



THE STATE
of **ALASKA**
GOVERNOR MICHAEL J. DUNLEAVY

Department of Revenue

COMMISSIONER'S OFFICE

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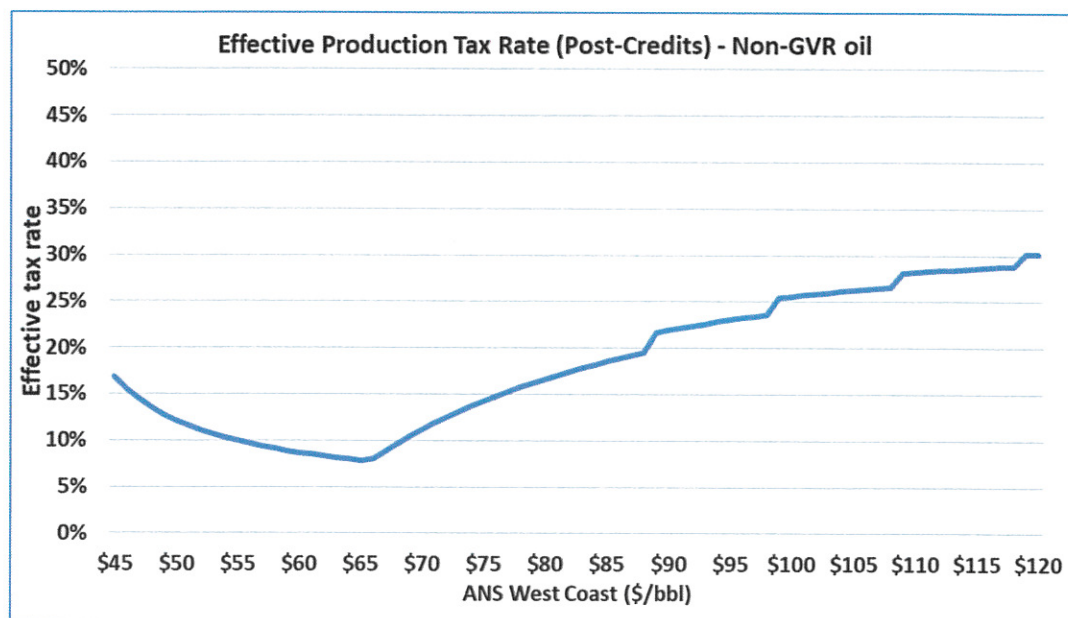
February 25, 2019

Dear Members of the House:

The purpose of this letter is to provide you with responses to the questions asked of the Department of Revenue (DOR) regarding the Indirect Expenditure Report presentation on February 8, 2019. Please see the questions in italics and our responses immediately below the questions.

1. *What is the actual effective tax rate of oil & gas production tax?*

The following chart shows estimated effective production tax rates, based on share of production tax value (PTV), at a range of prices. This calculation represents the average estimated effective net tax rate (tax after credits divided by PTV) for North Slope oil not eligible for Gross Value Reduction (GVR) for FY 2020. At the forecast price of \$64 per barrel, the effective tax rate is estimated at approximately 8%.



It should be noted that the graph above only represents the production tax. Oil companies also pay royalties, corporate income taxes, and property taxes.

2. *Provide information on total oil & gas revenue coming to the state contrasted with how much the state provides in credits to oil & gas industry. Also address correlation between oil & gas state tax credits and increased industry spending, employment and production.*

For FY 2020, total Alaska oil production is estimated to be 544,800 barrels per day, of which 533,200 is attributable to the North Slope. At an average price of \$64 per day, subtracting transportation costs, the gross value of that oil is estimated to be nearly \$11 billion. Nearly \$1.3 billion of that money will flow to the state as royalty.

The top-line tax amount is 35% of the gross value of production, which would work out to nearly \$3.5 billion. However, in determining a company's tax liability, producers deduct royalties and the costs of production.

Total statewide oil and gas lease expenditures (company investment) is estimated to be over \$5.8 billion in FY 2020. A 10-year history and forecast can be found on pages 139-140 of the Fall 2018 Revenue Sources Book. Applying the tax rate to the taxable value reduces that number to about \$1.6 billion.

The company is also allowed to deduct a fixed dollar amount per barrel of taxable oil to arrive at its net tax liability. While this is technically a "credit," because it is applied after the tax rate rather than before it, it is not a payment to the company. These credits should not be confused with the tax credits that can be carried forward, transferred to other taxpayers, or purchased by the State.

We estimate the bottom-line, total net production tax liability will be \$479 million in FY20, once all deductions are made.

There are estimated to be \$732 million of remaining transferable credits available for state purchase and/or bonding (attributable to activity in prior years).

For FY 2020, the state is estimated to receive another \$210 million in corporate income tax and \$119 million in property tax from oil companies, bringing the total petroleum related revenue to over \$2.2 billion. The companies will also pay over \$400 million in property taxes to municipalities and are estimated to pay over \$700 million in corporate income taxes to the Federal government, attributable to activity in Alaska.

According to the Alaska Department of Labor, direct employment in the oil & gas industry in December 2018, the most recent data available, was 9,300 jobs.

Directionally, it is likely that production tax credits have some positive impact on production, spending, and employment. However assigning an exact value is not possible with accuracy. Furthermore, it should be reiterated that many of the tax credits were adopted as an integral part of the tax calculation as opposed to being true tax credits. For example, the per-taxable-barrel credits were adopted in part to provide an element of progressivity to the tax system.

3. *Provide information regarding the Alaska Film Production Credit, specifically, the balance of credits still to be applied against a tax liability and the dates related to credit expiration.*

There were 140 film credits issued throughout the Alaska Film Credit program's history, 20 have not been used. The accrued liability for the 20 film credits that have not been used against a tax is \$5.3 million.

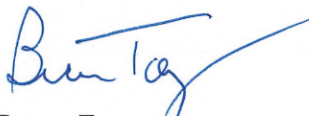
The film production tax credit program was repealed with SB39 effective 7/1/2015. At that point the Department of Revenue stopped accepting any new qualifying credit applications, however any productions that were still producing had 3 years to turn in their paperwork and apply for a final film credit.

There is nothing left in the program. The last credit was issued in June of 2017.

At the time of issue each film tax credit entered a 6-year expiration period. For example, the last credit issued in June of 2017 will expire in June of 2023. For some tax types, including corporate income tax, it is possible that a taxpayer may not file its 2023 return until October 2024. This same rule applies to all credits.

I hope you find this information to be useful. Please do not hesitate to contact me if you have further questions.

Sincerely,

A handwritten signature in blue ink, appearing to read "Bruce Tangeman", with a long horizontal flourish extending to the right.

Bruce Tangeman,
Commissioner