

# Oil and Gas Tax Revenue Overview

## House Resources Committee

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Department of Revenue

April 21, 2021

# Agenda

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1. Oil and Gas Revenue Tax Sources
  - Property Tax Overview
  - Production Tax Overview
  - Corporate Income Tax Overview
2. Oil and Gas Total Revenues



# Oil and Gas Fiscal System: Overall Order of Operations

Royalties (State, Federal, or Private Landowner)



Property Tax



Production Tax



State Corporate Income Tax



Federal Corporate Income Tax



# Oil and Gas Property Tax



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## Oil and Gas Revenues: Property Tax

- Based on assessed value of oil and gas property
- State tax rate is 2% (20 mills) of assessed value
- Municipalities can levy property taxes at same rate it taxes all non-oil and gas property
  - Taxes paid to municipalities acts as credit towards tax due to state
  - Municipalities receive large majority of total revenue
- Governing Statute AS 43.56; Regulations 15 AAC 56.005-.900



# Oil and Gas Revenues: Property Tax Distribution, FY2020

Taxing Jurisdiction	Millions of Dollars			Local Effective Mill Rate
	Gross Tax	Local Share	State Share	
Unorganized	61.9	0.0	61.9	N/A
North Slope Borough	431.3	387.9	43.3	17.99
Fairbanks North Star Borough	14.4	12.3	2.1	17.09 <sup>2</sup>
Municipality of Anchorage	3.0	2.6	0.4	17.10
Kenai Peninsula Borough	29.9	14.8	15.1	9.89 <sup>2</sup>
City of Valdez	39.0	39.0	0.0	20.00
Matanuska-Susitna Borough	0.2	0.1	0.1	11.66 <sup>2</sup>
City of Whittier	0.0	0.0	0.0	8.00
City of Cordova	0.2	0.1	0.1	11.08
<b>Total FY 2020</b>	<b>579.8</b>	<b>456.8</b>	<b>123.0</b>	



<sup>2</sup> The Fairbanks North Star Borough, Kenai Peninsula Borough, and Matanuska-Susitna Borough do not have a uniform mill rate for petroleum properties. The rate presented here is the weighted-average effective mill rate based on the 2020 certified tax roll.

# Oil and Gas Production Tax



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## Oil and Gas Revenues: Production Tax

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- Assessed on taxable barrels of oil and gas
- Taxed at segment level
  - All North Slope one segment
  - Cook Inlet fields are each separate segments
- Governing Statute AS 43.55; Regulations 15 AAC 55.010-.900





# Oil and Gas Revenues: Production Tax Calculation Example

## Example Scenario:

- \$65 ANS Oil Price
- 10 million barrels / year
- 12.5% state royalty
- legacy field

	Barrels	Value
Total Annual Production / Value	10,000,000	\$ 650,000,000
Less: Royalty Barrels	1,250,000	\$ 81,250,000
Total Taxable Barrels / Value	8,750,000	\$ 568,750,000
Less: Transportation Costs (\$10/bbl)		\$ 87,500,000
Gross Value at Point of Production (GVPP)		\$ 481,250,000
Less: Lease Expenditures (\$25/bbl)		\$ 201,250,000
Production Tax Value (PTV)		\$ 280,000,000
Gross Minimum Tax (4% of GVPP)		\$ 19,250,000
Net Production Tax (35% of PTV)		\$ 98,000,000
Higher of minimum or net tax		\$ 98,000,000
Less: Per Barrel Credits (\$8/bbl)		\$ 70,000,000
<b>Total Tax after Credits</b>		<b>\$ 28,000,000</b>



# Oil and Gas Corporate Income Tax

## Oil and Gas Revenues: Corporate Income Taxable Entities

- Generally, Alaska follows the Internal Revenue Code when determining an entity's taxable status.
- Applies to C-Corporations only



## Oil and Gas Revenues: Corporate Income Tax

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- AS 43.19 – Multistate Tax Compact (MTC)
  - Regulations 15 AAC 19.011-.1490
- AS 43.20 – Alaska Net Income Tax Act (ANITA)
  - Regulations 15 AAC 20.010-.920
- 26 U.S.C. 1 – 1399 and 6001 – 7872
  - Adopted, as amended, by reference in AS 43.20.021(a)



# Oil and Gas Revenues: Corporate Income Tax Calculation Example

## Example Scenario:

- C-Corporation
- \$500 million federal taxable income
- 5% of income apportionable to Alaska

Apportionable Income	\$ 500,000,000
Alaska Apportionment Factor (%)	5%
Alaska Income	\$ 25,000,000
Less: NOL Deductions	\$ 3,000,000
Alaska Net Taxable Income	\$ 22,000,000
Corporate Income Tax Rate (max is 9.4%)*	\$ 2,057,962
Less: Alaska Tax Credits	\$ 500,000
<b>Alaska Tax Liability</b>	<b>\$ 1,557,962</b>

\* Under Alaska law, when the taxable income is over \$222,000, the tax is \$10,830 plus 9.4% of the taxable income above \$222,000.





## Oil and Gas Revenues: Corporate Income Tax Apportionable Income

Oil & Gas C-Corporations use the “Worldwide Reporting Method” under AS 43.20.144(b) to determine their unitary combined groups and their apportionable income.



# Oil and Gas Revenues: Corporate Income Tax Apportionment Factor

$$\frac{\text{Alaska Property}}{\text{Worldwide Property}} + \frac{\text{Alaska Sales (Tariffs)}}{\text{Worldwide Sales}} + \frac{\text{Alaska Extraction}}{\text{Worldwide Extraction}} \rightarrow$$

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Three

 = Alaska Apportionment Factor



## Oil and Gas Revenues: Corporate Income Tax Net Operating Losses

- Prior to 2017, NOLs could be carried back two years and forward 20 years.
- Tax Cut and Jobs Act (TCJA) limited the ability of corporations to carry back NOLs.
- CARES Act, Section 2303, reversed the TCJA treatment of NOLs arising in 2018, 2019, and 2020 to provide stimulus and cash infusion to economy.
  - Change was to the timing of when these can be applied not to the value of the NOLs
  - Can be carried back five years
  - Applies to losses in tax years 2018, 2019, and 2020 only.



# Oil and Gas Revenues: Corporate Income Tax Rates

Corporate Income Tax	
<u>Taxable Income</u>	<u>Marginal Tax Rate</u>
\$0-\$25,000	0.00%
\$25,000-\$49,000	2.00%
\$49,000-\$74,000	3.00%
\$74,000-\$99,000	4.00%
\$99,000-\$124,000	5.00%
\$124,000-\$148,000	6.00%
\$148,000-\$173,000	7.00%
\$173,000-\$198,000	8.00%
\$198,000-\$222,000	9.00%
\$222,000 +	9.40%



## Oil and Gas Revenues: Corporate Income Tax Credits

- AS 43.20.014 – Education Credit
- AS 43.20.021, AS 43.20.036(b), (c), (j) – Internal Revenue Code Credits
- AS 43.20.044 – Exploration Credits
- AS 43.20.048 – Veteran Employment Tax Credit
- AS 43.20.049 – Qualified Oil and Gas Service Industry Expenditure Credit
- AS 43.20.052 – Credit for the In-State Manufacture of Urea, Ammonia, or Gas-to-Liquid Products





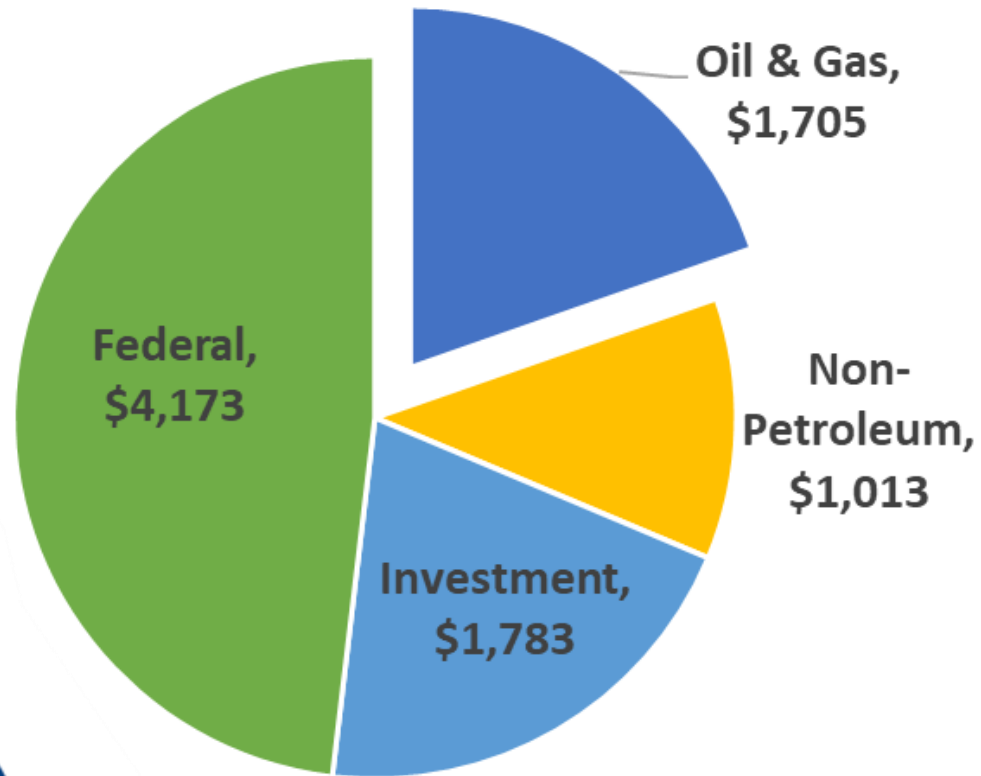
# Oil and Gas Revenues



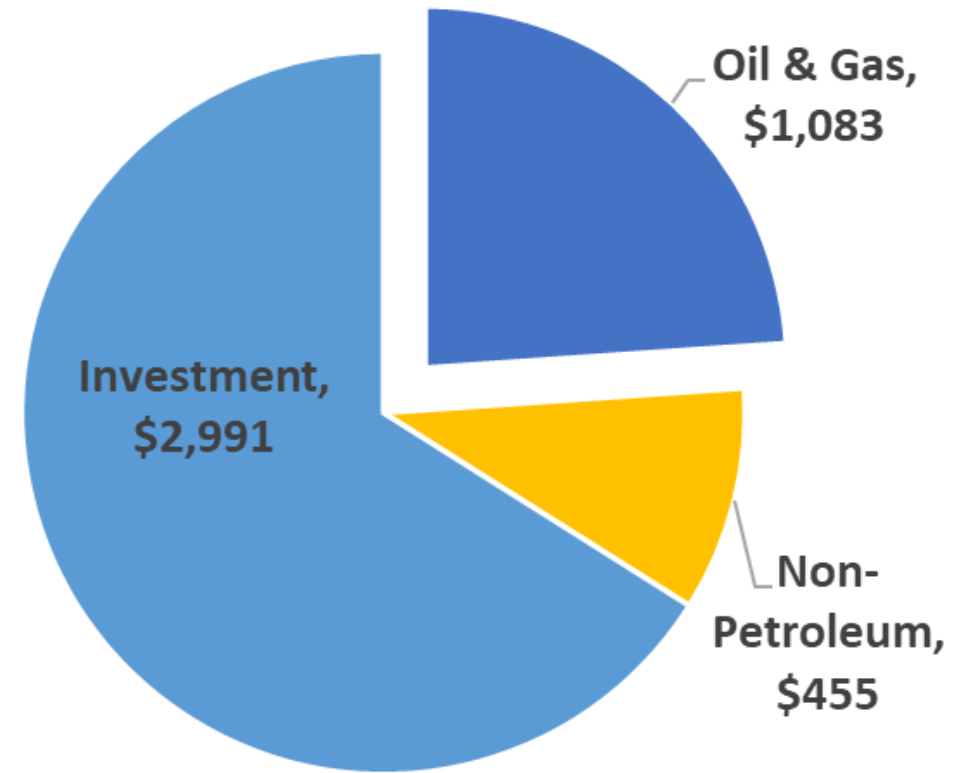
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# Total State Revenue

FY 2020 Total State Revenue by Source, \$ millions



FY 2020 Unrestricted General Fund Revenue by Source, \$ millions



# Oil and Gas Revenue Sources: Five-Year Comparison of State Revenue

	History	History	Current Year	Forecast	Forecast
	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023
<b>ANS oil price (\$/bbl)</b>	\$ 69.46	\$ 52.12	\$ 53.05	\$ 61.00	\$ 62.00
<b>ANS production (ths bbl/ day)</b>	495.0	471.8	482.0	459.7	476.6
<b>Property Tax*</b>	\$ 120	\$ 123	\$ 122	\$ 115	\$ 112
<b>Corporate Income Tax</b>	\$ 218	\$ (0)	\$ 25	\$ 25	\$ 110
<b>Production Tax</b>	\$ 596	\$ 285	\$ 311	\$ 376	\$ 384
<b>Royalties</b>	\$ 1,493	\$ 999	\$ 1,020	\$ 1,108	\$ 1,151
<b>CBRF Settlements</b>	\$ 181	\$ 281	\$ 40	\$ 45	\$ 15
<b>NPR-A Shared revenue</b>	\$ 12	\$ 16	\$ 11	\$ 14	\$ 41
<b>Total</b>	<b>\$ 2,620</b>	<b>\$ 1,705</b>	<b>\$ 1,529</b>	<b>\$ 1,683</b>	<b>\$ 1,813</b>

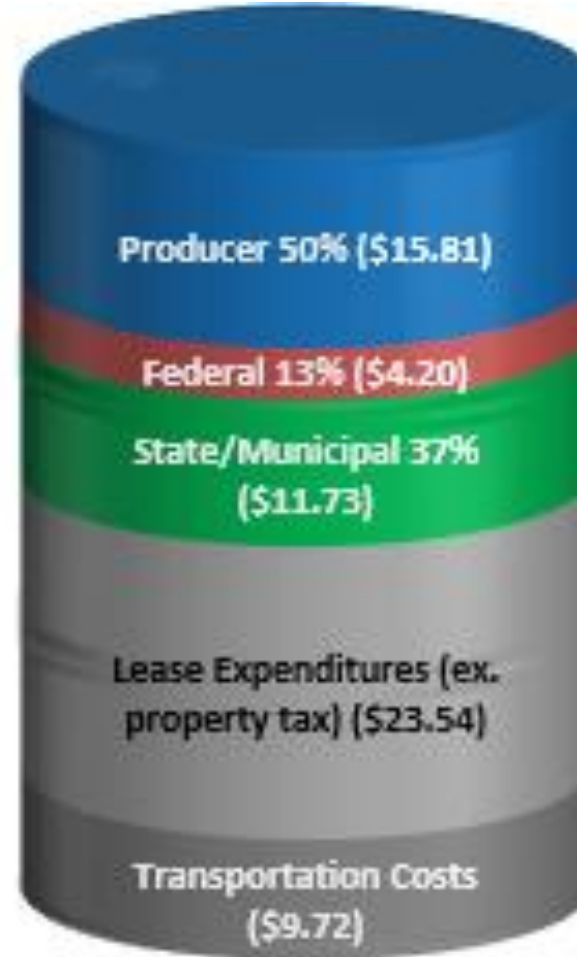
Revenue amounts in \$ millions. \*Property Tax does not include municipal share.



# Oil and Gas Revenue Sources: Share of Profits per Barrel of Oil

## Example Scenario:

- \$65 ANS Oil Price
  - Spring 2021 Forecast
- Assumptions for FY 2022
- 12.5% state royalty
  - legacy field



This model is a simplified and aggregated one-year illustration of government take.  
Numbers may not add exactly due to rounding.

# THANK YOU

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# Appendix

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# State Petroleum Revenue by Land Type

Land Lease Status	Revenue Component			
	Production Tax /	Royalty	Corporate Income Tax	Property Tax
<b>Offshore beyond 6 miles Federal OCS</b>	Does not apply	Federal royalties applies; zero shared back to state (in Alaska; other states do receive shared royalties)	Not included in apportionment factor	Does not apply
<b>Offshore 3-6 miles Federal OCS 8(g) area</b>	Does not apply	Federal royalties applies; 27% shared back to state with no restrictions	Not included in apportionment factor	Does not apply
<b>State Lands</b>	All credits available; tax applies to all taxable production	State royalty applies	All property, production, and sales included in apportionment factor	Applies to all oil and gas property
<b>NPR-A Federal owned</b>	All credits available; tax applies to all taxable production	Federal royalty applies; 50% of royalties are shared back to state but must be used for benefit of local communities	All property, production, and sales included in apportionment factor	Applies to all oil and gas property
<b>ANWR Federal owned</b>	All credits available; tax applies to all taxable production	Federal royalty applies; 50% shared back to state with no restrictions (under current law)*	All property, production, and sales included in apportionment factor	Applies to all oil and gas property
<b>Other Federal Land</b>	All credits available; tax applies to all taxable production	Federal royalties applies; 90% shared back to state with no restrictions	All property, production, and sales included in apportionment factor	Applies to all oil and gas property
<b>Private Land (including Alaska Native Corporations)</b>	All credits available; tax applies to all taxable production	Privately negotiated royalty applies; not shared with state. However state levies 5% gross tax on the value of private landowner royalty interest as part of production tax	All property, production, and sales included in apportionment factor	Applies to all oil and gas property

