Sources of Alaska Oil and Gas Government Revenue

Alaska Oil & Gas Association

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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
Total State Revenue by Major Component, 2010

Total State Revenue = $13,941

- Designated GF Revenue, $336
- Other Restricted Revenue, $5,683
- Federal Revenue, $2,409
- O&G Property Tax, $119
- O&G Royalties (Bonuses, Rents, & Interest), $1,477
- O&G Corporate Income Tax, $448
- O&G Production Tax, $2,871
- Non-Petroleum, $598
- Unrestricted GF, $5,513

Total Unrestricted GF O&G Rev = $4,915

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
  o Over 10 million acres leased
  o $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:
  o Oil company obtains the right to use land for oil and gas purposes, and
  o State of AK, as Landowner, receives percentage of production
  o Most North Slope leases require 1/8 royalty, but terms can vary - Some newer leases have higher rates/ sliding scale/ profit share leases
  o 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:
  o Royalty in Kind (RIK) - receive physical oil/gas
  o 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:

\[
\text{Alaska Taxable Income} = U.S.\text{Taxable Income} \times \left( \frac{AK\ Prop}{U.S.\ Prop} + \frac{AK\ Sales}{U.S.\ Sales} + \frac{AK\ Payroll}{U.S.\ Payroll} \right) \times \frac{1}{3}
\]
Corporate Income Taxes – Part 2

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:

\[
\text{Alaska Taxable Income} = \text{Worldwide Taxable Income} \times \left\{ \frac{AK \text{ Prop}}{WW \text{ Prop}} + \frac{AK \text{ Sales}}{WW \text{ Sales}} + \frac{AK \text{ Production}}{WW \text{ Production}} \right\} \times \frac{1}{3}
\]
Property Taxes – Part 1

• Similar to taxes paid by homeowners

• Methodology varies depending on type of oil and gas property
  o Exploration Property (1% of 2008 tax role) - sales value, prevailing market conditions, between willing buyer and seller
  o Production Property (~2/3 of 2008 tax role) - replacement cost new, less depreciation based on economic life of proven reserves
  o 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
  o A local Borough and City tax is levied on State’s assessed value subject to limitations under AS 29.45
  o 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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