House Resources Committee

CSSB21 (FIN) am(efd fld)

March 27, 2013
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AOGA Member Companies
Alaska North Slope Production
FY 2000-2012 and Forecasted FY 2013-2022

Source: Department of Revenue – Dec. 2012
Anchorage Daily News, Jan. 6, 2013:

Reform must:

- Be fair to Alaskans
- Encourage new oil production
- Be simple and restore balance
- Be durable and long-term in nature
Governor Lays out Principles for Oil Tax Reform

Anchorage Daily News, Jan. 6, 2013:

Reform must:

• Be fair to Alaskans
• Encourage new oil production
• Be simple and restore balance
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• AOGA Recommendation: Avoid changes that artificially creates “winners & losers”
CSSB21 (FIN) am(efd fld) Component: Progressivity

- AOGA supports the elimination of progressivity

1) Progressivity is the single most influential component of Alaska’s tax structure negatively impacting investment decisions.

2) Progressivity brings extraordinary complexity to the tax.

3) The repeal of progressivity is consistent with all of the Governor’s core principles.
AOGA does not endorse increasing the base tax rate to 35%.

1) Increasing the base tax rate burdens every investment case with a higher tax rate.

2) Increasing the base tax rate is contrary to the Governor’s second principle. It would not encourage new production.
CSSB21 (FIN) am(efd fld) Component: Tax Credits

There is no tax credit liability for the State until the investor invests here

1) AOGA does not support the repeal of Qualified Capital Expenditure Credits (QCE)
   a) Elimination of QCE would undo significant part of competitive environment
   b) Repeal likely creates “winners & losers”
   c) Consider expanding the scope of the “well lease expenditure” tax credit
2) AOGA is concerned that the potential benefit of a $5/bbl tax credit will be offset by other burdens.

a) Weight of the benefit in respect to other changes is hard to measure.

b) Applaud the concept of tying incentives to the goal of increased production.
3) AOGA supports amending CSSB 21 to extend Small-producer & exploration tax credits

a) Attracts new players to Alaska

b) From testimony…has made a material difference for some companies

c) Exploration credits bring about exploration in a timely fashion
4) AOGA supports the transferability of “Loss Carry Forward” credits

a) New companies are many times not yet producing or producing only small volumes of oil/gas and have little to no tax liabilities.

b) Maintaining the ability to transfer their losses to others allows companies to monetize the investments they have already made.
5) AOGA supports the new proposed manufacturing credit

a) May not have great impact on the reduction of the production decline.

b) Step in the right direction in creating more Alaska jobs and investment.
CSSB21 (FIN) am(efd fld) Component: Gross Revenue Exclusion (GRE)

AOGA supports concept, but concerned about breadth of applicability

1) CSSB 21 attempts to expand GRE to 80-90% of the potential development on North Slope in legacy fields.
2) Current language causes concerns due to uncertain nature of the applicability.
3) Companies won’t know if they qualify for GRE until after investment is made, so they won’t be able to use the GRE as a factor when determining economics.

AOGA Recommendation:
Need additional clarity and certainty surrounding GRE for legacy fields
AOGA does not support the concept of a Competitiveness Review Board

1) Does not meet Governor’s principle for durability

2) Tax certainty is in jeopardy with each annual report

3) Confidentiality concerns
AOGA supports the lowering of the statutory interest rate

1) Because the current Federal Reserve rate is very low, the current statutory interest rate is 11% APR.

2) When coupled with a six year, statute of limitations, the current interest rate adds uncertainty for taxpayers.

3) Lowering the interest rate provides some certainty to taxpayers.
Components Not Addressed in CSSB 21 (FIN) am(efd fld)

1) Minimum Tax
   - AOGA Recommendation: Minimum Tax should be repealed.

2) Joint Interest Billings
   - AOGA Recommendation: Restore language specifically authorizing DOR to rely on joint-interest billings if it chooses to do so.
AOGA Supports Components of CSSB 21 (FIN) am(efd fld)

Cornerstone for significant and crucial tax reform

– Support the elimination of progressivity
– Support the concept of gross revenue exclusions
– Support the transferability of loss carry forward credits
– Support the manufacturing credit
– Support lower statutory interest rate
AOGA Concerns with CSSB 21 (FIN) am(efd fld)

1. Base tax rate is too high
2. Serious concerns with how the bill addresses tax credits (QCE elimination, no extension of small producer and exploration credits)
3. Does not support the Competitiveness Review Board
4. Gross Revenue Exclusions for legacy fields needs clarity and certainty.
5. Identified other ways to improve policy (repeal minimum tax, and allow DOR to use joint-interest billings)