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)

Unrestricted GF $9,485
Designated GF $303
Federal $2,460
Other Restricted $1,316
Includes $1,022 from O&G Royalties and CBRF

Federal

O&G Property Tax $111
O&G CIT $569
O&G Royalties (Bonus, Rents & Int) $2,032
O&G Production Tax $6,146
Non Petroleum $627

Total Unrestricted GF
O&G Rev = $8,858

Total State Revenue = $13,564

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:
  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
  o Mineral Leasing Act has 90/10% State/ Federal Revenue-Sharing split
  o Separate 50/50% arrangement NPR-A
  o 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
  o S 1560 (Sen. Begich) provided for 37.5/62.5% split like GOM states
  o $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:

\[
\text{Alaska Taxable Income} = \text{U.S. Taxable Income} \times \left\{ \frac{AK \text{ Prop}}{U.S. \text{ Prop}} + \frac{AK \text{ Sales}}{U.S. \text{ Sales}} + \frac{AK \text{ Payroll}}{U.S. \text{ Payroll}} \right\} \times \frac{1}{3}
\]
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:
  o World-wide income subject to tax, not just water’s edge
  o Payroll factor replaced by production factor
  o Apportionment formula:

  \[
  \text{Alaska Taxable Income} = \text{Worldwide Taxable Income} \times \left( \frac{AK \text{ Prop}}{WW \text{ Prop}} + \frac{AK \text{ Sales}}{WW \text{ Sales}} + \frac{AK \text{ Production}}{WW \text{ Production}} \right) \times \frac{1}{3}
  \]

• Exploration & Development Tax Credit
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 tax role) - sales value, prevailing market conditions, between willing buyer and seller
  o Production Property (~2/3 of tax role) - replacement cost new, less depreciation based on economic life of proven reserves
  o 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
  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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