

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

Current Tax on Gross

Value at wellhead \$50.00

Times: tax rate 15%

Tax before ELF \$7.50

PPT on Net

Value at wellhead \$50.00

Less:

Lease op exps (12.50)

Net taxable \$37.50

Times: tax rate 20%

Tax before
credits \$7.50

Tax Base

Gross value at point of production

Less: Lease expenditures

- ♦ operating costs
- ♦ capital expenditures
- ♦ allowance for overhead

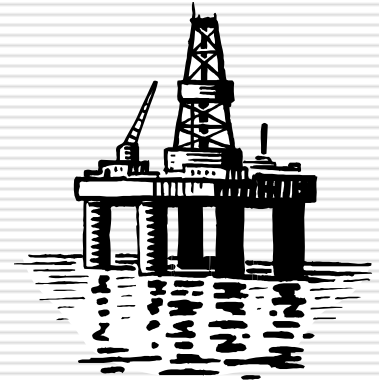
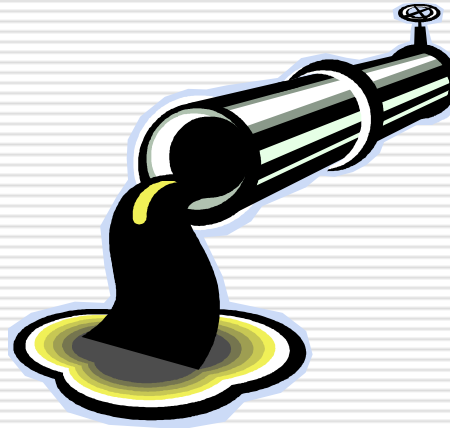
Non-deductible expenses

- 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	<u>(60.00)</u>
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

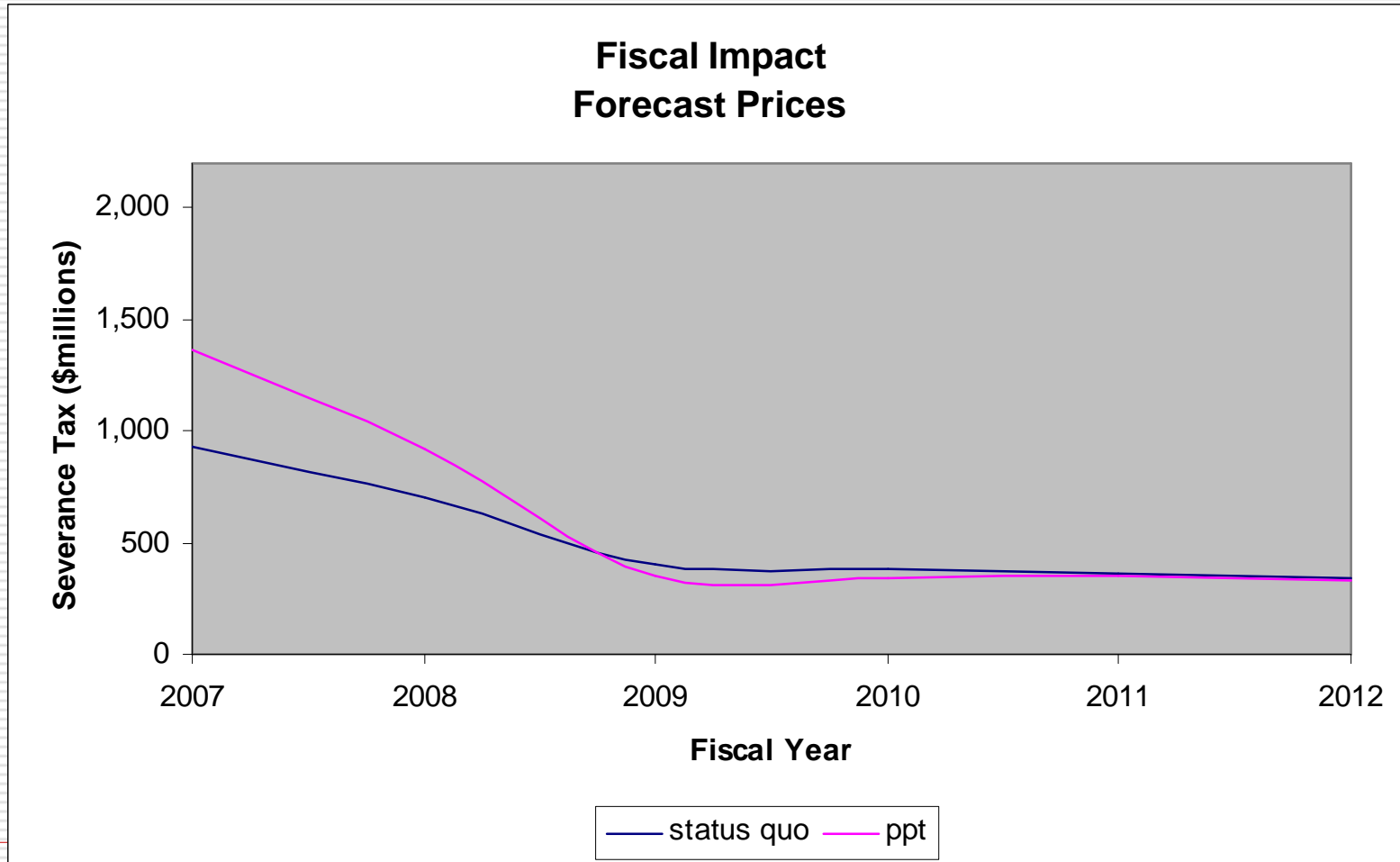
Transition Provision

- 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

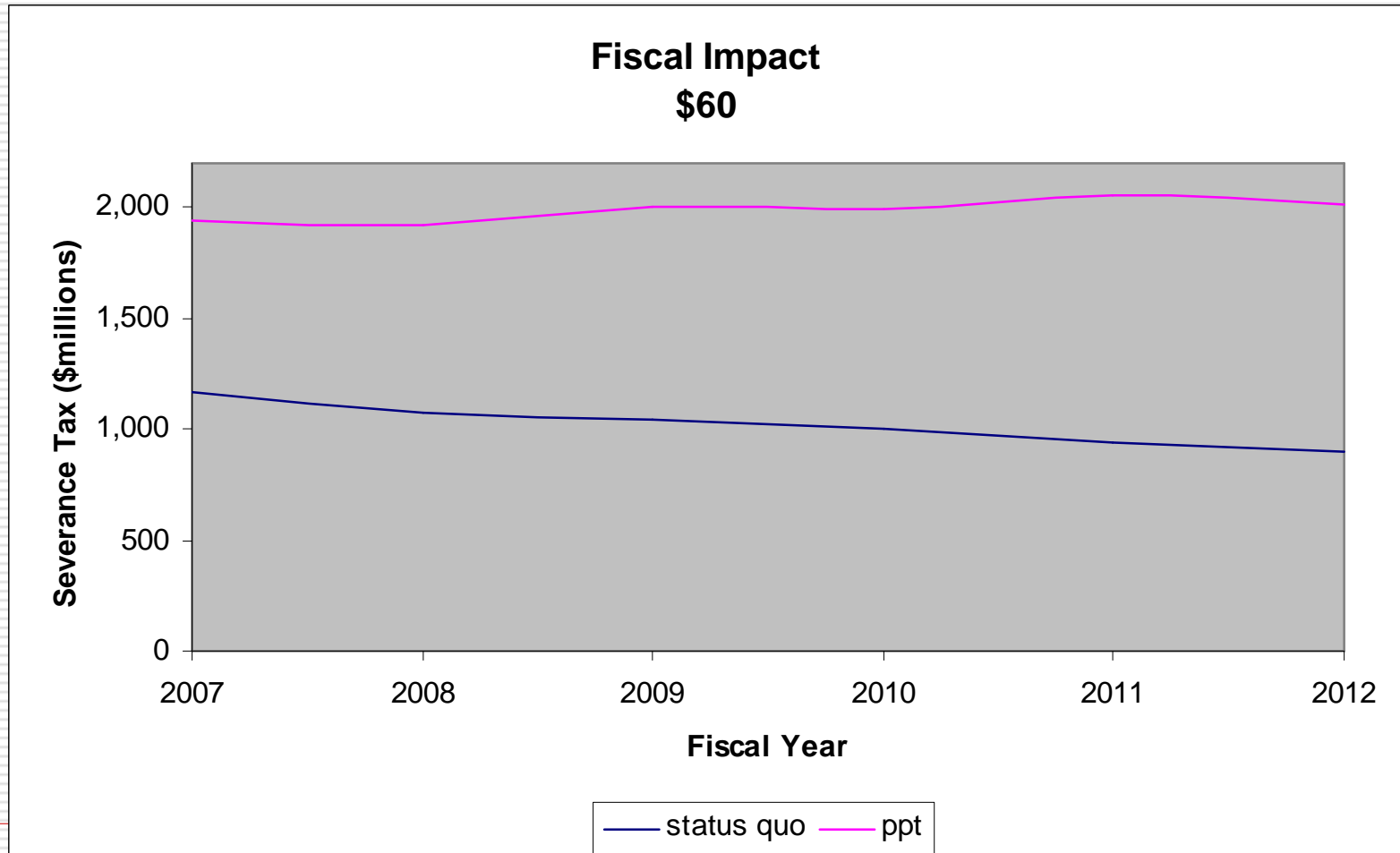
Revenue

- Additional revenue from PPT will depend primarily on two factors:
 - Price of oil/gas
 - Producer investment in the state

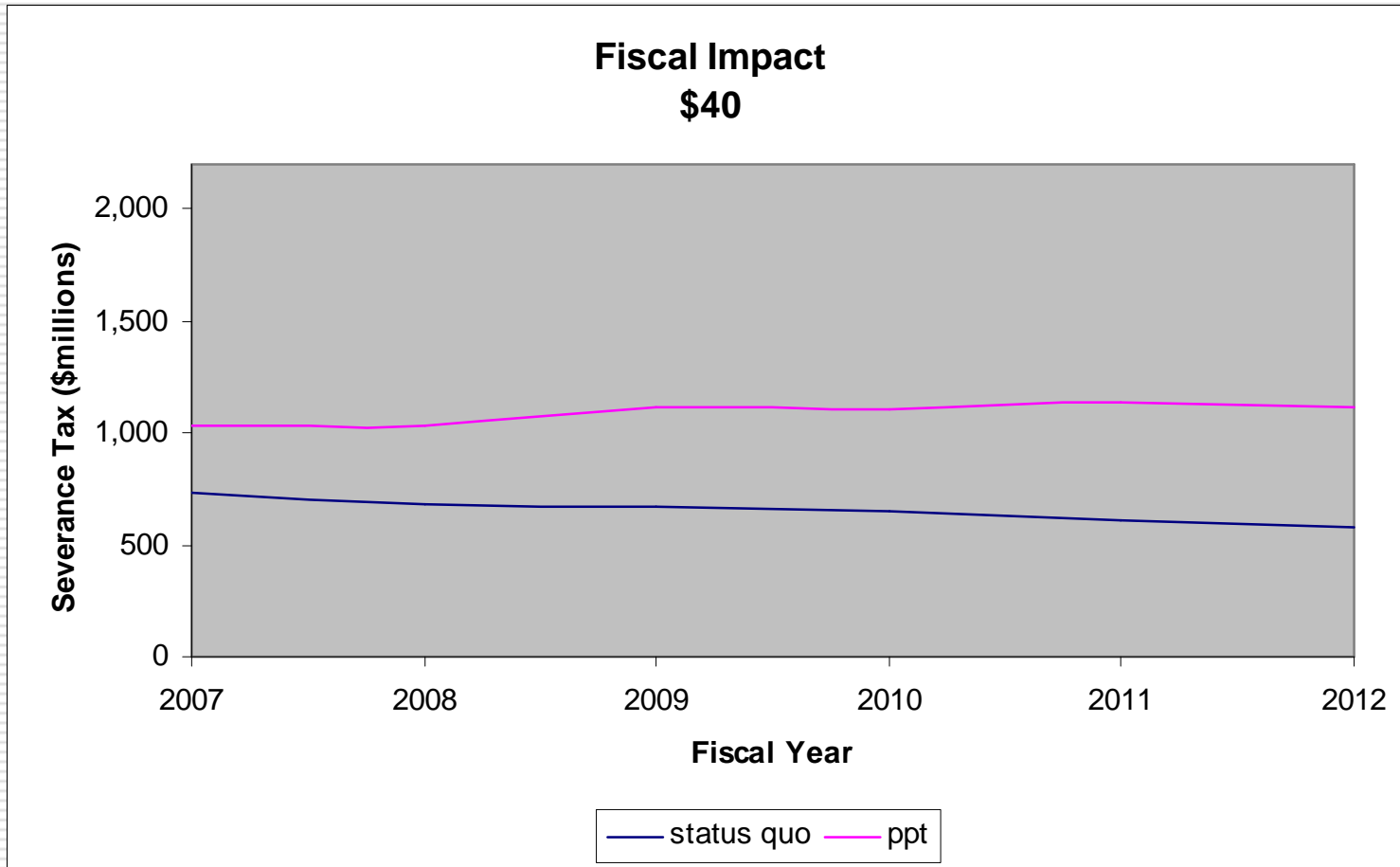
Incremental Revenue based on DOR Forecast:



Incremental Revenue based on \$60 oil



Incremental Revenue based on \$40 oil:



PPT: A Tax for Alaska's Future

