

Comparing CSHB 488(RES) to Senate Bill 305 (CSSB 305(FIN) am)

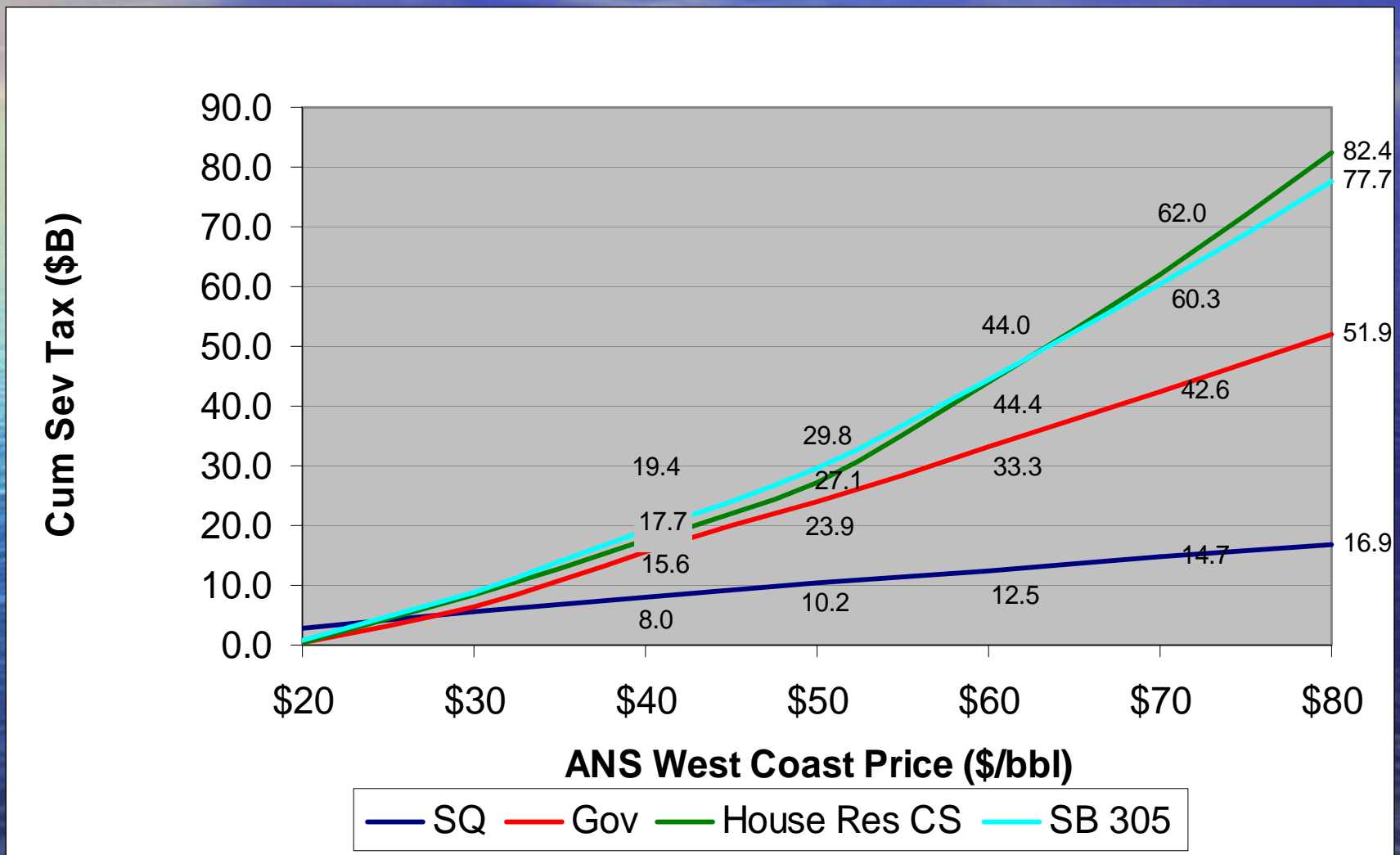
Before the House Finance
Committee

April 26, 2006

Robynn J. Wilson, CPA

Dan E. Dickinson, CPA

The Bottom Line: Cumulative Severance Tax (\$B) 2006-2030 Low Volume Scenario



Tax Rate:

CSHB 488(RES)

General rate: **20%**

Private royalty rate:
5% oil and gas

Cook Inlet oil: no
special provision

Gas: no special
treatment

SB 305

General rate: **22.5%**

Private royalty rate:
5% oil, 1.67% gas

Cook Inlet oil: 5% (net)

Gas: Special Revenue
(Value) exclusion

Gas Revenue (Value) Exclusion SB 305 (AS 43.55.160(a))

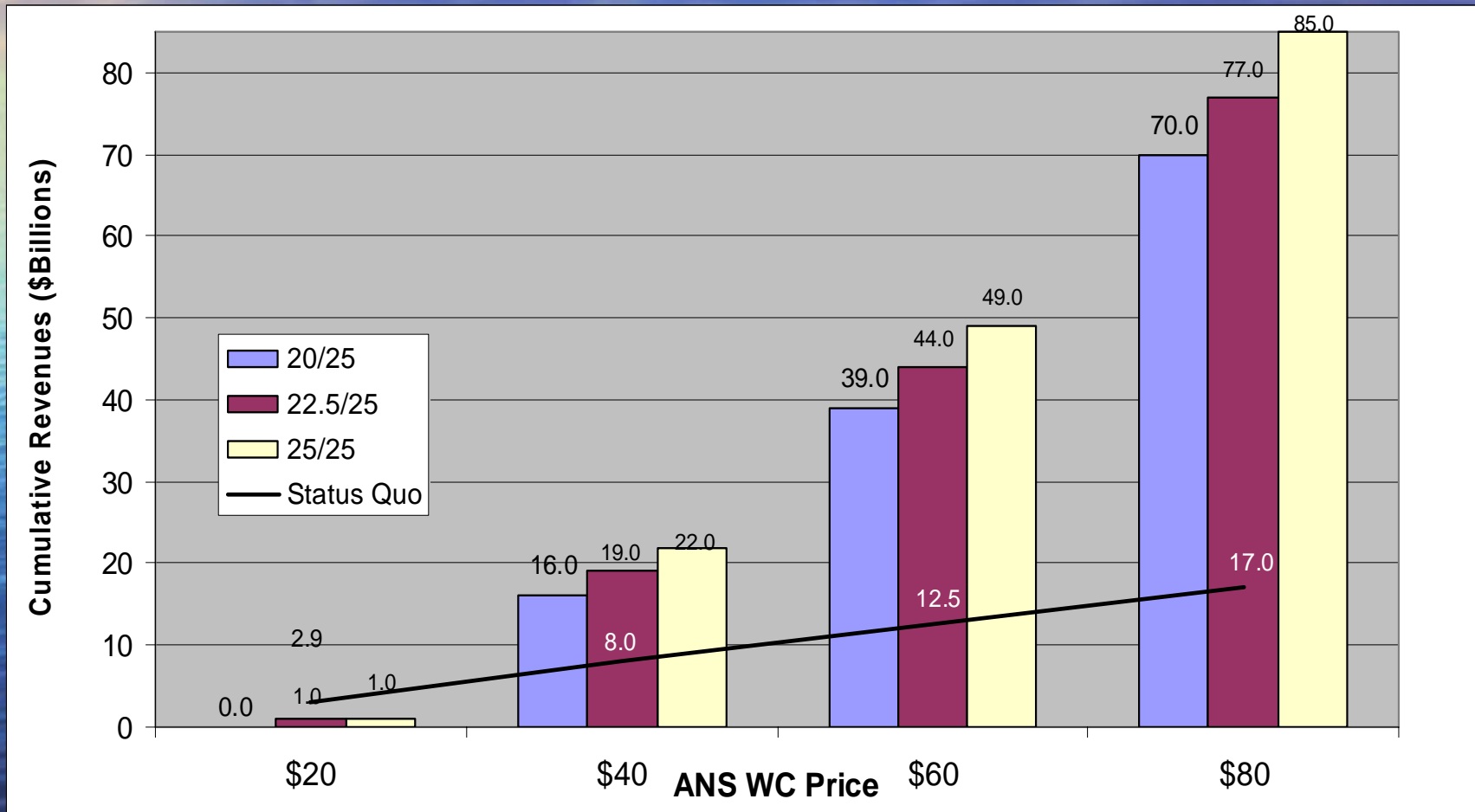
Gross value excludes 2/3 of the value of gas

- Yields an effective rate (before deductions) of 7.5%
- On a net value basis yields an effective tax rate of near 5%
- Obviates the need to allocate expenses

Applies statewide on all gas

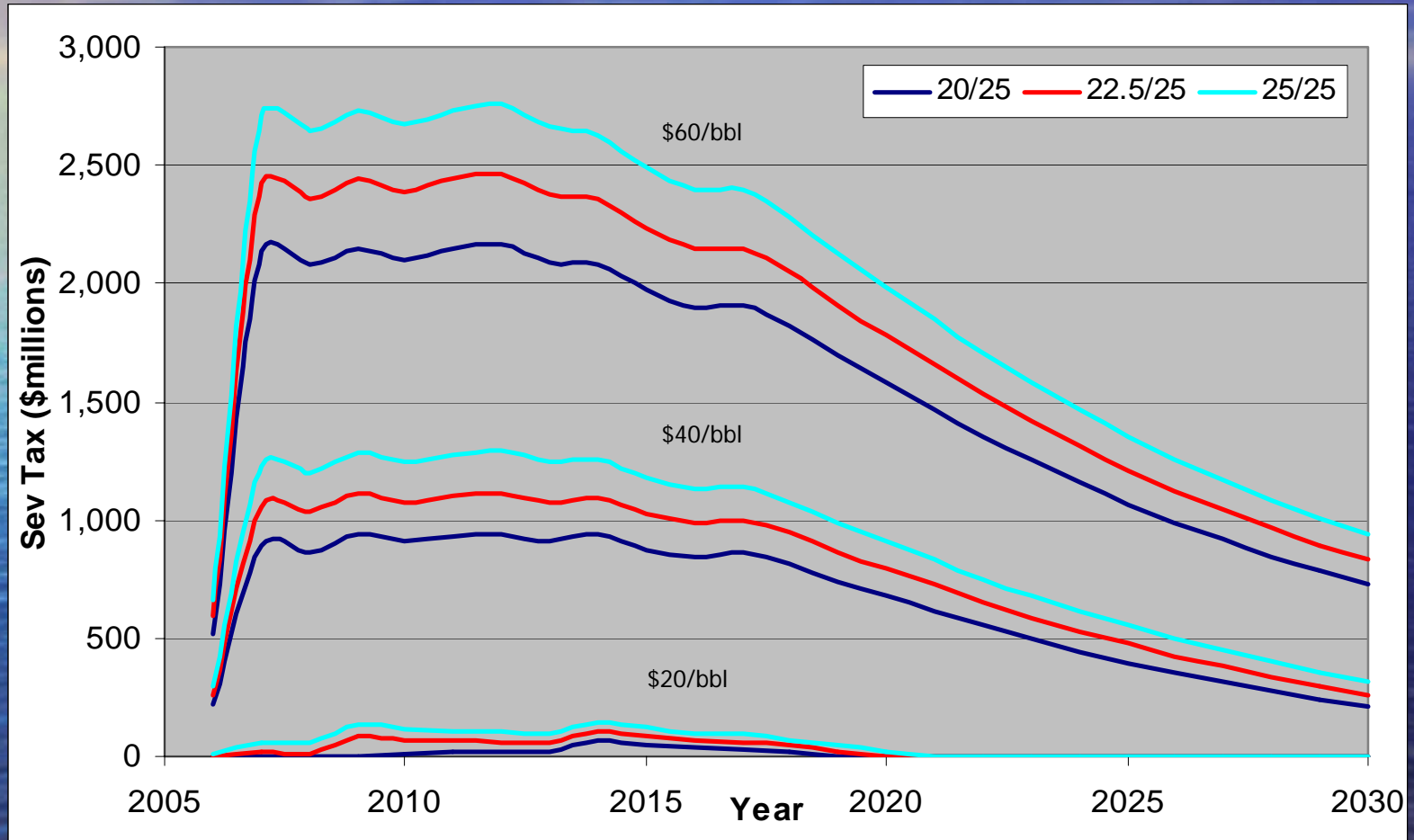
Effect of Tax Rate

Cumulative Severance Tax Revenues under SB 305 with 20%, 22.5%, and 25% Tax Rate, 2006-2030



Effect of Tax Rate

Annual Severance Tax under SB 305 with 20%, 22.5%, and 25% Tax Rate, 2006-2030 (\$millions)



Progressivity: CSHB 488(RES)

Progressivity on oil
Sec. 43.55.011(f), (g)

Triggered at \$50 WTI
slope factor .3%

$0.3\% \times (\text{WTI} - \$50)$
Jumps to 37.5% at
\$110

Progressivity on gas
Sec. 43.55.011(i), (j)

Triggered at \$8 HH
slope factor 2%

$2\% \times (\text{HH} - \$8)$
Jumps to 37.5% at \$18

Progressivity: SB 305

AS 43.55.011(g) & (h)

Applies to oil only

Triggered at \$50 ANSwc

Slope factor .00155

SB 305 progressivity formula

$(ANS_{wc} - \$50) \times .002 \times [ANS_{wh} \times (1 - \text{PPT rate})]$ x (total taxable barrels of oil)

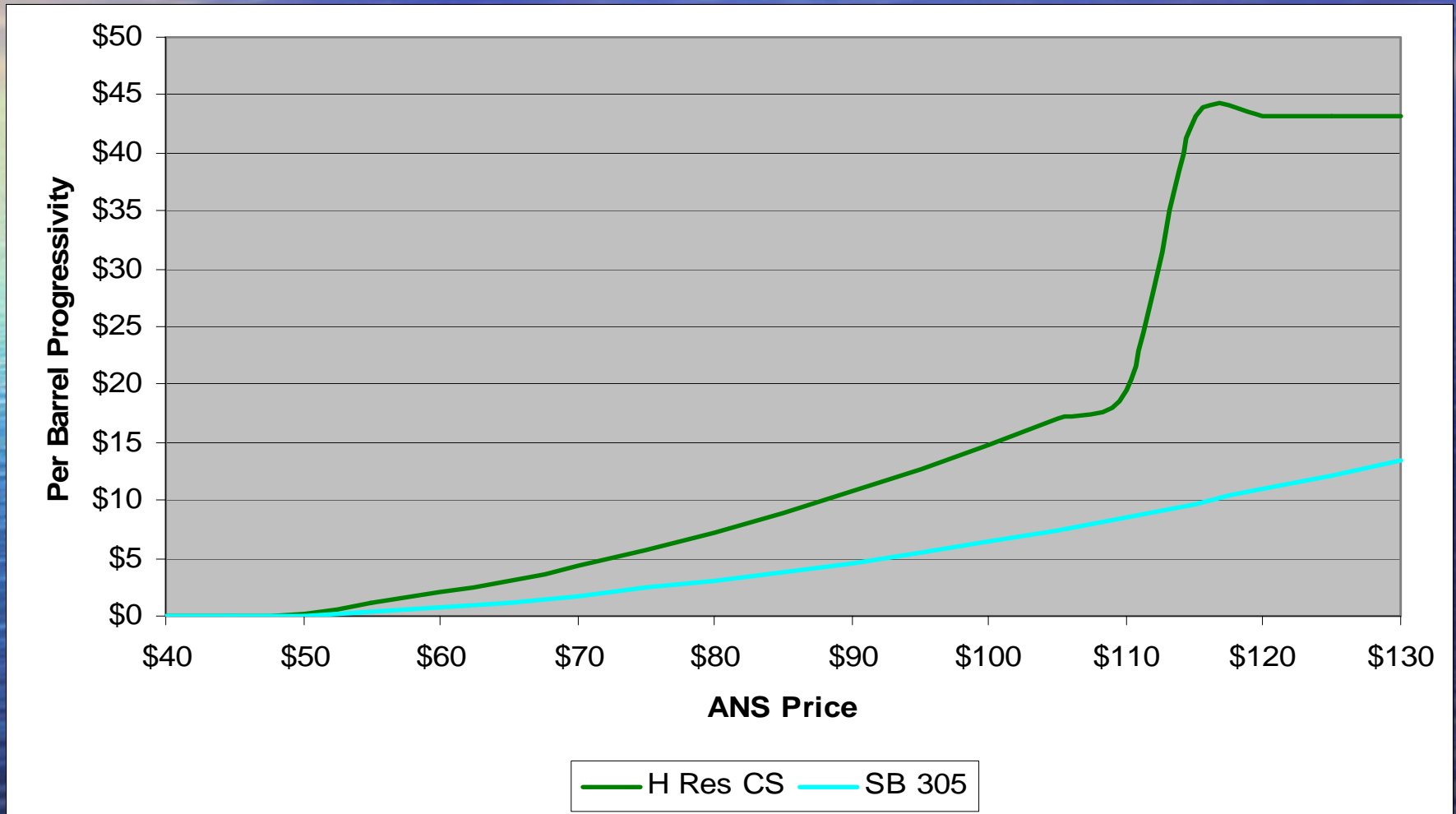
is the same as—

$(ANS_{wc} - \$50) \times .00155 \times ANS_{wh} \times$ (total taxable barrels of oil)

“ANS_{wh} price” means the **prevailing value** for oil produced in the Alaska ANS area

Effects of Progressivity

Progressive Surcharge per Barrel, 2010



Capital Investment Credit

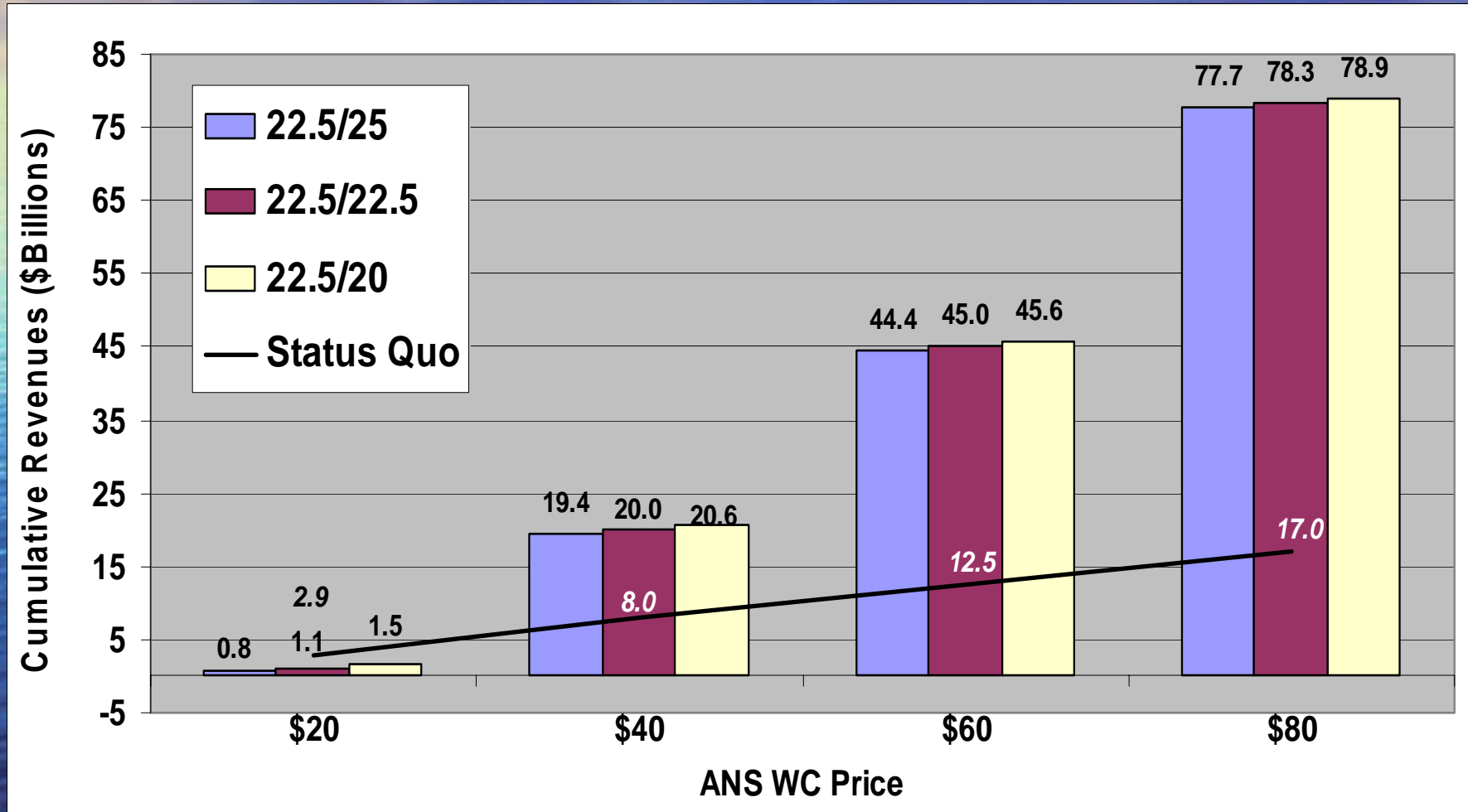
AS 43.55.024

CSHB 488(RES): **20%**

SB 305: **25%**

Effect of Credit Rate

Cumulative Severance Tax Revenues under SB 305 with 25%, 22.5%, and 20% Credit Rate, (2006—2030)



Capital Investment Credit (continued)

Both CSHB 488(RES) and SB 305:

Credit applies to PPT general tax only
(not against progressivity tax or spill
surcharges)

Credits are transferable—purchaser limited
to 20% tax shelter

Credits Refundable

CSHB 488(RES): up to \$10M depending
on current investment

SB 305: no provision

Carryforward of Loss

Both CSHB 488(RES) and SB 305:

Loss is carried forward to next month

At end of year, loss is converted to credit at tax rate:

CSHB 488(RES)—20%

SB 305—22.5%

Treatment of Progressivity Tax

CSHB 488(RES)

AS 43.55.160(a)

Progressivity tax is deductible like a lease expenditure

SB 305

AS 43.55.160(d)(2)(O)

Progressivity tax is not deductible

Transition: CSHB 488(RES)
AS 43.55.160(c)(1) & Sec. 42 uncodified

Deduction

Lookback:	3 months
Applies to:	capex and opex
Deductible:	over 9 months
Sunsets:	No

Transition: SB 305 2 for 1 (AS 43.55.024(i))

Credit: 20%

Lookback: 5 years

Applies to: capex

Benefits: 7 years

Sunsets: 3/31/2013

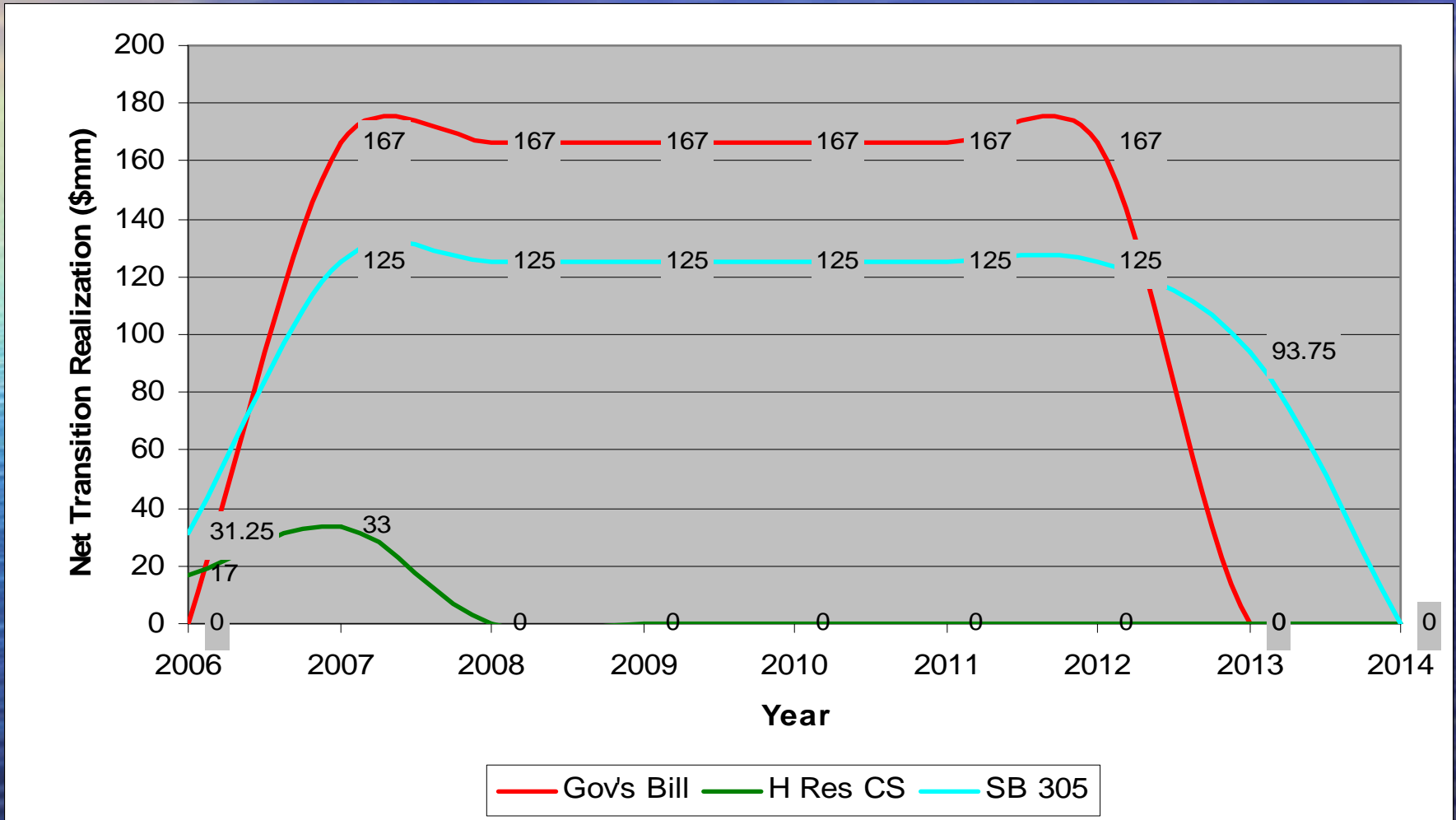
SB 305: 2 for 1

recoupment
5 yr **7 yr.**

A	historic investment per year		35		35
B	years of lookback		5		5
C	total lookback	\$	175	\$	175
D	total credit available (20%)		35		35
E	recoupment time		5		7
F	claim available per year	\$	35	\$	25
G	current investment required	\$	70	\$	50
H	increase over historic		100%		43%

Effect of Transition

Net Transition Realizations, 2006-2014



Base Allowance: CSHB 488(RES)
Sec. 43.55.170(a)

Credit: \$12M per year per company

Sunsets: 3/31/2016

Base Allowance: SB 305
5000 barrel plan
AS 43.55.170(a)

Credit: based on production

Maximum: \$14M

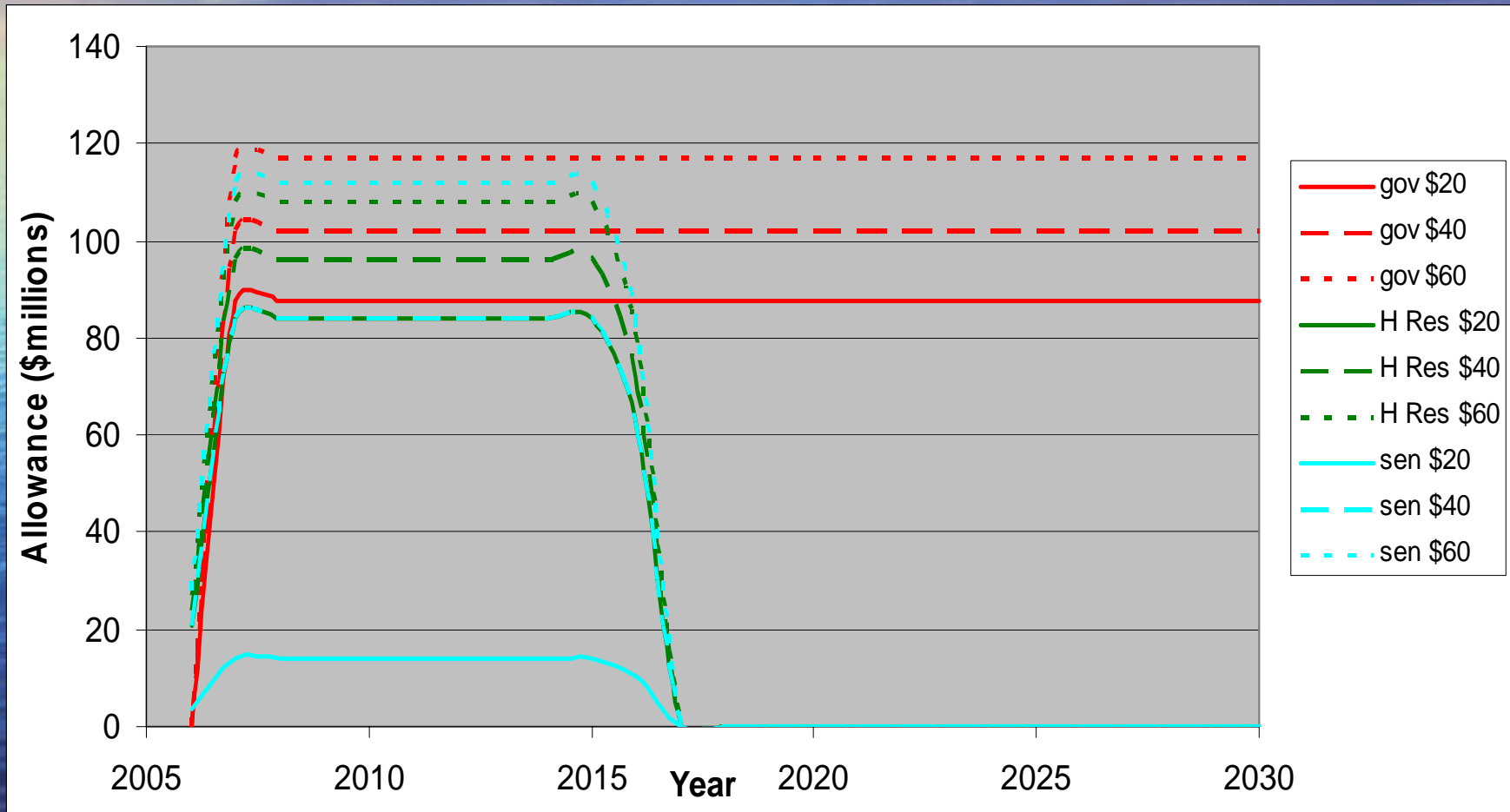
Sunsets: 3/31/2016

Base Allowance: SB 305 (continued)

Under 5000 bpd
credit equal to 100% tax sheltered

Over 5000 bpd
percentage of tax sheltered
formula: $5000 / \text{total bpd} = \% \text{ shelter}$

Allowances 2006-2030 (\$millions)



Safe Harbor

CSHB 488(RES)

AS 43.55.020(h)

Safe harbor: 90%

If not met:

interest

penalty 5%

SB 305

AS 43.55.020(a)

Safe harbor: 95%

If not met:

interest on amount up
to 95%

Safe Harbor

CSHB 488(RES)

SB 305

Due: 100%

Due: 95%

True-up: not needed
because interest
accrues on 100%

True-up: 3/31 annual

Effective Date

CSHB 488(RES): **4/1/06** (Sec. 45)

SB 305: **4/1/06** (Sec. 40)

Both bills provide for transition rule that payments are made under old (ELF) system for 6 mo., with pay-up in 7th month

Spill Surcharge (split nickel)

CSHB 488(RES)

1/4

Total: no change (5¢)

Collected: increases 1¢
to 4¢

Treatment: no credit
no deduction

SB 305

1/5

Total: increases 1¢ to
6¢

Collected: increases 2¢
to 5¢

Treatment: no credit
no deduction

Use of DNR Royalty Values

CSHB 488(RES): DOR may allow the use of DNR royalty values

SB 305: no provision for DOR to allow the use of DNR royalty values

Use of DNR Values (SB 305 language)

AS 43.55.150(d)

Under regulations adopted by the department, if the department determines that an election under this subsection would **improve the efficiency and economy of tax administration and would result in calculations that represent value and actual costs of transportation with reasonable accuracy and are not biased toward understating a producer's tax liability**, the department may allow

Other differences

Abandonment:

CSHB 488(RES): no credit for any abandonment

SB 305: no credit or deduction for abandonment
of old production

allocation of expense based on
production before and after effective date

Other provisions included in SB 305

- For exploration credits, requires data to DNR
- DOR permitted to utilize principles of IRC Sec. 482 (transfer-pricing)
- Clarifying language in AS 43.55.160(c)(1)(B)
- Producer must support FERC's consideration of credits granted to producer on FERC-regulated facilities

Catastrophic Oil Spill expenditures to clean up

CSHB 488(RES): not deductible

SB 305: may be deductible if on lease

AS 46.04.900: "catastrophic oil discharge" means an oil discharge in excess of 100,000 barrels, or any other discharge which the governor determines presents a grave and substantial threat to the economy or environment of the state"

Effective Severance Tax Rate Sev Tax / Wellhead (less royalty) Low Volume Scenario

