

SB 305      HB 488

The Rest of the PPT Story  
House and Senate Resource  
Committees of the Legislature

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Section 1 & 11

- Clarify AS 43.55.020 (f) to reflect consistent department interpretation, upheld in formal hearing decision in 1996
- Prevailing Value is used to set a taxable value for internally refined barrels
- May be moot for a taxpayer using “DNR” or formulaic valuation

## Sections 2 & 3

- Clarify state income tax code that production tax is not a tax “based on or measured by net income”
- Ensures that the PPT is deductible for state income tax purposes.

## Section 4 & 16

- Amends current statute (AS 43.05.230 and 43.55.040) to clarify rules for using one taxpayer’s information to determine another taxpayers tax
- Generally limited to Prevailing value calculation, which may be moot for taxpayer electing alternative valuation formula
- Taxpayer recipients of information are brought under confidentiality provisions of AS 43.05.230

## Section 5

- *Repeals and Reenacts AS 43.55.011(a)*
- *A tax for all oil and gas ... less any oil or gas...exempt from taxation. The tax is equal to 20 of the net value...*

## Section 6

- Amends AS 43.55.017 (a) to conform language to the IRC code to which it refers

## Section 7

- *Repeals and Reenacts AS 43.56.020 (a)*
- *Ninety percent...is due on the last day of each calendar month. The remaining portion is due on March 31...*

## Section 8

Existing statute has a separate tax on oil and on gas, while the PPT has a common rate for oil and gas, so a bunch of “ors” need to be changed to “ands;” that is the only change in this section, and it is not noted when it occurs later.

## Section 9 (part one)

- Amends AS 43.55.020 (d), which deals with private royalties.
- Note: State and federal royalty interests are tax free, so a producer pays tax typically on 7/8ths of its production from these leases.
- Private royalty interests are not tax free, so a producer pays tax on 8/8ths of its production from these leases
- However, law authorizes producer to pass severance taxes on to royalty owner.

## Section 9 (part two)

- When tax was gross at the point of production, this was straightforward.
- However, net value tax is harder to define and apply to a specific lease: (i) statewide costs, and (ii) since royalty owners don't share in lease costs, it can be argued they ought not share in the resulting tax deduction or credit.
- New formula:  $(TT / nR \text{ bbls}) * \text{private royalty bbls}$
- where
- TT= Total tax paid by producer
- nR bbls = non royalty barrels.

## Section 9 (part three)

- Assume taxpayer produced 100 bbls from each of 2 leases, one with a 12.5% state royalty and the other with a 12.5% private royalty share
- Gross value at the point of production was \$10 per bbl, with lease expenditures of \$875
- Calculation of tax:
- $\$10 * (100 + 87.5 \text{ bbls}) = \$1,875$
- $\$1,875 - \$875 \text{ lease expenditures} = \$1,000$
- $\$1,000 * .20 = \$200 \text{ Tax}$
- Amount passed on to private royalty owner:
- $\$200 / (87.5 + 87.5) = \$1.14 \text{ per barrel}$
- $\$1.14 * 12.5 \text{ barrels} = \$14.29$

## Section 10

- Repeals and Reenacts AS 43.55.020 (e)
- Simplifies three tiered system where flared gas was either tax free, taxed, or subject to tax and a penalty.
- Now gas and oil are tax free if used for necessary lease operations. (If AOGCC determines they have been wasted, then they are taxed.)

## Section 12

- *New AS 43.55.024: “Tax credits for certain losses and expenditures”*
- *(a) 20 % capital credit*
- *(b) 20 % loss carry forward*
- *(c) credits are non-refundable*
- *(d) certifying credits for transfer*
- *(e) limits on uses of credit certificates*
- *(f) audit adjustments of certificates*
- *(g) authority to write regulations*
- *(h) definitions including “qualified capital expenditure”*

## Section 13, 14 and 15

- Conforming changes to 43.55.030(a)
- Gross/net, and/or, simplified reporting
- Repeals the \$25 a day filing penalty which predated the 43.05 civil penalties
- Requiring the March 31 true-up filing

## Section 17

Amends AS 43.55.080

- Conforms statute to constitution
- Namely: recognizes that money from resolved disputes goes into Budget Reserve Fund and not into the general fund

## Section 18 and 19

- Conforming language and update style updates for AS 43.55.135 and .150 (a)

## Section 20

- *Adds 43.55.150 (d)*
- *The department may allow a producer...to calculate the gross value at the point of production of oil or gas ...upon ... a royalty value...accepted by [DNR] or [US DOI] ...or another formula prescribed by ... [DOR]*

## Section 21 (part one)

- *Adds AS 43.55.160 Determination of net value of oil and gas*
- *(a) gross value less lease expenditures and 1/72 of transitional investment expenditures*
- *(b) carry forward of lease expenditures that would cause a loss*
- *(c) definition of qualified lease expenditures*
- *(d) examples of and exclusions from direct costs*
- *(e) adjustments for amounts received by producer.*
- *(f) ability to annualize lease expenditures*

## Section 21(part two)

- *(g) Transitional investment expenditures*
- *(h) inflation of \$40 floor for TIEs*
- *(i) \$73 million allowance*
- *(j) limitation on those qualified to use (i)*
- *(k) allocation between in-state and out-of-state expenditures*
- *(l) authority to write regulations*
- *(m) use of “producer” includes “explorer”*
- *(n) exploration and drilling of stratigraphic test wells*

## Sections 22 through 29

- Amends AS 43.55.200 and 300  
Concerning Conservation Surcharges
- 100% still due every month
- Now creditable against the PPT
- Oil used on lease does not incur the surcharge
- Conforming language changes (extend to AS 43.55.160)

## Section 30 & 32

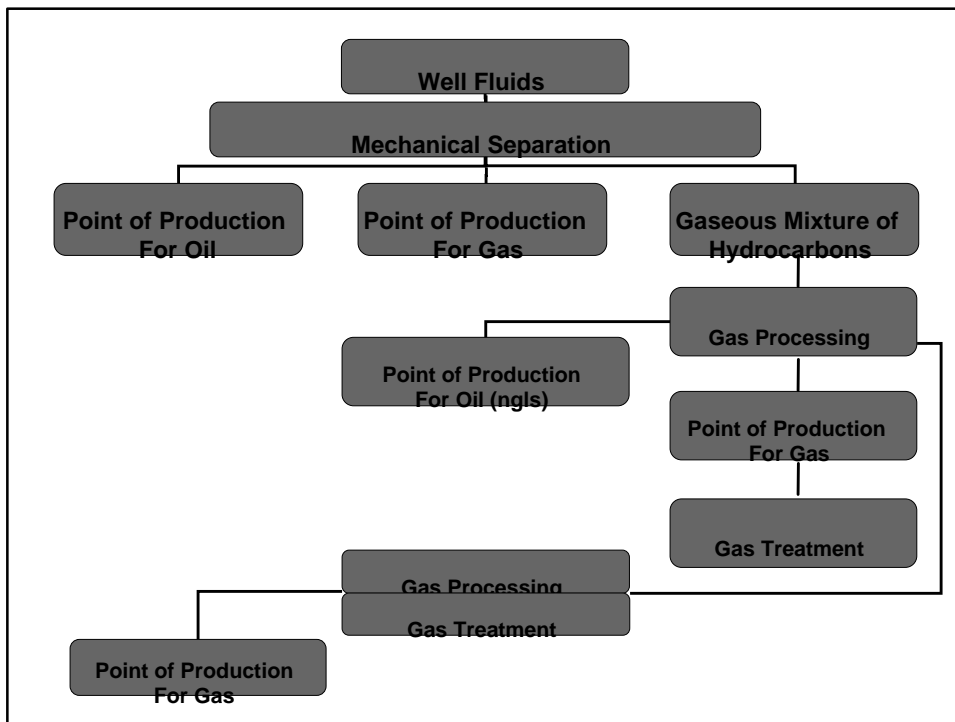
- New definition of “gas”
- Point of production moved downstream
- Gas processing now included in Upstream
  
- New definition of “oil”
- Liquid hydrocarbons recovered by mechanical separation or gas processing

## Section 31

- Redefine “gross value at the point of production”
- Oil pt.-of-prod. definition essentially unchanged (but if there is gas processing, the pt.-of-prod. for extracted liquids is downstream of processing)
- Gas pt.-of-prod. is downstream of any gas processing
- If there is a combined processing/ treatment plant facility, pt.-of-prod. is further upstream point where processing ends or treatment begins

## Section 33

- Define “gas processing” and define “gas treatment”
- Gas processing: physical processes that extract liquid hydrocarbons, upstream of a sales line or gas treatment plant
- Gas Treatment: removing non-hydrocarbon substances and conditioning gas for sales line



## Title 34

- Repeal of superseded provisions, including individual gas and oil taxes, ELF, and some definitions

## Section 35 through 40

- Applicability: Sections pertinent to taxing oil and gas under the PPT apply to oil and gas produced starting July 1, 2006
- Applicability: Prevailing value clarification of existing law applies to all oil and gas
- Half-year conventions for 2006
- Note: no 2006 ELF based safe Harbor

## Section 35 through 40 (cont.)

- Department may develop PPT implementing regulations immediately
- Conforming changes to statute captions (by Revisor)
- Sections enacting PPT take effect July 1, 2006
- Sections implementing other changes take effect immediately