BALLOT MEASURE 1 - OVERVIEW

	Alaska's Clear & Equitable Share (ACES) 2007-2013	Senate Bill 21 2013-Present	Reasons to Vote YES on Ballot Measure 1
Ballot Measure 1: Ballot Measure 1 on the August 19 primary election ballot gives voters the opportunity to repeal the oil production tax law enacted in 2013. Senate Bill 21 changed how the state taxes the production of publicly owned oil. A "Yes" vote repeals the new production tax and reinstates the system put into place in 2007. A "No" vote leaves the new system in place. ___________________________________ **Production Tax:** A production tax is a tax on a private company when public natural resources are taken from the land of a state for profit. The tax revenues are intended to compensate a state and its residents for the taking of their resources. Alaska's oil production tax is based on a percentage of a company's net profits on produced taxable oil. The net profit value is determined by deducting transportation costs and allowable Alaska lease expenditures from the sale price of produced oil. Tax credits further reduce the amount of tax owed by an oil and gas producer. The oil production tax, along with the royalties Alaska gets as the resource owner, is how the state's oil resource is converted into revenue that supports public services, infrastructure, jobs and businesses.	The system was designed to "ensure a fair and equitable means of assessing Alaska's oil and gas resources..." (Legislative Intent, House Bill 2001). **Basic Structure:** 1. Determine the taxable net profit value by subtracting the transportation costs and qualified lease expenditures from the per barrel sale price of the produced oil. 2. Apply the base tax rate of 25% plus the progressivity factor. Progressivity increases the tax rate by 0.4% for every dollar the per barrel profit exceeds $30 up to a per barrel profit of $92.50. Above $92.50, the increase rate drops to 0.1% per additional dollar of net profit. The tax rate is capped at 75%. 3. Apply applicable tax credits to reduce the amount of tax due. a. The most common credit used is a 20% capital expenditure credit based on a producer's Alaska capital lease expenditures. The credit is taken over two years. b. Other credits are designed to encourage exploration and new area development. **Example:** $100 per barrel sales price - $10 per barrel transportation cost - $40 deductible lease expenses = $50 net profit value x 33% (25% base tax + 8% progressivity) = $16.50 tax per barrel - $4 per barrel capital expenditure credit = $12.50 per barrel tax due	The system was designed to "drive new investment to create new Alaska production and new opportunities for Alaskans." (Governor's SB 21 Transmittal Letter). **Basic Structure:** 1. Determine the taxable net profit value by subtracting the transportation costs and qualified lease expenditures from the per barrel sale price of the produced oil. 2. Apply the flat tax rate of 35%. (Eliminated the ACES progressivity factor). 3. For oil that does not qualify as "new oil," subtract a sliding-scale tax credit – from $8 per barrel when the gross value is $80 or less, to $1 per barrel between $140 and $149 gross value, zero after that. 4. For qualified "new oil," 20% or 30% of the oil gross value is excluded from taxation. 5. Apply a tax credit of $5 per barrel that qualifies for the gross value reduction. 6. Apply other applicable tax credits. (Eliminated the ACES capital expenditure credit). **Examples:** *<u>Old Oil</u>* $100 per barrel sales price - $10 per barrel transportation cost - $40 deductible lease expenses = $50 net value x 35% = $17.50 tax per barrel - $6 credit = $11.50 per barrel tax due *<u>New Oil with 20% gross value reduction</u>* $100 per barrel sales price - $10 transportation cost - $18 gross value reduction = $72 - $40 deductible lease expenses = $32 net value x 35% = $11.20 tax per barrel - $5 credit = $6.20 per barrel tax due	• Voting YES on Ballot Measure 1 will return Alaska to ACES, an oil production tax system designed to provide a more equitable means for profit sharing between Alaska and producers over a range of oil prices, and to encourage a broad range of exploration and production activities. • SB 21 is out of balance. When oil prices are high, the producers' share of the profits rises disproportionately higher and faster than Alaska's share. Costs of production do not increase and so producers capture more profit, while the state provides a tax credit even at very high prices and the tax rate remains flat. • SB 21 tax credits do not encourage Alaska investment. SB 21 eliminates the ACES capital lease expenditure credit that required in-state investment to get the credit and instead gives a tax credit for each barrel produced. This means producers can get a tax credit without any additional investment in Alaska. • Under SB 21, as lower taxed "new oil" replaces "old oil," public revenues will decrease. New oil includes oil from fields created after 2003. Over time, an increasing percentage of oil will qualify as "new" and remain so indefinitely. • Passage of Ballot Measure 1 will provide Alaska with a more equitable platform for refining the tax system to encourage investment in future production and provide a healthy revenue stream to serve Alaskans.

Prepared by Lisa Weissler, Attorney, Changing Tides Consulting, July 2014