

## Production Tax 301 - Other

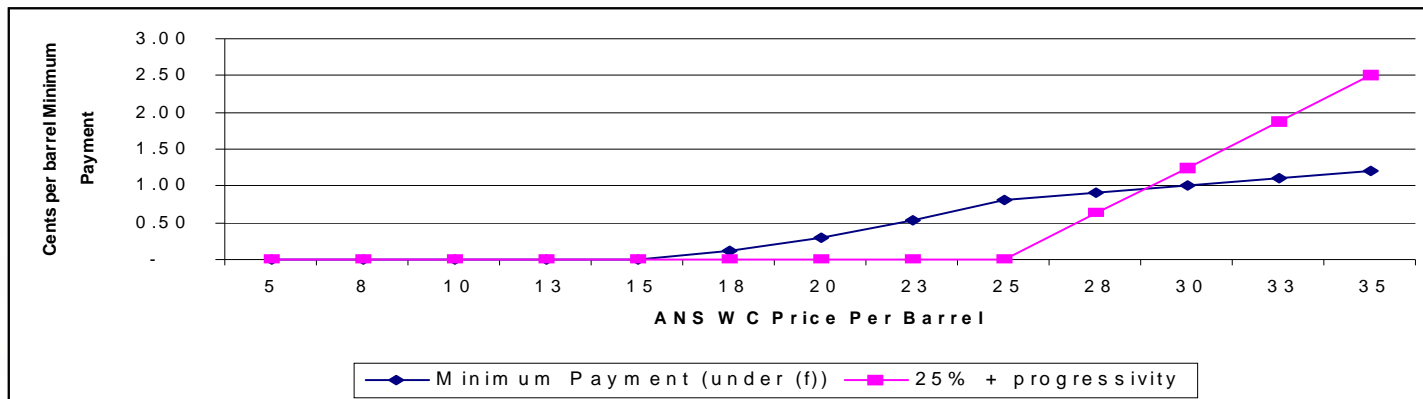
- Floor
- Private Royalty Tax
- CI and Instate Gas Use Ceilings
- Conservation Surcharge
  
- Monthly Reporting

## Production Tax 301 - Other

- Floor under AS 43.55.011(f)
- Minimum alternative payment for North Slope production of 4% percentage of the gross value at point of production compared to 25% + monthly progressivity payments of PTV
  - Phases out between ANS WC prices of \$25 and \$15 dollars per barrel
  - No minimum payment if ANS WC price below \$15
- Mechanically under 15 AAC 55.420 calculate the floor, then subtract progressivity payments under (g).
  - [Can ignore 15 AAC 44.420 language about subtracting private royalty payments under AS 43.55.011(i), as the 2007 reforms removed that from comparison, and reg has not been revised]
- Does not affect loss carry-forwards, calculation of PTV, or ability to carry credits forward.
- Regulations (15 AAC 55.305) state cannot be reduced by credits

# Production Tax 301 - Other

- Floor under AS 43.55.011(f)
- Over \$25                                    ANS WC price then 4% of gross
- Over \$20    not over \$25    ANS WC price then 3% of gross
- Over \$17.5 not over \$20    ANS WC price then 2% of gross
- Over \$15,    not over \$17.5 ANS WC price then 1% of gross
- not over \$15    ANS WC price then 0% of gross
  
- Assuming \$5 cost between ANS WC and VPP and \$25 cost between ANS value and PTV minimum payment per bbl is (At higher prices may apply to a producer in start up year or with high investment costs)



## Production Tax 301 - other

- Private Royalty Tax under AS 43.55.011(i)
- State and Federal royalties are not subject to production tax
- Private Royalties subject to alternative tax on gross value at point of production
- (Note: If 12.5% royalty rate, other 87.5% are subject to regular production tax under AS 43.55.011(e))
  - 1.667% on gas
  - 5% of on oil
  - 25% “messing with state” rate
- Can't be reduced by AS 43.55.023, 024 or .025 credits

## Production Tax 301 - Other

- Cook Inlet and Gas Tax Caps under AS 43.55.011(j), (k) and (o)
- For existing Cook Inlet production tax capped at ELF, tax rate (10%) and price from April 2005 – March 2006
- For CI oil that is zero tax
- New CI gas production and gas used in state capped at average for gas which according to 15 AAC 55.440 was an effective tax rate (ELF \* 10%) of 4.947% and a price of \$3.585 per mcf or 17.73 cents per mcf tax
- Ceilings expire in 2022
- Cook Inlet ceilings were intended to aid the consumer, not the producer, therefore there are complex rules so that the ‘tax break’ conferred by the ceilings are not ‘double dipped’ with certain credits. Its as if the credits had to applied first and then, the ceilings are applied.
  - Investment credits under AS 43.55.023 from CI can still be applied without restrictions



## Production Tax 301 - Other

- Conservation Surcharge under AS 43.55.201-310
- Split nickel
- Producers pay \$.01 a barrel of oil (not btu equivalent barrel) if Response Mitigation Account balance is below \$50 million
- Producers pay \$.04 a barrel of oil (not btu equivalent barrel) no matter what

## Production Tax 303 – Reporting & Filing

- Monthly Installment Payments under AS 43.55.020

Monthly price or value at destination

Less annualized transportation cost

Equals gross value at point of production

Less 1/12<sup>th</sup> of upstream cost

Equals PTV

Calculate and apply progressivity

Apply 25% rate

Sum Equals Monthly tax before credits (compare to floor)

Apply 1/12 of certain credits (others with 'certificates' can be applied until used up)

Add monthly amount of private royalty tax if any

On March 31 true up using known actuals (per AS 43.55.020 (h) interest follows IRS rules for underpayments and overpayments)

# Production Tax Regulations



# Production Tax Regulations

- Regulations are published in the Alaska Administrative code.
- Production tax regulations will be 15 AAC 56.XXX
- Formal regulations process
  - Workshops and discussion drafts
  - Comment Draft (Adoption)
  - Lieutenant Governor actual adopts
- Major package of regulations as a consequence of 2006 reforms adopted in 2007

# Production Tax Regulations

## Article One - Gross Value at the Point of Production

Regulations numbered up to 199

Generally as they were before reform (major change in AS 43.55.150 led to changes in reasonable and actual for pipelines - 180 (old), 181(new) 191(old), 193 (new) and 195 (new))

## Article Two - Production Tax Values

Regulations numbered up to 200 - 299

Old exploration credits (and retrocative filing) regs were 200-240 and were moved

## Article 3 - Tax Credits

Regulations numbered up to 300 - 399

## Article 4 - Levy of Tax

Regulations numbered up to 400 - 499

## Article 5 Payments & Reporting

Regulations numbered up to 500 - 599

## Article 6 - General (numbered from 800 on)

Regulations numbered up to 800 -  
Definitions at 900

## Production Tax Regulations – 60+ new or changed section proposals

	Discussion Only Draft				"Proposed Changes" Draft		Adopted
	1	2	3	4	1	2	
<b>Project One - Lease Expenditures</b> 10 Sections	Jan-08	Mar-08	Sep-08		Dec-08		
<b>Project Two - NS PV, Civil Penalties, Mid Year Statutory Changes, CI reporting</b> 33 sections	Feb-08				Apr-08	Sep-08	
15 AAC 55. 173 NS Gas PV	Feb-08				Apr-08		Aug '08 effective as of Oct '08
<b>Project Three - Reporting Requirement</b>							
15 AAC 55. 520 Reporting					Feb-08		May '08 effective as of June '08
<b>Project Four - Reasonable Transportation</b> 9 sections	Mar-08	May-08	Jan-09				
<b>Project Five - Exploration Credits</b> 6 sections					Aug-08	Jun-09	
6. Other Projects							
1 sec on Facility Sharing	Oct-08	Nov-08	Feb-09	Jul-09			
1 sec -Credit Safeguards	Nov-08						
1 sec- "Affiliated" definition	Jan-09						

As of Aug 25 2009

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# Production Tax Regulations – 60+ new or changed section proposals

			Discussion Only Draft				"Proposed Changes" Draft	
			1	2	3	4	1	2
<b>Project One - Lease Expenditures</b>			* not tied to specific sections					
15 AAC 55.	1	Lease ex before 7/1/07	Jan-08*		Sep-08		Dec-08	
15 AAC 55.	250	Lease ex	Jan-08*	Mar-08	Sep-08		Dec-08	
15 AAC 55.	260	Direct Cost before 7/1/07	Jan-08*	Mar-08	Sep-08		Dec-08	
15 AAC 55.	261	Direct Cost	Jan-08*		Sep-08		Dec-08	
15 AAC 55.	270	Overhead before 7/1/07	Jan-08*		Sep-08		Dec-08	
15 AAC 55.	271	Overhead	Jan-08*	Mar-08	Sep-08		Dec-08	
15 AAC 55.	280	Adjustments	Jan-08*	Mar-08	Sep-08		Dec-08	
15 AAC 55.	290	When Costs Incurred			Sep-08		Dec-08	
15 AAC 55.	310	Qualified Capital Expenditures			Sep-08		Dec-08	
15 AAC 55.	800	retroactive regs			Sep-08		Dec-08	

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# Production Tax Regulations Project

- Lease expenditures
- See section “Production Taxes 203”
- Conceptual Approaches
  - List?
  - By Function?
    - exploration, communication, production...
  - By Type?
    - payroll, equipment, rentals...
  - By Object?
    - Wells, facilities, vehicles...
  - How to approach innovation and new expenses



# Production Tax Regulations – 60+ new or changed section proposals

			Discussion Only Draft		"Proposed Changes" Draft		Adopted
			1	2	1	2	
<b>Project Two - NS PV, Civil Penalties, Mid Year Statutory Changes, CI reporting</b>							
15 AAC 05.	300	Three Year statute					Sep-08
15 AAC 55.	021	Well Data Reporting					Sep-08
15 AAC 55.	173	NS Gas PV before/after	Feb-08		Apr-08		Aug '08 effective as of Oct 1 '08
15 AAC 55.	205	PTV before 7/1/07			Apr-08		Sep-08
15 AAC 55.	206	PTV ex after 6/30/07			Apr-08		Sep-08
15 AAC 55.	215	allocation of lease expndtrs					Sep-08
15 AAC 55.	223	CI before 7/1/07	Feb-08		Apr-08		Sep-08
15 AAC 55.	224	CI after 6/30/07	Feb-08		Apr-08		Sep-08
15 AAC 55.	275	Exclusions from lease expndtrs					Sep-08
15 AAC 55.	280	Adjustments to lease expndtrs					Sep-08
15 AAC 55.	290	Incurred before/after			Apr-08		Sep-08
15 AAC 55.	305	application of tax credits					Sep-08
15 AAC 55.	320	transferability of tax credits					Sep-08
15 AAC 55.	325	cash refunds for credits					Sep-08
15 AAC 55.	335	non transferable credits					Sep-08
15 AAC 55.	340	CI credits before 7/1/07	Feb-08		Apr-08		Sep-08
15 AAC 55.	341	CI credits after 6/30/07	Feb-08		Apr-08		Sep-08
15 AAC 55.	345	procedures for credits					Sep-08
15 AAC 55.	380	credits and monthly payments before 7/1/07					Sep-08
15 AAC 55.	381	credits and monthly payments after 6/30/07					Sep-08
15 AAC 55.	410	floor calculations					Sep-08
15 AAC 55.	420	minimum tax calculations before 7/1/07					Sep-08
15 AAC 55.	421	minimum tax calculations after 6/30/07					Sep-08
15 AAC 55.	430	progressivity before 7/1/07					Sep-08
15 AAC 55.	431	progressivity after 6/30/07					Sep-08
15 AAC 55.	440	in state gas use tax ceiling					Sep-08
15 AAC 55.	510	installment payments before 7/1/07					Sep-08
15 AAC 55.	511	installment payments after 6/30/07					Sep-08
15 AAC 55.	800	retroactive regs			Apr-08		Sep-08
15 AAC 55.	805	Mid year change 07	Feb-08		Apr-08		Sep-08
15 AAC 55.	820	old retroactive changes reg repealed					Sep-08
15 AAC 55.	840	Penalties	Feb-08		Not include		Sep-08
15 AAC 55.	850	Average Daily Production					Sep-08
15 AAC 55.	900	Definitions					Sep-08

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# Production Tax Regulations – 60+ new or changed section proposals

"Proposed  
Changes" Draft  
1 2

Adopted

## Project Three - Reporting

15 AAC 55. 520 Reporting Feb-08 May '08 effective as of June '08

As of Aug 25 2009

## Production Tax Regulations – 60+ new or changed section proposals

Discussion Only Draft			
1	2	3	4

### Project Four - Reasonable Transportation

15 AAC 55.	151	Prevailing Value				Jan-09
15 AAC 55.	180	reasonable v actual before 6/30/07	Mar-08	May-08		Jan-09
15 AAC 55.	181	reasonable v actual after 7/1/07	Mar-08	May-08		Jan-09
15 AAC 55.	191	calculation before 6/30/07	Mar-08	May-08		Jan-09
15 AAC 55.	192	Monthly Allocations of Costs				Jan-09
15 AAC 55.	193	calculation after 7/1/07	Mar-08	May-08		Jan-09
15 AAC 55.	195	calculation after 7/1/07	Mar-08	May-08		Jan-09
15 AAC 55.	800	effective dates	Mar-08	May-08		Jan-09
15 AAC 55.	900	calculation after 7/1/07	Mar-08	May-08		Jan-09

No "Notice of Proposed Changes" Draft

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## Production Tax Regulations

- Reasonable Transportation Costs
- See section “Production Taxes 202”

# Production Tax Regulations – 60+ new or changed section proposals

Discussion Only Draft	
1	2

"Proposed Changes" Draft	
1	2

## Project Five - Exploration Credits

15 AAC 55.	350	3 mile credit before 6/30/08			
15 AAC 55.	351	3 mile credit after 7/1/08		Aug-08	Jun-09
15 AAC 55.	355	25 mile credit before 6/30/08		Aug-08	Jun-09
15 AAC 55.	356	25 mile credit after 7/1/08		Aug-08	Jun-09
15 AAC 55.	360	allowable cost before & after		Aug-08	Jun-09
15 AAC 55.	370	procedures before & after		Aug-08	Jun-09

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## Production Tax Regulations – 60+ new or changed section proposals

### 6. OTHER Projects

			Discussion Only Draft			
			1	2	3	4
15 AAC 55.	280	Facility Sharing	Oct-08	Nov-08	Feb-09	Jul-09
15 AAC 55.	320	Credit Safeguards	Nov-08			
15 AAC 55.	900	"affiliated" definition	Jan-09			

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# Production Tax Regulations

- Facility sharing issue – effect of high marginal rates

	Base Case: With No Fee	producer receives \$1 mm Fee	Grossed up Fee	New Entrant pays \$1mm Fee	Grossed up Fee
Annual Barrel Equivalentents (mm/year)	50	50	50	10	10
ANS Price less Transportation	110.00	110.00	110.00	110.00	110.00
Gross Value at point of production	5,500.0	5,500.0	5,500.0	1,100.0	1,100.0
One Million Dollars in Processing Fees		(1.00)	(6.67)	1.00	6.67
US Costs (millions \$)	1,000.0	999.0	993.3	20.0	25.7
<b>Taxable Value (millions \$)</b>	<b>4,500.0</b>	<b>4,501.0</b>	<b>4,506.7</b>	<b>1,080.0</b>	<b>1,074.3</b>
Prog Base (taxable value/volume)	90.00	90.02	90.13	108.00	107.43
Less \$30	30.00	30.00	30.00	30.00	30.00
Starting Point	60.00	60.02	60.13	78.00	77.43
Rate per dollar	0.4000%	0.4000%	0.4000%	0.1000%	0.1000%
Prog rate	24.0000%	24.0080%	24.0534%	7.8000%	7.7433%
Base Rate	25.0000%	25.0000%	25.0000%	25.0000%	25.0000%
Total Tax Rate	49.0000%	49.0080%	49.0534%	32.8000%	32.7433%
Total Tax (millions \$)	2,205.0	2,205.9	2,210.7	354.2	351.8
Other Costs (millions \$)	1,000.0	999.0	993.3	20.0	25.7
<b>Total Out of Pocket (million \$)</b>	<b>3,205.00</b>	<b>3,204.85</b>	<b>3,204.00</b>	<b>374.24</b>	<b>377.44</b>
<b>Difference from Base Case (million \$)</b>		<b>0.15</b>	1.00		3.20

# Production Tax Regulations Project

- Regulations Work and Advisory Bulletins
- <http://www.tax.alaska.gov/programs/programs/index.aspx?60652>
- On the web: <http://www.tax.state.ak.us/> >Programs > Oil & Gas Production Taxes > ACES Oil and Gas Production Taxes
- Then either Tax News (for recent information) or
- Archives (older drafts and advisory bulletins) or
- “Statutes/Regulations” (has only statutes)
- To be put on the DOR interested person email list for these projects please contact Shelly Boyer-Wood 907 269 6625