Overview of SB 21- Tax Restructuring Bill – May 11, 2013

A quick look at the impacts and incentives in SB 21 – The Governor's Oil Tax Restructuring Bill

<u>Senate bill 21- Oil Tax Restructuring</u>

After several attempts, Governor Parnell finally succeeded in making changes to Alaska's oil tax structure with the passage of SB 21.

What are the fiscal impacts?

The Dept. of Revenue estimates the cost ranging between $3.49 to $3.87 billion over six years, assuming no new production.

What production is needed to lessen the impact?

This analysis was used by DOR during much of the testimony – If 4 rigs are added producing 60,000 barrels per day in new production, the cost of the tax would be offset with this new production. If an additional 4 rigs were added, the treasury would gain $1.1 billion per year beginning FY 2018.

What does the bill do?

- SB 21 increases the base tax rate from 25 percent to 35 percent.
  Eliminates a 20 percent capital investment tax credit that was projected to cost the state $1 billion next year. Replaces the capital investment tax credit with a per-barrel, production tax credit linking the credit to production performance.

The per barrel tax credit can be captured in two ways:

1. A flat $4 per barrel credit that applies in new oil fields, outside existing producing fields;
2. A sliding scale tax rate that applies in existing producing fields and begins at $8 per barrel at the lower oil price range ($90 per barrel) and is reduced to zero at high prices ($150 per barrel).

- Provides a Gross Revenue Exclusion or GRE that allows 20 percent of new fields, or new projects within existing fields to exclude the first 20 percent of the new oil from taxation.
- A loss carry forward that allows credits for investments to be credited against production taxes, or cashed out with the state *(this will mainly benefit small to medium sized independent companies)*
  - All other incentives for exploration were eliminated.

The benefits and/or ramifications of this "major piece of legislation" will play out over the next 5 years. Governor Parnell and numerous legislators believe that the state must incentivize the oil industry to get companies to return to Alaska and start exploring and producing new oil. Opponents do not agree and see SB 21 as a give away to oil companies who are already making huge profits.

So if SB 21 increases the base tax rate, why did oil companies support the bill?

- While SB 21 increases the base tax rate from 25 to 35 percent it eliminates the progressive surcharge. The progressive surcharge is an additional tax that is added to the base tax. This surcharge increases the tax rate at production tax values of greater than $30 / barrel.
- This Progressive surcharge may add up to 50% to the total tax rate at very high prices for a maximum total tax rate of 75%. Many oil companies testified that the progressive tax was a regressive tax and a strong disincentive for companies to invest in Alaska

Does SB 21 include assurances that companies will invest in Alaska?

No. There are no provisions in SB 21 requiring oil companies to make new investment in Alaska in order to get the reduced tax rate. While numerous companies have expressed a strong commitment to Alaska investment, there are no provisions in the bill that assures new investment.

Submitted by Wendy Chamberlain, AAR Lobbyist