Discussion Slides: Alaska Senate Finance Committee

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Summary of Progressive Severance Tax (Gross) Structure

- A Progressive Severance Tax (Gross) option would instead remove progressivity from the Profit-Based Production Tax (Net), instead levying this tax at the flat, base rate of 25%
- To retain an element of progressivity, a new Progressive Severance Tax (Gross) would then be added to the system. The tax would:
  - Be non-deductible for Profit-Based Production Tax purposes
  - Be levied on gross production (net of royalties)
  - Be levied solely on oil
  - The tax would use a progressivity structure not dissimilar to that under the current system, with progressivity coefficients that apply at different thresholds.
- The proposed Progressive Severance Tax would use the following parameters:
    - No severance tax below $60 Gross Value at Point of Production (GVPP)
    - Progressivity of .27% commencing at a threshold of $60 GVPP
    - At $120 GVPP, a tax rate of 16.2% is reached. At this point, progressivity is reduced to 0.03%
    - Progressivity is capped at 20%

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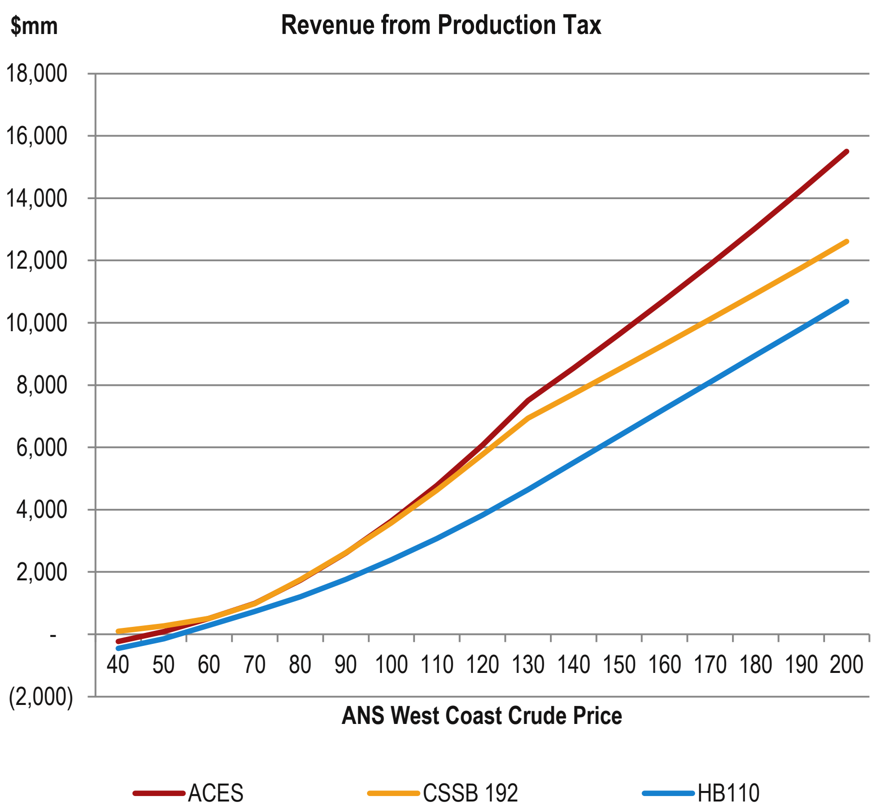
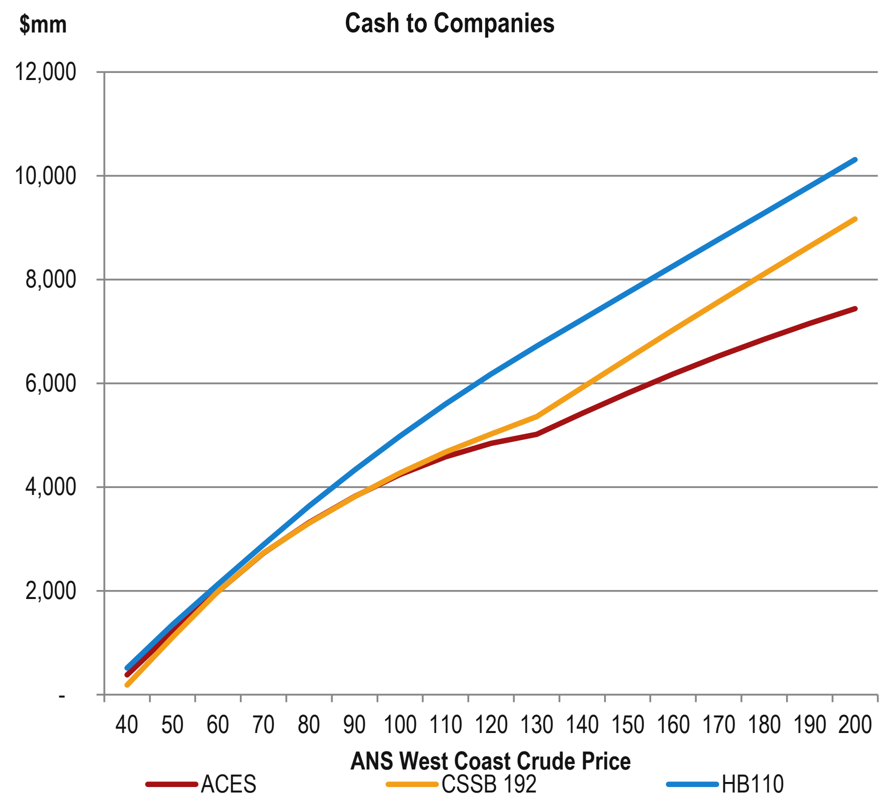
FY 2013 Revenue Comparison





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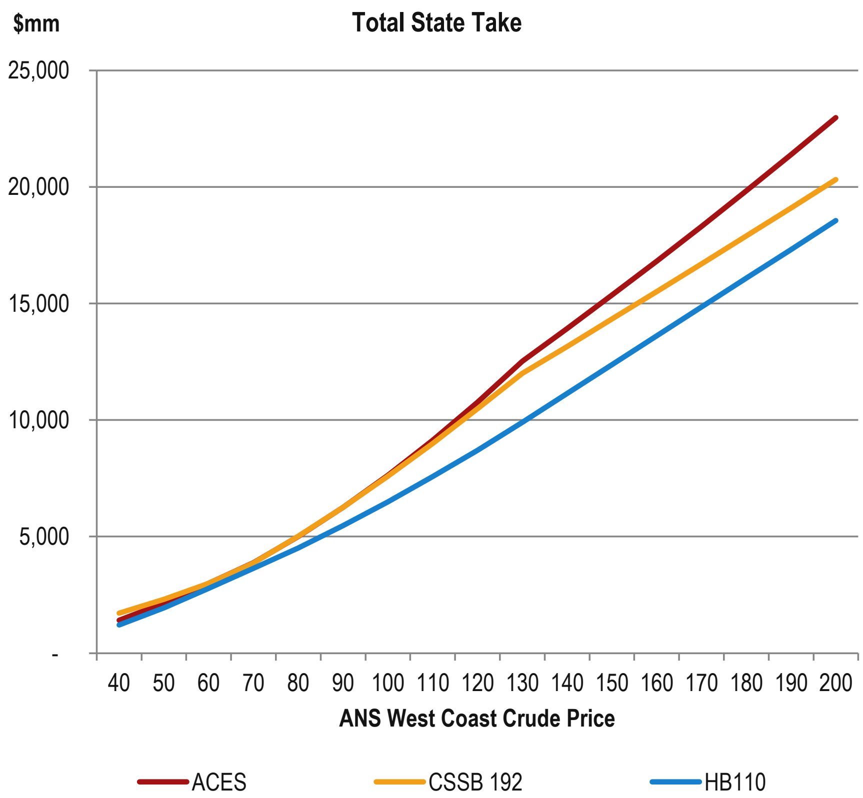
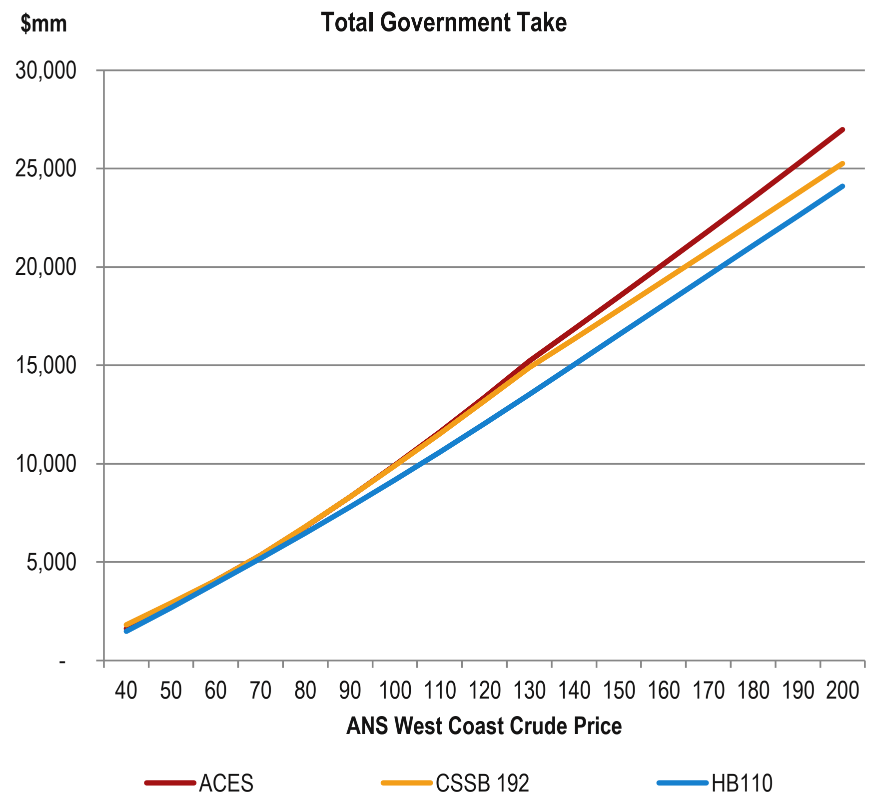
FY 2013 Revenue Comparison





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FY 2013 Revenue Comparison

ANS West Coast Oil Price	Production Tax			Total State Take			Total Government Take			Cash to Companies			FY 2013 % Government Take		
	ACES	CSSB 192	HB110	ACES	CSSB 192	HB110	ACES	CSSB 192	HB110	ACES	CSSB 192	HB110	ACES	CSSB 192	HB110
40	(233)	92	(458)	1,413	1,711	1,207	1,616	1,810	1,482	378	184	512	81%	91%	74%
50	82	265	(143)	2,148	2,315	1,941	2,803	2,912	2,669	1,218	1,109	1,352	70%	72%	66%
60	513	513	288	2,989	2,989	2,783	4,060	4,060	3,926	1,988	1,988	2,122	67%	67%	65%
70	996	985	729	3,878	3,868	3,634	5,347	5,340	5,188	2,727	2,734	2,886	66%	66%	64%
80	1,736	1,756	1,204	5,002	5,021	4,515	6,787	6,799	6,470	3,314	3,302	3,631	67%	67%	64%
90	2,613	2,620	1,763	6,252	6,259	5,473	8,308	8,313	7,802	3,819	3,815	4,325	69%	69%	64%
100	3,628	3,577	2,387	7,629	7,582	6,491	9,913	9,882	9,173	4,241	4,272	4,981	70%	70%	65%
110	4,782	4,627	3,075	9,132	8,990	7,568	11,599	11,507	10,583	4,582	4,674	5,598	72%	71%	65%
120	6,073	5,770	3,828	10,761	10,484	8,705	13,367	13,187	12,031	4,840	5,020	6,176	73%	72%	66%
130	7,503	6,934	4,648	12,517	11,996	9,902	15,218	14,879	13,518	5,016	5,354	6,716	75%	74%	67%
140	8,550	7,714	5,510	13,922	13,157	11,138	16,841	16,343	15,031	5,420	5,917	7,230	76%	73%	68%
150	9,623	8,504	6,372	15,352	14,327	12,374	18,479	17,813	16,544	5,808	6,474	7,743	76%	73%	68%
160	10,730	9,304	7,235	16,813	15,506	13,611	20,138	19,289	18,057	6,175	7,025	8,257	77%	73%	69%
170	11,873	10,114	8,097	18,306	16,695	14,847	21,818	20,771	19,570	6,522	7,569	8,770	77%	73%	69%
180	13,049	10,935	8,960	19,830	17,894	16,084	23,518	22,259	21,083	6,849	8,107	9,284	77%	73%	69%
190	14,261	11,766	9,822	21,386	19,101	17,320	25,239	23,754	22,596	7,155	8,640	9,797	78%	73%	70%
200	15,506	12,608	10,685	22,974	20,319	18,557	26,980	25,254	24,109	7,440	9,166	10,311	78%	73%	70%

Note: Consistent with DOR methodology, these revenue numbers do not include payments for tax credits which are not claimed against current production, as these are accounted for separately in the budget. In 2013, DOR forecasts a potential liability of $400mm for these credits.

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FY 2013 Revenue Comparison – Adjusted for $400mm Credits Not Claimed Against Current Production

ANS West Coast Oil Price	Production Tax: ACES	Production Tax: CSSB 192	Production Tax: HB110	Total State Take: ACES	Total State Take: CSSB 192	Total State Take: HB110
40	(633)	(308)	(858)	1,013	1,311	807
50	(318)	(135)	(543)	1,748	1,915	1,541
60	113	113	(112)	2,589	2,589	2,383
70	596	585	329	3,478	3,468	3,234
80	1,336	1,356	804	4,602	4,621	4,115
90	2,213	2,220	1,363	5,852	5,859	5,073
100	3,228	3,177	1,987	7,229	7,182	6,091
110	4,382	4,227	2,675	8,732	8,590	7,168
120	5,673	5,370	3,428	10,361	10,084	8,305
130	7,103	6,534	4,248	12,117	11,596	9,502
140	8,150	7,314	5,110	13,522	12,757	10,738
150	9,223	8,104	5,972	14,952	13,927	11,974
160	10,330	8,904	6,835	16,413	15,106	13,211
170	11,473	9,714	7,697	17,906	16,295	14,447
180	12,649	10,535	8,560	19,430	17,494	15,684
190	13,861	11,366	9,422	20,986	18,701	16,920
200	15,106	12,208	10,285	22,574	19,919	18,157

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Issues with Tax Floor for Large Fields

- Two significant issues with specifying the tax floor for large fields only
  – Specifying particular units to which a floor applies means that costs then need to be allocated at the unit level – costs for Prudhoe and for Kuparuk need to be calculated separately to that for all other production
  – The 100 mb/d production threshold may create an undesirable incentive
- An administratively easier approach would be to make the distinction at the company, rather than the asset level
  – If the desire is simply to ensure that small producers do not face this floor, this can be more easily accomplished directly
  – One option would be to use the existing definition of a “small producer” for credit purposes, and exclude such producers from the floor

Incentives for New Production

- Significant incentives can be provided to new production, by eliminating or reducing the Progressive Severance Tax (Gross) on any combination of:
  - Production from new areas
  - Production above a fixed decline rate
- One possibility for a reduced rate of Progressive Severance Tax is:
  - No severance tax below $60 Gross Value at Point of Production (GVPP)
  - Progressivity of .05% commencing at a threshold of $60 GVPP
  - Progressivity capped at 5%
  - Reduced rate applied for 7 years
- Since Production above a decline curve cannot have a specific time limit, one option would be an intermediate regime with no time limit for incremental production, for instance:
  - Progressivity of .14% commencing at a threshold of $60 GVPP
  - At $120 GVPP, a tax rate of 8.4% is reached. At this point, progressivity is reduced to 0.03%
  - Progressivity is capped at 10%

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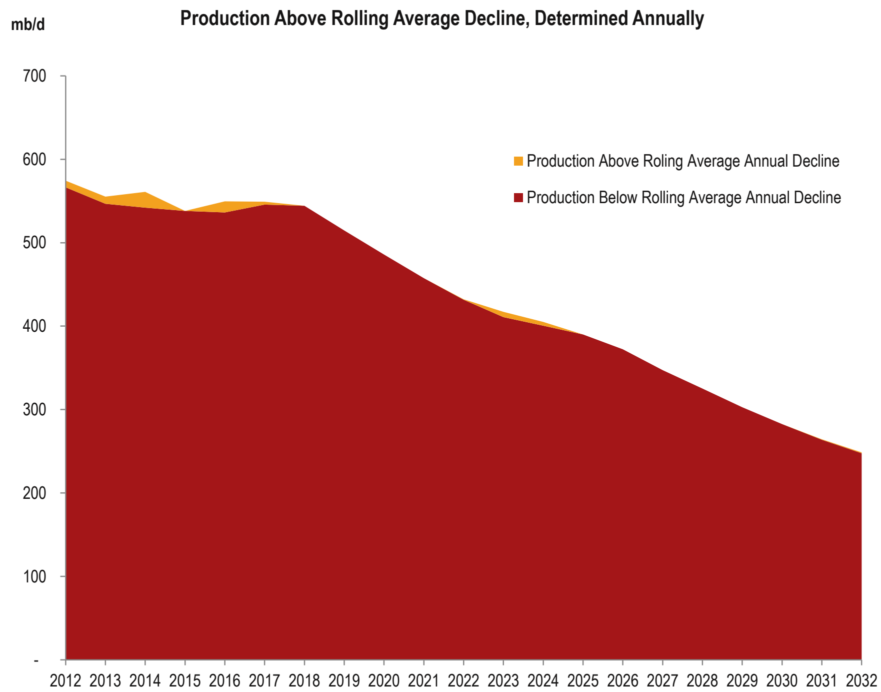
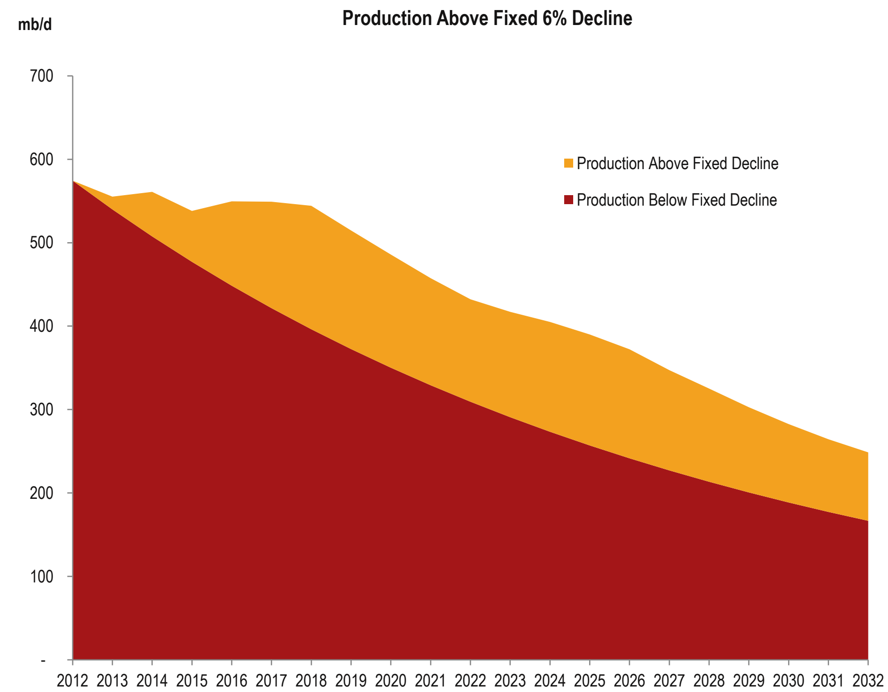
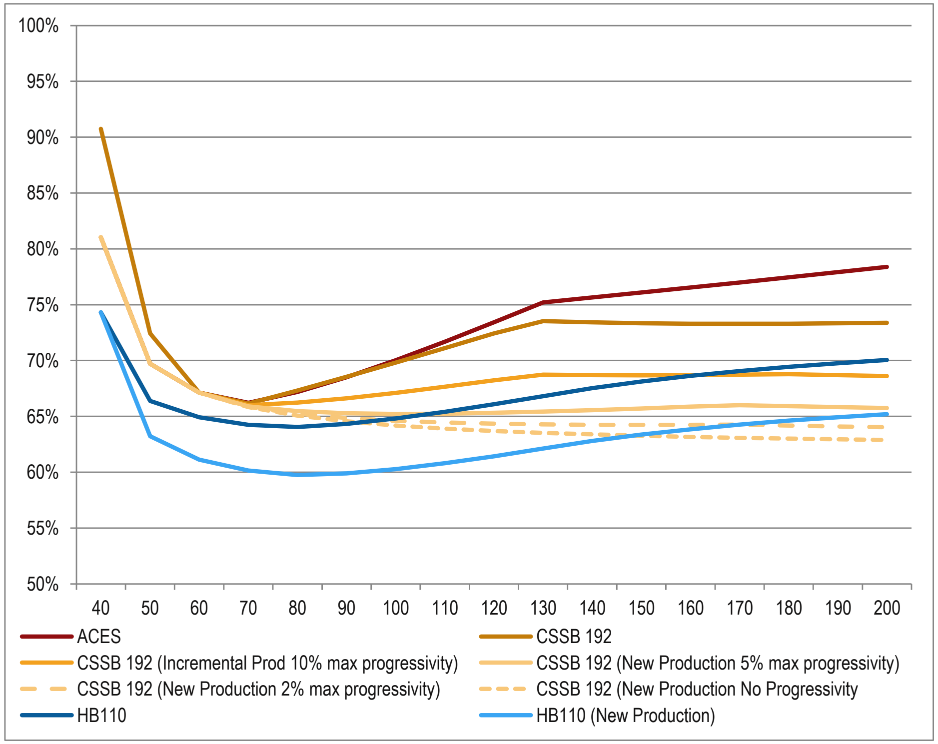
Production Above a Decline – Fixed v Annual Calculation





Total Government Take Comparison Including New Production Incentives

ANS West Coast Oil Price	FY 2013 % Government Take: ACES	CSSB 192	CSSB 192 (Incremental Prod 10% max progressivity)	CSSB 192 (New Production 5% max progressivity)	CSSB 192 (New Production 2% max progressivity)	CSSB 192 (New Production No Progressivity	HB110	HB110 (New Production)
40	81%	91%	81%	81%	81%	81%	74%	74%
50	70%	72%	70%	70%	70%	70%	66%	63%
60	67%	67%	67%	67%	67%	67%	65%	61%
70	66%	66%	66%	66%	66%	66%	64%	60%
80	67%	67%	66%	65%	65%	65%	64%	60%
90	69%	69%	67%	65%	65%	65%	64%	60%
100	70%	70%	67%	65%	65%	64%	65%	60%
110	72%	71%	68%	65%	64%	64%	65%	61%
120	73%	72%	68%	65%	64%	64%	66%	61%
130	75%	74%	69%	65%	64%	64%	67%	62%
140	76%	73%	69%	66%	64%	63%	68%	63%
150	76%	73%	69%	66%	64%	63%	68%	63%
160	77%	73%	69%	66%	64%	63%	69%	64%
170	77%	73%	69%	66%	64%	63%	69%	64%
180	77%	73%	69%	66%	64%	63%	69%	65%
190	78%	73%	69%	66%	64%	63%	70%	65%
200	78%	73%	69%	66%	64%	63%	70%	65%



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