Petroleum Profits Tax (PPT)

Overview

Alaska Department of Revenue
Before the Alaska State Legislature

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Problems with Current Production Tax

- No incentive in tax system to reinvest in Alaska
- Low take (internationally) at high prices, high take at low prices
- Maturing of North Slope leads to declines in tax revenue
Components of PPT

- Tax Base
- Rate
- Incentive Credits
- Base Allowance
- Transition Provision
# Gross vs. Net

<table>
<thead>
<tr>
<th><strong>Current Tax on Gross</strong></th>
<th><strong>PPT on Net</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td>Value at wellhead</td>
<td>Value at wellhead</td>
</tr>
<tr>
<td></td>
<td>$50.00</td>
</tr>
<tr>
<td>Times: tax rate</td>
<td>Less:</td>
</tr>
<tr>
<td>15%</td>
<td>Lease op exps</td>
</tr>
<tr>
<td></td>
<td>(12.50)</td>
</tr>
<tr>
<td>Tax before ELF</td>
<td>Net taxable</td>
</tr>
<tr>
<td>$7.50</td>
<td>$37.50</td>
</tr>
<tr>
<td></td>
<td>Times: tax rate</td>
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<tr>
<td></td>
<td>20%</td>
</tr>
<tr>
<td></td>
<td>Tax before credits</td>
</tr>
<tr>
<td></td>
<td>$7.50</td>
</tr>
</tbody>
</table>
Tax Base

Gross value at point of production

Less: Lease expenditures
- operating costs
- capital expenditures
- allowance for overhead
Non-deductible expenses

- Depreciation
- Royalty payments
- Taxes based on net income
- Interest & financing charges
- Lease acquisition costs
- Other costs
Determining value under current system

West coast value

$
Gross Value under PPT

Producer can elect to use:

- Royalty value
- DOR formula that estimates a value at a specific location such as point of delivery into a common carrier pipeline
Tax Rate 20% of Net Profits
Incentive Credits

- 20% of qualified capital expenditures

- May be taken on:
  - Exploration costs
  - Capital costs **incurred on lease**

- Credits are transferable
How are losses handled?

Gross value $50.00
less:
Lease op exps (12.50)
Capital exp’s (60.00)
Net loss (NOL) ($22.50)
Net Operating Losses (NOL’s)

- Can be converted to Credits
- 20% of loss
Base Allowance

- $73 million deduction

- Available to each corporation

- Cannot reduce taxable income below zero
Other provisions

- Monthly return filing
- 90% payment safe harbor
- Yearly true-up on 3/31
- Effective date 7/1/06
Transition Provision

- Allows cost recovery of assets placed in service 7/01—6/06
- Deduction of 1/6 of cost in each of 6 transition years
- Deduction available only when average price of oil exceeds $40
Revenue

- Additional revenue from PPT will depend primarily on two factors:
  - Price of oil/gas
  - Producer investment in the state
Incremental Revenue based on DOR Forecast:
Incremental Revenue based on $60 oil

Fiscal Impact

$60

Severance Tax ($millions)

Fiscal Year

2007 2008 2009 2010 2011 2012

status quo ppt
Incremental Revenue based on $40 oil:

Fiscal Impact
$40

Severance Tax ($millions)

Fiscal Year

status quo ppt
PPT: A Tax for Alaska’s Future