



Comments on CSSB 192 (FIN) Work Draft 27-LS1305\O



*Presentation to the
Senate Finance Committee
Department of Revenue
April 6, 2012*



Presentation Organization



- DOR comments on components of CSSB 192(FIN) Version O
- DOR comments on complexity of tax law changes and additional requirements for Department



Questions To Consider

- Does this bill make Alaska more competitive?
- Does this bill make Alaska more appealing to potential investors?
- Does this bill make our tax structure less complicated & more understandable to investors?
- Are these changes meaningful enough to compete for investment capital?



CSSB 192 (FIN) Changes from Current Law



- Change to progressivity calculation
 - For currently producing fields
 - For production from currently producing fields exceeding a production target
 - For new fields
- Change to minimum tax
- Change to lease expenditure allocation
- Petroleum information management system



Impact of Change to Progressivity on Production Tax Liability



- Tax is increased for many companies below \$100 per barrel
- Tax is about the same as current law at \$100 per barrel (on average)
- Tax is a small reduction for many companies above \$100 per barrel
- Tax change will impact all companies differently



Comments on Change to Progressivity



- Tax effect of progressivity change on currently producing fields is *very sensitive* to a producer's lease expenditures
 - Appears to reduce incentive to invest in North Slope fields
 - Appears to reduce incentive to develop high cost fields
 - Appears to encourages harvest mode and keeping development costs low
 - Appears to reward those that did the least to stem the decline during ACES



Comments on Minimum Tax



- Provision creates a substantial tax increase at lower prices (<\$60/barrel).
- Creates a disincentive to investment for qualifying producers
- Could create incentive to stay below 50,000 BOE/day



Petroleum Information Management System (PIMS)



- Requires the Department to have the information management system in place by January 1, 2014
- Competes with core mission of the Tax Division, which is to assess and collect taxes
- Competes with daily staff goals of interacting with taxpayers, forecasting revenues, and auditing tax returns
- Will likely delay the completion of those core duties and result in slower responses to legislative policy questions



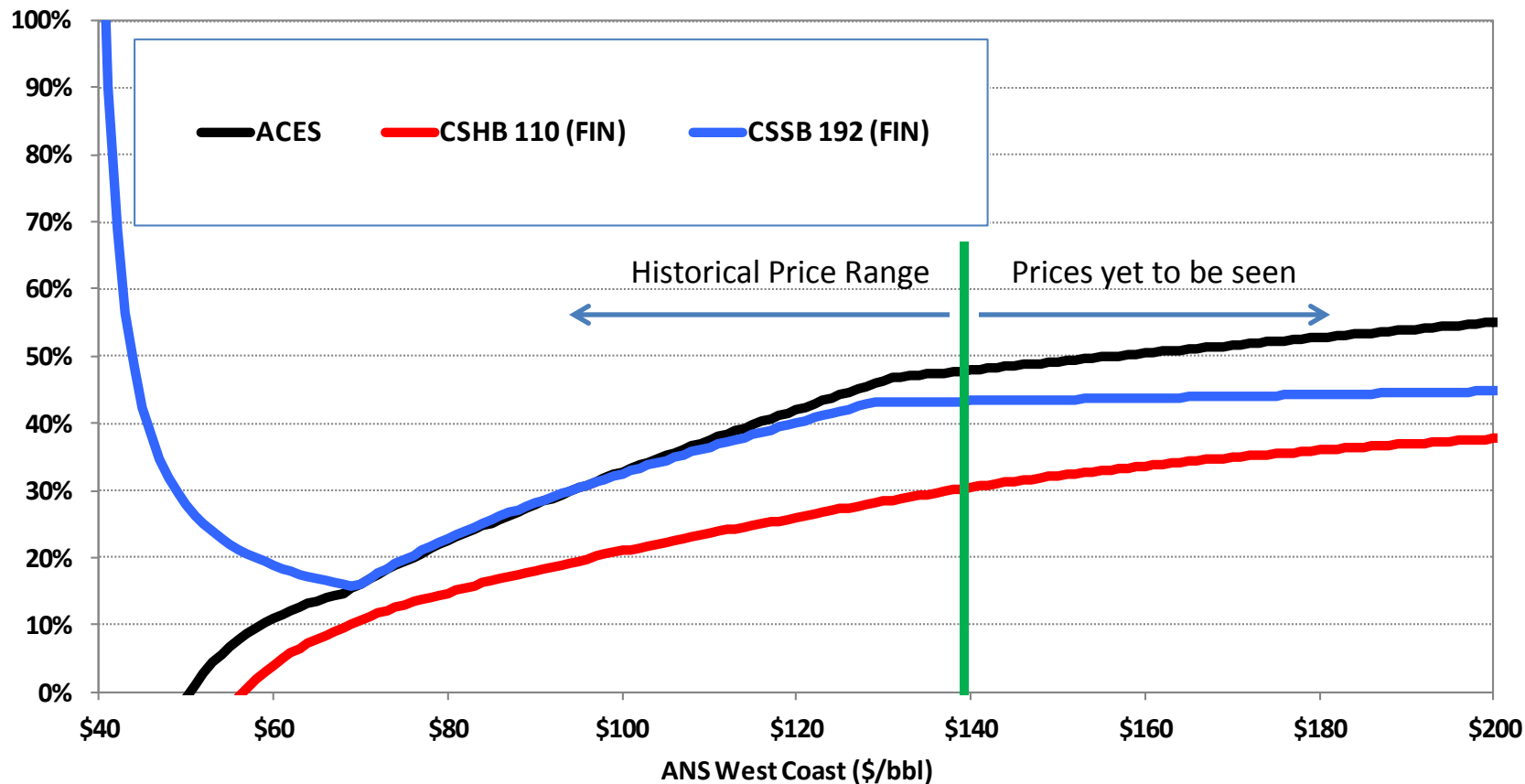
PIMS Continued

- Millions of data elements would have to be manually uploaded to the system, in various formats including electronic copies of Excel spreadsheets, PDFs, Word documents, and in hard copy format
- Determination would have to be made as to the confidentiality of each item for uploading to the system, which would take thousands of employee hours
- Department currently has only begun long-awaited Tax Revenue Management System (TRMS) project, which is expected to take 3 – 5 years to complete
- PIMS would likely delay the implementation of that important tax-specific project
- Would require significant funding and additional staff resources for the Department



Effective tax rates

Effective Production Tax Rate (Post-Credits)



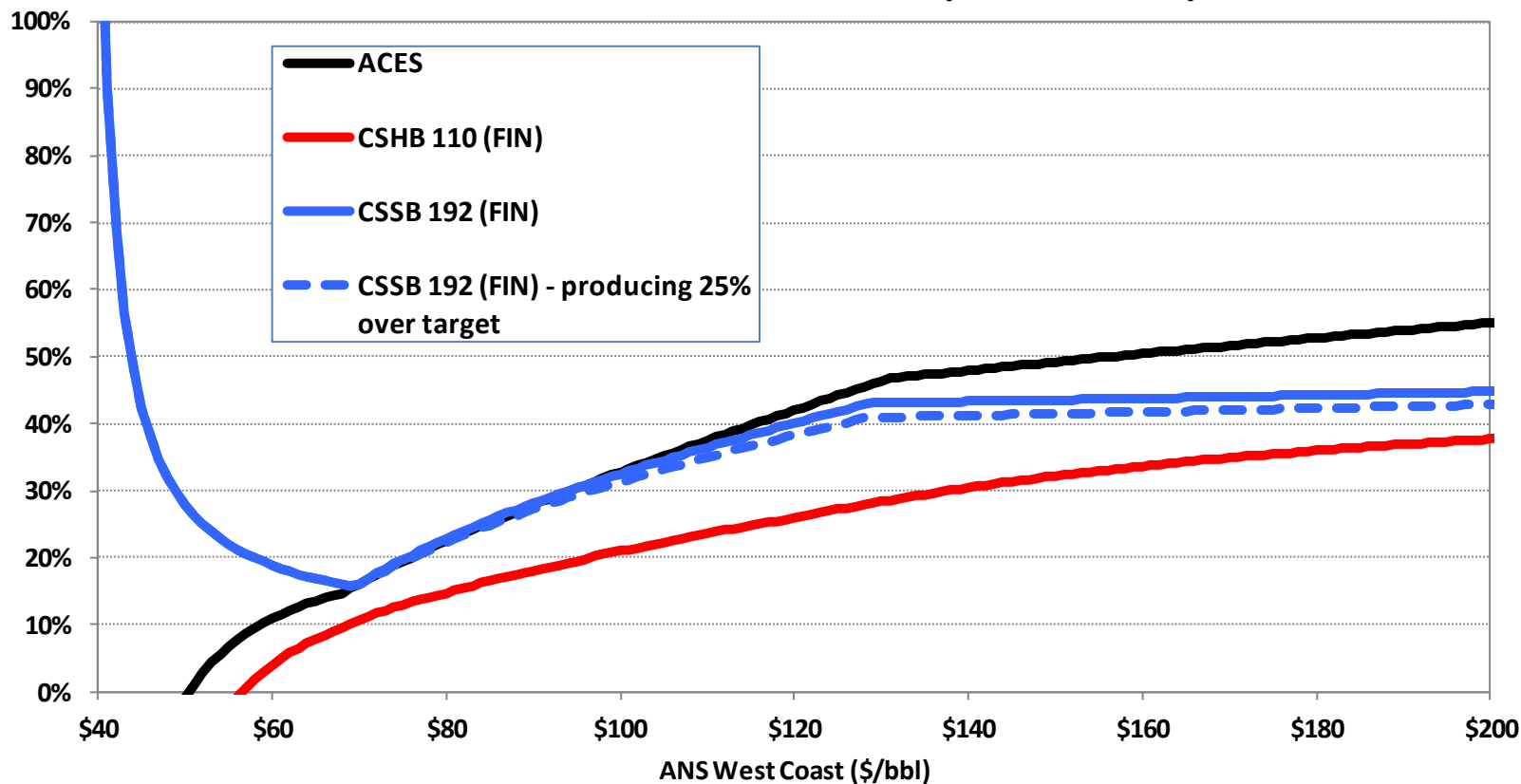
Assumes FY 2013 Transport costs of \$8.56/ bbl, Opex of \$13.75 per taxable barrel, and Capex of \$15.36 per taxable bbl.



Effective tax rates

Impact of producing 25% over target (i.e. 1/5 of production at lower rate)

Effective Production Tax Rate (Post-Credits)



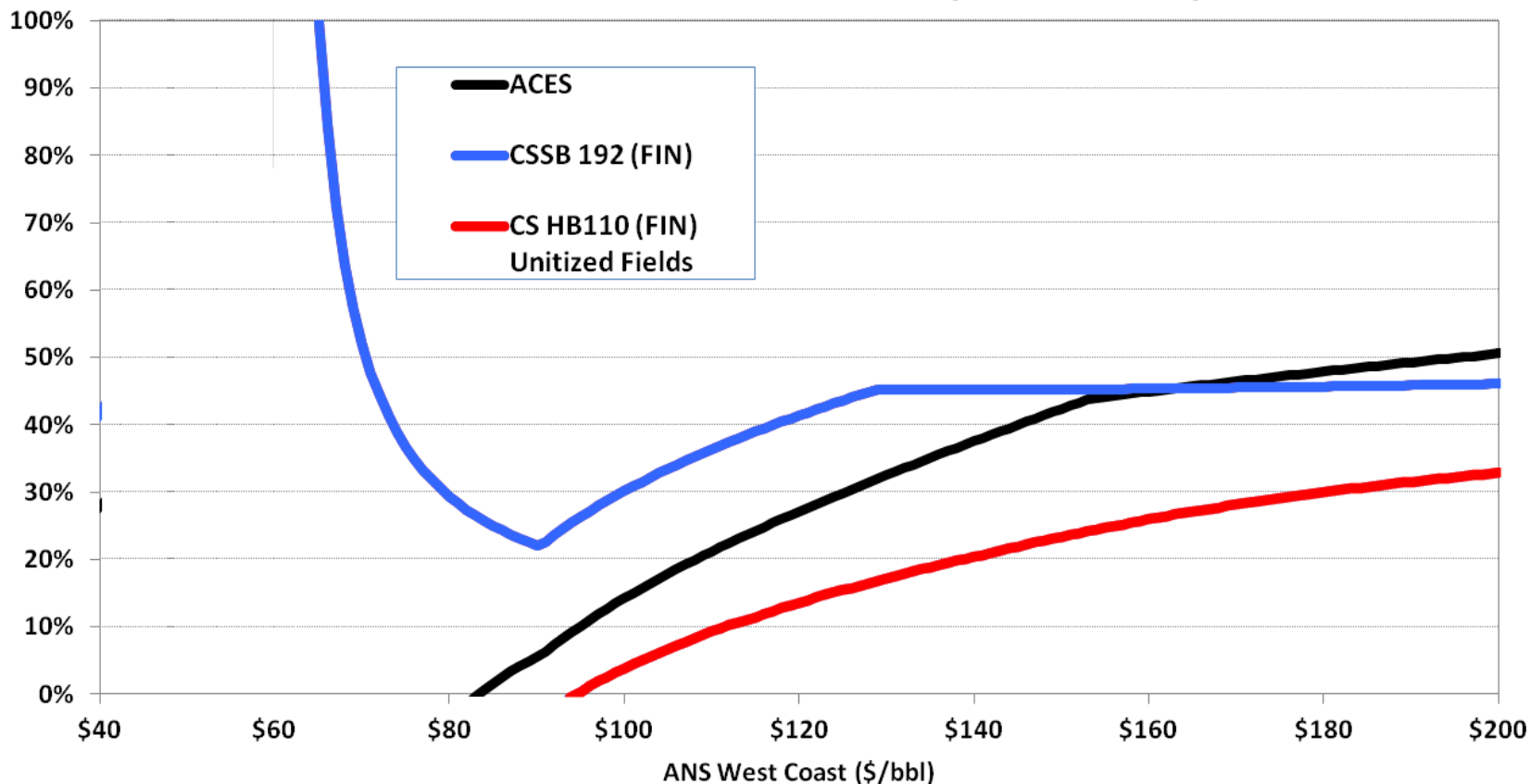
Assumes FY 2013 Transport costs of \$8.56/ bbl, Opex of \$13.75 per taxable barrel, and Capex of \$15.36 per taxable bbl.



Effective tax rates

High-cost producer

Effective Production Tax Rate (Post-Credits)



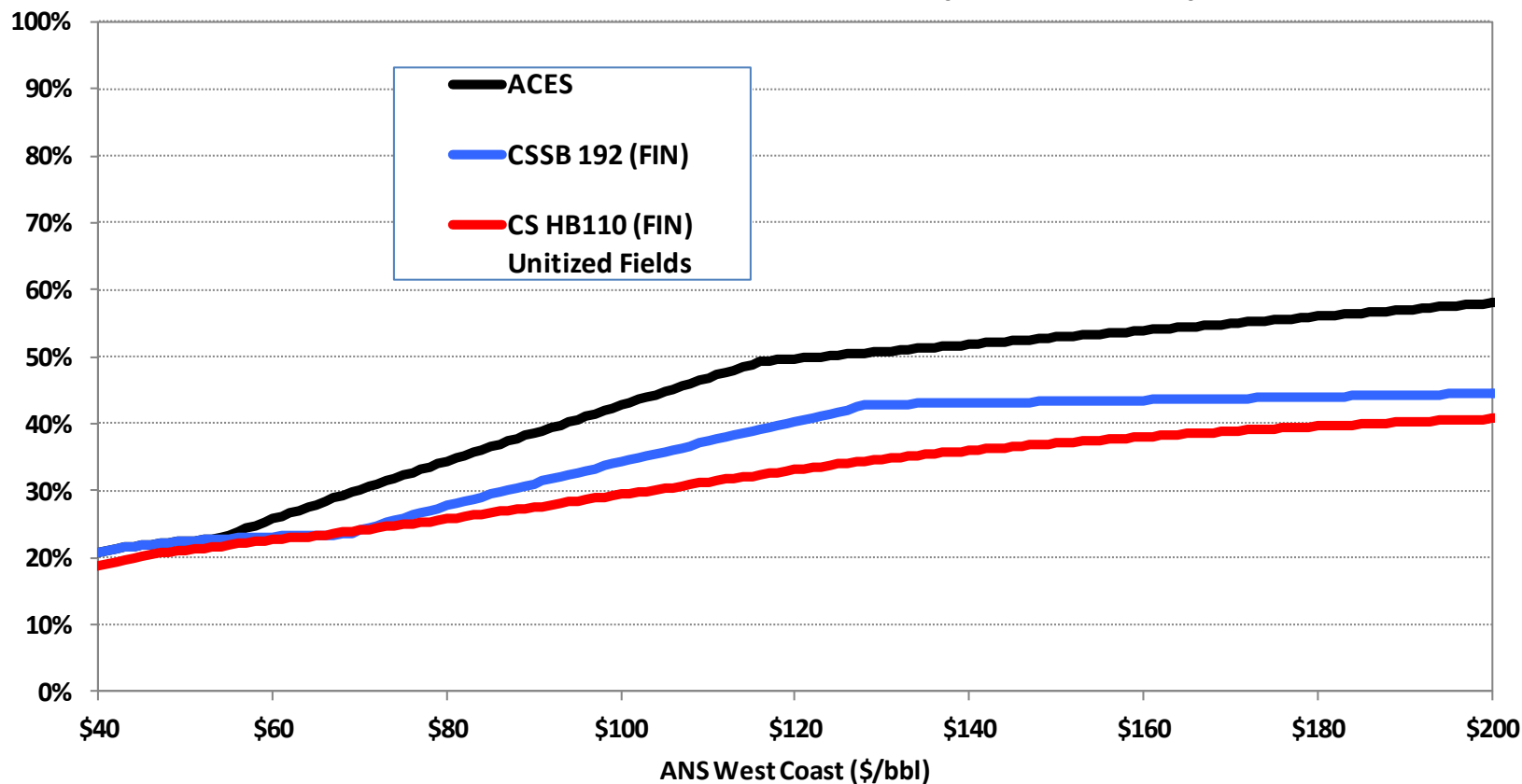
Assumes FY 2013 Transport costs of \$8.56/ bbl, Opex of \$20 per barrel, and Capex of \$25 per bbl.



Effective tax rates

Low-cost producer

Effective Production Tax Rate (Post-Credits)



Assumes FY 2013 Transport costs of \$8.56/ bbl, Opex of \$10 perbarrel, and Capex of \$3 per bbl.



Summary of DOR Comments on CSSB 192(FIN)



- Changes move in the wrong direction – they discourage investment and encourage harvest mode
- Changes to progressivity do not adequately address government / producer take imbalance
- One of the most complicated tax structures in the world will be made even more complicated
- Additional duties of PIMS will add a significant burden to a Department already dealing with years of significant tax changes
- This change will likely require a complete overhaul of the 70+ regulations put in place over the past 4 years
- There appears to be potential constitutionality issues



Questions ?