



HB 110 Presentation

Primary Goals
Tax Rates and Cash Flows
Bill Sectional



*Presentation to the
House Resources Committee
February 21, 2011
Alaska Department of Revenue*



Outline for Presentation



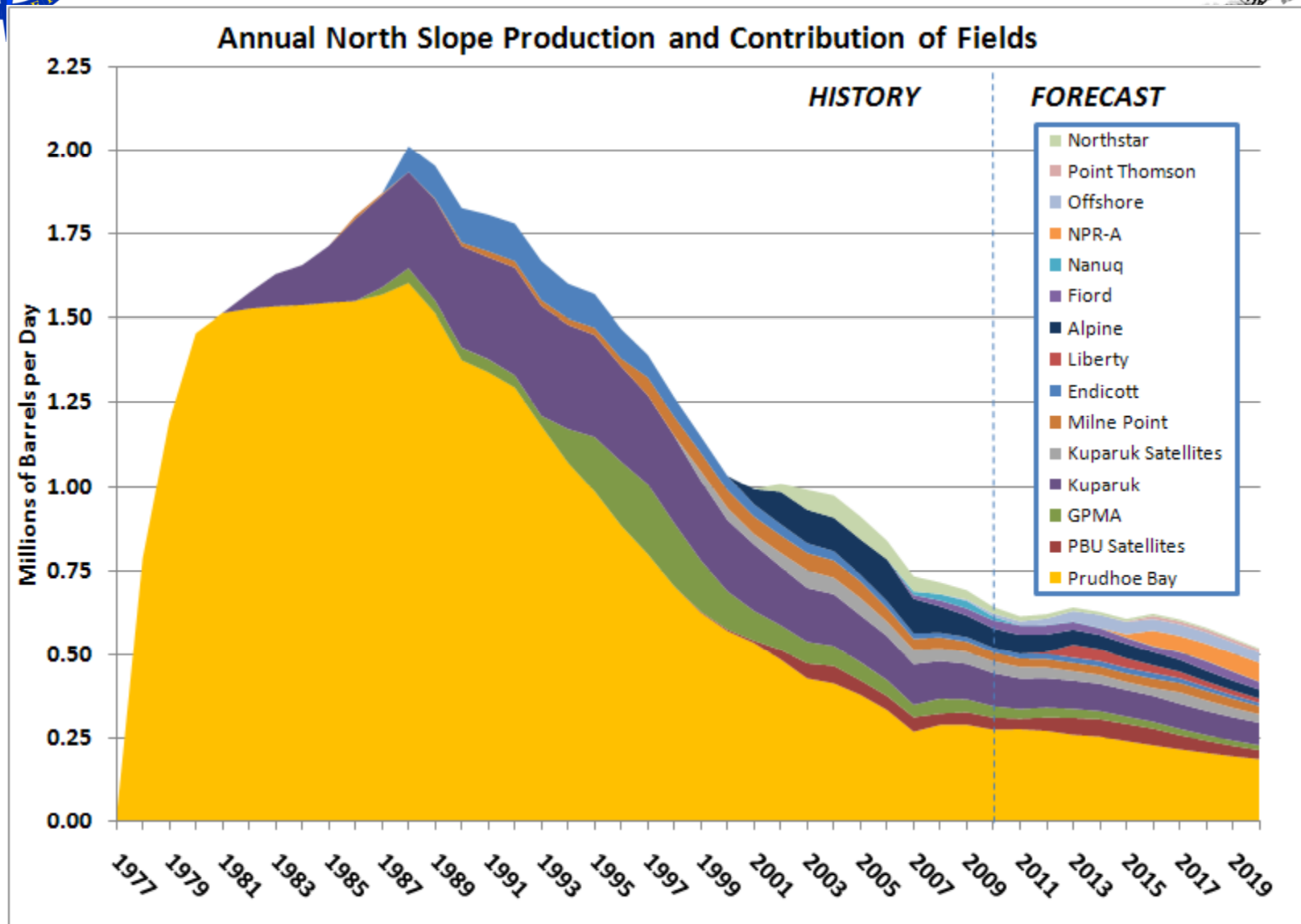
- **Opening Comments**
- **Primary Goals of HB 110**
- **Tax Rates and Cash Flows**
- **Bill Sectional**



Opening Comments



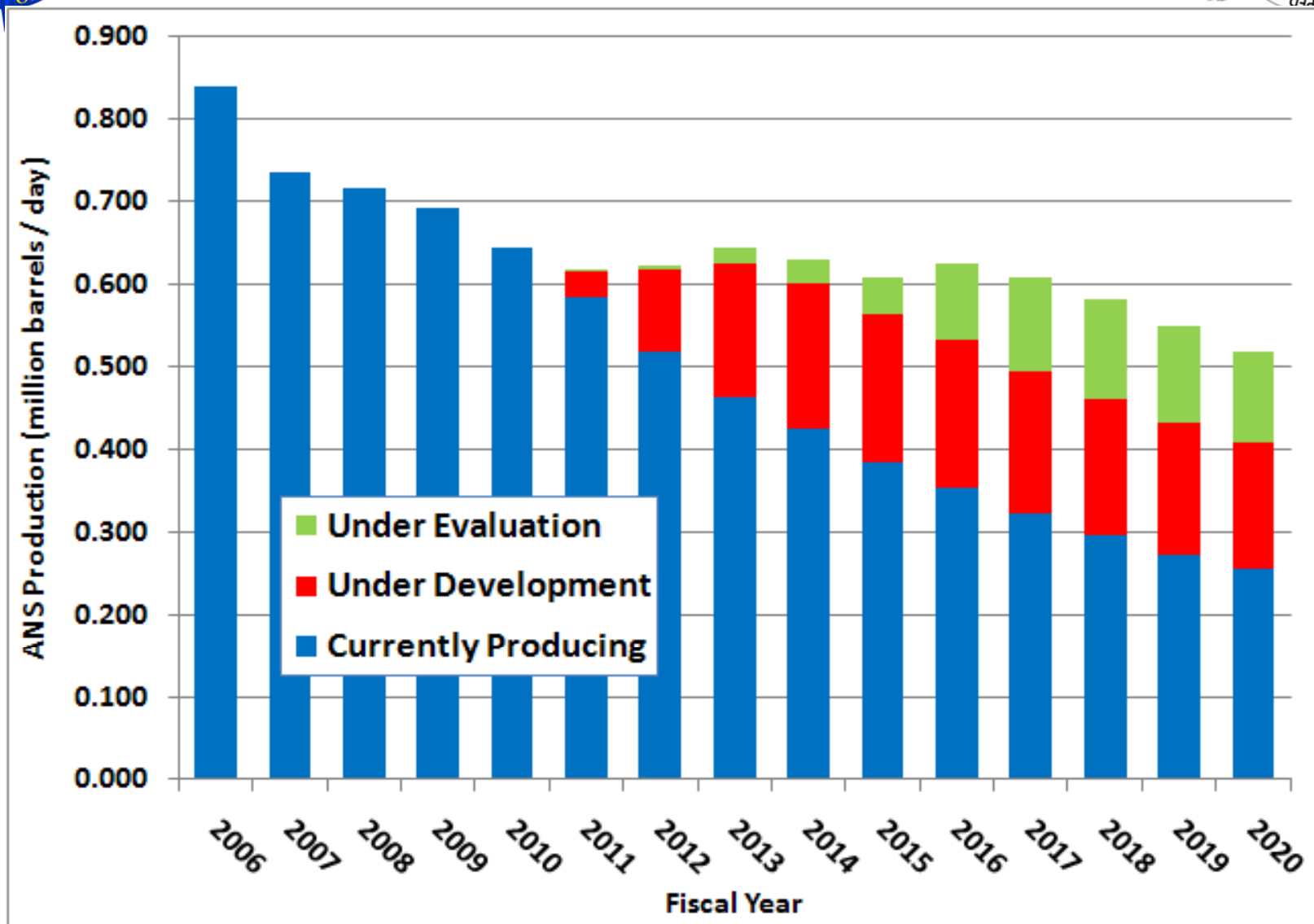
Production is Declining



Source: Fall 2010 Revenue Sources Book



Investment needed in new & old fields alike



Source: Fall 2010 Revenue Sources Book





There is a lot of oil left in Alaska...



- Cumulative production through 2010 has been over 16 billion barrels.
- Remaining North Slope reserves exceed 5 billion barrels.
- Geology-based estimates of total oil volumes are much higher. For instance, we do not include any of the approximately 20 billion barrels in the giant Ugnu deposit, or offshore volumes from the Chukchi or Beaufort Seas, in our forecast.



Primary Goals of HB 110



Primary Goals of HB 110



- 1. Encourages development of new leases or properties.**
- 2. Encourages investment in exploration, development, and production.**
- 3. Strengthens the minimum tax.**
- 4. Extends tax incentives to North Slope and allows producers to apply tax credits in one year.**
- 5. Limits the time for assessment of additional production taxes.**
- 6. Reduces interest rate on delinquent taxes and refunds.**



HB 110 is about balance



- **Balance between current revenue, and the future health of Alaska's economy.**
- **The state would continue to receive its fair share of revenue.**
- **Establishes secure investment climate for industry.**

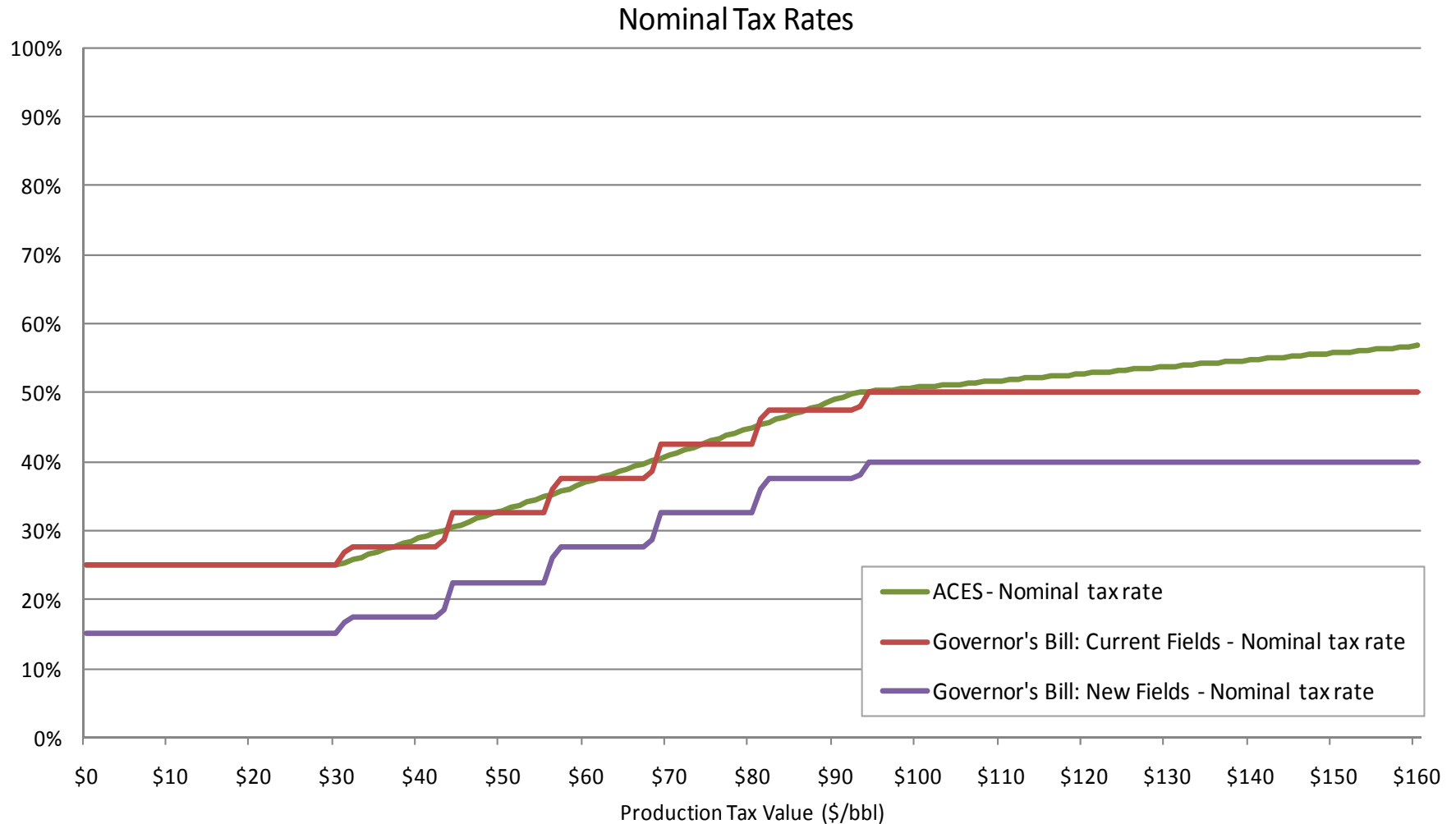


Tax Rates and Cash Flows under ACES and HB 110



Nominal Tax Rates

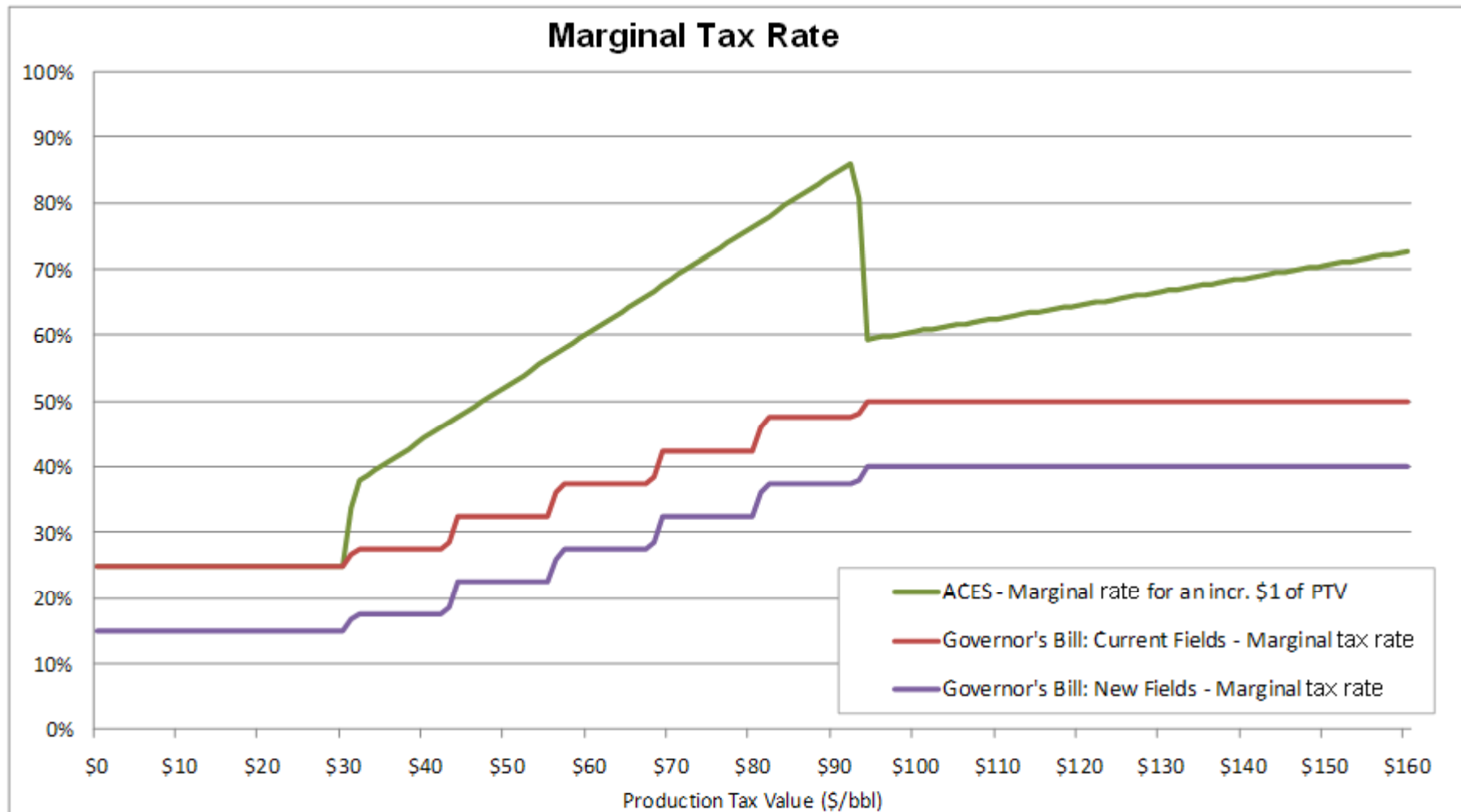
Current law and HB 110





Marginal Tax Rates

Current law and HB 110

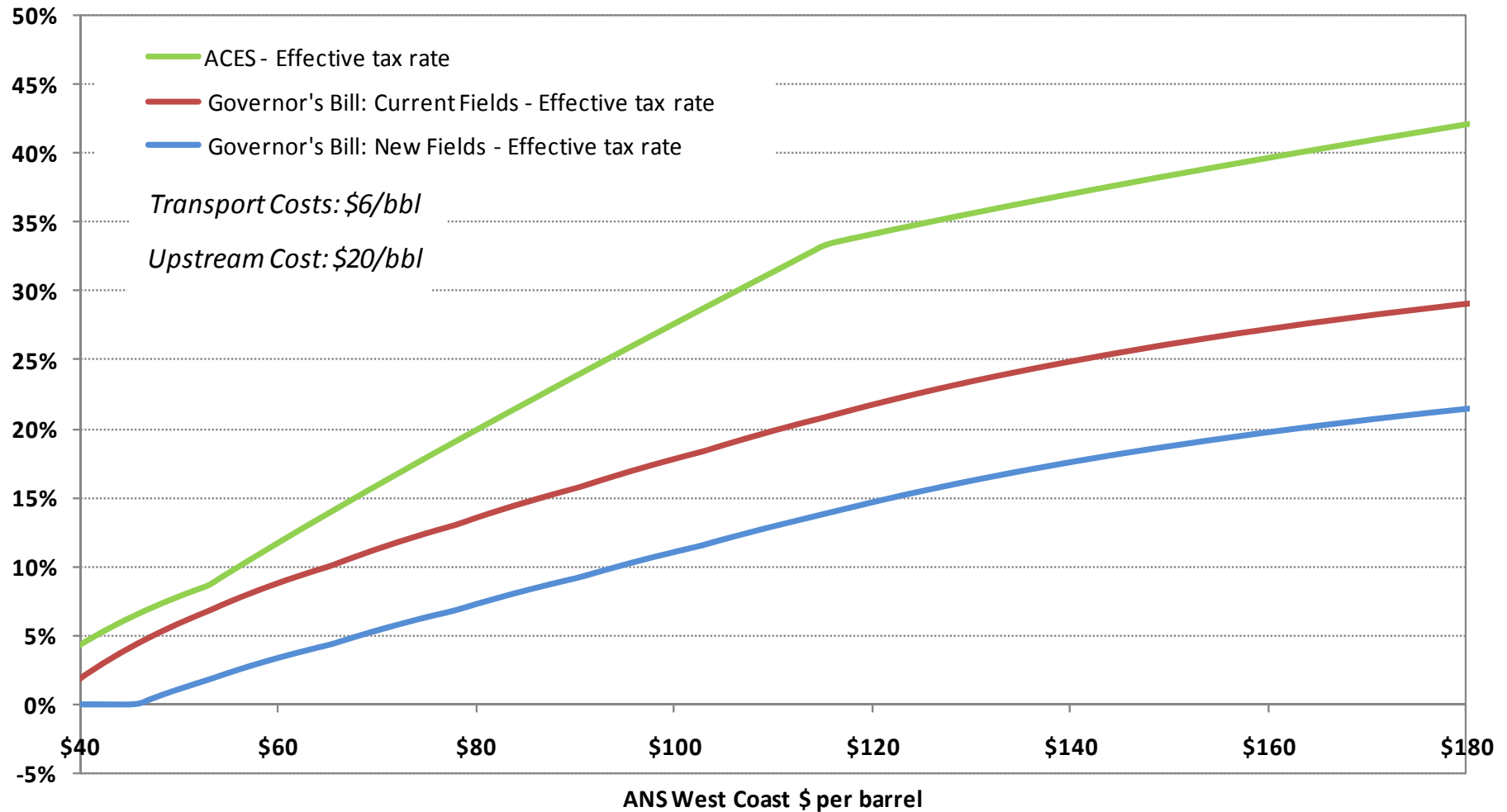




Effective Tax Rates on Gross Current law and HB 110

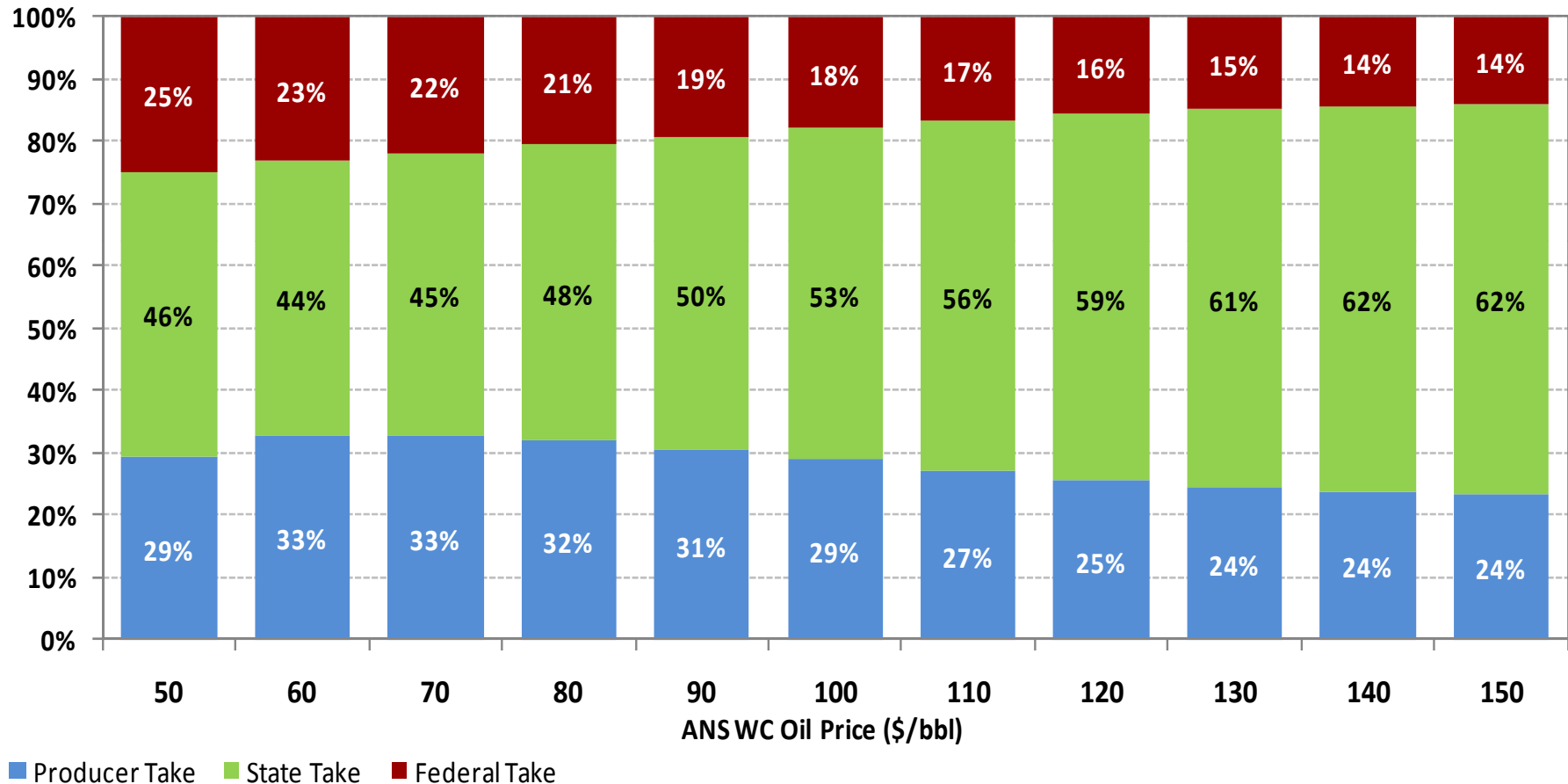


Effective Tax Rate based on Gross Value (After Credits)





Total CF split (2013 to 2040) under ACES at different oil prices for a the DOR Production Forecast



Assumptions:

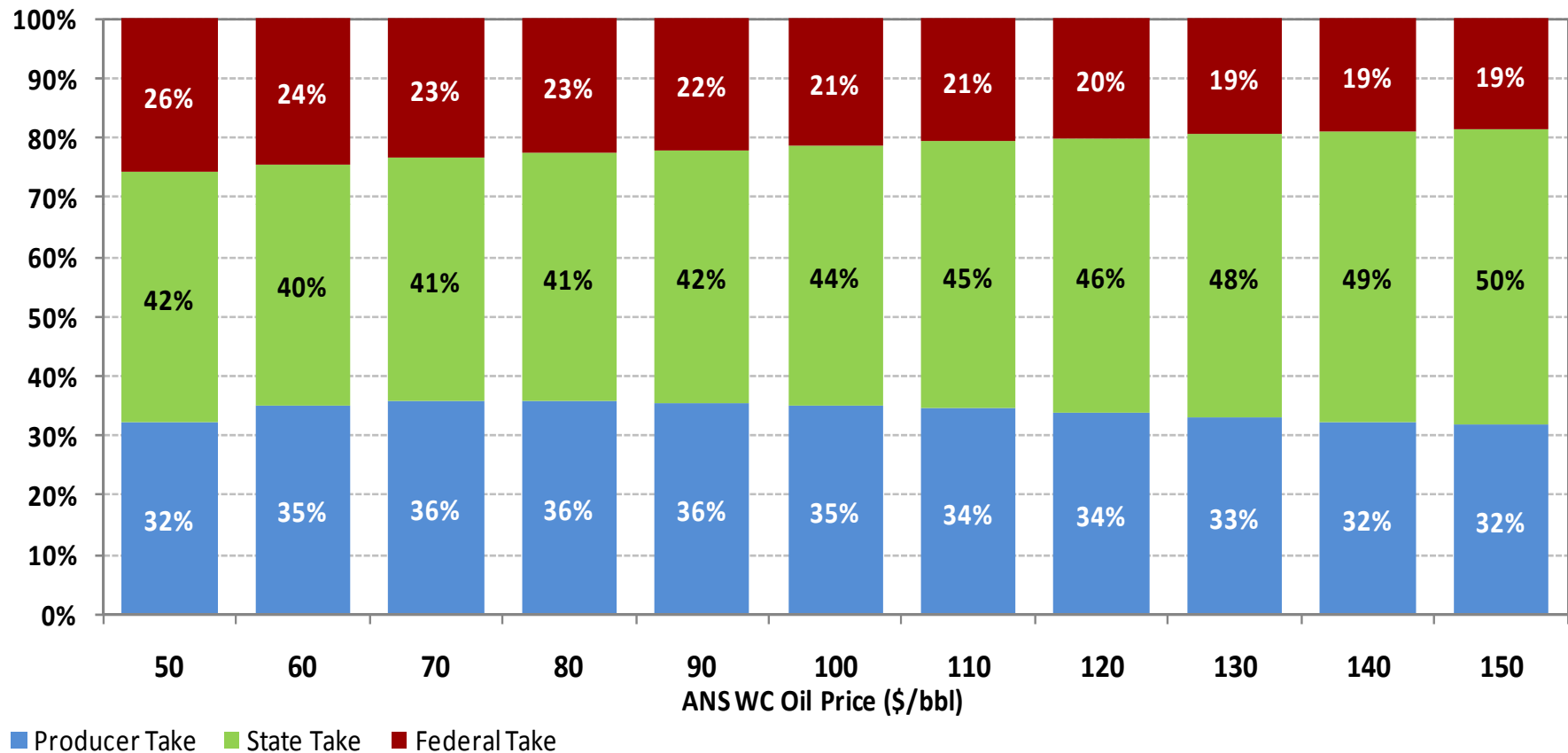
Production Forecast: DOR (Fall 2010) from 2013 to 2040

Price Forecast: Flat prices, and 0% escalation p.a.

OPEX and CAPEX inflation: 0% p.a.



Total CF split (2013 to 2040) under HB110 at different oil prices for a the DOR Production Forecast



Assumptions:

Production Forecast: DOR (Fall 2010) from 2013 to 2040

Price Forecast: Flat prices, and 0% escalation p.a.

OPEX and CAPEX inflation: 0% p.a.



HB 110

Bill Sectional



Bill Sectional



- **Sections 1-5:** AS 43.05.225 is amended to reduce interest rates on delinquent taxes and refunds.
 - New rate - federal rate plus 3% or 11 %, whichever is lower.
 - Current rate is federal rate plus 5% or 11%, whichever is higher.



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- **Section 6: Levy of tax.**
 - Rate is 25% + bracketed progressivity for oil and gas from current leases or properties.
 - Rate is 15% + bracketed progressivity for production from lease or property that had not been in a unit or in commercial production prior to Dec 31, 2010.
 - Progressivity would be levied on an annual, rather than a monthly, basis.



Bill Sectional



- **Section 7:** Lowers threshold prices for application of minimum tax.
- **Section 8:** Provides incremental, bracketed progressivity. The applicable progressivity rate applies only to the fraction of the production tax value that falls within the incremental rate. Maximum total tax rate is 50% for production subject to the 25% base rate. Maximum total tax rate is 40% for production subject to the 15% base rate.



Bill Sectional



- **Section 9:** Statute requiring monthly payments is revised to account for annual progressivity calculation and new tax rate for certain fields.
- **Section 10:** Conforming amendment for interest rate change.
- **Section 11:** Removes requirement that tax credits for qualified capital expenditures be taken over two years.
- **Section 12:** Provides that tax credit certificates will be issued as one certificate.



Bill Sectional



- **Sections 13-14:** Amendments to reflect interest rate change and relating to the issuance of well lease expenditure credit certificates.
- **Sections 15-16:** Expands the 40% well lease expenditure credit to qualified expenditures made on the North Slope.
- **Sections 17-18:** Conforming amendments.
- **Section 19:** Statute of limitations for production tax reduced from 6 years to 4 years, beginning with 2014 tax liability.



Bill Sectional



- **Section 20:** AS 43.55.160 amended to account for production subject to 15% tax rate and progressivity changes.
- **Sections 21-23:** Conforming amendments for interest rate change.
- **Section 24:** Repeals AS 43.55.023(m), since all capital credit certificates will be issued as one certificate.



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- **Section 25:** Applicability provision for clarification.
- **Section 26:** Provides DOR authority to adopt regulations to implement the bill.
- **Sections 27-30:** Effective date provisions.



HB 110 Effective Dates



7/1/2011:

Reduced interest rate for overpayment and underpayment of taxes.

1/1/2012:

Credits for expenditures made after this date can be used in one year .

40% Well Lease Expenditure credit extended to North Slope.

1/1/2013:

Annual progressivity, bracketed progressivity, 50% max rate.

Lower tax rate for new leases or properties.

Changes to minimum tax thresholds.

1/1/2014:

Statute of limitations for production tax changed from 6 years to 4 years.