

Taxes Overview:

Motor Fuel, Corporate Income, and Per Barrel Credits

Senate Resources Committee

Department of Revenue

September 9, 2021

Motor Fuel Tax

Motor Fuel Tax Statutes

AS 43.40.005 – AS 43.40.100

“Motor fuel” is defined by statute as any fuel used in an engine for the propulsion of a motor vehicle or aircraft, fuel used in or on watercraft for any purpose, or in a stationary engine, machine or mechanical contrivance which is run by an internal combustion motor.

15 AAC 40.300 – 15 AAC 40.900

These are regulations that interpret the Motor Fuel Tax statutes



Current Motor Fuel Tax Rates & Surcharge

Highway Fuel – \$0.08/gallon

Marine Fuel – \$0.05/gallon

Aviation Gasoline – \$0.047/gallon

Jet Fuel – \$0.032/gallon

Gasohol – \$0.08/gallon or \$0.02/gallon depending on the season, location, and U.S. EPA mandates

Surcharge – \$0.0095/gallon



Historic Fuel Tax Collections Summary

Collections	FY 2017	FY 2018	FY 2019	FY 2020
Highway Fuel	\$ 29,311,111	\$ 30,555,948	\$ 28,895,914	\$ 30,563,666
Marine Fuel	5,417,976	5,706,226	5,634,575	5,948,378
Jet Fuel	4,092,083	4,067,053	4,419,845	4,787,601
Aviation Gasoline	442,531	438,612	400,389	382,029
Gasoline Surcharge	3,952,961	3,619,750	3,588,219	4,111,986
Diesel Surcharge	2,662,537	2,729,633	2,687,699	2,741,685
Penalties & Interest	65,240	31,391	76,646	18,256
Total Collections	\$ 45,944,439	\$ 47,148,613	\$ 45,703,285	\$ 48,553,599

General Fund Deposits	\$ 45,820,059	\$ 47,049,908	\$ 45,603,317	\$ 48,408,380
Aviation Tax Shared with Municipalities	124,380	98,705	99,968	145,219
Total Funds	\$ 45,944,439	\$ 47,148,613	\$ 45,703,285	\$ 48,553,599



Note: Some numbers may show slight differences due to rounding

Corporate Income Tax

Corporate Net Income Tax Statutes & Regulations

AS 43.19 – Multistate Tax Compact

Regulations 15 AAC 19.011-.1490

AS 43.20 – Alaska Net Income Tax Act

Regulations 15 AAC 20.010-.920

26 U.S.C. 1 – 1399 and 6001 – 7872

Adopted, as amended, by reference in AS 43.20.021(a)



Entities Subject to Corporate Net Income Tax

Generally, Alaska follows the Internal Revenue Code when determining an entity's taxable status.

Applies to C-Corporations only



Current Corporate Income Tax Rates

Corporate Income Tax Brackets	
Taxable Income	Marginal Tax Rate
Less than \$25,000	0.00%
\$25,000 but less than \$49,000	2.00%
\$49,000 but less than \$74,000	3.00%
\$74,000 but less than \$99,000	4.00%
\$99,000 but less than \$124,000	5.00%
\$124,000 but less than \$148,000	6.00%
\$148,000 but less than \$173,000	7.00%
\$173,000 but less than \$198,000	8.00%
\$198,000 but less than \$222,000	9.00%
\$222,000 or More	9.40%



Historic Corporate Net Income Tax Collections Summary

Collections	FY 2017	FY 2018	FY 2019	FY 2020
Oil & Gas CIT	\$ 2,420,122	\$ 76,764,546	\$217,687,775	\$ 60,165,554
Non-Oil & Gas CIT	85,354,827	119,556,313	114,832,684	102,444,990
Total Collections	\$ 87,774,949	\$196,320,859	\$332,520,459	\$162,610,544
General Fund Deposits	\$ 27,174,996	\$185,943,042	\$326,989,874	\$102,286,234
CBRF Deposits	60,599,952	10,377,817	5,530,585	60,324,310
Total Funds	\$ 87,774,948	\$196,320,859	\$332,520,459	\$162,610,544



Note: Some numbers may show slight differences due to rounding

SOURCE: Tax Division Annual Report (www.tax.Alaska.gov)

Per Barrel Tax Credit

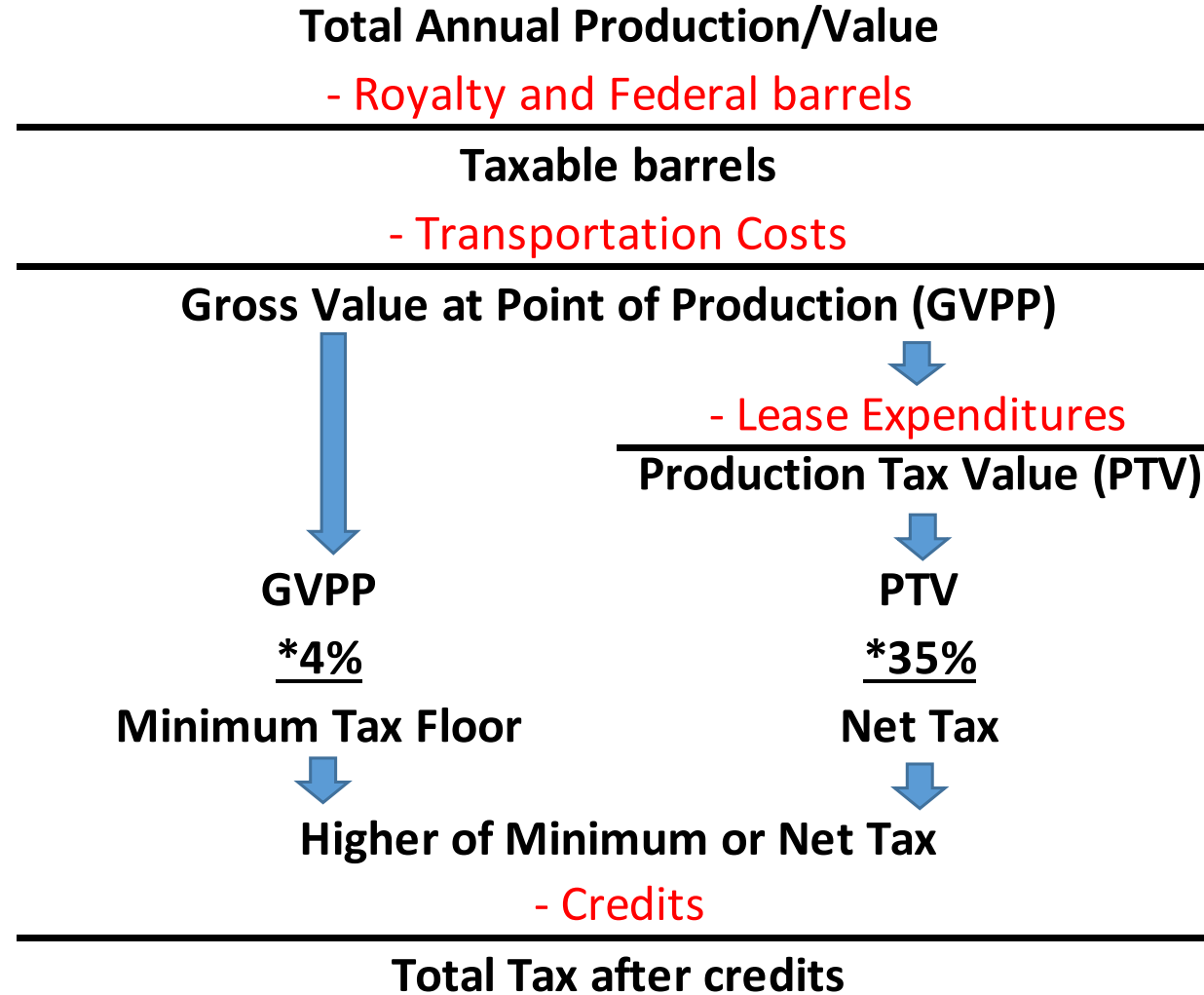
(Oil and Gas Production Tax)

Oil and Gas Production Tax Statutes & Regulations

- Governing Statute AS 43.55; Regulations 15 AAC 55.010-.900
- Per-Taxable Barrel Credits:
 - Only apply to North Slope production
 - GVR Per Barrel Credit AS 43.55.024(i)
 - Non-GVR or Sliding Scale Per Barrel Credits AS 43.55.024(j)



Oil and Gas Production Tax Simplified Calculation



Per Taxable Barrel Credit

- Component to overall fiscal regime
- Works as an “offset” not as “credit”.
- Reduction from Production Tax calculation
- Creates progressivity in the tax calculation up to maximum of 35% production tax as oil prices increase.
- Amount of credit based on the gross value at the point of production (GVPP).



Current Sliding Scale Per Taxable Barrel Credit Rates

Current Statute		
Sliding Scale Per Taxable Barrel Credit AS 43.55.024(j))		
GVPP Greater than or equal to	GVPP less than	Tax Credit Rate \$
\$ -	\$ 80.00	\$8.00
\$ 80.00	\$ 90.00	\$7.00
\$ 90.00	\$ 100.00	\$6.00
\$ 100.00	\$ 110.00	\$5.00
\$ 110.00	\$ 120.00	\$4.00
\$ 120.00	\$ 130.00	\$3.00
\$ 130.00	\$ 140.00	\$2.00
\$ 140.00	\$ 150.00	\$1.00
\$ 150.00		\$0.00



Historic Per Barrel Credits Usage Summary

\$ Millions	FY 2017	FY 2018	FY 2019	FY 2020
Per Taxable Credits Used against Oil & Gas Production Tax Liability	\$ 536.0	\$ 1,001.0	\$ 1,037.0	\$ 586.0

Note: This combines both the AS 43.55.024(i) and the AS 43.55.024 (j) per barrel credits



Questions?

THANK YOU

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SLIDING-SCALE PER-BARREL CREDIT: IMPACT ON ROYALTIES

Senate Resources

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STATE OIL & GAS LEASE REVENUE TYPES

(*WITH .024(j) TAX CREDIT IMPACTS*)

Royalty – *No direct impact from .024(j) Tax Credits*

- Share of gross production of oil and gas from the lease owed to the landowner.
- Set as a fraction (e.g. 1/8) or percentage (e.g. 12.5%) of production.
- Owed upon severance from the lease.
- May be taken as payment in value (“RIV”) or as delivery in kind (“RIK”).
- Generally free of costs of production (CAPEX and OPEX), but subject to transportations costs and quality bank adjustments.

Net Profit Share – *Direct impact from .024(j) Tax Credits*

- Share of net profits generated by the lease from oil and gas production.
- Set as a percentage (e.g. 30%, 40%, 79.59%) of net profits.
- Owed once developments costs have been recovered (with interest).
- Always taken as a payment.
- Paid on net profits after deducting costs of production (both OPEX and CAPEX).

Bonus Bid – *No direct impact from .024(j) Tax Credits*

- Cash payment paid when lease is issued.
- Typically the bid variable, so lessees compete on the bonus bid amount.

Lease Payment – *No direct impact from .024(j) Tax Credits*

- Annual cash payment, may be credited against royalty
- Set as a dollar per acre amount for each lease, some leases include increases during the lease term.

.024(j) IMPACTS ON NPSLS

- **Reducing .024(j) Credit results in roughly \$500,000 per year reduction in NPSL revenues**
- **NPSLs include an allowance for Production Tax from gross revenues to calculate net profits**
 - The Production Tax allowance is recalculated at the lease level, rather than taxpayer level
 - A reduction of the Sliding-scale per-barrel credit will, on average, increase Production Tax, reducing net profits
- **Impact of tax payments changes depending on whether NPSL is in “payout” (i.e. has recovered original capital investment)**
 - Increase in tax payments will **reduce** net profit payments for NPSLs already in payout
 - Increase in tax payments will **delay** payout for NPSLs that are not already in payout, then **reduce** payments
- **Reduction in Net Profit payments will be less than increase in tax payments**
 - A reduction of the Sliding-scale per-barrel credit will, on average, increase Production Tax payments
 - An increase in Production Tax payments will reduce the net profits generated by the NPSL
 - May be a significant impact at the lease level, but impact is significantly less material at the North Slope-wide level (12 total NPSLs in payout vs 461 total leases in production in the North Slope)

NET PROFIT SHARE: PRODUCTION TAX IMPACT

Net Profit Share Lease

Individual Lease, 1,000 bbl/day production, 16.67% Royalty Rate, 40% Net Profit Share

Oil Price (\$/bbl)	\$65.00
Less Pipeline Tariffs (\$/bbl)	(\$7.50)
Less Marine Transportation (\$/bbl)	(\$2.50)
<i>Producer's Netback Value/bbl</i>	<i>\$55.00</i>
Production (bbl/month)	30,000
Royalty Rate	16.67%
<i>Lessee's Share of Production (bbl/month)</i>	<i>25,000</i>
Lessee's Gross Revenue (\$/month)	\$1,375,000

Note: All values are hypothetical, and are presented for demonstration purposes. These values do not represent a representation or estimate of any actual price, production, cost, or other value.

Scenario: Lower Production Tax

Lease in Payout / \$0 Development Account Balance

Lessee's Gross Revenue (\$/month)	\$1,375,000
Less Operating Costs (\$/month)	\$750,000
Less Oil & Gas Production Tax (for the Lease)	\$100,000
Lessee's Net Revenue (\$/month)	\$525,000
Net Profit Share Rate	40%
Net Profit Share to State	\$210,000

Scenario: Higher Production Tax

Lease in Payout / \$0 Development Account Balance

Lessee's Gross Revenue (\$/month)	\$1,375,000
Less Operating Costs (\$/month)	\$750,000
Less Oil & Gas Production Tax (for the Lease)	\$200,000
Lessee's Net Revenue (\$/month)	\$425,000
Net Profit Share Rate	40%
Net Profit Share to State	\$170,000

*\$100,000
Production
Tax increase*

*\$40,000
NPSL
payment
decrease*

QUESTIONS

Thank you!

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