

HOUSE BILL 288 FAIRNESS IN OIL TAXES

REPRESENTATIVE GERAN TARR



CONTEXT OF DISCUSSION ON OIL TAXES

House Majority Coalition Plan

4 Pillars

- Strategic cuts
- Oil tax fix
- Broad based measure
- POMV

COMPONENTS OF CURRENT TAX SYSTEM

Component	SB 21	HB 288
35% Base rate	X	X
Per Barrel Credit	X	X
Gross Value Reduction	X	X
Minimum Tax	X	X
Lease expenditure deductions	X	X

FLAWS IN CURRENT SYSTEMS*

- Functions as both gross and net profits tax
- Has components of severance tax and corporate income tax
- Too many components are linked to price
- Too complicated

*according to consultants hired by legislature

LOTS OF GOOD NEWS

adn.com

Alaska Dispatch News

November 1



With high expectations, Alaska's petroleum reserve should see 'unprecedented' exploration this winter

A federal geologist says there are dozens of potential oil pools in just one corner of the National Petroleum Reserve-Alaska, where the Trump administration recently expanded access for the oil industry.

Alex DeMarban November 3

GCI LTE 7:00 AM adn.com

Alaska Dispatch News

Energy

North Slope frozen road construction is up this winter

Author: Alex DeMarban Updated: 14 hours ago
Published 20 hours ago



An ice road is built to support the Armstrong Oil and Gas's Horseshoe exploratory drilling project on Jan. 9, 2017. Ice road construction involves building up multiple layers of ice chips that are then compacted and watered down in place. (Kimberley Maher / Alaska Department of Natural Resources)

adn.com

Alaska Dispatch News



Gov. Walker, joining Trump trade mission to China, sees 'most significant opportunity' for Alaska gas

The governor will join the president's trade mission to Asia in hopes of striking a deal with Chinese companies on the state's \$43 billion gas-export project.

Nathaniel Herz, Alex DeMarban November 2

ASK 3 QUESTIONS

1. How much profit per barrel?
2. How many barrels total?
3. How much revenue to the state?

A Net Profits Tax is very Volatile to Price

SB21 Tax Calculation At Different Prices

per one barrel of taxable oil: FY17 costs per Fall 16 RSB

Price	\$40	\$60	\$80	\$100	\$120	\$140
Transport	\$9.33	\$9.33	\$9.33	\$9.33	\$9.33	\$9.33
GVPP	\$30.67	\$50.67	\$70.67	\$90.67	\$110.67	\$130.67
Lease Expend	\$30.88	\$30.88	\$30.88	\$30.88	\$30.88	\$30.88
PTV (net)	-\$0.21	\$19.79	\$39.79	\$59.79	\$79.79	\$99.79
Tax at 35%	-\$0.07	\$6.93	\$13.93	\$20.93	\$27.93	\$34.93
Per-BBL Credit	\$8	\$8	\$8	\$6	\$4	\$2
Tax per Net	-\$8.07	-\$1.07	\$5.93	\$14.93	\$23.93	\$32.93
Minimum Tax	\$1.23	\$2.03	\$2.83	\$3.63	\$4.43	\$5.23
Higher Of	\$1.23	\$2.03	\$5.93	\$14.93	\$23.93	\$32.93
Tax as % of Price	3%	3%	7%	15%	20%	24%
Tax as % of GVPP	4%	4%	8%	16%	22%	25%
Tax as % of PTV	n/a	10%	15%	25%	30%	33%

USE 20,000 BARRELS AS THE EXAMPLE

20,000 barrels/day increase X 365 days = 7,300,000

X .875 (take out royalty barrels) = 6,387,500 taxable barrels

X 2.03 (min tax of 4% of GVPP) = \$12,966,625

REMEMBER - \$2.5 BILLION SHORTFALL

In other words we would need to produce 1.2 billion more barrels of oil

USE 20,000 BARRELS AS THE EXAMPLE FOR ROYALTY

20,000 barrels/day increase X 365 days = 7,300,000

X .125 (royalty barrels) = 912,500 royalty (ownership share) barrels

X \$50.67 (royal barrels value is GVPP) = \$59,203,000

REMEMBER - \$2.5 BILLION SHORTFALL

So total with taxable barrels + royalty barrels = \$2.03 + \$50.57 = \$52.70

In other words we would need to produce 47,438,330 more barrels of oil

OTHER POSSIBLE CONSIDERATIONS

PRICE	\$60 with 4% min tax	\$60 with 7% min tax	\$60 with 6% min tax	\$60 with 5% min tax	Low Cost Example (legacy)	Higher Cost Example (new field)
Transport	\$9.33				\$9.33	\$9.33
GVPP	\$50.67				\$50.67	\$50.67
Lease Exp	\$30.88				\$20.88	\$40.88
PTV (net)	\$19.79				\$29.79	\$9.79
Tax at 35%	\$6.93				\$10.43	\$3.43
Per Barrel Credit	\$8				\$8	\$8
Tax per net	-\$1.07	\$1.07	\$1.07	\$1.07	\$2.43	-\$4.57
Minimum Tax	\$2.03	\$3.55	\$3.04	\$2.53	\$2.03	\$2.03
HIGHER OF	\$2.03					
Tax as % of Price	3%					
Tax as % of GVPP	4%					
Tax as % of PTV	10%					

QUESTIONS?

