

# Tax Rates and Progressivity

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# Key Fiscal Terms

## Production Taxes Under Current & Proposed Systems

Tax Rate:

$$\begin{aligned} & \text{Base Rate} \\ & + \\ & \text{Progressivity Rate} \\ & = \\ & \text{Total Tax Rate} \end{aligned}$$

Applied to:

Taxable Value

# Key Fiscal Terms

## Production Taxes Under Current & Proposed Systems

### Taxable Value:

- **Gross Sales Price (West Coast)**  
less
- **Transportation Costs from Wellhead**  
=
- **Gross Wellhead Value**  
less
- **Operating Costs (All Barrels),**
- **Capital Costs (All Barrels)**  
=
- **Net Taxable Value**

# Key Fiscal Terms

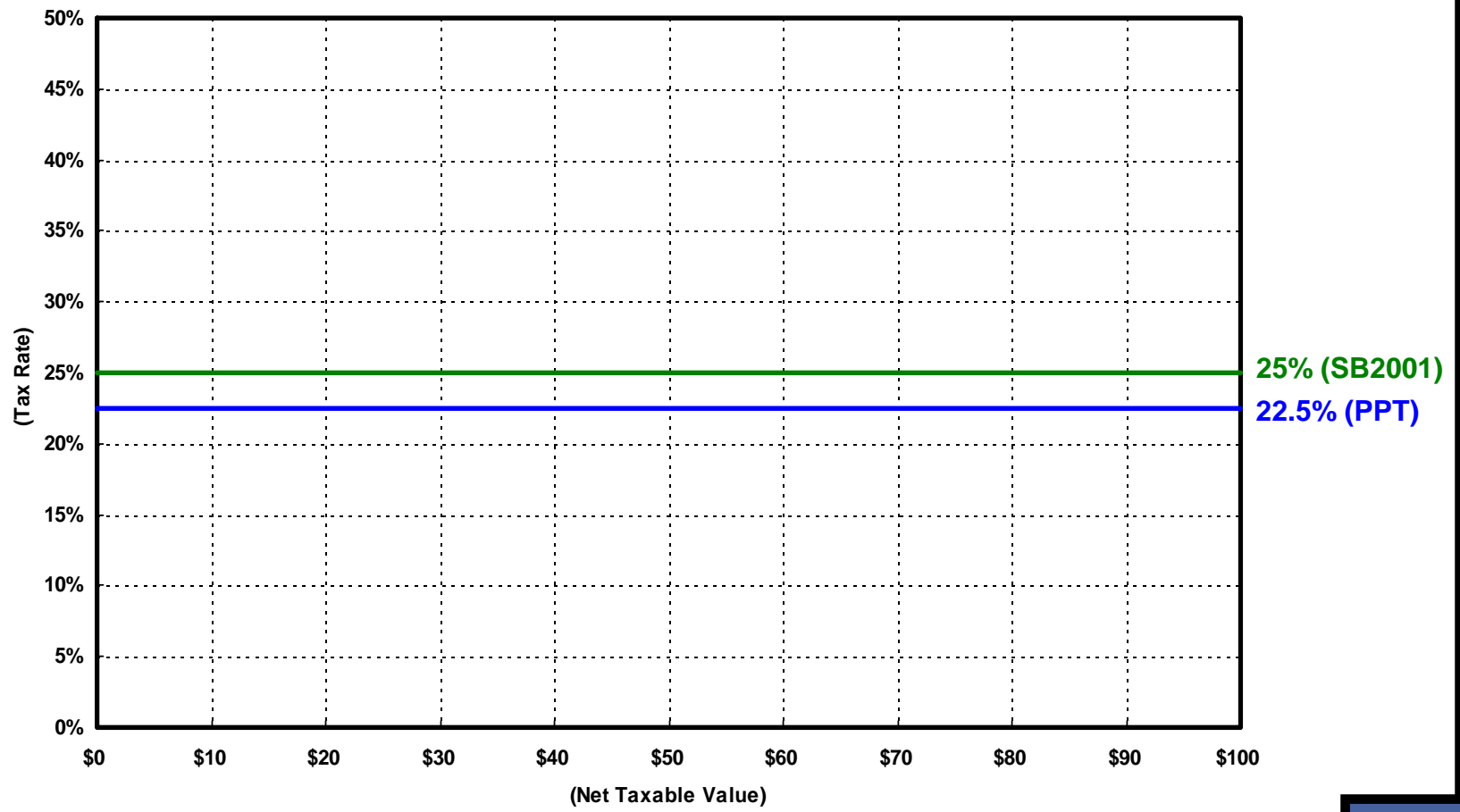
## Production Taxes Under Current & Proposed Systems

### Other Items:

- Floor
- Capital Credits
- TIE Credits
- Small Producer Credits
- Exploration Credits (EIC)

# Base Tax Rate

- Applied to Taxable Value at All Price Levels



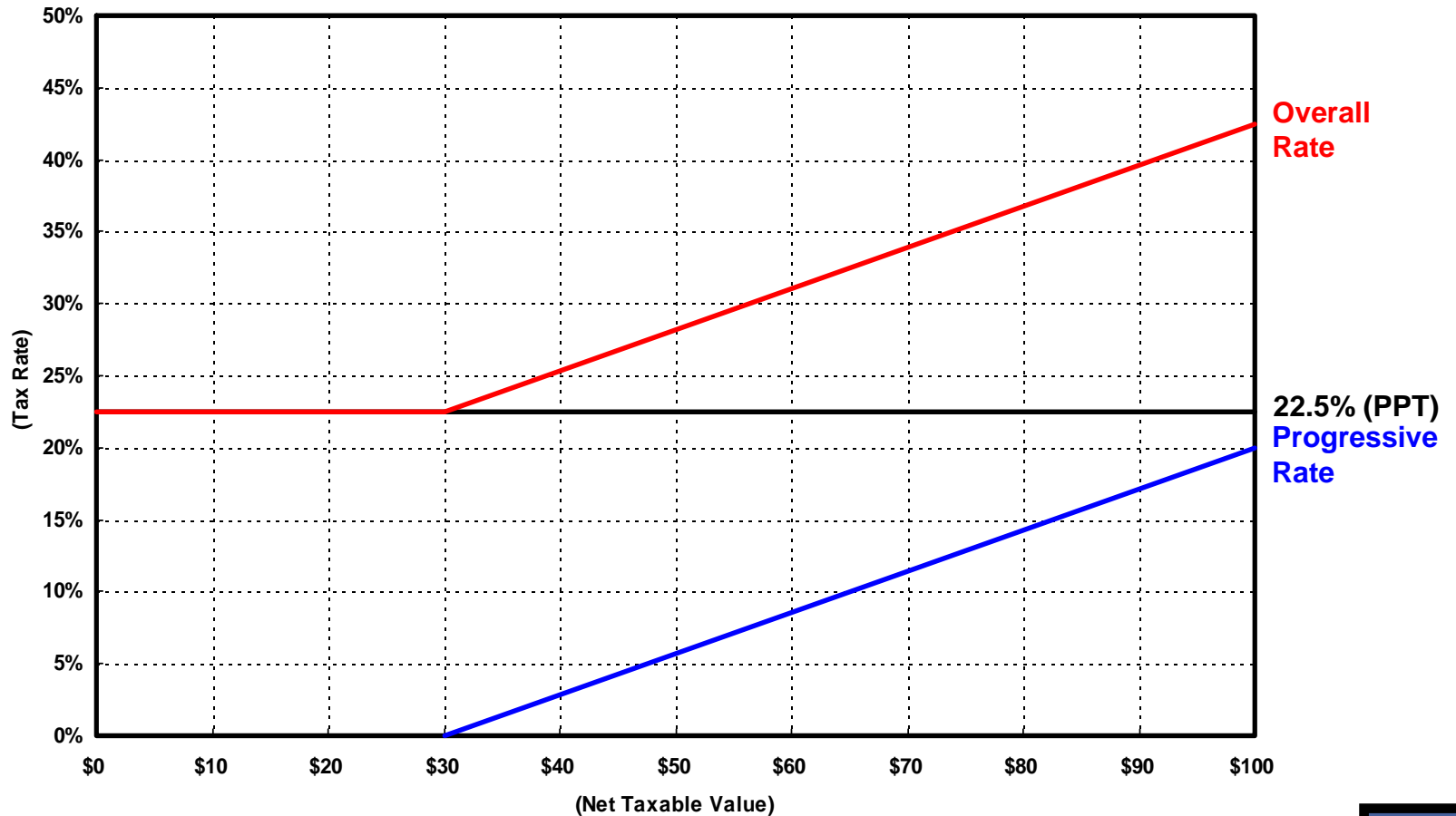
- It Does Not Vary with Prices

# Progressive Tax

	<u>PPT</u>	<u>SB2001</u>
• Trigger Level	\$40(Net)	\$30(Net)
• Slope	0.25% per Dollar	0.20% per Dollar
• Gross or Net Value	Net	Net

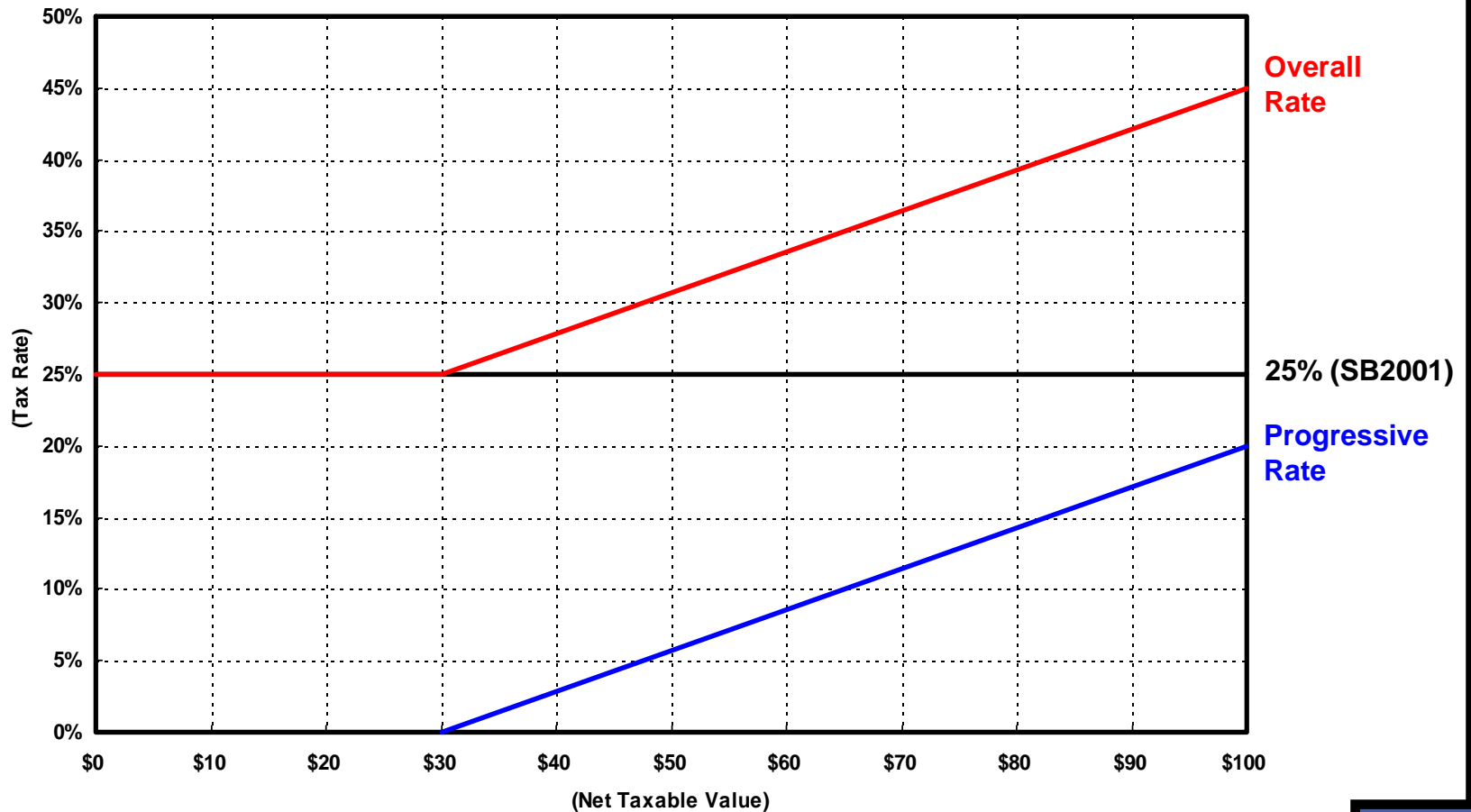
# Progressive Tax

- Example of Progressive Tax Under Current & Proposed Systems



# Progressive Tax

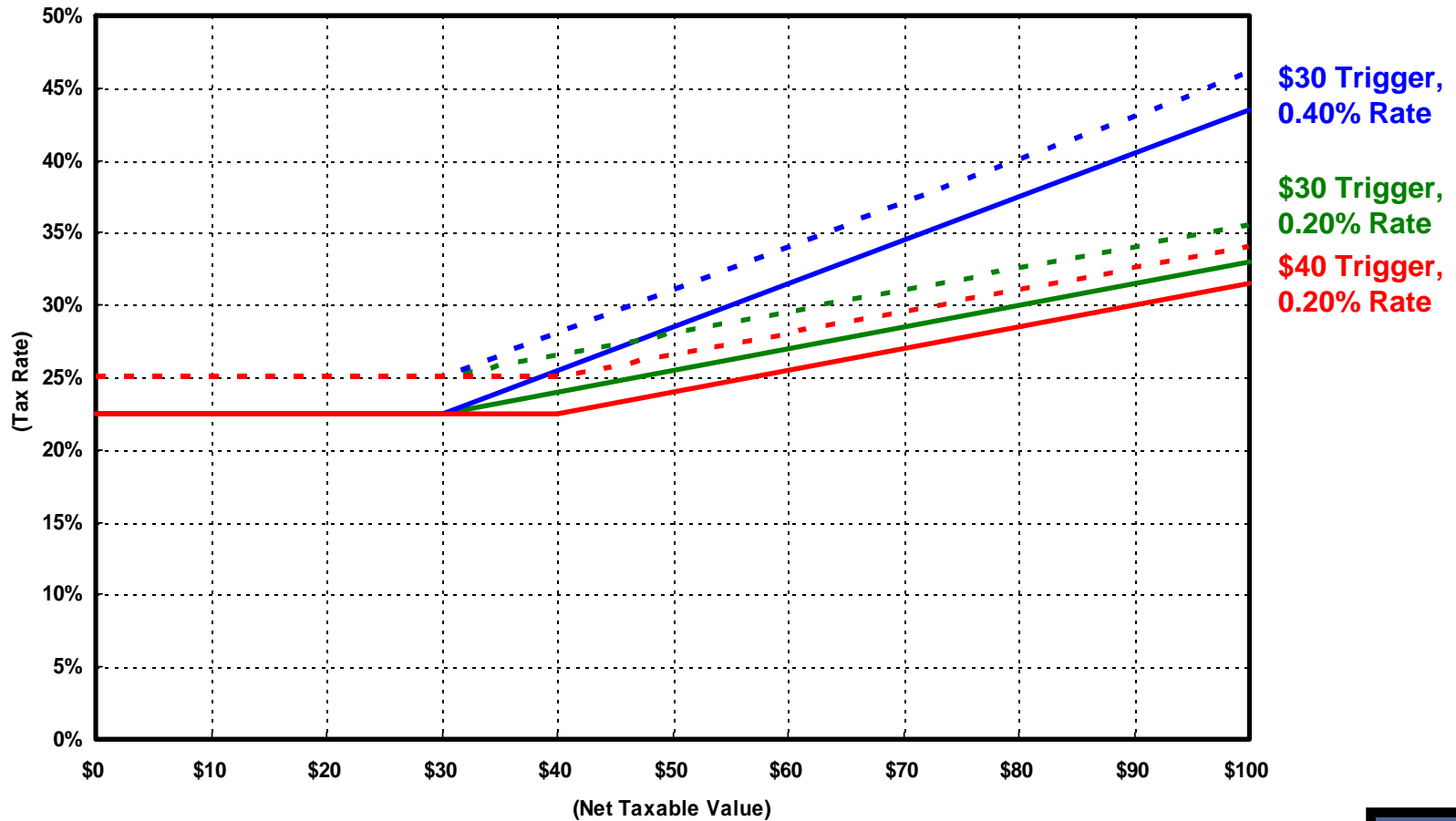
- Example of Progressive Tax Under Current & Proposed Systems



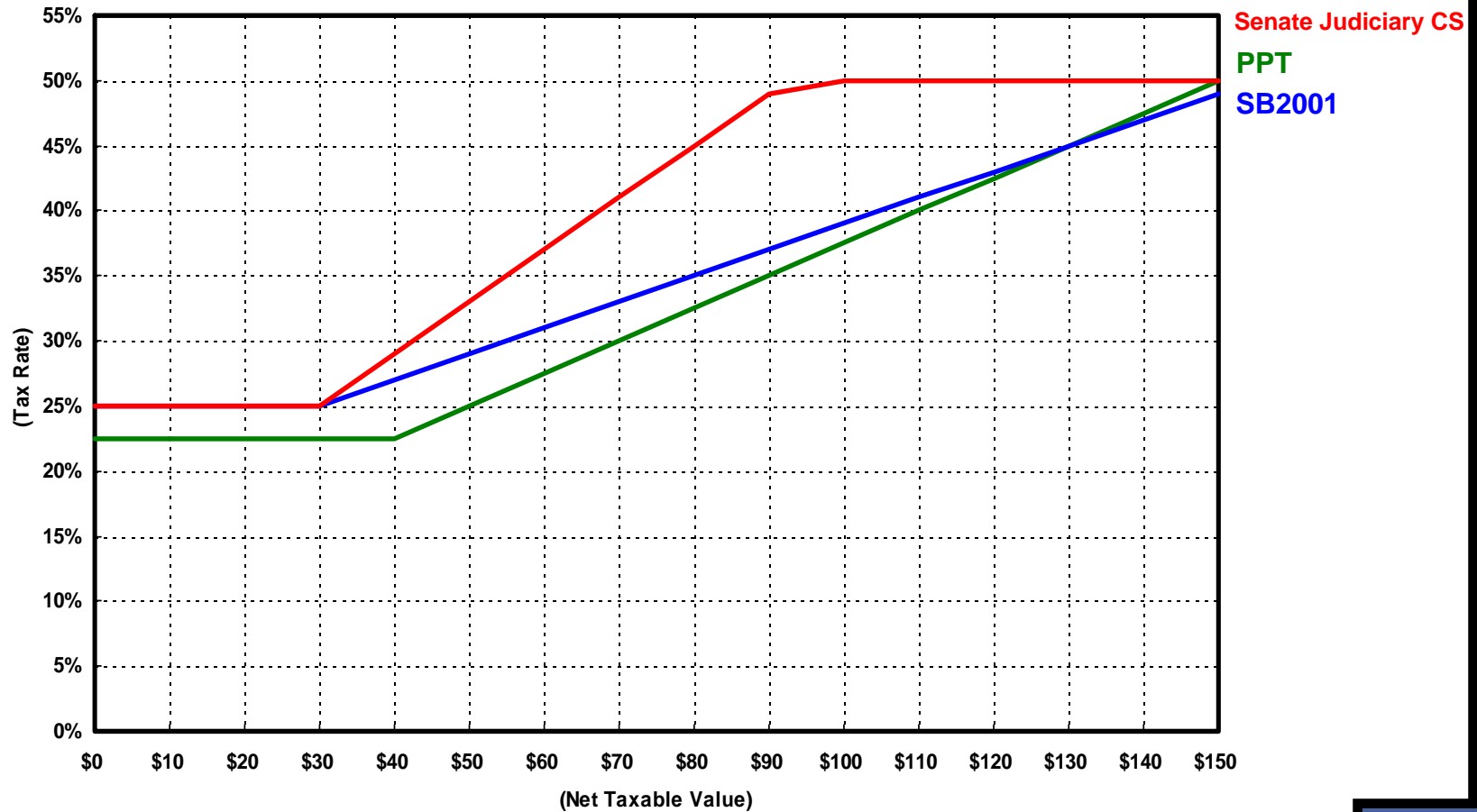


# Progressive Tax & Impact on Overall Tax Rate

- At 22.5% and 25% Tax Rates

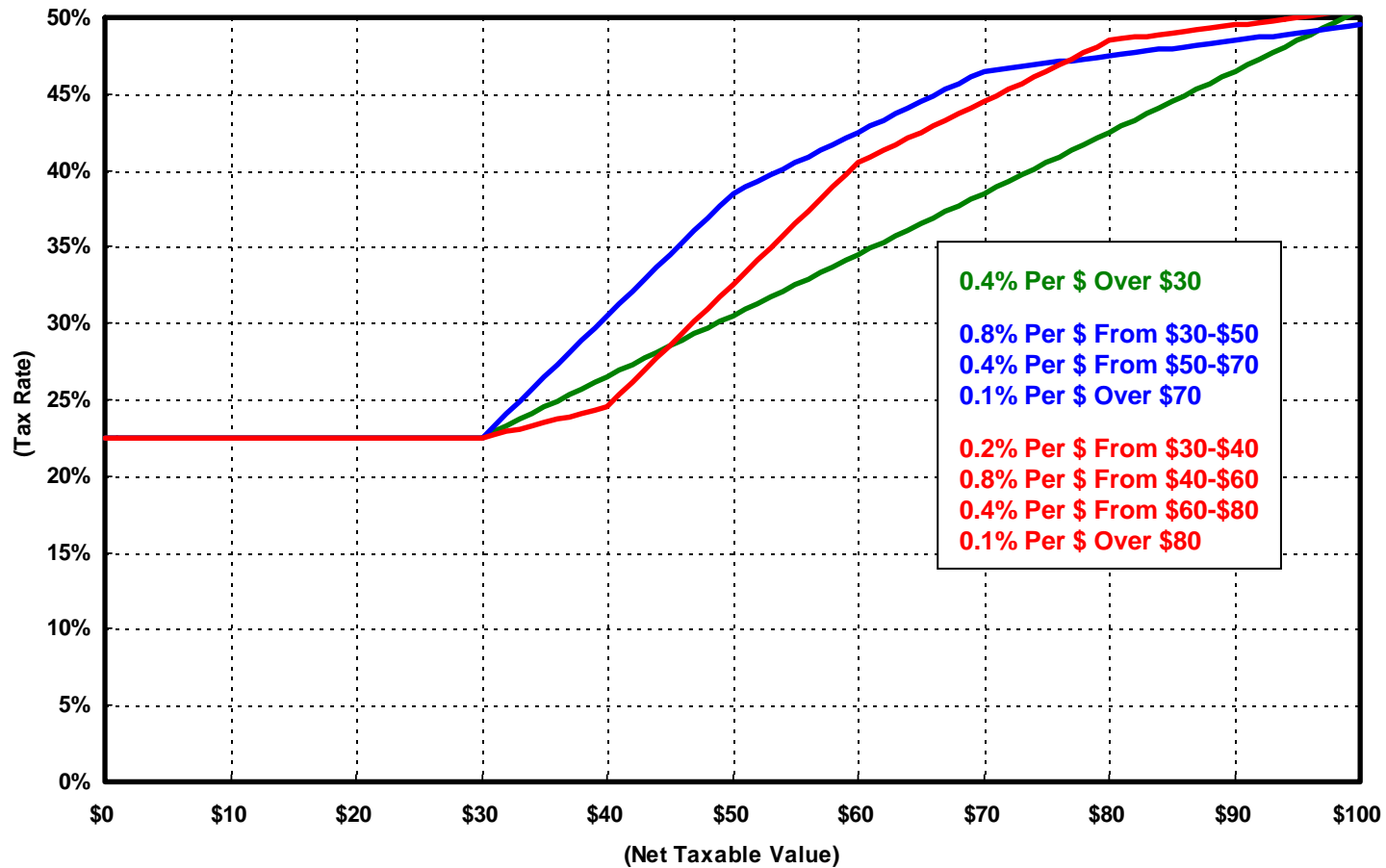


# Overall Tax Rates: PPT, SB2001 and Senate Judiciary CS

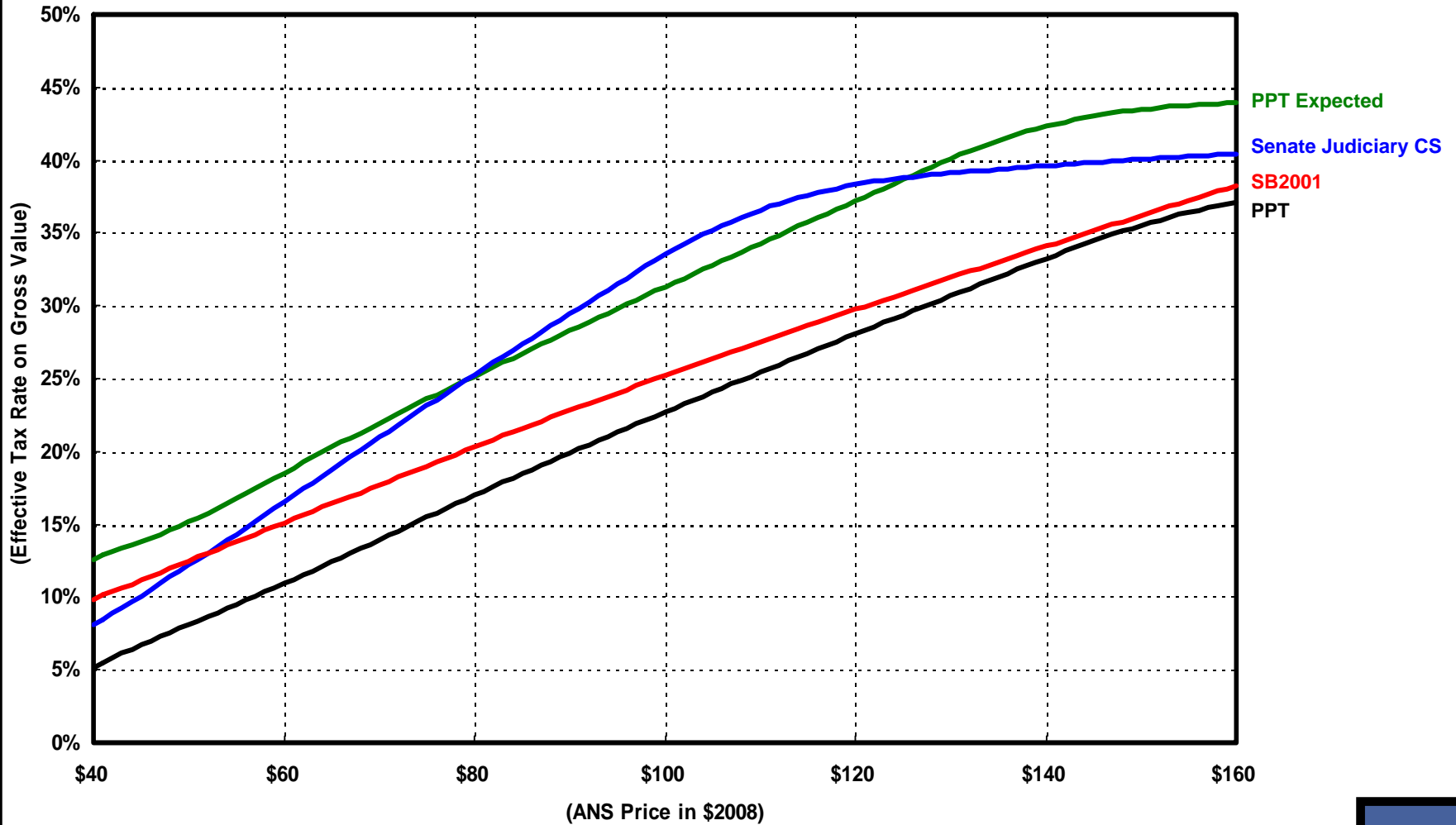


# Progressive Tax & Impact on Overall Tax Rate

- Assume a 22.5% Tax Rate



# Estimated Average Effective Tax Rate on Gross Taxable Value at Various West Coast ANS Price Levels (FY 2008-2014)



Note: Volumes per DOR's Fiscal Note to HB 2001 (as of November 7, 2007).

PPT Expected: PPT using costs per Fiscal Note to HB 3001.

Senate Judiciary: SB2001 using 0.4% progressivity rate, 50% overall cap, TIE credit 2Q06-2007 for new producers, does not include TAPS adjustment.

# Estimated Average Effective Tax Rate, Government Shares and Revenue Impacts at Various West Coast ANS Price Levels (FY 2008-2014)

Average ANS West Coast Price in Real 2008 Dollars:	\$40.00	\$60.00	\$80.00	\$100.00	\$120.00	\$140.00	\$160.00
<b>Effective Tax Rate on Gross Taxable Value (Percent)</b>							
PPT	5.1%	10.9%	17.0%	22.7%	28.1%	33.2%	37.2%
SB 2001	9.9%	15.1%	20.3%	25.2%	29.7%	34.1%	38.2%
Senate Judiciary CS	8.1%	16.5%	25.3%	33.5%	38.3%	39.6%	40.4%
PPT (Expected)	12.6%	18.5%	25.2%	31.3%	37.2%	42.3%	43.9%
<b>Total Government Share of Net Cash (Percent)</b>							
PPT	60.5%	60.6%	62.7%	65.3%	67.8%	70.4%	72.2%
SB 2001	64.5%	63.5%	64.9%	66.8%	68.8%	70.9%	72.9%
Senate Judiciary CS	63.0%	64.5%	68.1%	72.0%	74.1%	74.2%	74.2%
PPT (Expected)	60.4%	61.7%	64.4%	67.1%	69.9%	72.3%	72.9%
<b>Marginal Government Share of Net Cash (Percent)</b>							
PPT	58.9%	63.7%	70.7%	75.9%	81.0%	86.2%	78.9%
SB 2001	59.7%	65.4%	70.7%	75.1%	79.3%	83.5%	84.9%
Senate Judiciary CS	61.5%	71.9%	80.3%	86.4%	77.5%	74.2%	74.2%
PPT (Expected)	60.2%	68.3%	73.9%	79.4%	85.0%	81.0%	73.0%
<b>Annual Average Tax Difference Above/(Below) PPT (Nominal \$M)</b>							
SB 2001	\$423	\$587	\$635	\$608	\$493	\$287	\$423
Senate Judiciary CS	\$265	\$783	\$1,583	\$2,626	\$3,015	\$2,197	\$1,304
PPT (Expected)	\$665	\$1,067	\$1,566	\$2,088	\$2,682	\$3,132	\$2,688

Note: Volumes per DOR's Fiscal Note to HB 2001 (as of November 7, 2007).

PPT Expected: PPT using costs per Fiscal Note to HB 3001.

Senate Judiciary: SB2001 using 0.4% progressivity rate, 50% overall cap, TIE credit 2Q06-2007 for new producers, does not include TAPS adjustment.

# Tax Floor Issues

## PPT (Current Law)

**1-4% of Gross  
Wellhead Value  
(\$15 - \$25 WC ANS)**

## SB2001 (Proposed)

**10% of Gross  
Wellhead Value  
(Prudhoe & Kuparuk)**

## Senate Judiciary CS

**Same as  
Current Law**

- **Presence of Higher Floor Introduces Regressivity at Lower Prices**
- **Is Like an Insurance Policy. What Does it Cost?**
- **What are State's Expectations as to ANS Prices?**