Order of Operations Presentation

Senate Finance Committee

Department of Revenue

February 12, 2021

Acronyms

ANS – Alaska North Slope

ANWR – Arctic National Wildlife Refuge

Avg – Average

Bbl – Barrel

CBRF – Constitutional Budget Reserve Fund

CIT – Corporate Income Tax

DOR – Department of Revenue

FY – Fiscal Year

GVPP – Gross Value at Point of Production

GVR – Gross Value Reduction

NPR-A – National Petroleum Reserve Alaska

OCS – Outer Continental Shelf

PTV – Production Tax Value

SB21 – Senate Bill 21, passed in 2013

TAPS – Trans Alaska Pipeline System

Ths - Thousands



Agenda

- Oil and Gas Revenue Sources
 - How production tax fits in
 - FY 2019 – FY 2023 oil and gas revenues
- Production Tax Calculation “Order of Operations”
 - Detailed walk-through of each step of tax calculation
 - Defining commonly used terms
 - Focus on North Slope oil
 - FY 2019 – FY 2023 comparison



Overview

- Alaska's severance tax is one of the most complex in the world and portions are subject to interpretation and dispute.
- These numbers are rough approximations based on public data, as presented in the Fall 2020 Revenue Sources Book and other revenue forecasts.
- This presentation is solely for illustrative general purposes.
 - Not an official statement as to any particular tax liability, interpretation, or treatment.
 - Not tax advice or guidance.
- Some numbers may differ due to rounding.



Oil and Gas Revenue Sources

- Royalty – based on gross value of production
 - Plus bonuses, rents, and interest
 - Paid to Owner of the land: State, Federal, or Private
 - Usually 12.5% or 16.67% in Alaska, but rates vary
- Corporate Income Tax – based on net income
 - Paid to State (9.4% top rate)
 - Paid to Federal (21% top rate, used to be 35%)
 - Only C-Corporations* pay this tax
- Property Tax – based on value of oil & gas property
 - Paid to State (2% of assessed value or “20 mills”)
 - Paid to Municipalities – credit offsets state tax paid
- Production Tax – based on “production tax value”
 - Paid to State – calculation to follow



* C-Corporation is a business term that is used to distinguish the type of business entity, as defined under subchapter C of the federal Internal Revenue Code.

Oil and Gas Revenue Sources: Five-Year Comparison of State Revenue

	History	History	Current Year	Forecast	Forecast
	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023
ANS oil price (\$/bbl)	\$ 69.46	\$ 52.12	\$ 45.32	\$ 48.00	\$ 49.00
ANS production (ths bbl/ day)	495	471.8	477.3	439.6	447
Property Tax*	\$ 120	\$ 123	\$ 116	\$ 113	\$ 112
Corporate Income Tax	\$ 218	\$ (0)	\$ 5	\$ (20)	\$ 55
Production Tax	\$ 596	\$ 285	\$ 172	\$ 163	\$ 191
Royalties	\$ 1,493	\$ 999	\$ 824	\$ 797	\$ 811
CBRF Settlements	\$ 181	\$ 281	\$ 60	\$ 25	\$ 15
NPR-A Shared revenue	\$ 12	\$ 16	\$ 11	\$ 12	\$ 33
Total	\$ 2,620	\$ 1,705	\$ 1,187	\$ 1,091	\$ 1,216

Revenue amounts in \$ millions. *Property Tax does not include municipal share.



Fiscal System: Overall Order of Operations

Royalties (State, Federal, or Private)



Property Tax



Production Tax



State Corporate Income Tax



Federal Corporate Income Tax



Production Tax “Order of Operations”: FY 2022

	Per Barrel	Barrels	Value (\$ million)	
Avg ANS Oil Price (\$/bbl) & Daily Production (ths bbls)	\$48.00	439.6	\$21.1	
Total Annual Production/Value	\$48.0	160,449	\$7,701.6	
Royalty and Federal barrels		(19,018)	(\$912.9)	
Taxable Barrels	\$48.00	141,432	\$6,788.7	
Downstream (Transportation) Costs (\$/bbl)	(\$9.91)		(\$1,401.0)	
Gross Value at Point of Production (GVPP)	\$38.09	141,432	\$5,387.7	
North Slope Lease Expenditures				
Deductible Operating Expenditures	(\$15.96)		(\$2,257.1)	
Deductible Capital Expenditures	(\$14.20)		(\$2,008.3)	
Total Lease Expenditures	(\$30.16)		(\$4,265.3)	
Production Tax Value (PTV)	\$7.94	141,432	\$1,122.4	
Production Tax			<u>Min Tax</u>	<u>Net Tax</u>
Gross Value or Production Tax Value			\$5,387.7	\$1,122.4
Gross Value Reduction (GVR)			\$0.0	(\$74.5)
GVPP or PTV after GVR			\$5,387.7	\$1,047.9
Tax rate			4%	35%
Tax before credits			\$215.5	\$366.8
Higher of minimum or net tax	\$2.59	141,432	\$366.8	
GVR Per-taxable-barrel credits	(\$0.13)		(\$18.8)	
Non-GVR Per-taxable-barrel credits	(\$1.18)		(\$167.0)	
Other credits against liability	(\$0.33)		(\$47.1)	
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Other items / adjustments	\$0.21		\$29.4	
Total Tax paid to the state	\$1.15	141,432	\$163.3	
<i>Net New Lease Expenditures Earned and Carried Forward</i>			\$562.7	



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1. Royalty and Taxable Barrels



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**2. Gross Value
At Point of
Production
(GVPP)**



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3. Lease Expenditures



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**4. Production
Tax Value (PTV)**



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**5. Gross
Minimum Tax**



Gross Value Reduction

- Gross Value Reduction (GVR) is an incentive program for new fields.
- Available for the first seven years of production and ends early if ANS prices average over \$70 per barrel for any three years.
- Allows companies to exclude 20% or 30% of the gross value from the net production tax calculation.
- In lieu of sliding scale Non-GVR Per-Taxable Barrel Credit, qualifying production receives a flat \$5 GVR Per-Taxable-Barrel Credit.
- The \$5 GVR Per-Taxable-Barrel Credit can be applied to reduce tax liability below the minimum tax floor, assuming that the producer does not apply any sliding scale Non-GVR Per-Taxable Barrel Credits.



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**6. Net Tax and
Gross Value
Reduction (GVR)**



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7. Tax Credits Against Liability



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8. Adjustments and Total Tax Paid



Order of Operations: Five Year Comparison

	ACTUAL FY 2019	ACTUAL FY 2020	Current Year FY 2021	Forecast FY 2022	Forecast FY 2023
	Value (\$ million)	Value (\$ million)	Value (\$ million)	Value (\$ million)	Value (\$ million)
Total Annual Production/Value	\$12,550.6	\$8,999.3	\$7,894.8	\$7,701.6	\$7,993.9
Royalty and Federal barrels	(\$1,505.2)	(\$1,110.0)	(\$947.9)	(\$912.9)	(\$955.7)
Taxable Barrels	\$11,045.4	\$7,889.3	\$6,946.9	\$6,788.7	\$7,038.3
Transportation Costs (\$/bbl)	(\$1,275.3)	(\$1,234.9)	(\$1,412.2)	(\$1,401.0)	(\$1,473.7)
Gross Value at Point of Production	\$9,770.1	\$6,654.4	\$5,534.7	\$5,387.7	\$5,564.5
North Slope Lease Expenditures					
Deductible Operating Expenditures	(\$2,679.3)	(\$2,245.8)	(\$2,270.1)	(\$2,257.1)	(\$2,367.4)
Deductible Capital Expenditures	(\$2,014.1)	(\$2,031.8)	(\$1,358.2)	(\$2,008.3)	(\$2,255.4)
Total Lease Expenditures	(\$4,693.4)	(\$4,277.5)	(\$3,628.4)	(\$4,265.3)	(\$4,622.8)
Production Tax Value (PTV)	\$5,076.7	\$2,376.8	\$1,906.4	\$1,122.4	\$941.7
Production Tax	<u>Min Tax</u> <u>Net Tax</u>	<u>Min Tax</u> <u>Net Tax</u>	<u>Min Tax</u> <u>Net Tax</u>	<u>Min Tax</u> <u>Net Tax</u>	<u>Min Tax</u> <u>Net Tax</u>
Gross Value or Production Tax Value	\$9,770.1 \$5,076.7	\$6,654.4 \$2,376.8	\$5,534.7 \$1,906.4	\$5,387.7 \$1,122.4	\$5,564.5 \$941.7
Gross Value Reduction (GVR)	\$0.0 (\$107.7)	\$0.0 (\$82.7)	\$0.0 (\$55.3)	\$0.0 (\$74.5)	\$0.0 (\$67.3)
GVPP or PTV after GVR	\$9,770.1 \$4,969.0	\$6,654.4 \$2,294.1	\$5,534.7 \$1,851.1	\$5,387.7 \$1,047.9	\$5,564.5 \$874.4
Tax rate	4% 35%	4% 35%	4% 35%	4% 35%	4% 35%
Tax before credits	\$390.8 \$1,739.1	\$266.2 \$802.9	\$221.4 \$647.9	\$215.5 \$366.8	\$222.6 \$306.0
Higher of minimum or net tax	\$1,739.1	\$802.9	\$647.9	\$366.8	\$306.0
Per-taxable-barrel credits	(\$1,037.4)	(\$586.3)	(\$422.3)	(\$185.8)	(\$185.7)
Other credits against liability	(\$23.7)	(\$14.8)	(\$70.2)	(\$47.1)	\$0.0
Total Tax after credits	\$678.0	\$201.8	\$155.4	\$133.9	\$120.35
Other items / adjustments	(\$82.5)	\$83.3	\$16.4	\$29.4	\$70.7
Total Tax paid to the state	\$595.5	\$285.1	\$171.8	\$163.3	\$191.0
<i>Net New Lease Expenditures Earned and Carried Forward</i>	<i>0*</i>	<i>410.1*</i>	<i>\$479.9</i>	<i>\$562.7</i>	<i>\$865.0</i>

*see footnote 8 from table 8-4 of the RSB



Tax Calculation with Varying Non-GVR Taxable-Barrel Credit Rates: FY2022

	\$8 (Status Quo) per-barrel credit		\$5 per-barrel credit		\$4 per-barrel credit		\$3 per-barrel credit	
Tax rate	4%	35%	4%	35%	4%	35%	4%	35%
Tax before credits	\$215.5	\$366.8	\$215.5	\$366.8	\$215.5	\$366.8	\$215.5	\$366.8
Higher of minimum or net tax	\$366.8		\$366.8		\$366.8		\$366.8	
GVR per-taxable-barrel credits used		(\$18.8)		(\$27.4)		(\$27.4)		(\$27.4)
Non-GVR per-taxable-barrel credits used		(\$167.0)		(\$141.0)		(\$114.5)		(\$86.8)
Other credits against liability		(\$47.1)		(\$47.1)		(\$47.1)		(\$47.1)
Total Tax after credits	\$133.9		\$151.2		\$177.8		\$205.5	
Other items / adjustments	\$29.4		\$29.1		\$29.1		\$28.5	
Total Tax paid to the state	\$163.3		\$180.3		\$206.9		\$234.0	
<i>GVR per-taxable-barrel credits earned</i>	\$52.4		\$52.4		\$52.4		\$52.4	
<i>Non-GVR per-taxable-barrel credits earned</i>	\$1,047.6		\$654.8		\$523.8		\$392.9	



Illustration Assuming a Single North Slope Taxpayer: FY 2022

<i>Avg ANS Oil Price (\$/bbl) & Daily Production (ths bbls)</i>	Per Barrel	Barrels	Value (\$ million)	
	\$48.00	439.6	\$21.1	
Total Annual Production/Value	\$48.0	160,449	\$7,701.6	
Royalty and Federal barrels		(19,018)	(\$912.9)	
Taxable Barrels	\$48.00	141,432	\$6,788.7	
Downstream (Transportation) Costs (\$/bbl)	(\$9.91)		(\$1,401.0)	
Gross Value at Point of Production (GVPP)	\$38.09	141,432	\$5,387.7	
North Slope Lease Expenditures				
Deductible Operating Expenditures	(\$15.96)		(\$2,257.1)	
Deductible Capital Expenditures	(\$14.20)		(\$2,008.3)	
Total Lease Expenditures	(\$30.16)		(\$4,265.3)	
Production Tax Value (PTV)	\$7.94	141,432	\$1,122.4	
Production Tax			<u>Min Tax</u>	<u>Net Tax</u>
Gross Value or Production Tax Value			\$5,387.7	\$1,122.4
Gross Value Reduction (GVR)			\$0.0	(\$74.5)
GVPP or PTV after GVR			\$5,387.7	\$1,047.9
Tax rate			4%	35%
Tax before credits			\$215.5	\$366.8
Higher of minimum or net tax	\$2.59	141,432	\$366.8	
Non-GVR Per-taxable barrel credits	(\$1.07)		(\$151.3)	
Tax after Non-GVR credits	\$1.52	141,432	\$215.5	
Other items/adjustments			\$13.6	
Tax after per barrel credits	\$1.62	141,432	\$229.1	

Non-GVR credits “reduce” net tax to the gross minimum tax

This illustration assumes a single North Slope taxpayer for simplification and will not equate to the FY 2022 production tax estimate. In practice, the application of the per-taxable barrel credits will depend on the individual taxpayer's circumstances.



State Petroleum Revenue by Land Type

Land status	Revenue component			
	Production tax / credits	Royalty	Corporate Income Tax	Property Tax
Offshore beyond 6 miles - Federal OCS	Do not apply	Federal royalties applies; zero shared back to state (in Alaska; other states do receive shared royalties)	Not included in apportionment factor	Does not apply
Offshore 3-6 miles - Federal OCS 8(g) area	Do not apply	Federal royalties applies; 27% shared back to state with no restrictions	Not included in apportionment factor	Does not apply
State lands and offshore 0-3 miles	All credits available; tax applies to all taxable production	State royalty applies	All property, production, and sales included in apportionment factor	Applies to all oil and gas property
NPR-A - federal owned	All credits available; tax applies to all taxable production	Federal royalty applies; 50% of royalties are shared back to state but must be used for benefit of local communities	All property, production, and sales included in apportionment factor	Applies to all oil and gas property
ANWR	All credits available; tax applies to all taxable production	Federal royalty applies; 50% shared back to state with no restrictions (under current law)	All property, production, and sales included in apportionment factor	Applies to all oil and gas property
Other federal land	All credits available; tax applies to all taxable production	Federal royalties applies; 90% shared back to state with no restrictions	All property, production, and sales included in apportionment factor	Applies to all oil and gas property
Private land (including Alaska Native Corporation)	All credits available; tax applies to all taxable production	Privately negotiated royalty applies; not shared with state. However state levies 5% (oil) or 1.667% (gas) gross tax on the value of private landowner royalty interest as part of production tax	All property, production, and sales included in apportionment factor	Applies to all oil and gas property



THANK YOU

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