

# PPT: Comparing the Options

Presentation to the Senate Finance  
Committee

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# Effective Dates & payments

## ◆ Governor's bill

- Effective 7/1/06

## ◆ House CS & Senate CS

- Effective 4/1/06

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## ◆ Governor's bill

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## ◆ House CS & Senate CS

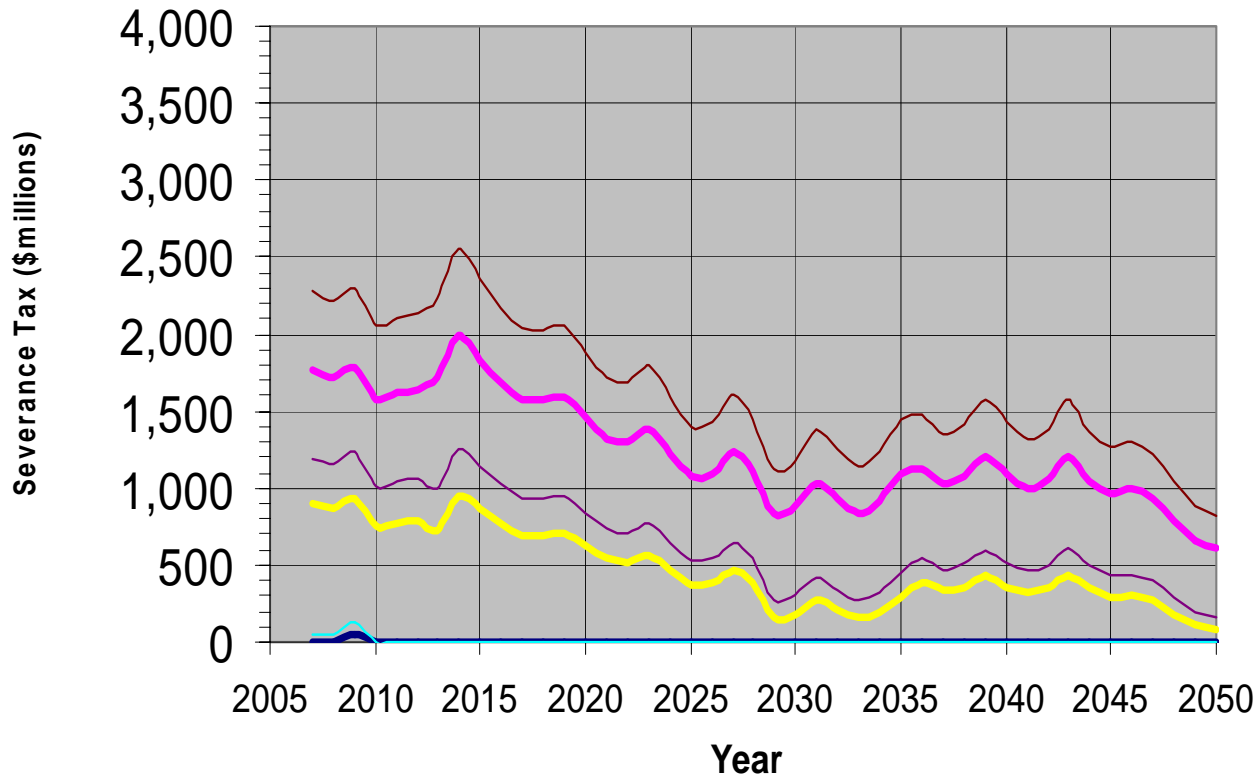
- Effective 4/1/06
- 6 mo. payment on ELF system, 7th mo. true-up

# Tax Rate

## Annual Oil Severance Tax (Millions of 2005 Dollars)

### High Volume Scenario, \$20, \$40, and \$60 per bbl

### Governor's PPT at 20/20 and 25/20



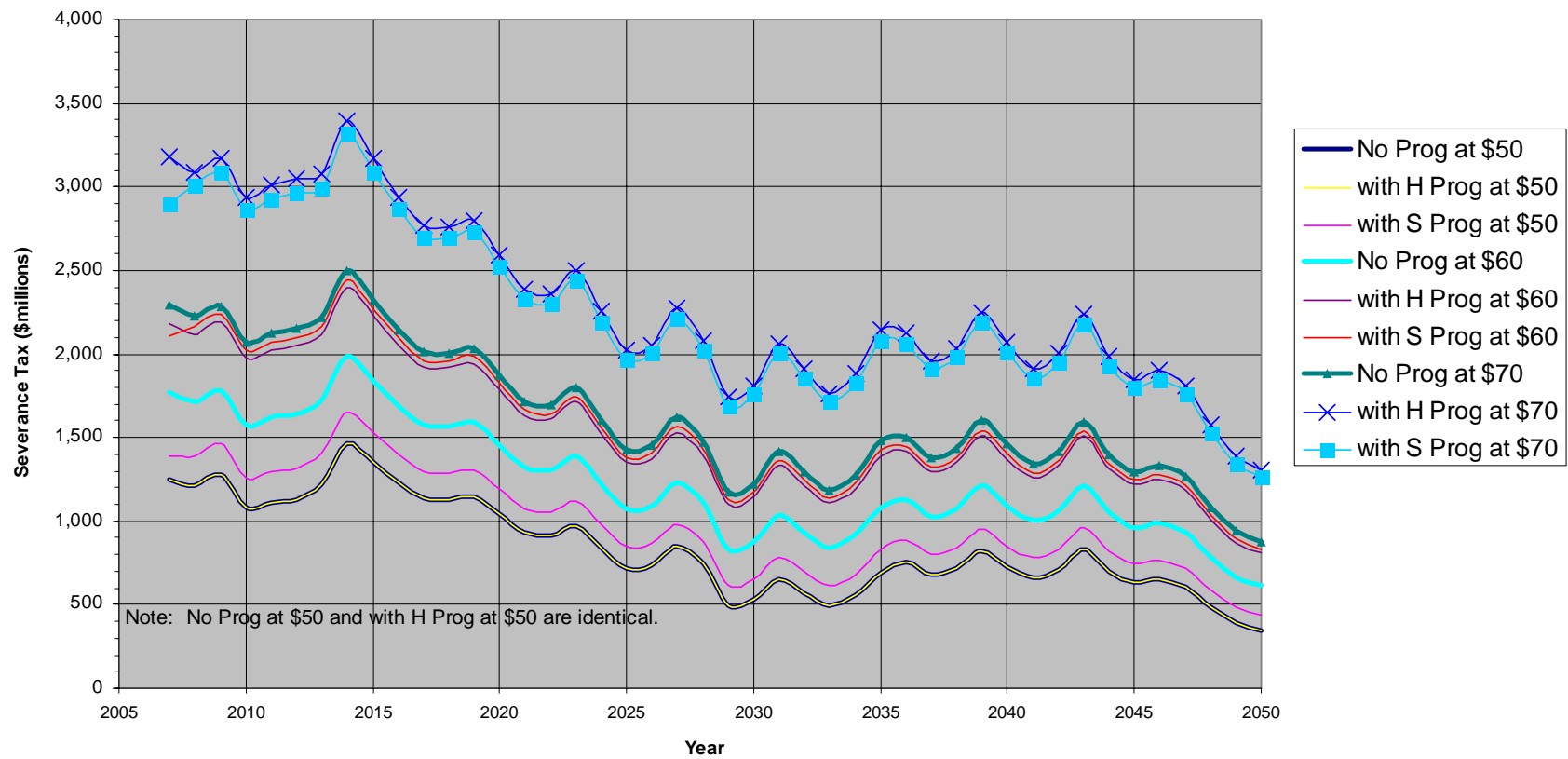
— 20/20 at \$20   
 — 20/20 at \$40   
 — 20/20 at \$60   
 — 25/20 at \$20   
 — 25/20 at \$40   
 — 25/20 at \$60

# Effect of Progressivity

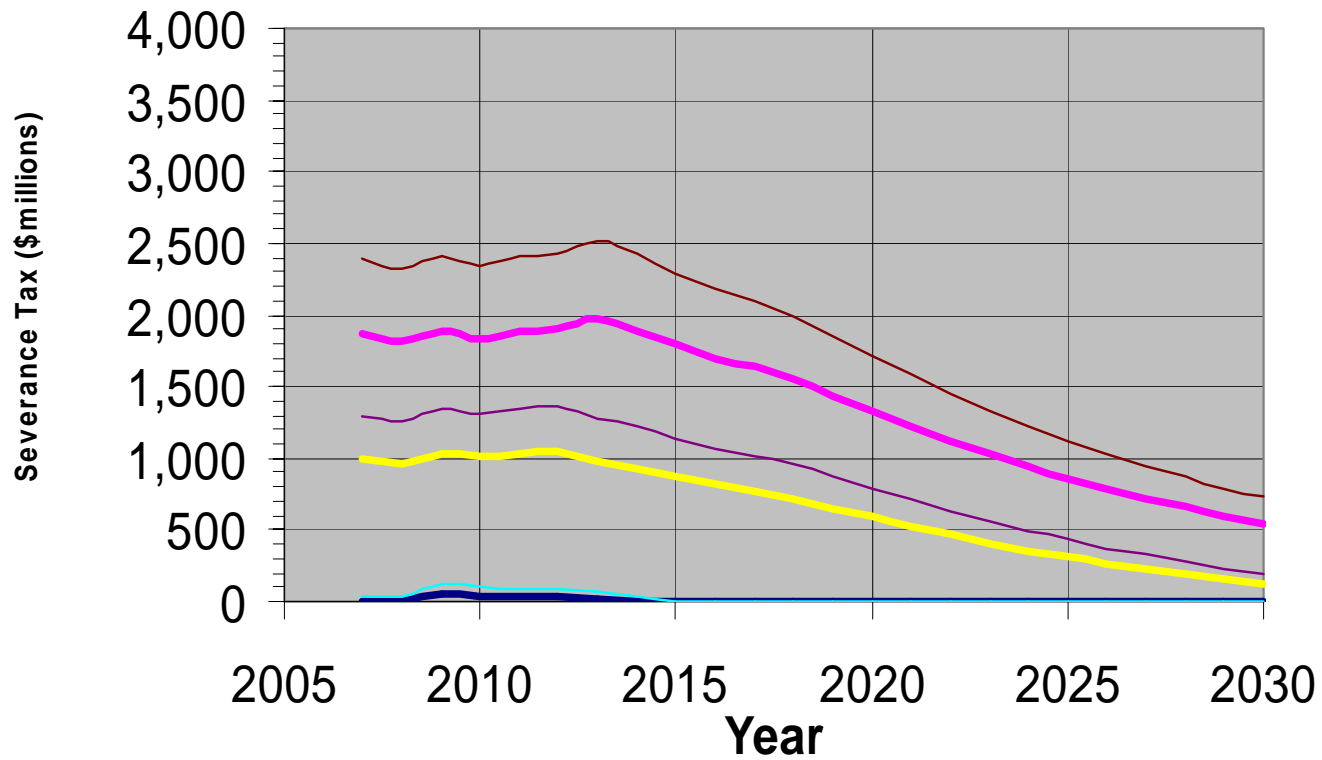
## Annual Oil Severance Tax (Millions of 2005 Dollars)

### High Volume Scenario, \$50, \$60, and \$70 per bbl

#### Governor's Bill as Written, with House Progressivity, and with Senate Progressivity



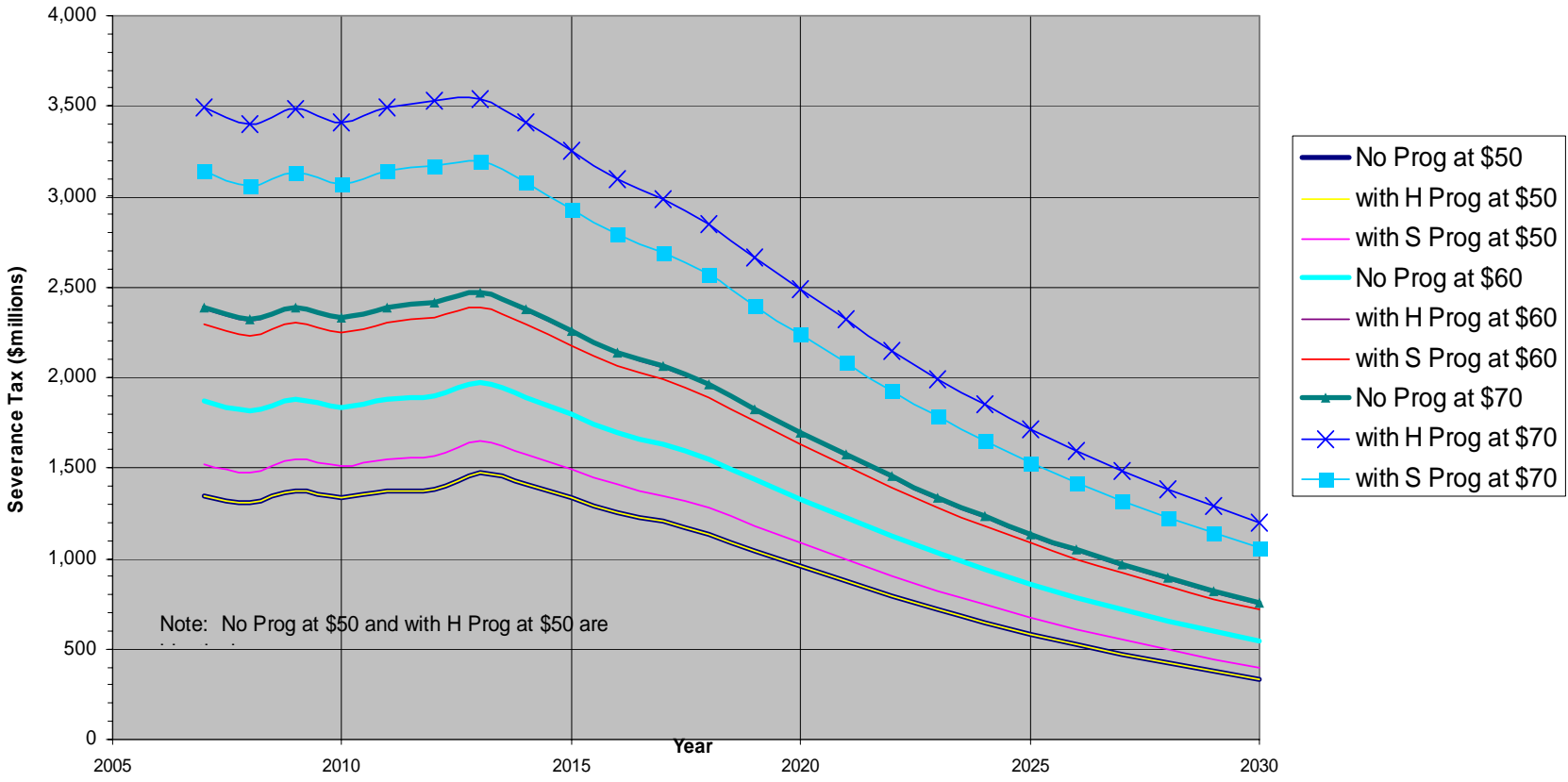
**Tax Rate**  
**Annual Oil Severance Tax (Millions of 2005 Dollars)**  
**Low Volume Scenario, \$20, \$40, and \$60 per bbl**  
**Governor's PPT at 20/20 and 25/20**



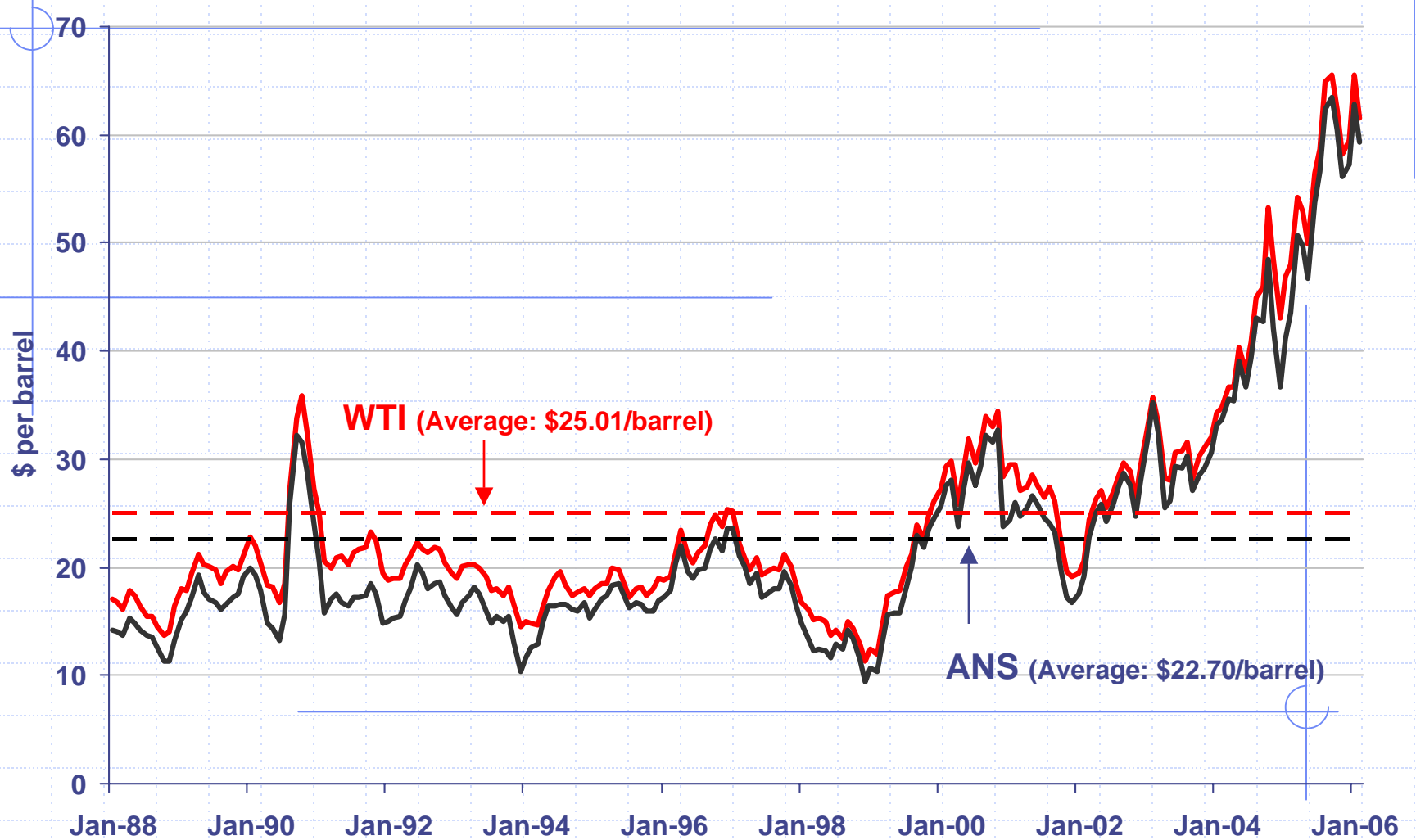
■ 20/20 at \$20  
 ■ 20/20 at \$40  
 ■ 20/20 at \$60  
 ■ 25/20 at \$20  
 ■ 25/20 at \$40  
 ■ 25/20 at \$60

# Effect of Progressivity

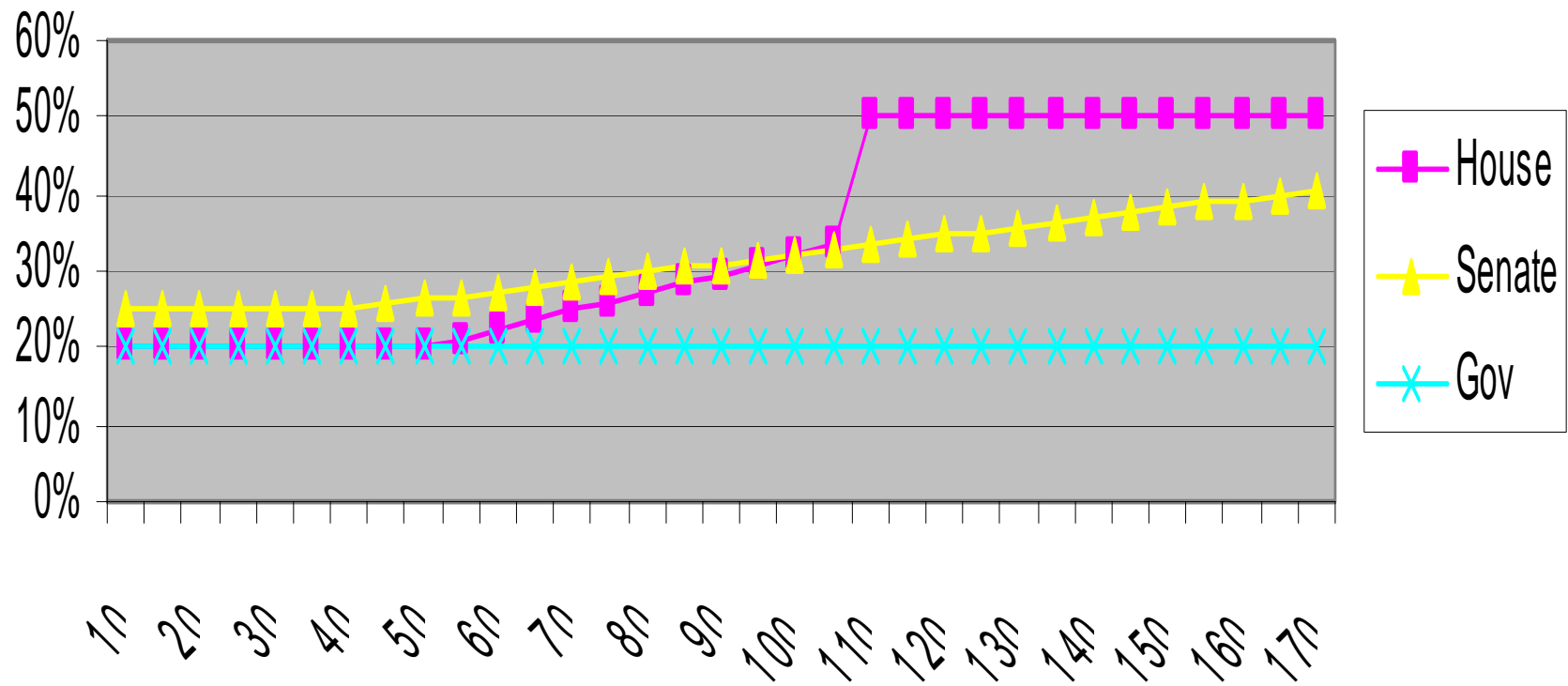
**Annual Oil Severance Tax (Millions of 2005 Dollars)**  
**Low Volume Scenario, \$50, \$60, and \$70 per bbl**  
**Governor's Bill as Written, with House Progressivity, and with Senate Progressivity**



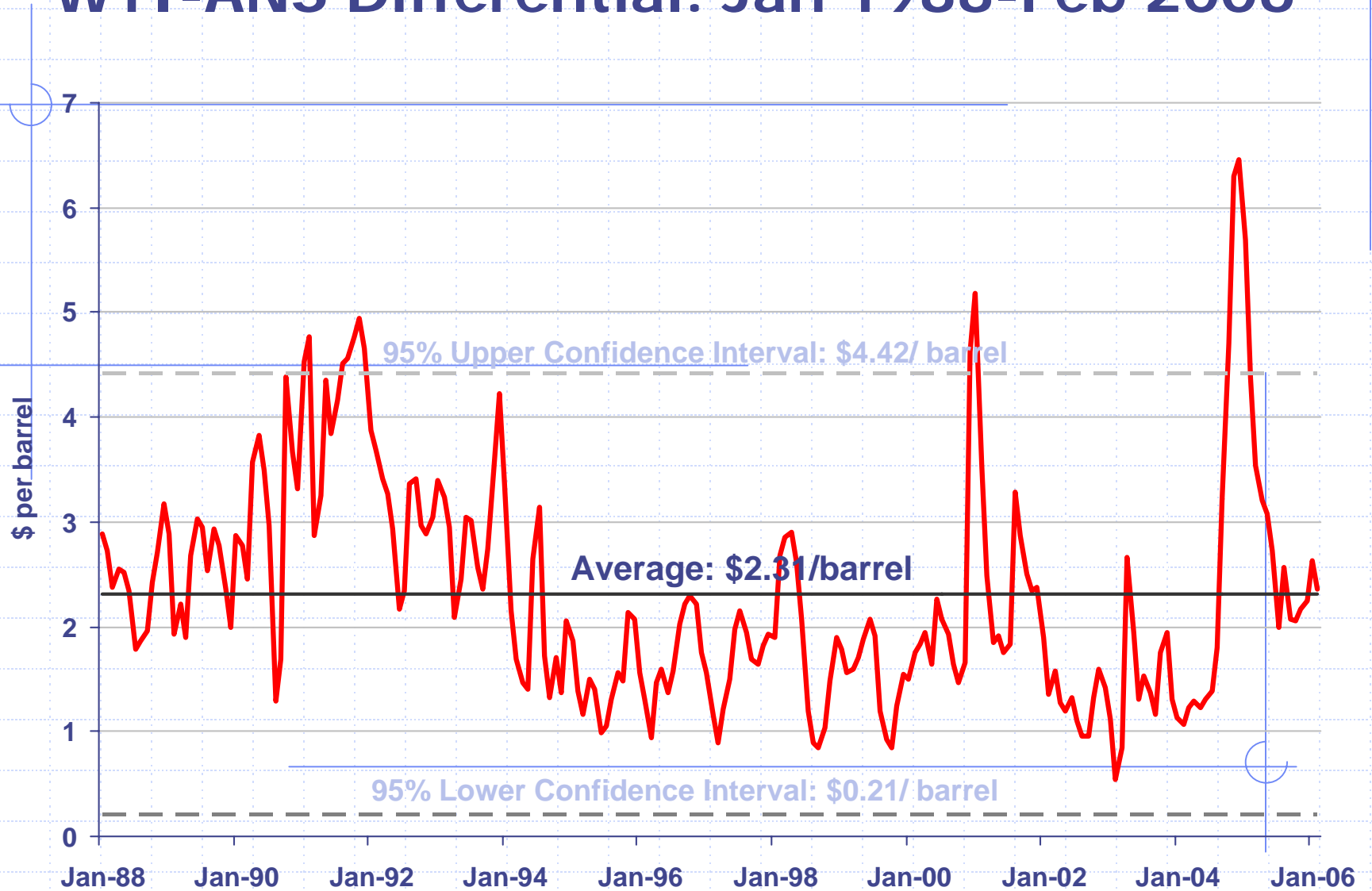
# WTI & ANS Crude Prices: Jan 1988-Feb 2006



## Schematic Comparison of Tax on Gross Prior to netting out costs at various (INCLUDING VERY HIGH !!!) Oil Prices



# WTI-ANS Differential: Jan 1988-Feb 2006



# Transition Provision

## ◆ Governor's bill

- 5 year lookback, deductible over 6 years

## ◆ House CS

- 3 months of capex and opex

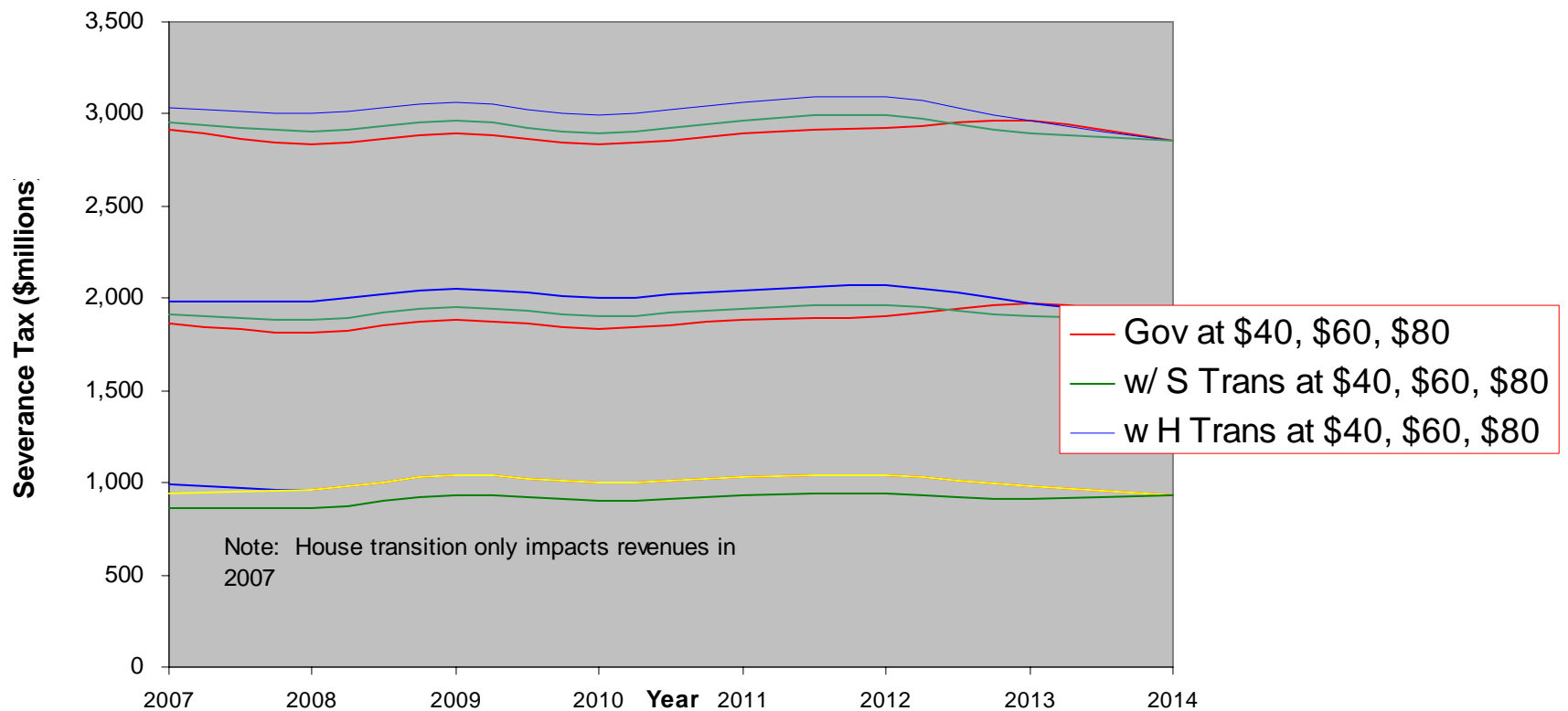
## ◆ Senate CS

- 5 year lookback, 2 for 1 recoupment

# Transition Treatment

- ◆ Governor's bill
  - Allowable deduction if oil > \$40/bbl
- ◆ House CS
  - Deduction over 9 months
  - No oil price test
- ◆ Senate CS
  - Credit—no oil price test
  - Sunsets 3/31/2013

**Transition Provision**  
**Annual Oil Severance Tax (Millions of 2005 Dollars)**  
**Low Volume Scenario, \$40, \$60, and \$80 per bbl**  
**Governor's Bill, with House Transition, and with Senate Transition**



# Base Allowance

## ◆ Governor's bill

- Up to \$73M standard deduction

## ◆ House CS

- Up to \$12M credit (= \$60M deduction)

## ◆ Senate CS

- 5000 barrel plan

# Base Allowance Sunset

## ◆ Governor's bill

- No sunset

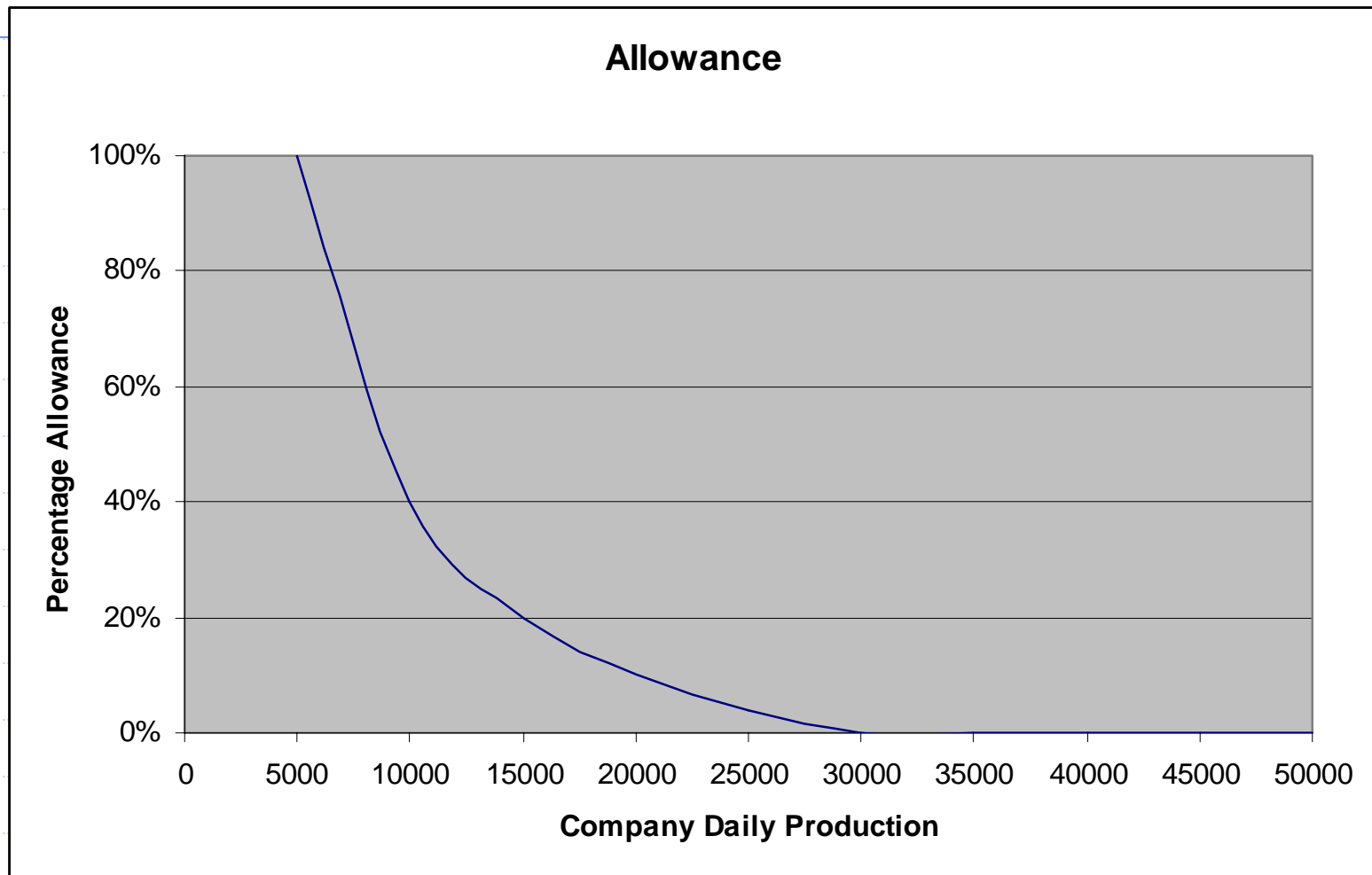
## ◆ House CS

- Sunsets 3/31/2016

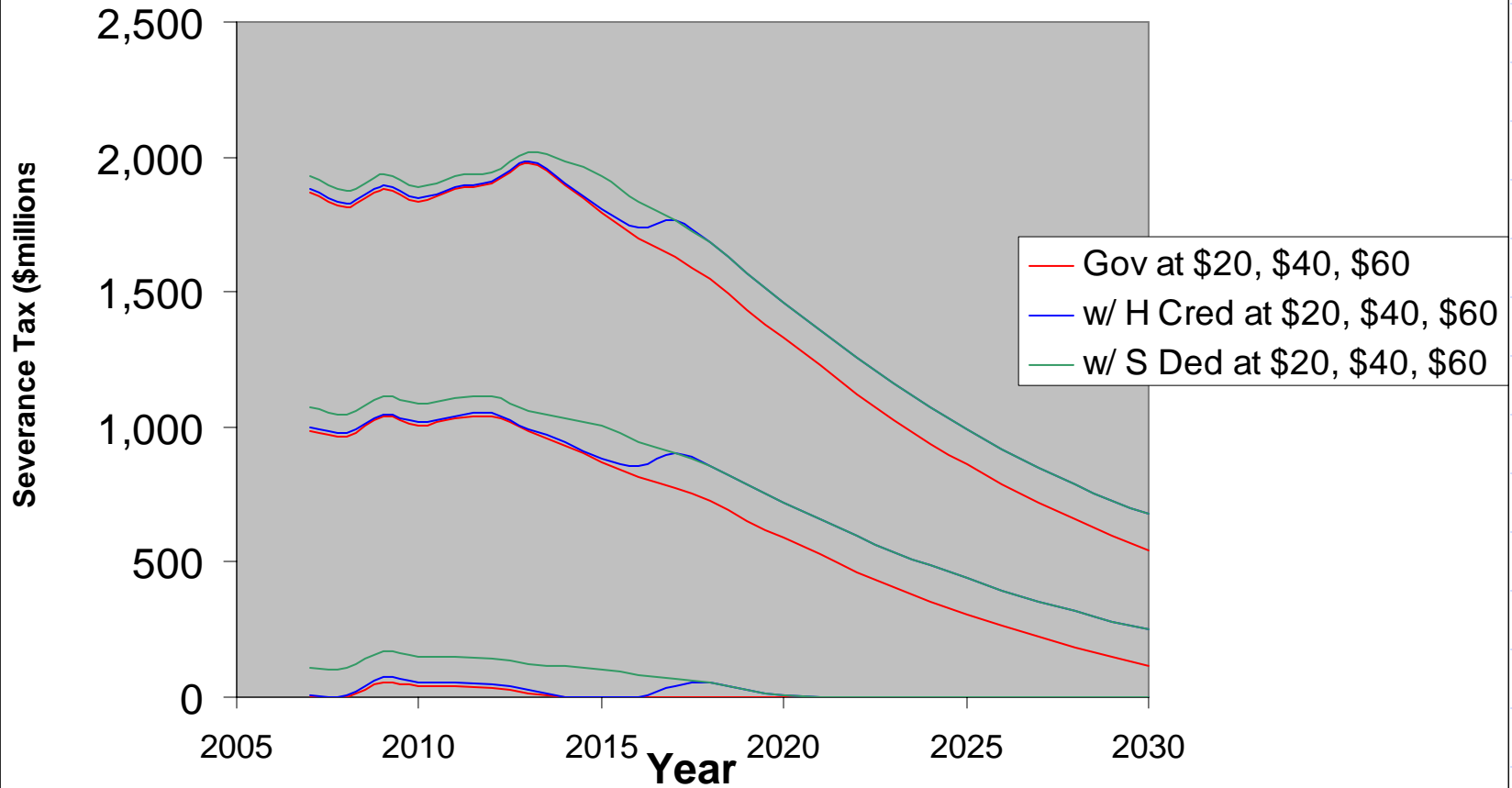
## ◆ Senate CS

- Sunsets 12/31/2013

## Illustration of base allowance at various production levels



**Base Allowance, or Credit**  
**Annual Oil Severance Tax (Millions of 2005 Dollars)**  
**Low Volume Scenario, \$20, \$40, and \$60 per bbl**  
**Governor's Bill as Written, with House Credit, and with Senate Deduction Provisions**



# Payment Safe Harbor

## ◆ Governor's bill

- 90% with annual true-up
- No interest if 90% test met

## ◆ House CS

- 90% with annual true-up
- Interest due on true-up amount
- Penalty if 90% not met

## ◆ Senate CS

- 95% with quarterly true-up
- No interest if 95% test met

# Spill Surcharges

## AS 43.55.201, AS 43.55.300

### ◆ Governor's bill

- No change to total 5 cents
- No change to split (2/3)

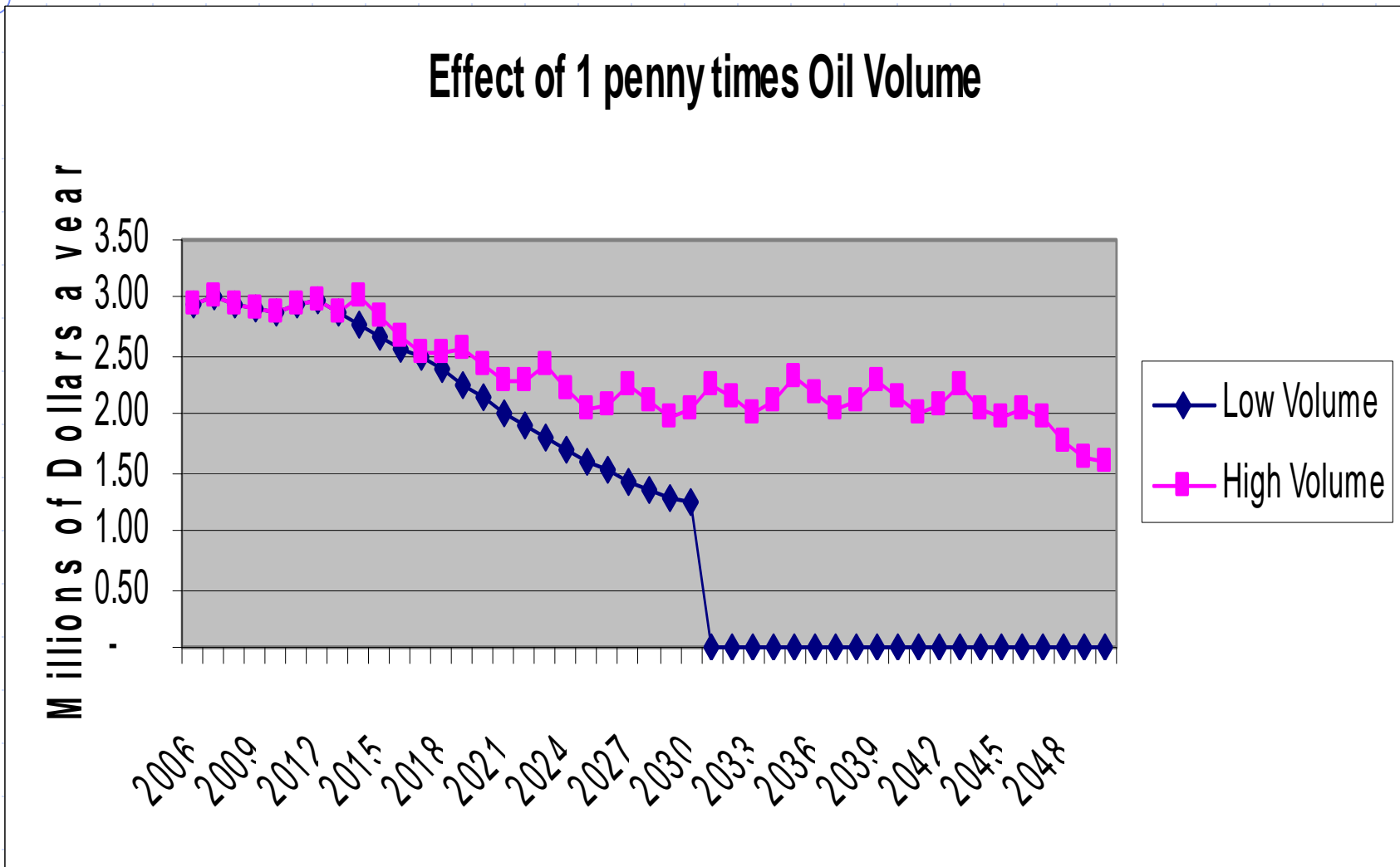
### ◆ House CS

- No change to total 5 cents
- Changes split to 1/4

### ◆ Senate CS

- Increases total to 6 cents
- Changes split to 1/5

# Spill Fees



# Other differences

- ◆ Credits refundable?
  - Up to \$10M in House CS only
- ◆ Abandonment
  - Governor's bill: no specific provision
  - House CS: No credit available
  - Senate CS: No credit available for old production
- ◆ Catastrophic oil spill expenses not deductible under House CS
- ◆ SB 185 credits: extended 10 years in House CS

# Private Royalties

- ◆ State and federal royalty interests are tax free so a producer typically pays tax on 7/8ths of its production from these leases.
- ◆ Private royalty interests are not tax free, so producer typically pays tax on 8/8ths of its production from these leases.

# Private Royalties

- ◆ Existing law authorizes producer to pass production on to royalty owner
  - Royalty owner bears no responsibility as a tax payer.
  - More difficult to calculate under PPT
- ◆ CS establishes new tax rate on existing private royalty leases, (excludes private lessor's royalty interests from PPT)

# Private Royalties - Settlement

- New Formula for Settlement in Gov's Bill:
  - ◆ Total tax paid by producer/Total non-royalty bbls \* Private royalty bbls
  
- New Formula for Settlement in CS:
  - ◆ Total tax paid by producer/total gross value at the point of production \* Private royalty bbls