

Senate Resources Committee

SB 2001 Details

Presentation by Dan E. Dickinson, CPA
For Legislative Budget & Audit Committee
October 22, 2007

1. Rate etc.

- Caveats on government take statistics
 - Apples to apples comparisons very useful – but be very wary about plucking numbers from different studies
 - Need to look at rest of the fiscal system. For example, some governments encourage developing high paying jobs (low industry taxes), and pick it up in personal income and consumption taxes.

2. Progressivity

- Switch in factors
- Switch from monthly to annual typically means lower dollars
 - Spikes don't average out
 - Higher base – but won't capture as much upside
 - Less progressive
- Modeling Issue – requirements

2. Progressivity

Comparing Annual and Monthly analysis of FY 2008 with hypothetical spike

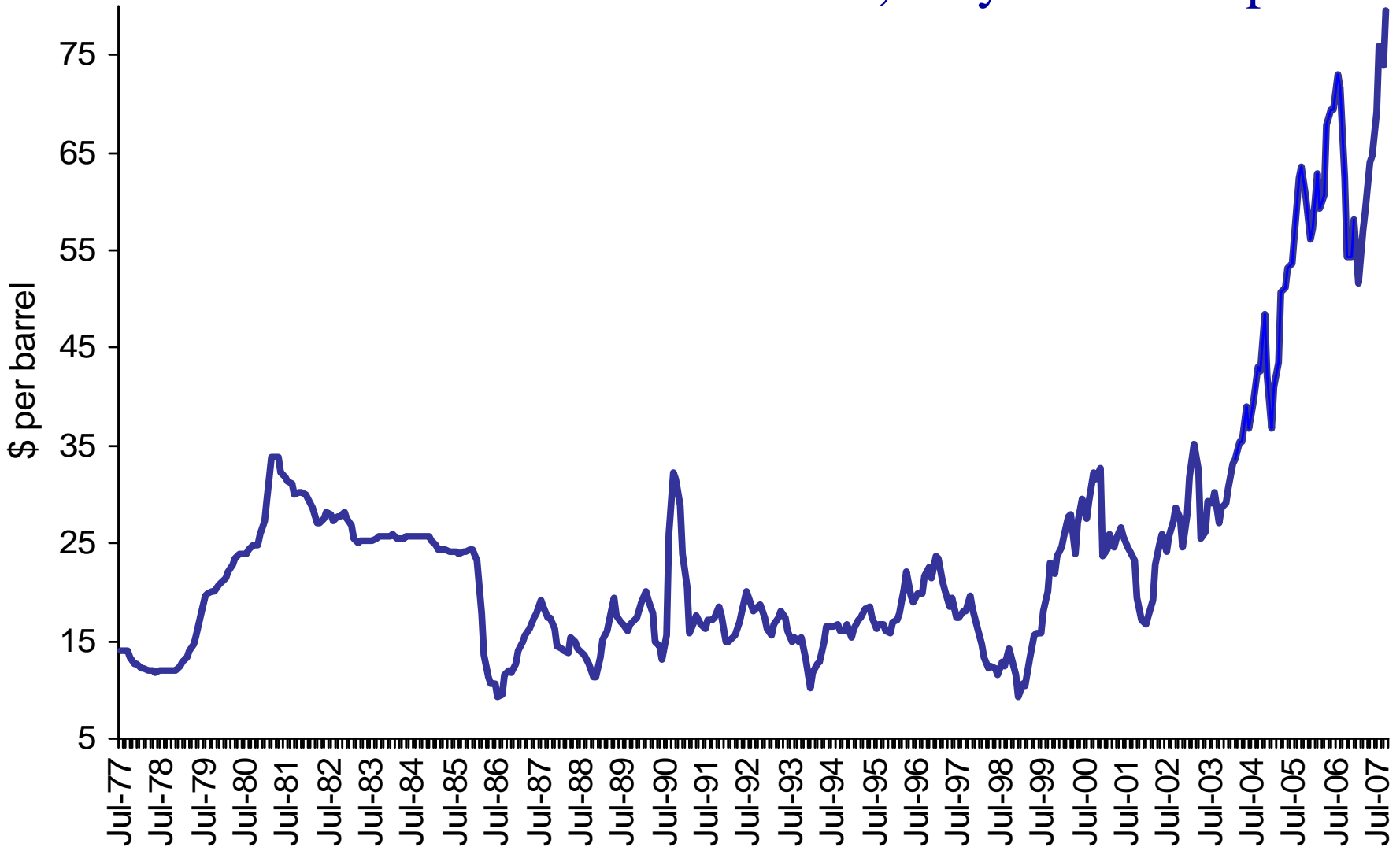
	US West Coast Price/ bbl	Per Barrel Total Costs	Per Barrel Production Tax Value	Adjustment Converting Production Tax Value to Price Index	Price Index	Rate per Dollar of Price Factor	Incremental Progressivity %	Volumes (millions of bbls)	Progressivity Tax (millions of dollars)
A	B	C	D= (B+C)	E	F= (D+E)	G	H= (F*G)	I	J= (D*H*I)
	\$/bbl	\$/bbl	\$/bbl	\$/bbl	\$/bbl	%	%	MM bbls	MM \$
Monthly Analysis, \$40 Adjustment and .0025% Parameter under Current Law									
Jul	51.43	(23.85)	27.58	(40.00)	-	0.25%	0.00%	20.7	-
Aug	51.43	(23.85)	27.58	(40.00)	-	0.25%	0.00%	20.7	-
Sep	51.43	(23.85)	27.58	(40.00)	-	0.25%	0.00%	20.1	-
Oct	51.43	(23.85)	27.58	(40.00)	-	0.25%	0.00%	20.7	-
Nov	51.43	(23.85)	27.58	(40.00)	-	0.25%	0.00%	20.1	-
Dec	51.43	(23.85)	27.58	(40.00)	-	0.25%	0.00%	20.7	-
Jan	77.15	(23.85)	53.29	(40.00)	13.29	0.25%	3.32%	20.7	36.7
Feb	102.86	(23.85)	79.01	(40.00)	39.01	0.25%	9.75%	18.7	144.2
Mar	77.15	(23.85)	53.29	(40.00)	13.29	0.25%	3.32%	20.7	36.7
Apr	51.43	(23.85)	27.58	(40.00)	-	0.25%	0.00%	20.1	-
May	51.43	(23.85)	27.58	(40.00)	-	0.25%	0.00%	20.7	-
Jun	51.43	(23.85)	27.58	(40.00)	-	0.25%	0.00%	20.1	-
								244.0	217.6
Yearly Analysis, \$30 Adjustment and .002% Parameter, as Proposed									
Yr	60.00	(23.85)	36.15	(30.00)	6.15	0.20%	1.23%	244.0	108.5

Source: Dickinson October 3 2007 report: NOT A PREDICTION
10/22/2007

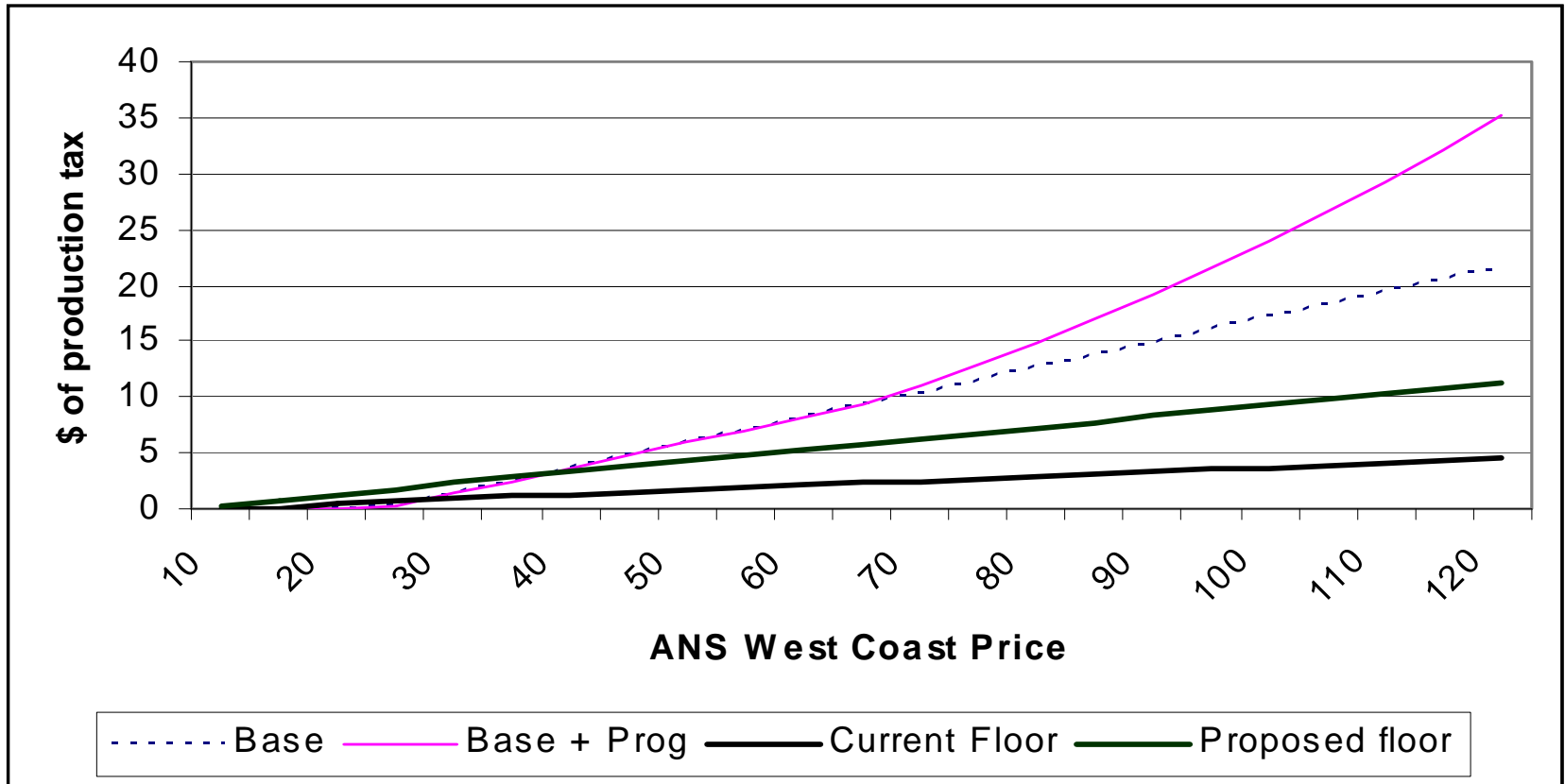
Dan E. Dickinson CPA, Senate

Resources on SB 2001

ANS West Coast Price, July 1977 – Sept 2007

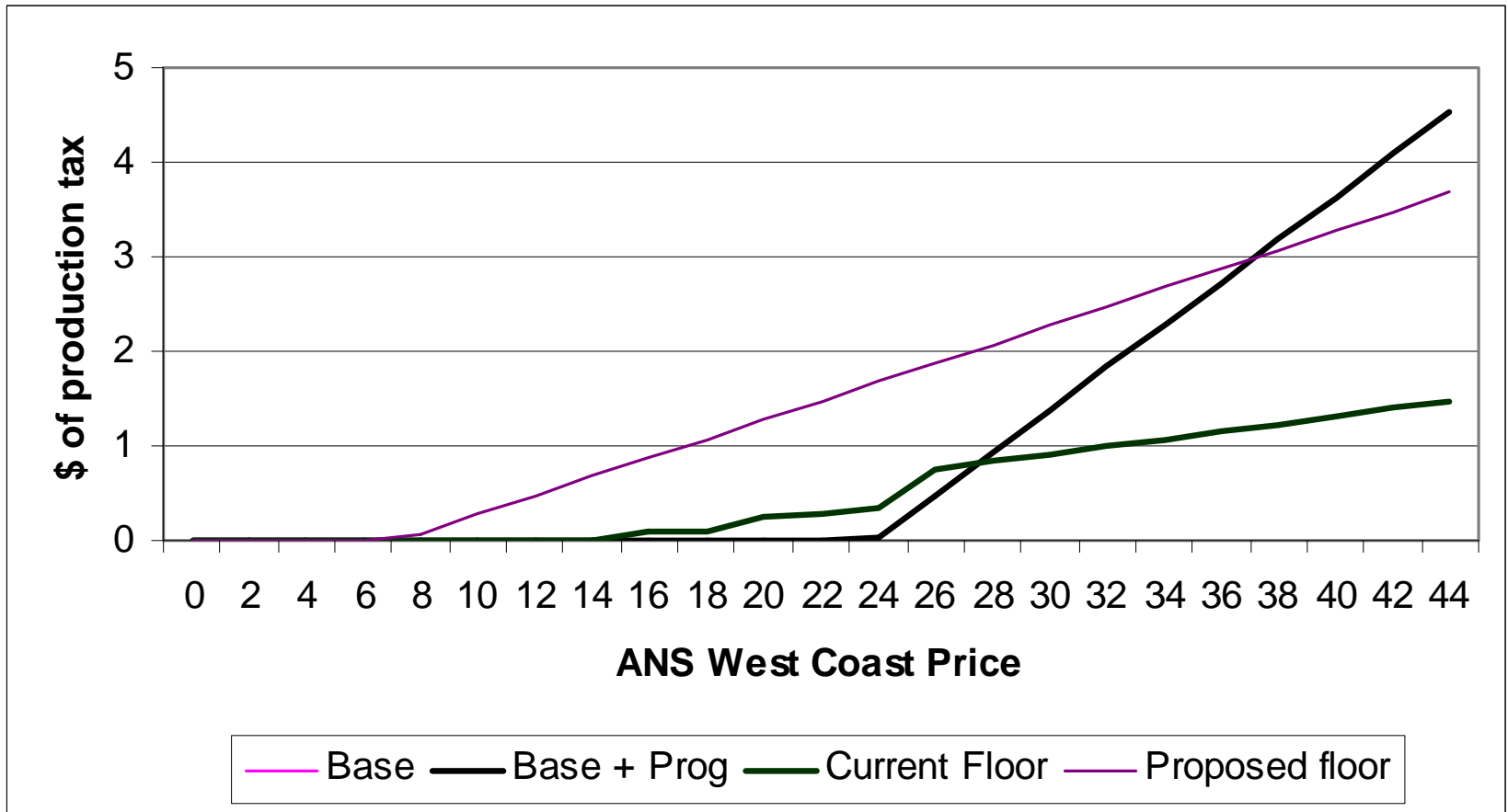


3. Effect of Gross Floors – Low End



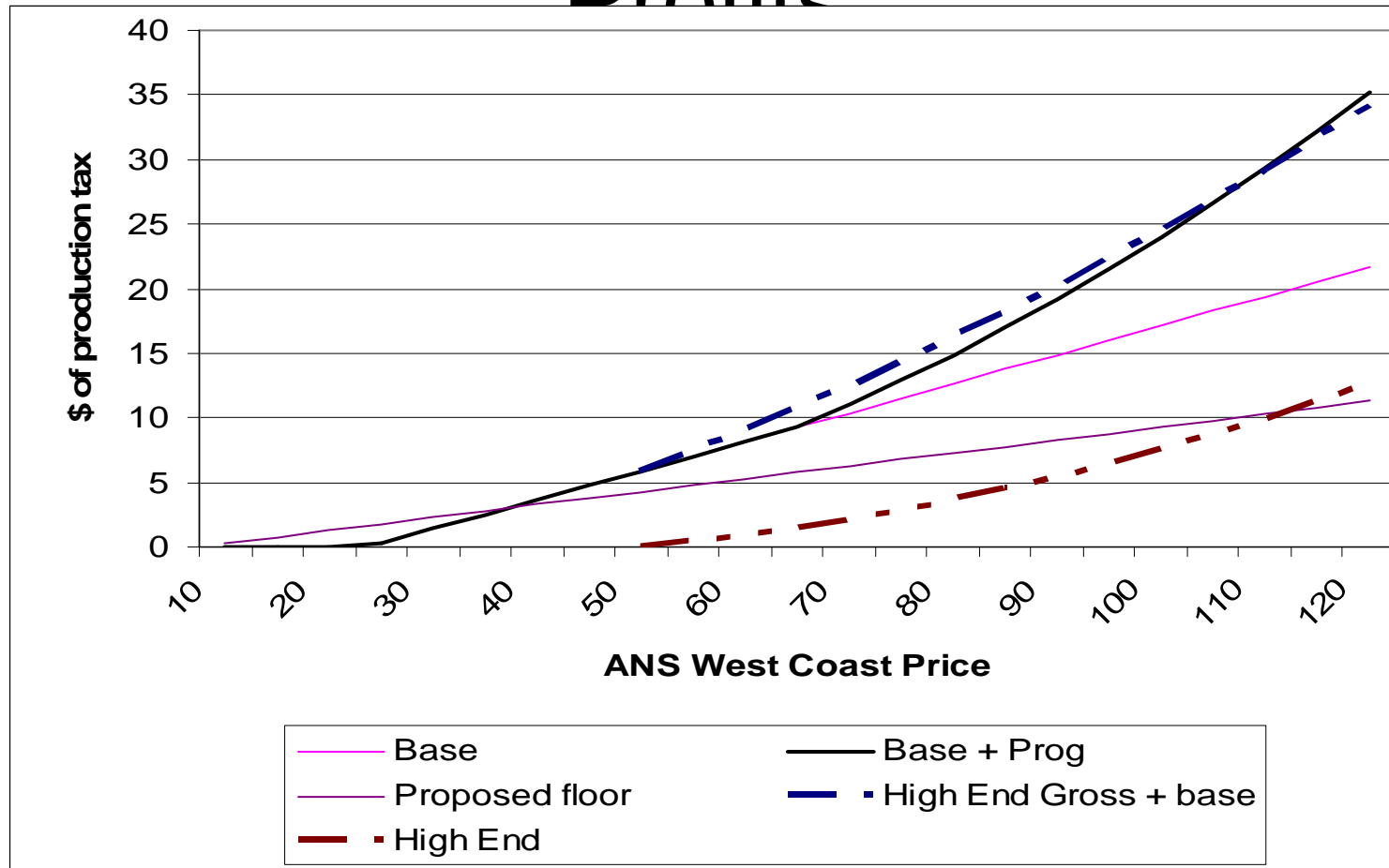
Cost assumption = \$7.22 downstream cost, 16.63 upstream cost,
barrels assumed to be legacy production

3. Effect of Gross Floors – Low End



Cost assumption = \$7.22 downstream cost, 16.63 upstream cost,
barrels assumed to be legacy production

3. Effect of Gross Floor- Windfall Profits



Cost assumption = \$7.22 downstream cost, 16.63 upstream cost, barrels assumed to be legacy production

3. Legacy Ring Fencing – One Way

- Proposal is to ring fence Prudhoe Bay and Kuparuk into a “legacy field”
- Profits generated in Legacy Fields could be offset by investment credits and losses elsewhere (except when floor in place)
- Investment credits and losses generated in Legacy Fields could be offset by profits generated elsewhere

.023 Investment Credits

- .023 (b) Proposes to have loss carry forward credits calculated at the tax rate instead of 20%
 - makes sense to treat explorers and producers same
- .023 (d) proposal spreads credits out over two years-
 - because of difference between fiscal year and calendar year may not improve predictability that much
 - little actual fiscal effect after first year
- .023 (i) Proposed elimination of TIE credits
 - Compare rules to DNR Commissioner's proposed ability to grant credits for pre 2003 work in .025 (i)

.024 Non Transferable Credits

- Only proposed change would not allow these to be applied against the floor.

.025 Exploration Credits

- Proposal adds specific disallowances in .025(b) (3) for “costs arising from gross negligence or violations of health safety, or environmental statutes or regulations”
- Compare to lease expenditure disallowance in .165 (e) (6) for “costs arising from fraud, willful misconduct, gross negligence, violation of law, or failure to comply with an obligation under a lease, permit or license issued by the state or federal government”

.025 Exploration Credits

- Current AS 43.55.025 (c) says bottom whole must be three mile from previously drilled bottom hole, except in CI, if DNR determines “distinct exploration target”
- Proposal has three requirements – DNR approval before hand, must meet 3 mile requirement if not in CI, DNR approval afterwards.
- Change from rules to seeking agency approval.

.025 Exploration Credits

- Proposal would make data on non state lands more available to DNR and public as condition of credit.
- Using tax code for other (worthwhile) goals

.025 Exploration Credits

- Under current law, only additional wells spudded in a drilling season (150 days) can qualify for exploration credits
- Under proposal that figure is expanded to two drilling seasons (540 days)
- Shifting credits to explorers

.025 Exploration Credits

- Proposal will create mini-TIE allowing DNR to authorize tax credits for pre 2003 seismic work.
- Shift from rules to agency approval.

7. Allowable Lease Expenditures

AS 43.55.160

- Proposal greatly simplified section because monthly calculations no longer needed for progressivity.
 - However, a monthly gross (destination value) based windfall profits tax would not require division of costs between months.

7. Allowable Lease Expenditures

AS 43.55.165

- Under proposal allowable lease expenditures must be as defined in regulation
 - Switch from what is not forbidden is permitted to what is not permitted is forbidden.
- Can Joint interest billings be used? – although specific language is gone, appears DOR may still go down this road under its regulations

7. Allowable Lease Expenditures

AS 43.55.165 (e) (6)

Current prohibition – “costs arising from

- fraud,
- willful misconduct or
- gross negligence”

Proposal adds

- violation of law; or
- failure to comply with an obligation under a lease, permit, or license issued by the state of federal government.
- Compare to proposed AS 43.55.025(b) (3)

7. Allowable Lease Expenditures

AS 43.55.165 (e) (15)

- Dismantling, Removal and Restoration cash payments (DR&R) upstream
 - does not include common carrier pipelines
 - 'matching' accruals during operations not allowed
- Current law – allowed multiplied by a fraction of production before 2006 over total production
- Proposal totally disallows DR&R
- Even under current law much DR&R likely to never be deducted as no offsetting revenues.

7. Allowable Lease Expenditures

AS 43.55.165 (e) (19)

- Proposal disallows costs arising in response to a problem which required an unscheduled reduction in production or resulted in an release of gas.
 - Regulations will probably define “unscheduled” -24 hour notice? Weekly? Annual? What if reduction amount is different from “scheduled” amount. What if one week of scheduled maintenance takes two weeks?
 - Encouraging capital investments to create Redundancy?
- Still allowed if “acts of God”

7. Allowable Lease Expenditures

AS 43.55.165 (e) (18)

- Current law disallows 30 cents a barrel from what would otherwise be allowable capital costs
- This was described as dealing with the known corrosion issue.

7. Allowable Lease Expenditures

AS 43.55.165 (e) (19)

- Compared with SB 80 approach which was built around the concept of “improper maintenance”
- Under current property tax law (AS 43.56), state actually taxes “replacement cost new less depreciation” or “as-if” North Slope facilities generated by cost studies. Millions of state and company dollars and spent on these models.
- Would probably build AS 43.55 “as-if” “well maintained” facilities

7. Allowable Lease Expenditures

AS 43.55.165 (e) (19)

- Currently topping plants generate diesel on North slope that is used in production, and costs of plant are allowed.
- Under proposal cost of plant not allowed; instead “fair market value” of diesel less prevailing value of crude.
 - Market may not be broad
 - Specific plant under consideration

8. State Purchase of Credits (AS 43.55.028)

- Currently allowed if
 - Less than 50,000 bbls a day – i.e. not one of the big 3
 - Reinvest in state (including lease bids)
 - Taxpayer has no other delinquent taxes
 - Limited to \$25 million a year
- Proposal eliminates \$25 million limit
- Proposal establishes fund with percentage of tax revenues
- Removing cap not necessarily tied to separate fund.

9. Information AS 43.55.040 (5) & (6)

- Requires taxpayer “to file reports and copies of records that are considered by the department as necessary to forecast state revenues under AS 43.55”; \$1,000 a day penalty
- Regulations will be needed to define
 - “necessary” (as opposed to say useful),
 - how far in advance (one, two, many years?)
 - how often the reports need to be updated (monthly, 1% change, change out three years...?)
 - How far does due diligence have to go? Board of directors discussed 5 year plan?
 - Can State audit for information not provided, and assess 2amonthly 2 million penalty starting 6 years from now?

9. Information (general rule AS 43.05.230 – proposed rule AS 43.55.890)

- Currently under AS 43.05.230 (e) DOR can publish statistics with individual data combined so as to “prevent the identification of particular returns or reports”
- Proposal only requires combination of three taxpayers “regardless of whether the information ...prevent[s] the identification of particular returns or reports”

9. Information (general rule AS 43.05.230 – proposed rule AS 43.55.890)

- Was described as “same as DOR does for Salmon Pricing Report”
- Alaska Salmon Price Report reporting rules are not removed from general AS 43.05.230 (g) – the general reporting tax confidentiality rules.

9. Information

Alaska Salmon Price Report

- Sec. 43.80.065. Confidentiality of reports. Information in reports submitted under [AS 43.80.050](#) , and price averages calculated by the department from the information in the reports, are public information, except that information that identifies or could be used to identify a particular fish processor is confidential.

9. Information

Alaska Salmon Price Report

- “We use the following guidelines when evaluating confidentiality
 - If there are three or more processors for a given are, the information is reported unless one processor accounts for over 80% of total value, or two processors account for over 95% of total value.
 - If there are only one or two processors for a given are, the information is not reported”
 - From Cover letter - October 15, 2007 Alaska Salmon Price Report

9. Information - (AS 43.05.230(h))

- Proposal will require DOR to share information with DNR obtained under AS 43.55 – including forward looking information required by AS 43.55.040 (5).
- This may have competitive implications if DNR returns to markets as seller of royalty in kind (RIK) oil or gas.

9. Information – AS 43.55.030 (e) and (f)

- Proposes to set forth in statute the actual data required to be filed by taxpayers. Thorough summary of costs, volumes, sales, monthly estimates etc.

10. Statute of Limitations (Old general AS 43.05.260, new AS 43.55.075)

- Proposed extension from 3 years to 6 years
 - Currently frequently extended by mutual agreement of parties
 - Ability to assess \$1,000 a day reporting penalties also extended

11. Auditors as Exempt Employees

- Good step to enter a competitive market.
- DOR income auditors also face national corporate income tax staffs. Income tax (both special oil and gas and general) generate over 1/2 billion dollars a year in tax revenues.

12. Other Admin – Information Management System

- Electronic Information – including information beyond that required for the payment of the tax such as returns, statements, reports, notifications and applications- “in a form or manner approved or prescribed by the department.”
- May be great – and the kind of thing you would have seen me pushing for when I was Director of Tax, bringing the Division into the 21st century

12. Other Admin – Information Management System

- It may be information the taxpayer have already – but it may not be in our format. Especially for forward looking information, there may be burden on the taxpayer to restate material
- Do we miss underlying changes because we force financial data into our world view as defined by our forms?

12. Other Admin; Interest (AS 43.55.020 (g))

- Note: Concerns about interest in Dr. van Meurs' 10/18/07 presentation unfounded.
- IRS interest rules only apply to estimated payments through march 31 – then switch to higher state rate found in as 43.05.225 (11%)

13. Cook Inlet Simplicity

- Suggest Cook Inlet Ceilings could be implemented more simply.
Current statutory language historical product
 - Currently calculations have to be done individually for each lease or property, (twice if produces gas and oil)
 - Could be done Once for Cook Inlet
 - Regulations imported into Statute

13. Cook Inlet Simplicity

- Two rules –
- (1) Ceilings - Cook Inlet oil remain zero and gas taxes preserve 2005-2006 gas prices, tax rates and ELF (volumes are actual) until 2022
- (2) Because Ceilings were meant to benefit consumers, not producers, any pertinent credits and losses that would have been needed to reduce CI taxes to ceilings cannot be applied elsewhere – Taxpayer doesn't get benefits of credits and ceilings.

13. Cook Inlet Simplicity

- CI Tax without ceilings or credits: \$10
- Apply “CI Credits” (5)
- Tax after Credits 5

- Ceiling \$3

- Taxpayer cannot pay \$3 in tax, and then try to sell \$5 credit

14. Effective Date

- Generally Effective January 1, 2008
 - Two good tax policies
 - change corresponded to tax year
 - Limited retroactivity
 - Corrosion provisions retroactive.