ALASKA STATE LEGISLATURE

REPRESENTATIVE LES GARA

HB 133 Sponsor Statement:
Fair Share for Alaska Oil Act

This legislation aims to craft a balance between fairness for Alaskans and their Alaskan constitutional right to the maximum benefit for their resources, and oil industry fairness. There is no intention to reinstate the law SB 21 replaced (ACES), but instead the intent is to apply what we have learned about the benefits and flaws of our existing and prior oil tax systems. It's an effort to do what legislators should do - apply what we have learned rather than an effort to cheer for any prior oil tax law or current law.

The current law, as we have learned, includes some unanticipated flaws that were not obvious when it was passed at $100+/barrel oil prices. This legislation fixes those errors in a careful way, and the sponsor is open to discussion about how to make the bill better and fairer to all- especially at forecasted near term prices in the $50 - $80/barrel range over the next decade. It would result in additional projected revenue under a Department of Revenue draft analysis of $50 million in FY18, and $170-$180 million in FY19.

Current law also unfortunately imposes no oil production tax at all on any post 2003 field that is allowed a low tax under the law's "Gross Value Reduction" provisions. Those fields pay no oil production tax at all (0%) for seven years up to $70/barrel prices. Those are some of a field's most productive years. Low taxes when companies are not profitable are understandable. Non-existent production taxes when they are profitable shortchanges Alaskans.

Current law also imposes a scant 4% gross value tax on older and larger fields, no matter how profitable, up until prices of roughly $74/barrel. Alaska cannot prosper at these exceptionally low tax rates on profitable oil.

HB 133 fixes these things in a way that is fair to both industry and Alaskans. It keeps the current rule that a company pays the "greater of" the gross minimum tax or the law's profits tax. While SB 21 was advertised as having a 35% base profits tax, ACES had a 25% base profits tax, and the prior PPT law had a 22.5% base tax, current law profits tax rates are, at prices never anticipated during the debate on the existing law, far lower than legislators and the public knew. Under current law the "greater of" rule results in a very low profits tax on profitable GVR fields of .3% at $70/barrel; 7.9% at $80/barrel, and 12% at $90/barrel.

For older fields (which tend to be more profitable- like Prudhoe Bay) those profit tax rates, also very low, are 12%, 9%, and 13% at rising prices of $70, $80, and $90 per barrel respectively.

HB 133 makes the following material fixes:

Price and Profits Sensitive Gross Minimum Tax: When the gross minimum tax is greater than the profits tax, the bill makes the rate price and profits sensitive, and raises the 4% minimum tax to 5% at $50/barrel, 6% at $58/barrel, and for every $8 dollar increase in the price of oil, 1% higher until it reaches a cap of 10% at $90/barrel. For example, North Dakota law (as it read in February 2017), charges a flat 10% gross tax at all prices- no matter how low or unprofitable a field is. An additional percent is also added at about $85-$90/barrel. This in part explains why Alaska traditionally, as in 2016, is ConocoPhillips' highest profit region in North America. The minimum tax floor is made real under this bill (companies have to pay the minimum tax, and can't use credits to take their taxes down to 0% or effectively lower as under current law). The North Dakota high flat tax likely guarantees company losses at prices in the current price range and below for most companies' disincentives.

Heavy Oil: The gross minimum tax rate is half that amount above 4% for more challenging heavy oil.

Reasonable Minimum Profits Tax Rate and Windfall Profits Share: The law also says when the profits tax is "greater than" the gross minimum tax, it can be no lower than 22.5%. It contains a more conservative windfall profits tax surcharge when companies make profits in excess of $40/barrel on a barrel of oil at high prices so that Alaskans can share in company windfall profits.

The bill changes the GVR tax reduction from 7 years, or 3 years at $70/barrel, to 5 years or 3 years of $70/barrel, a generous and more reasonable tax break. It also eliminates a special additional tax reduction for fields that bidders saw as so profitable that they agreed to a contractual royalty with the state of more than the normal 12.5% rate. Those higher profit fields should not have been given an additional tax break.

Tax credits are not altered in this bill, leaving that discussion for House Bill 111. Please feel free to let us know if you have any questions.

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