

# **Sources of Alaska Oil and Gas Government Revenue**

Alaska Oil & Gas Association

*AOGA Educational Seminar*

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# Major Sources Oil & Gas Revenues

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**Four continuous sources of oil and gas tax revenues**

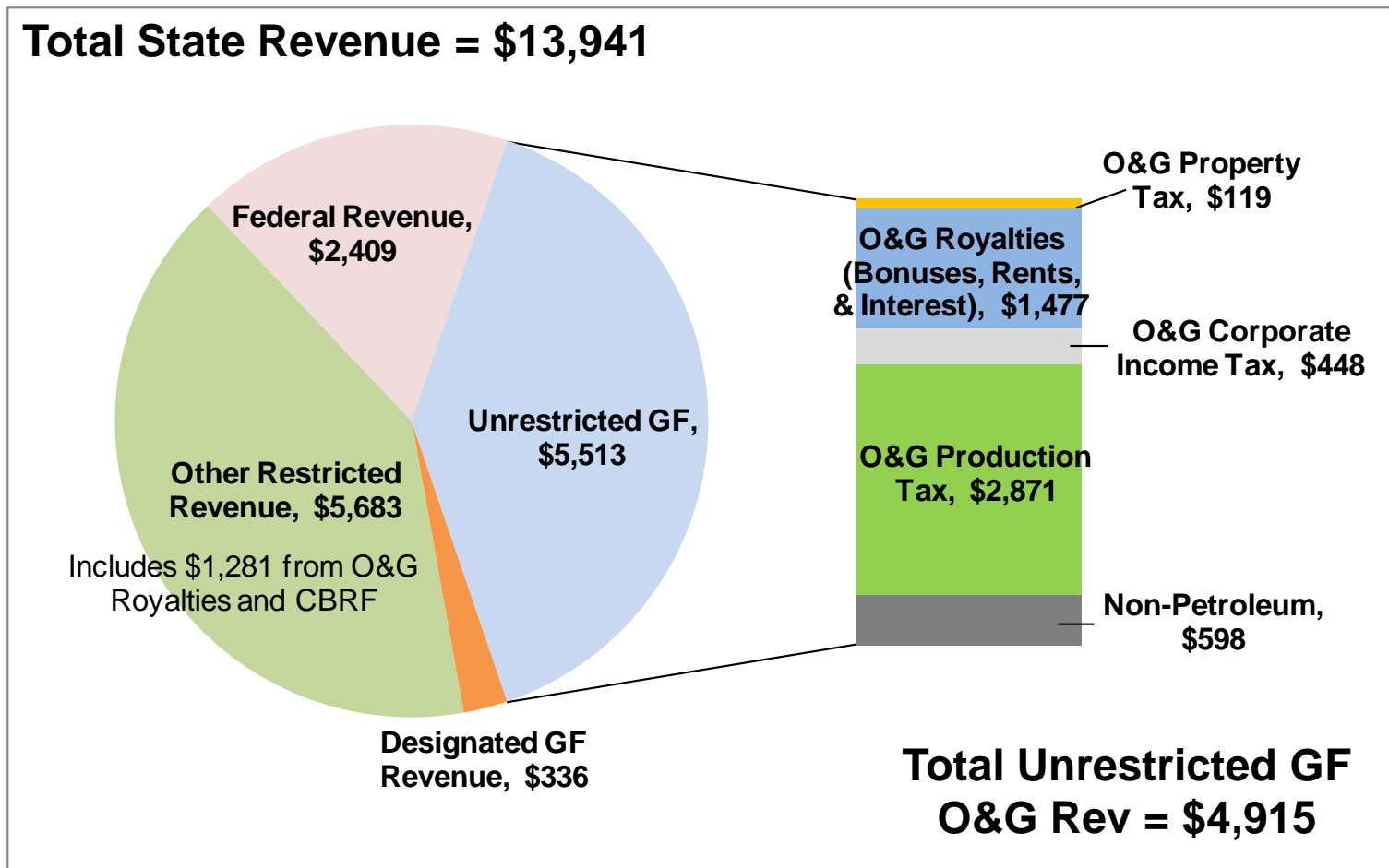
- **Royalty**
- **Corporate Income Taxes**
- **Property Taxes**
- **Production (Severance) Taxes (PPT/ ACES)**

**Non-continuous source of oil and gas tax revenue**

- **Bonuses**

# Total State Revenue by Major Component, 2010

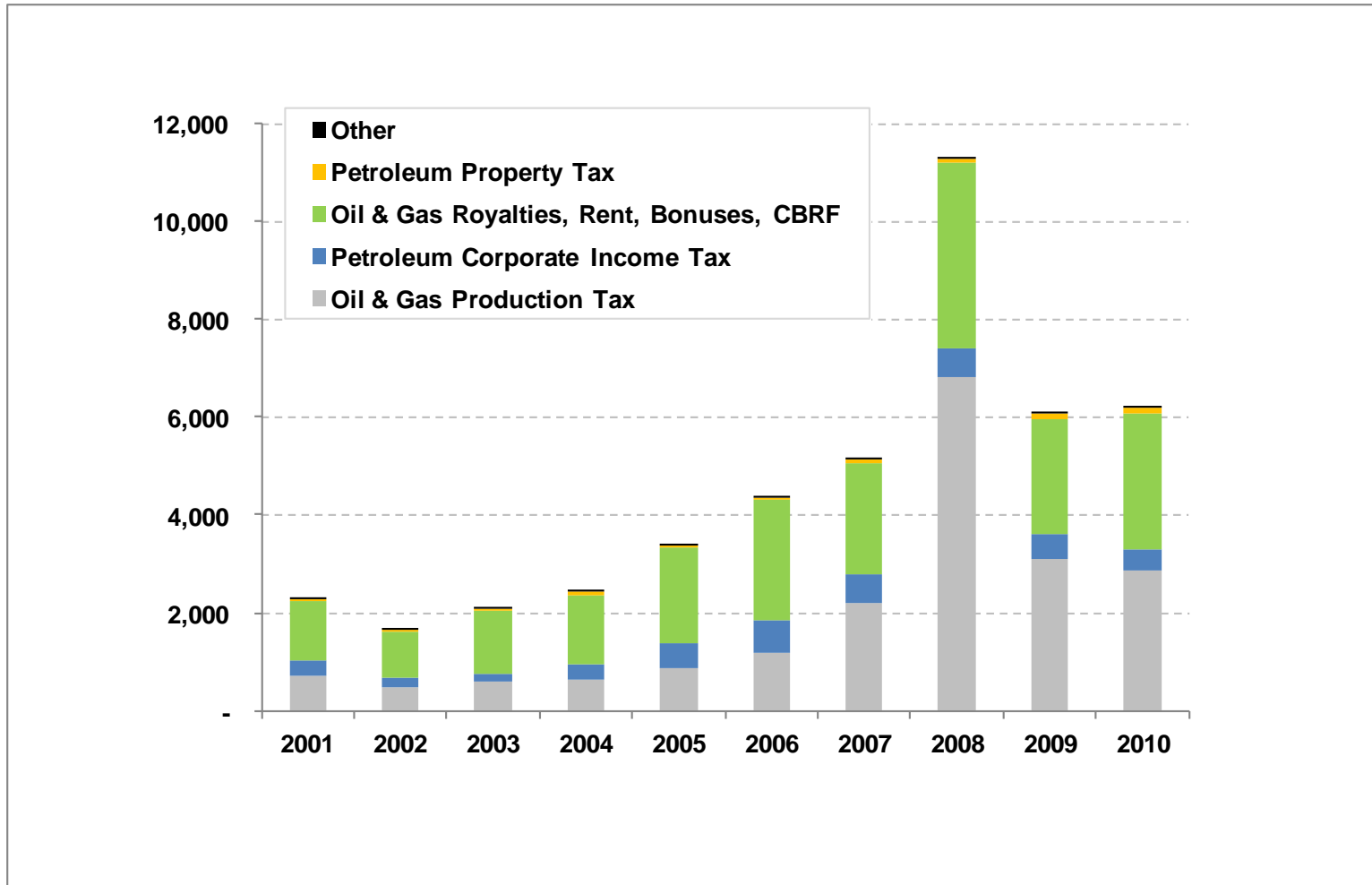
(\$ Millions)



Source: Alaska Department of Revenue, *Fall 2010 Revenue Sources Book*.

# Oil & Gas Revenues, 2001-10

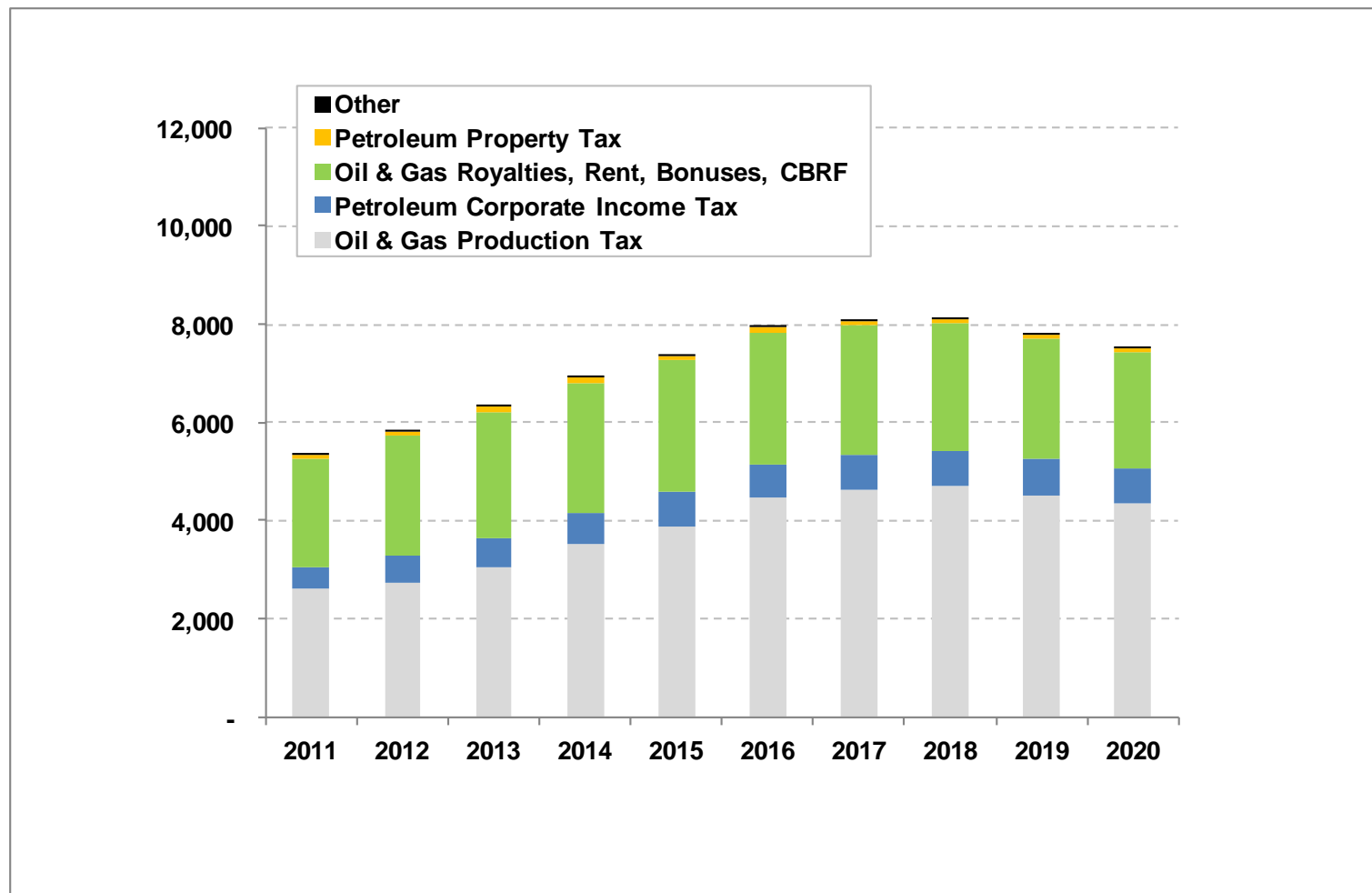
(Restricted and Unrestricted Oil and Gas Revenue, \$ Millions)



Source: Alaska Department of Revenue, *Fall 2010 Revenue Sources Book*.

# Oil & Gas Revenues, 2011-20

(Restricted and Unrestricted Oil and Gas Revenue, \$ Millions)



Source: Alaska Department of Revenue, *Fall 2010 Revenue Sources Book*.

# Bonus Proceeds

- **Not a tax**
- **Upfront cash payment made for exclusive right to enter onto a property and explore for oil or gas**
- **Most common bid variable used under Alaska Leasing Law**
- **Alaska has held over 50 major North Slope and Beaufort Sea Lease Sales since December 1964**
  - **Over 10 million acres leased**
  - **\$1.9 B in Bonus Bid proceeds received; Over \$6 B in current dollars**
- **Permanent Fund created in 1977 - minimum of 25% of all bonus payments deposited into the Permanent Fund**

# Royalty – Part 1

- **State, as landowner, has right to enter into lease contracts to conduct oil and gas exploration -- Alaska Lands Act of 1958**
- **Building blocks of the lease contract:**
  - Oil company obtains the right to use land for oil and gas purposes, and
  - State of AK, as Landowner, receives percentage of production
  - Most North Slope leases require 1/8 royalty, but terms can vary - Some newer leases have higher rates/ sliding scale/ profit share leases
  - Terms fixed by contract, neither party can unilaterally alter
- **Royalty obligation is contractual; does not arise out of State's sovereign right to levy and collect taxes**
- **Landowner has two ways to receive royalty:**
  - Royalty in Kind (RIK) - receive physical oil/gas
  - Royalty in Value (RIV) - receive money
    - Value measured at point of production
- **AK Constitution requires 25% mineral lease rentals, royalties and royalty sale (including Fed) proceeds to Perm Fund**

# Royalty Sources – Part 2

- **State owned land - state royalties - exempt from taxes; balance of production subject to all applicable state taxes**
- **Federally owned land within state - federal royalties - exempt from state taxes; balance of production subject to all applicable state taxes**
  - Mineral Leasing Act has 90/10% State/ Federal Revenue-Sharing split
  - Separate 50/50% arrangement NPR-A
  - ANWR is uncertain 90/10% vs 50/50%
- **Federally owned land not within state (OCS) - federal royalties -exempt from state taxation; balance of production also exempt**
  - S 1560 (Sen. Begich) provides for 37.5/62.5% split like GOM states
  - \$9 B bonus proceeds so far, Alaska Federal OCS
- **Privately owned land in state - private royalties - subject to special production tax rates; balance of production subject to all applicable state taxes**

# Corporate Income Taxes – Part 1

- All corporate entities in Alaska pay income tax
- Apportionment methodology to determine Alaska slice of income “pie”
- Non-oil and gas taxpayers
  - Based on Water’s Edge income (US boundaries)
  - Apportionment formula :

*Alaska Taxable Income = U.S. Taxable Income ×*

$$\left\{ \frac{AK Prop}{U.S. Prop} + \frac{AK Sales}{U.S. Sales} + \frac{AK Payroll}{U.S. Payroll} \right\} \times \frac{1}{3}$$

# Corporate Income Taxes – Part 2

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## Tax rate:

- 1% of first \$10,000
- 2% on second \$10,000
- “ “
- “ “
- 9% on ninth \$10,000
- 9.4% on amount above \$90,000

# Corporate Income Taxes – Part 3

- Oil and gas taxpayers
- Tax is basically the same except for two major differences:
  - World-wide income subject to tax, not just water's edge
  - Payroll factor replaced by production factor
  - Apportionment formula :

*Alaska Taxable Income = Worldwide Taxable Income ×*

$$\left\{ \frac{AK Prop}{WW Prop} + \frac{AK Sales}{WW Sales} + \frac{AK Production}{WW Production} \right\} \times \frac{1}{3}$$

# Property Taxes – Part 1

- **Similar to taxes paid by homeowners**
- **Methodology varies depending on type of oil and gas property**
  - **Exploration Property (1% of 2008 tax role)** - sales value, prevailing market conditions, between willing buyer and seller
  - **Production Property (~2/3 of 2008 tax role)** - replacement cost new, less depreciation based on economic life of proven reserves
  - **Pipeline Property (~1/3 of 2008 tax role)** – Replacement cost new less depreciation based on estimated economic life of reserves; Income method (net present worth of future income stream) also used; Sales value considered when data available
- **Tax rate equals 20 mills or 2% of assessed value**
  - **A local Borough and City tax is levied on State's assessed value subject to limitations under AS 29.45**
  - **The State's effective mill rate is 20 mills minus the local rate.**

# Property Taxes – Part 2

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- **Not a self–assessed tax**
- **Assessments and payments on yearly basis**
- **Industry and municipalities are both interested parties**
- **Both sides can appeal to State Assessment Review Board**
  
- **Municipality portion creditable against total State property tax due**



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