

# Alaska's Oil and Gas Taxes

Dan E. Dickinson CPA

Seminar

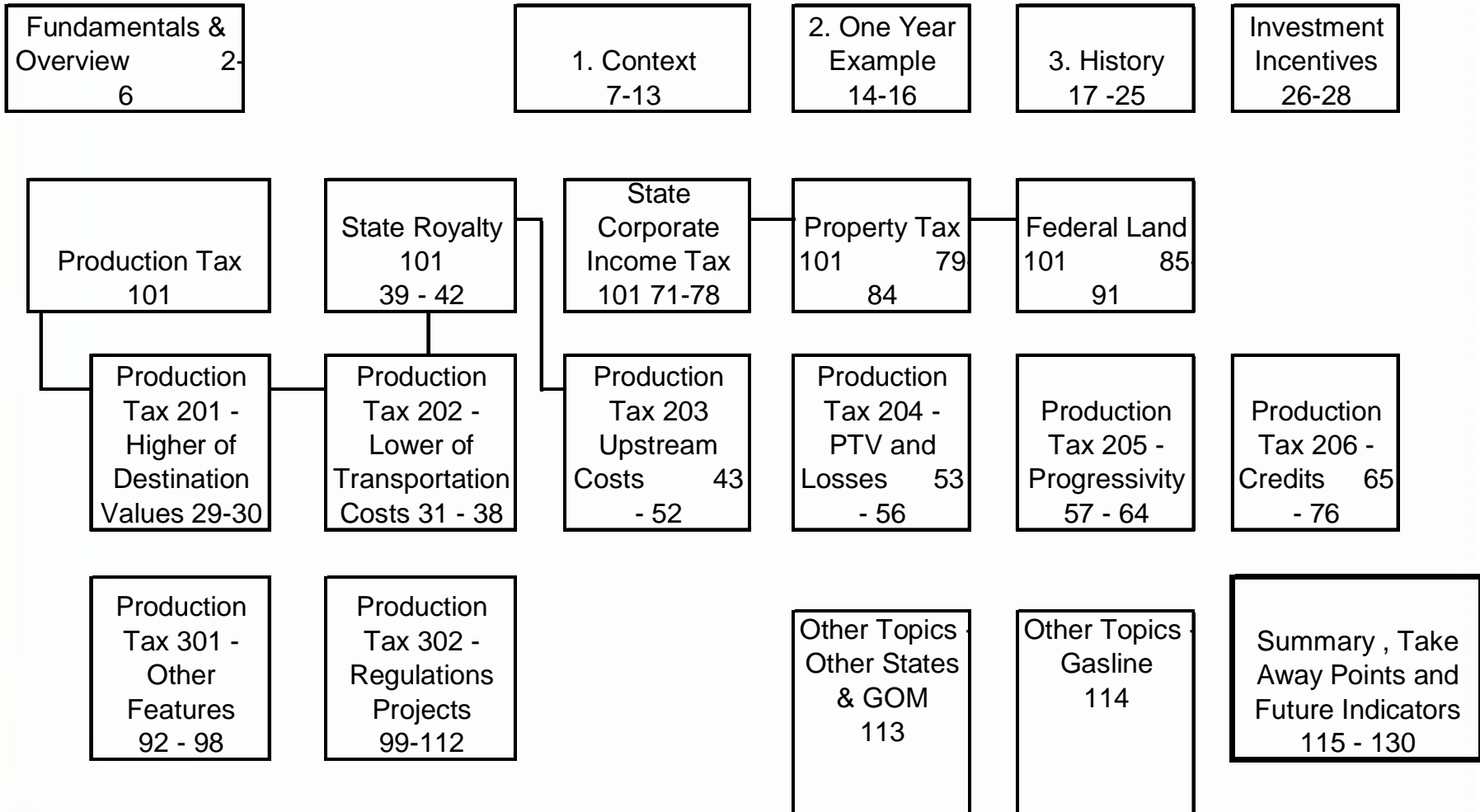
The 5th Annual Oil and Gas Conference

The Canadian Institute

Sept 14, 2009

# Fundamentals

- Outline



# Fundamentals



Dan E. Dickinson CPA

Source: Kevin Banks presentation to House Finance Committee (Jan 22, 2008)



# Fundamentals

- Acronyms used in this presentation

AAC	Alaska Administrative Code	IRS	Internal Revenue Service
ACES	Alaska's Clear and Equitable Share	KRU	Kuparuk River Unit
AGIA	Alaska Gasline Inducement Act	NPRA	National Petroleum Reserve - Alaska
ANITA	Alaska net Income Tax Act	NPSL	Net Profit Share Lease
ANS	Alaska North Slope	NS	North Slope
ANS WC	Alaska North Slope West Coast	OCS	Outer Continental Shelf
ANWR	Artic Nation Wildlife Refuge	OOP	out of pocket
AS	Alaska Statute	PBU	Prudhoe Bay Unit
BTU	British Thermal Unit	PF	Permanent Fund
CBRF	Constitutional Budget Reserve Fund	PP*	Point of Production
CI	Cook Inlet	PPT	Proposed/Petroleum/Profits/Tax
CPA	Certified Public Accountant	PTV	Production Tax Value
DNR	Department of Natural Resources	RCNLD	Reproduction Cost New Less Depreciation
DOG	Division of Oil and Gas	RIK	Royalty in Kind
DOR	Department of Revenue	RIV	Royalty in Value
DV	Destination Value	RSB	Revenue Sources Book
ELF	Economic Limit Factor	SGDA	Stranded Gas Development Act
FBI	Federal Bureau of Investigation	TAPS	Trans Alaska Pipeline System
GF	General Fund	TIE	Transition Investment Expenditure
GOM	Gulf of Mexico	USGS	United States Geological Survey
GVPP*	Gross Value at point of Production	VPP*	Value at Point of Production
IRC	Internal Revenue Code	WC	West Coast

\* See GVPP, VPP and PP

Sept 20 2009

# Fundamentals

- Alaska Law
- Statute –for example AS 43.55.165 (e)
  - Title 43 – Revenue – of the Alaska Statutes
  - Chapter 55 – Production Tax
  - Section 165 – Lease Expenditures
  - Subsection (e)
- Regulations – for example 15 AAC 55.171 (a)
  - Title 15 – Revenue – of the Alaska Administrative Code
  - Chapter 55 – Production Tax
  - Section 171 – Prevailing value for Oil
  - Subsection (a)

Also legislation – for example – SCS CSHB 2001(FIN) may contain uncodified law such as transition provisions

On the Web: [state.ak.us](http://state.ak.us) > Departments>Law>Department of Law>Legal Resources

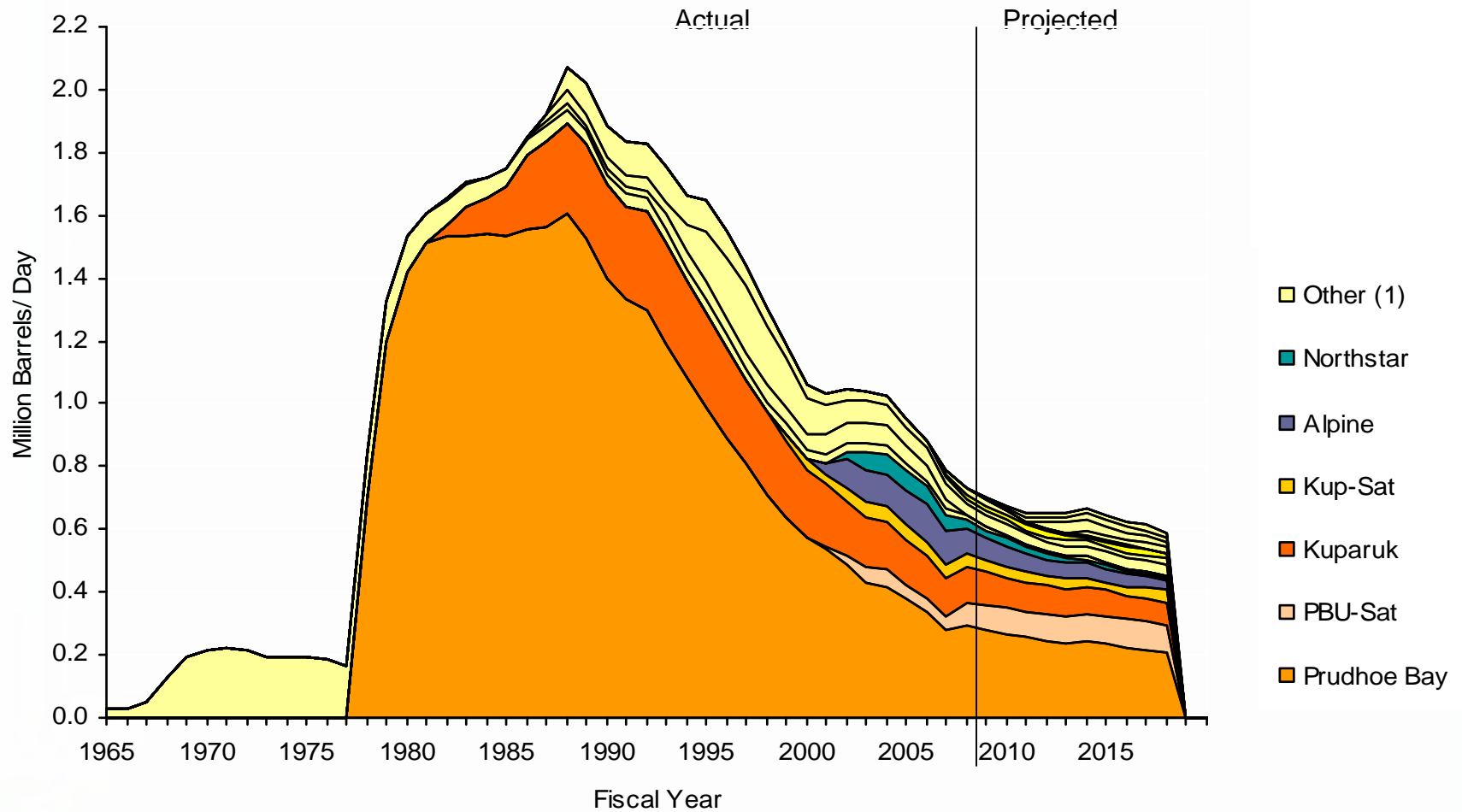
# Fundamentals: Overview FY 2008

*all figures in millions of dollars unless otherwise indicated*

		FY 2008 - Apprx	
		Producer	Gov.
PT 201	Destination Value (\$95.61/bbl * .716 mmbbl/day * 365)	24,986.7	
PT 202	less transportation costs** (\$6.05/bbl * .716 mmbbl/day * 365)	(1,581.1)	
	<u>Equals value at point of production</u>	<u>23,405.6</u>	
Roy 101	Calculate Royalty (12.5% times value includes PF%)	(2,925.7)	2,925.7
{	less Upstream Operating costs**	(1,881.0)	
PT 203 {	less Upstream Capital costs**	(1,967.0)	
{	<u>Equals PTV (Production Tax Value)</u>	<u>16,631.9</u>	
PT 204	Calculate Base Production Tax (25% of PTV) (25% of PTV)	(4,158.0)	4,158.0
PT 205	Calculate Progressivity Component of PT (0-50% of PTV)	(3,238.1)	3,238.1
PT 206	Apply Production Tax Credits	411.4	(411.4)
	<u>Sums to Production Tax</u>	<u>(6,984.7)</u>	<u>6,984.7</u>
{	Worldwide ANITA income (including PTV less Production Tax) if 5% factor	128,893.6	
CIT 101 {	Calculate and apply Alaska Apportionment Factor (Tax/.094)	6,444.7	
{	Calculate AK CIT as 9.4% of Alaska taxable income	From RSB: -605.8	605.8
PpT 101	** Costs include state and local property taxes of 20 mills on oil and gas property	From RSB:	358.3
	Note: may be difference between cost incurred and allowable costs	Subtotal	<u>9,041.43</u> <u>10,874.5</u>
	Note Federal taxes @ 35%		<u>(3,164.50)</u> <u>3,164.50</u>
	Totals	<u>5,876.93</u>	<u>14,038.98</u>
	Percentage of destination Value	24%	56%

# 1. Context

## Alaska Oil Production, 1965 - 2018



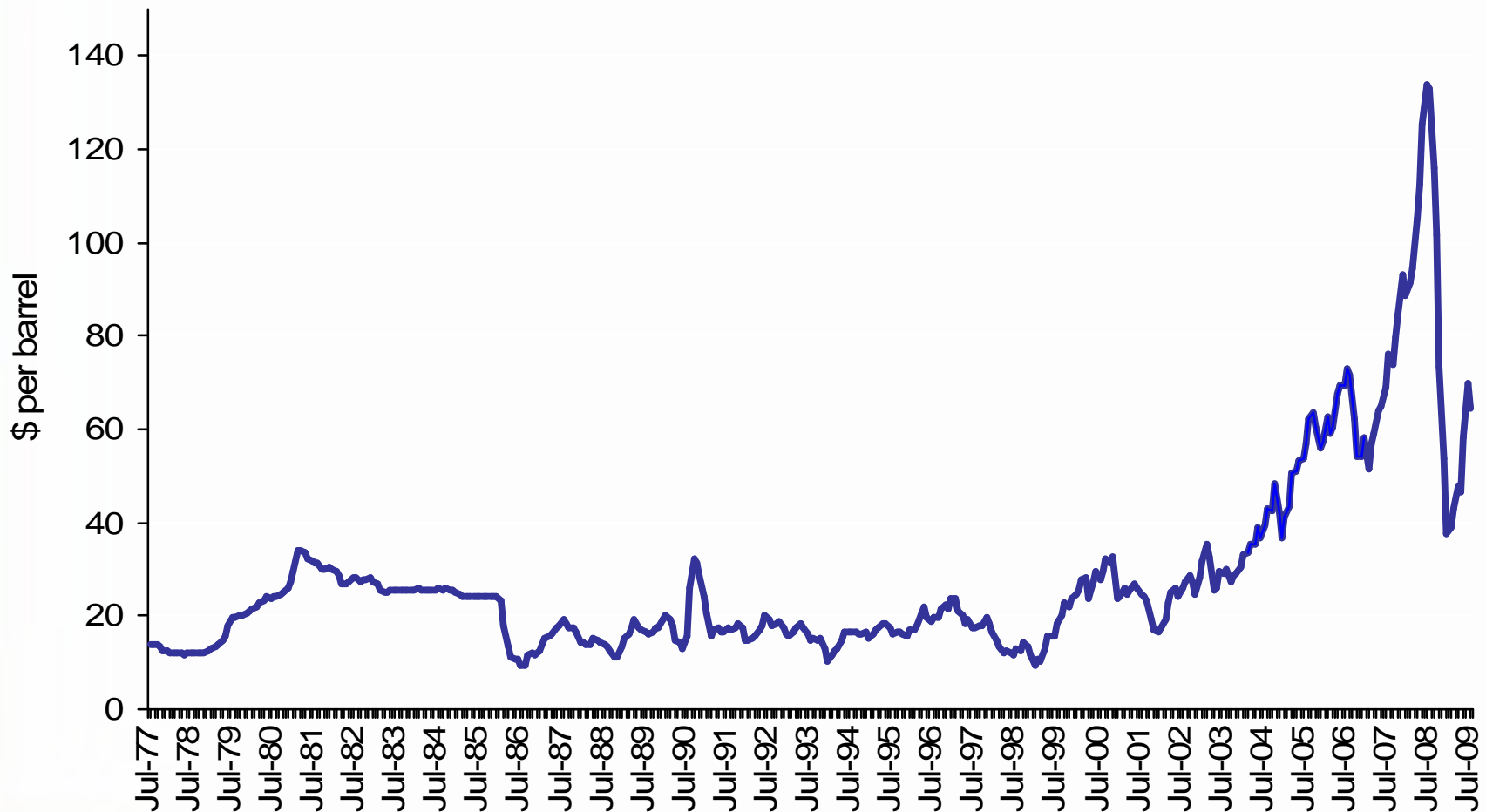
(1) Cook Inlet, Duck Island, Milne Point, Greater Point McIntyre, Liberty, Known On & Offshore, Fiord and NPRA.  
Source: Alaska Department of Revenue, Fall 2008 Revenue Sources Book. extrapolated

Dan E.  
Dickinson CPA



# 1. Context

## ANS WC Price July 1977 - July 2009





# 1. Context

- Role of Petroleum Revenues in AK State Government

<i>all figures in millions dollars</i>	FY 2007	FY 2008
<b>Unrestricted Petroleum Revenue</b>		
Petroleum Corporate Income Tax	\$ 594.4	\$ 605.8
Oil and Gas Production Tax	2,292.3	6,879.0
Petroleum Property Tax	65.6	81.5
Oil & Gas Royalties	1,613.0	2,446.1
Total	<u>\$ 4,565.3</u>	<u>\$ 10,012.4</u>
 Other General Fund Unrestricted:		
<b>Unrestricted Petroleum Revenue</b>		
NPRA Rents, Royalties & Bonuses	\$ 12.8	\$ 5.2
Restricted Royalties - PF & School Fund	545.7	799.1
CBRF Settlement Deposits	113.6	438.3
	<u>\$ 672.1</u>	<u>\$ 1,242.6</u>
 Total Petroleum Revenue	 \$ 5,237.4	 \$ 11,255.0

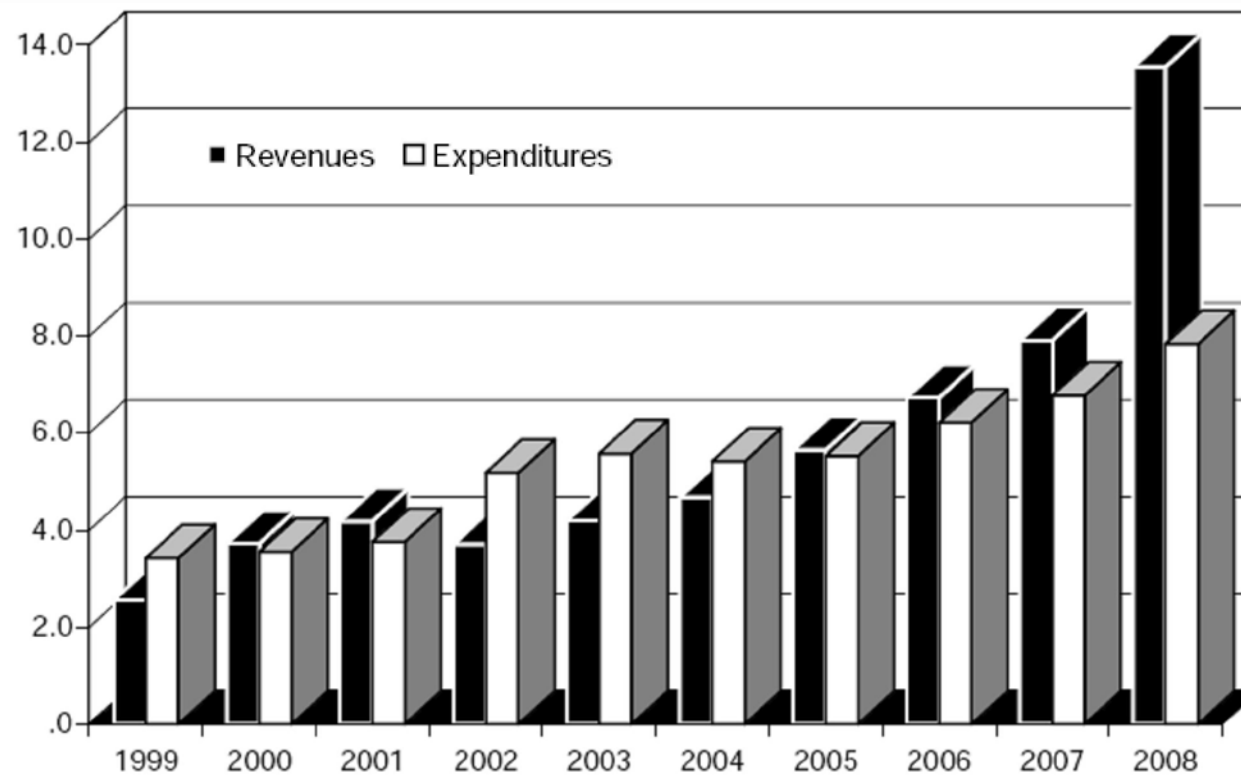
Source: AK Dept of Revenue, 2007 and 2008 RSBs

# 1. Context: Revenues and Spending

## STATE OF ALASKA GENERAL FUND EXPENDITURES AND REVENUES

TEN YEAR COMPARISON  
FOR THE FISCAL YEARS 1999 THROUGH 2008

(Stated in Billions)



Dan E.  
Dickinson CPA

Source: SOA FY 2008 CAFR from SOA Division of Finance website

## Context: Revenues, Savings & Spending

- Constitutional Budget Reserve Fund is the Buffer – Funded through Oil and Gas Settlements
  - *All figures in millions of dollars*

End of Fiscal Year	Cash balance CBRF	Outstanding amount GF borrowed from CBRF
2003	2,094.00	5,112.94
2004	2,155.00	5,117.96
2005	2,236.00	5,162.12
2006	2,424.00	5,091.13
2007	3,015.00	4,781.88
2008	8,063.00	150.19

Source: SOA FY 2008 CAFR & “Available Balance in CBRF” from SOA Division of Finance website

# 1. Context

- Alaska is part of federal system, so there are three levels of government take
- Federal royalties from Federal Land
- Federal Income tax
- State Royalties (including PF deposits)
- State Corporate Income Tax (Oil and Gas Rules)
- State Oil and Gas Production Tax
- State Oil and Gas Property Tax
- Local Property Taxes



# 1. Context

- Royalties administered by the Department of Natural Resources, Division of Oil and Gas which publishes an Alaska Oil & Gas Annual Report

On the Web: [state.ak.us](http://state.ak.us) > Departments>Natural Resources>Division of Oil and Gas>Annual Reports

- Property Taxes, Production Tax and Corporate Income Taxes administered by the Department of Revenue, Tax Division which publishes (semi-annually) the Revenue Sources Book and annual Operations Report

– On the Web: [state.ak.us](http://state.ak.us) > Departments>Revenue>Tax Division>Reports>Annual Report of Operations or Revenue Sources Book