Sources of Alaska Oil and Gas Government Revenue

Alaska Oil & Gas Association

AOGA Educational Seminar

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Major Sources Oil & Gas Revenues

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**

Quiz! Major Sources Oil & Gas Revenues

Can You Match Labels with Slices?

Petroleum Corporate Income Tax

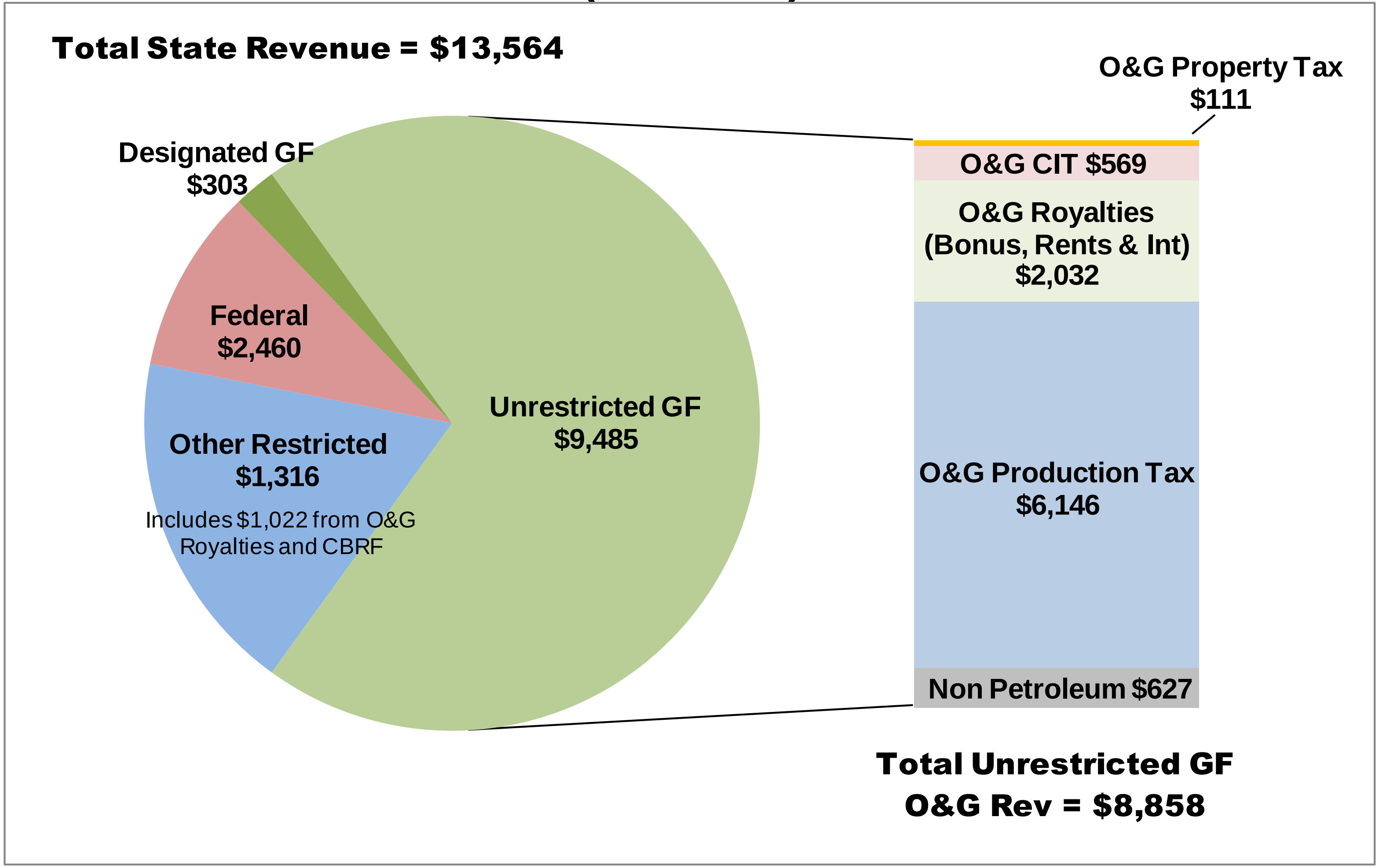
Oil & Gas Royalties

Oil & Gas Production Tax

Petroleum Property Tax

Total State Revenue by Major Component, 2012

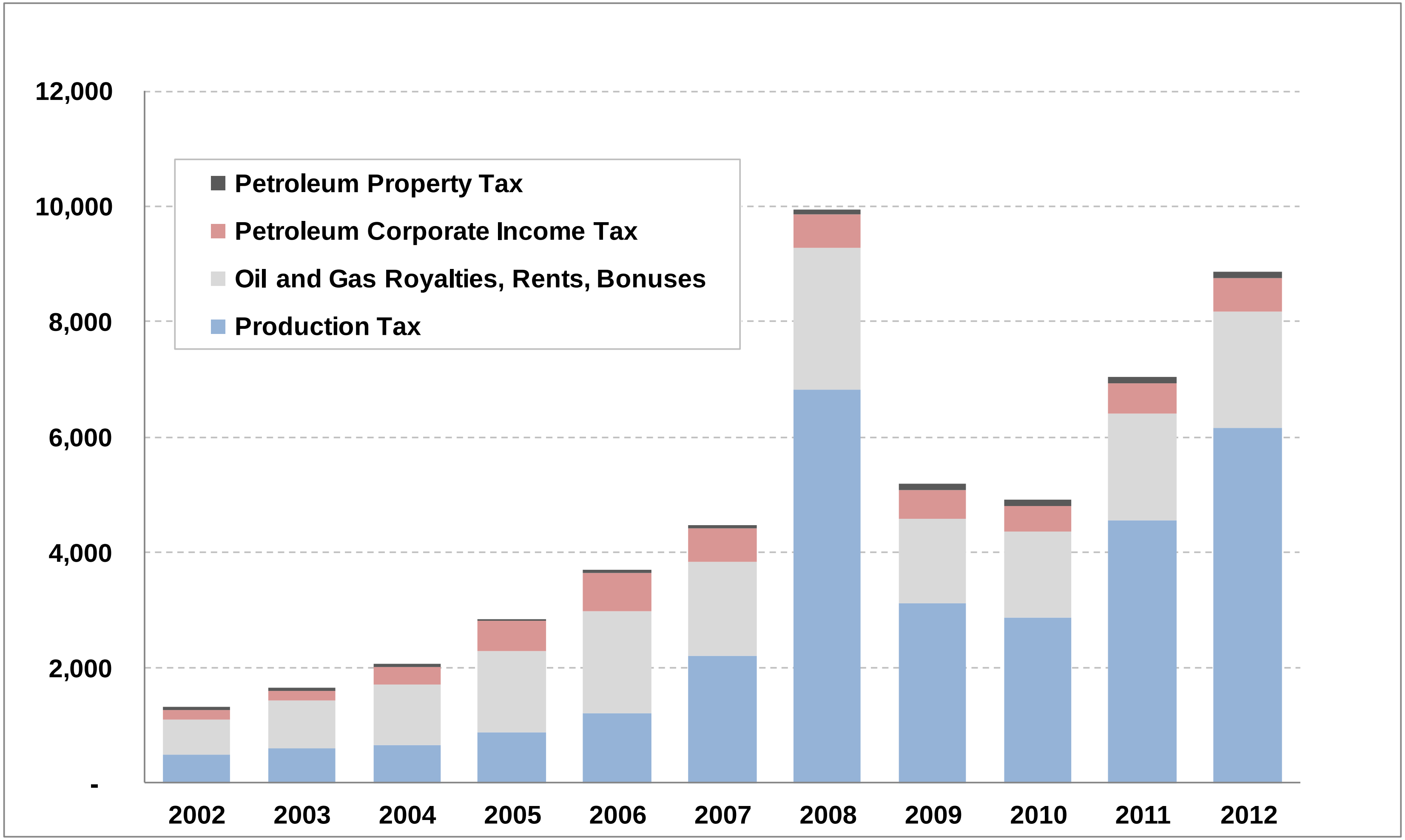
($ Millions)



Source: Alaska Department of Revenue, *Fall 2012 Revenue Sources Book*.

Oil & Gas Revenues, FY 2002-12

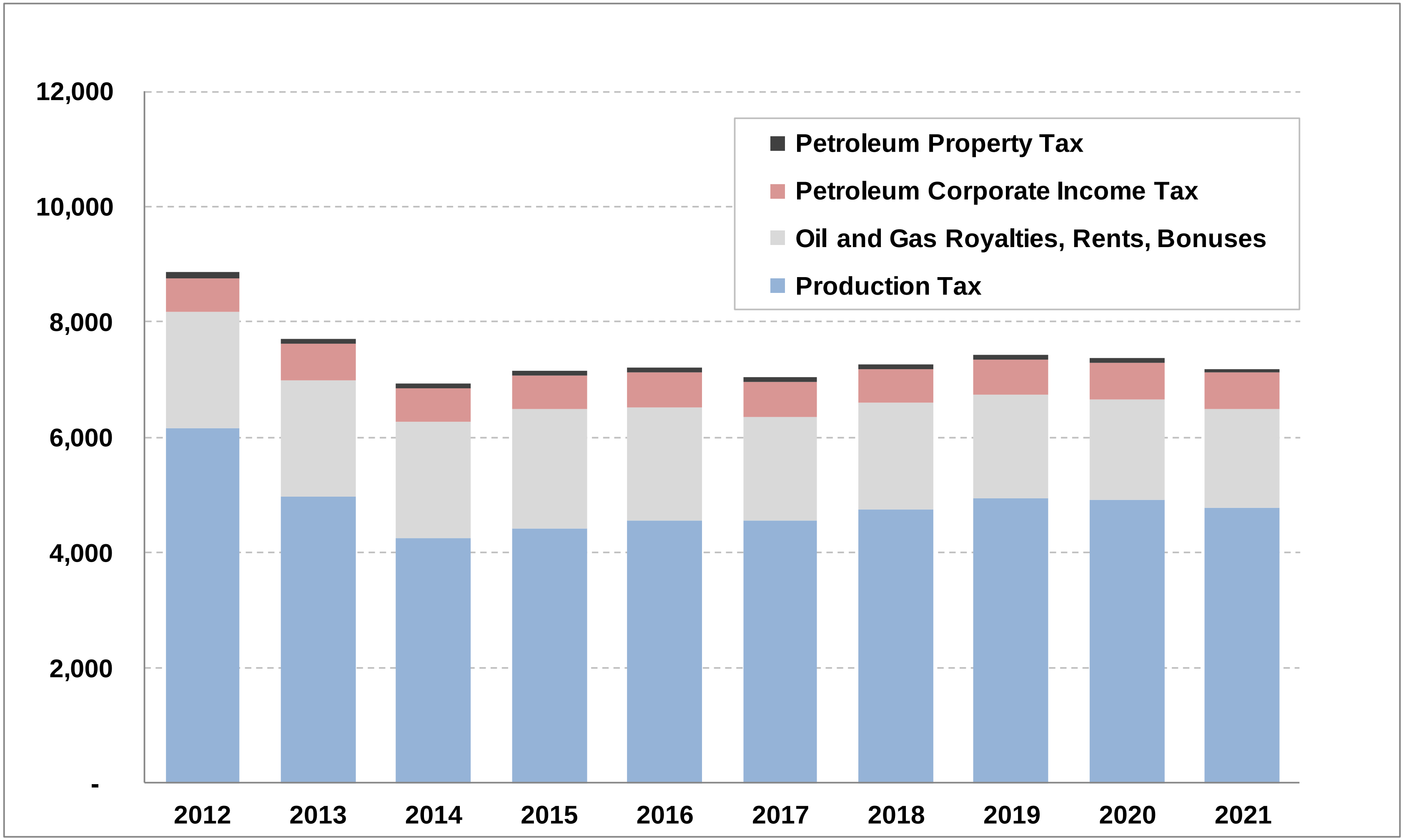
(Unrestricted GF Oil and Gas Revenue, $ Millions)



Source: Alaska Department of Revenue, *Fall 2012 Revenue Sources Book*.

Oil & Gas Revenues, FY 2012-21

(Unrestricted GF Oil and Gas Revenue, $ Millions)



Source: Alaska Department of Revenue, *Fall 2012 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) provided 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 :**

$$\boldsymbol{Alaska\,Taxable\,Income = U.S.Taxable\,Income\ \times}$$

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

Corporate Income Taxes – Part 2

Tax rate:

- **1% of first $10,000**
- **2% on second $10,000**

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  “ “

- **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 :

$$Alaska\,Taxable\,Income = Worldwide\,Taxable\,Income\ \times$$

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

- Exploration & Development Tax Credit

Property Taxes – Part 1

- Similar to taxes paid by homeowners

- Methodology varies depending on type of oil and gas property
  - Exploration Property (1% of tax role) - sales value, prevailing market conditions, between willing buyer and seller

  - Production Property (~2/3 of tax role) - replacement cost new, less depreciation based on economic life of proven reserves

  - Pipeline Property (~1/3 of 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

- 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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