



**Alaska's Production Tax System – January 6, 2020**  
**Stephen McGregor – AOGA Tax Committee Chair**  
**Vice President Tax - Hilcorp**



# What is a Production “Severance” Tax?



**Excise tax on the act of producing oil and gas from the ground**

- Enacted prior to statehood (1955 Extraordinary Session)
- Applies to oil and gas produced from any area within the boundaries of the state, including lands owned by the state, federal government (such as NPRA or ANWR), and private (such as Alaska Native Corporations)

**Tax is based on the value of the oil and gas produced, or its quantity**

## **Exemptions**

- State’s own royalty oil and gas
- Federal government’s royalty oil and gas, and any production exempted by Congress
- Exemptions provided by state statute

**State has received over \$58.2 billion in production tax since Statehood**

## “NET” PRODUCTION TAX

- Tax determined on revenues remaining AFTER recovery of allowable costs and deductions

## “Gross” Production Tax

- Tax generally determined on revenues BEFORE recovery of allowable costs and deductions

# “Net” vs. “Gross” Example



A Business, “Alaska Hamburgers” sells \$10,000 worth of hamburgers each day.

- **Total Daily Costs: \$9,900**
  - Wholesale costs (burgers, buns, ketchup, etc.) each day: \$8,000
  - Other overhead costs (utilities, food safety inspections, etc.) each day: \$1,000
  - Wages each day: \$900
- “Alaska Hamburgers” would have \$100 in revenue each day **AFTER** costs.

**NET Production tax = Percentage AFTER costs (assessed on the \$100/day)**

- If Net Production tax was 10% - Tax would be \$10/each day

**GROSS Production tax = Percentage BEFORE costs (assessed on the \$10,000/day)**

- If Gross production tax was 10% - Tax would be \$1,000/day
- Even a 1% gross tax would generate \$100/day (leaving the company with no revenue after costs)



# Alaska had Gross Production Tax – Now it's a Net System for oil & gas



- 1) **Before February 2005: GROSS Tax System**
  - Gross tax with a provision called the Economic Limit Factor (“ELF”) to make some adjustment for cost
- 2) **February 2005 – March 2006:**
  - Gross tax but with a change in the ELF (aggregation) for Prudhoe Bay field and its satellites
- 3) **April 2006 –June 2007:**
  - Alaska’s first NET Production Tax – Known as “Petroleum Production Tax” (PPT)
- 4) **July 2007 – end of 2013:**
  - NET system called: Alaska’s Clear & Equitable Share (ACES)\*
- 5) **2014 – present: Hybrid NET & Gross System “SB 21” (“Floor” – always pay some tax - Minimum/Gross tax of 4%)**
- 6) **2016 – Hybrid NET/Gross System but with major changes to credits – “HB 247”**
- 7) **2017 – Hybrid NET/Gross System but with additional changes – “HB 111”**

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NOTE: Some provisions of ACES, which was signed into law December 19, 2007, were retroactive to July 1, 2007; others to January 1, 2007; others to April 1, 2007, and still others did not become operative until March 31, 2008.

# Key Terms/Components Production Tax System (North Slope)



- **Oil Price/Destination Price**
- **Transportation Costs**
- **Wellhead Value/Gross Value at Point of Production (GVPP)**
- **Deductible Lease Expenditure**
  - Operating
  - Capital
- **Production Tax Value (PTV)**
- **Base Tax Rate**
- **Per-Barrel “Credit” (Sliding Scale Credit)**
- **Regular Production Tax (Base Rate Minus Per-Barrel)**
- **Minimum Production Tax (4% of GVPP)**
- **Gross Value Reduction (GVR)**

# Production Tax Estimate – FY 2020



Appendix E  
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## Production Tax Estimate for FY 2020

Using income statement format

Note: This table presents an approximation of the production tax calculation, and does not match production tax estimates throughout this publication.

	Price	Barrels (Thousands)	Value (Millions of Dollars)
Average ANS Oil Price (dollars per barrel) and Daily Production	\$63.54	492.1	\$31.3
<b>Annual Production</b>			
Total <sup>1</sup>		180,095	\$11,443.3
Royalty, Federal and Other Barrels <sup>2</sup>		-21,347	(\$1,358.4)
<b>Taxable Barrels</b>		158,748	\$10,088.9
<b>Downstream (Transportation) Costs (dollars per barrel)</b>			
ANS Marine Transportation	-\$3.40		
TAPS Tariff	-\$5.24		
Other	-\$0.42		
<b>Total Transportation Costs</b>	<b>-\$9.06</b>	158,748	(\$1,438.7)
<b>Gross Value at Point of Production (GVPP)</b>			<b>\$8,648.2</b>
<b>Deductible Lease Expenditures<sup>3</sup></b>			
Deductible Operating Expenditures	-\$16.93		(\$2,687.4)
Deductible Capital Expenditures	-\$13.17		(\$2,090.1)
<b>Total Lease Expenditures</b>	<b>-\$30.10</b>	158,748	(\$4,777.6)
<b>Production Tax</b>			
Gross Minimum Tax (4%*GVPP)			\$346.9
Production Tax Value (PTV)			\$3,870.6
Gross Value Reduction (GVR)			(\$104.1)
Production Tax Value (PTV) after GVR			\$3,766.5
Base Tax (35%*PTV after GVR)			\$1,318.3
<b>Current-Year Tax Before Credits (base tax or minimum tax)</b>			<b>\$1,318.3</b>
Per-Taxable-Barrel Credits			(\$921.8)
<b>Current-Year Tax After Per-Taxable-Barrel Credits</b>			<b>\$396.5</b>
<b>Adjustments<sup>4</sup></b>			<b>(\$15.8)</b>
<b>Total Tax After Credits and Adjustments</b>			<b>\$380.7</b>

# Sample Tax Calculation – FY 2020

(All costs & oil price from DOR 2019 Fall Revenue Sources Book; pg 101  
 Note: Does not include GVR Calculation for Example)



- Oil Price/Destination Price
- Transportation Costs
- Wellhead Value/Gross Value at Point of Production (GVPP)
- Deductible Lease Expenditure
  - Operating (\$\_\_\_\_\_)
  - Capital (\$\_\_\_\_\_)
- Production Tax Value (PTV)
- Base Tax Rate
- Base Production Tax
- Per-Barrel “Credit” (Sliding Scale Credit)
- Regular Production Tax
- Minimum Production Tax (Gross Tax – 4% of GVPP)
- Tax Due (Greater of Regular or Minimum Tax)

\$	
-	\$
\$	
-	\$
\$	
x	%
\$	
-	\$
\$	
\$	
\$	



# Sample Tax Calculation – FY 2020

(All costs & oil price from DOR 2019 Fall Revenue Sources Book; pg 101  
Note: Does not include GVR Calculation for Example)



• Oil Price/Destination Price	\$ 63.54
• Transportation Costs	- <u>\$ 9.06</u>
• Wellhead Value/Gross Value at Point of Production (GVPP)	\$ 54.48
• Deductible Lease Expenditure	- <u>\$ 30.10</u>
- Operating (\$16.93)	
- Capital (\$13.17)	
• Production Tax Value (PTV)	\$ 24.38
• Base Tax Rate	x <u>35%</u>
• Base Production Tax	\$ 8.53
• Per-Barrel “Credit” (Sliding Scale Credit)	- <u>\$ 8.00</u>
• Regular Production Tax	\$ .53
• Minimum Production Tax (Gross Tax – 4% of GVPP)	\$ 2.18
• Tax Due (Greater of Regular or Minimum Tax)	\$ 2.18