

# Oil Tax Referendum Debate

## Supporters (YES)

Bill Wielechowski

Gregg Erickson

## Opponents (NO)

Brad Keithley

Roger Marks

## Moderator

Gunnar Knapp

## Timer

Dick Mylius

July 23, 2014

## Debate overview

- Moderator Presentation (10 minutes)
- Opening Statements (20 minutes)
- Debater Questions and Responses (64 minutes)
- Audience Questions (20 minutes)

## Time allocations . . .

- Moderator Presentation (10 minutes)
- Opening Statements
  - Bill Wielechowski (Supporters) (5 minutes)
  - Brad Keithley (Opponents) (5 minutes)
  - Gregg Erickson (Supporters) (5 minutes)
  - Roger Marks (Opponents) (5 minutes)
- Debater Questions and Responses
  - Supporters question Opponents (16 minutes)
  - Opponents question Supporters (16 minutes)
  - Supporters question Opponents (16 minutes)
  - Opponents question Supporters (16 minutes)
- Audience Questions (20 minutes)

## Time allocations for Debater Questions and Responses

- Supporters question opponents
  - Supporters ask question (1 minute)
  - Opponents respond to question (2 minutes)
  - Supporters may offer brief rebuttal to response (30 seconds)
  - *etc. for 16 minutes (four or five questions)*
- Opponents question supporters
  - Opponents ask question (1 minute)
  - Supporters respond to question (2 minutes)
  - Opponents may offer brief rebuttal to response (30 seconds)
  - *etc. for 16 minutes (four or five questions)*

# **A Brief Introduction to Alaska Oil Production Taxes**

Gunnar Knapp  
Director and Professor of Economics  
Institute of Social and Economic Research  
University of Alaska Anchorage

*Introductory material for a debate on Alaska oil production taxes  
Alaska Common Ground Ballot Measure Series  
Loussac Library  
July 23, 2014*

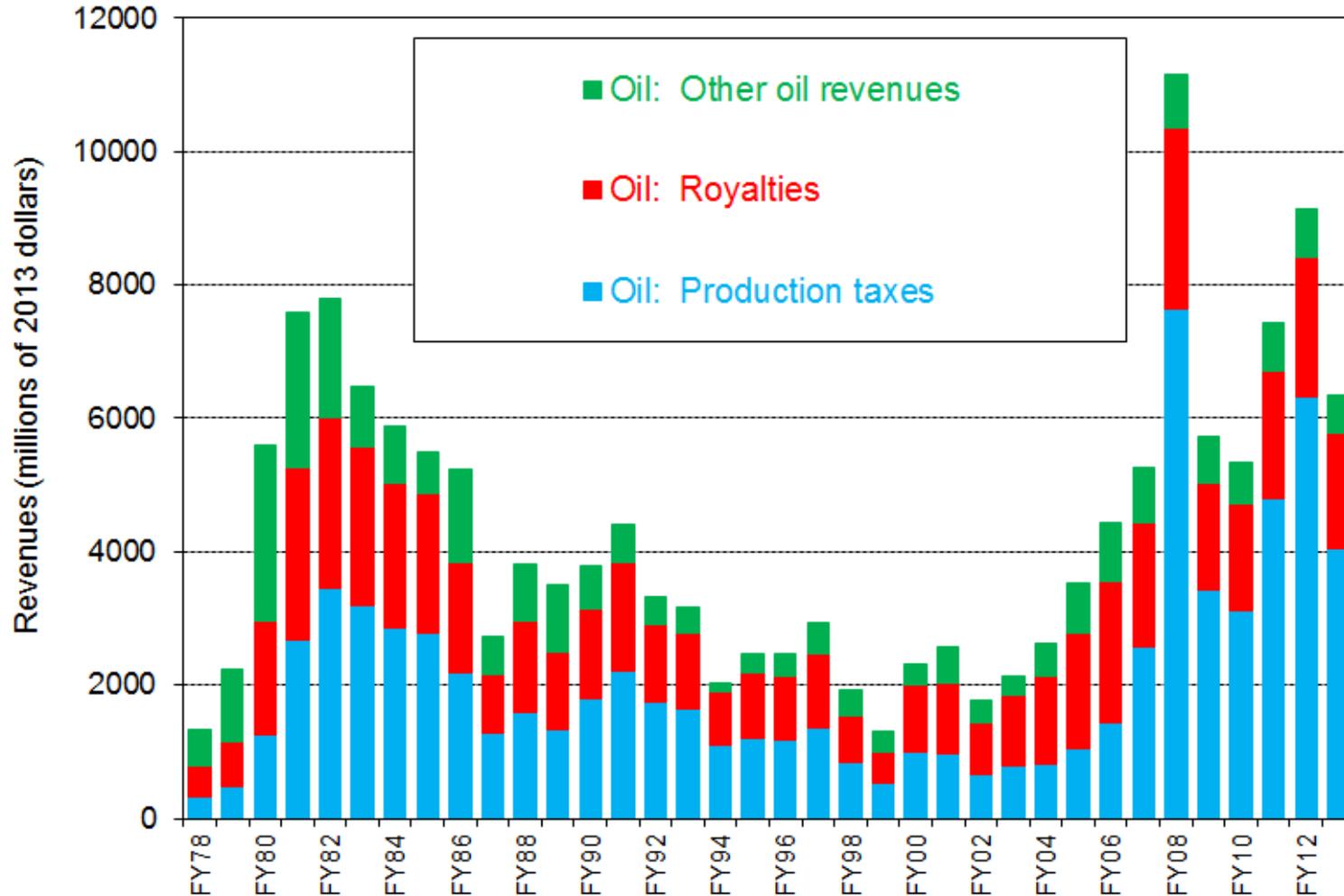
The purpose of this brief introduction to Alaska oil taxes is to help audience members not yet familiar with oil taxes to understand the debate.

These slides were reviewed by and agreed to by all the debaters.

All of the data in this presentation are from Alaska Department of Revenue *Fall Revenue Forecast* reports.

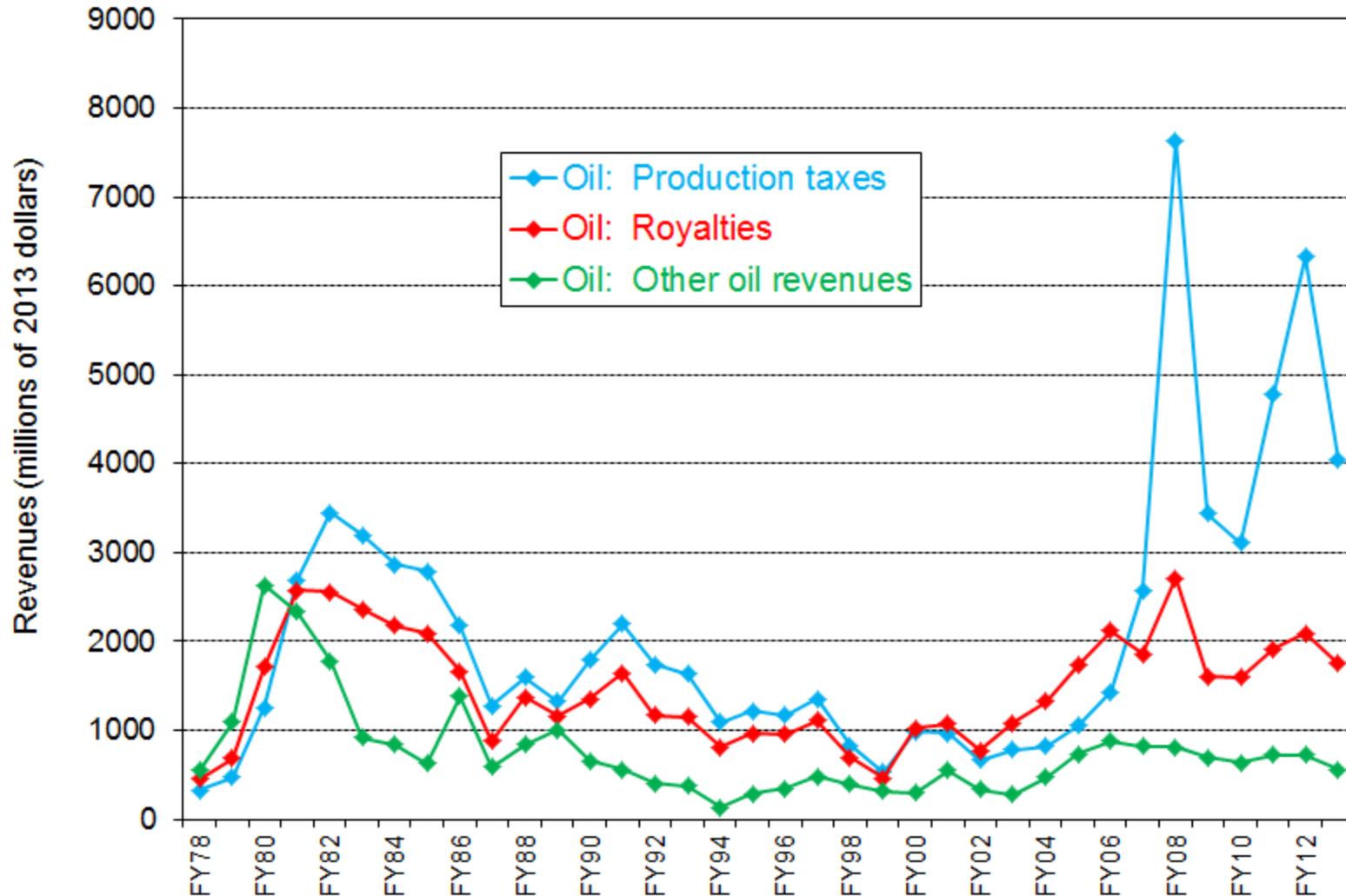
Alaska has several kinds of petroleum revenues. **Production taxes** and **royalties** generate the most revenue. (**Other oil revenues** are mostly property taxes and corporate income taxes.)

**Alaska Unrestricted Oil Revenues (adjusted for inflation)**



Since 2007 production taxes have accounted for by far the largest share of Alaska unrestricted oil revenues.

**Alaska Unrestricted Oil Revenues (adjusted for inflation)**



Alaska has made several significant changes to oil production taxes since North Slope oil production began.

### Alaska Petroleum Tax Regimes Since 1977

Acronym	Name	Years in effect
ELF	Economic Limit Factor <i>(several different versions; was changed several times)</i>	1977-2006
PPT	Petroleum Profits Tax	2006-2007
ACES	“Alaska’s Clear and Equitable Share”	2007-2013
MAPA	“More Alaska Production Act” (SB21)	2014

This debate is about ACES and MAPA.

ACES was in effect from 2007-2013.

The legislature passed MAPA (Senate Bill 21 or SB21) in 2013.

MAPA went into effect at the beginning of 2014.

On August 19, Alaskans will vote on Ballot Measure 1:

- YES is a vote to repeal the new MAPA (SB21) tax law and reinstate the former ACES tax law provisions.
- NO is a vote to keep the new MAPA (SB21) tax law.

Regardless of the outcome of the vote, the legislature could amend the tax law in the future.

Both ACES and MAPA are very complex laws!

- It would take more time than we have for this entire debate to explain all the details of both laws
- What follows is a very simplified introduction to some of the most important features of and differences between the two laws
- There are many other important features and differences! The debaters will certainly point some out.

Both ACES and MAPA tax oil producers' PROFITS.

PROFITS

= PRODUCTION VALUE - COSTS

= PRODUCTION x PRICE - COSTS

*COSTS include transportation costs, deductible operating costs, and deductible capital costs. Some costs aren't deductible.*

*Producers aren't taxed on the state's royalty share of production (typically 1/8).*

For both ACES and MAPA,  
producers pay a TAX RATE on profits,  
and can deduct CREDITS.

$$\text{TAXES} = [ \text{PROFITS} \times \text{TAX RATE} ] - \text{CREDITS}$$

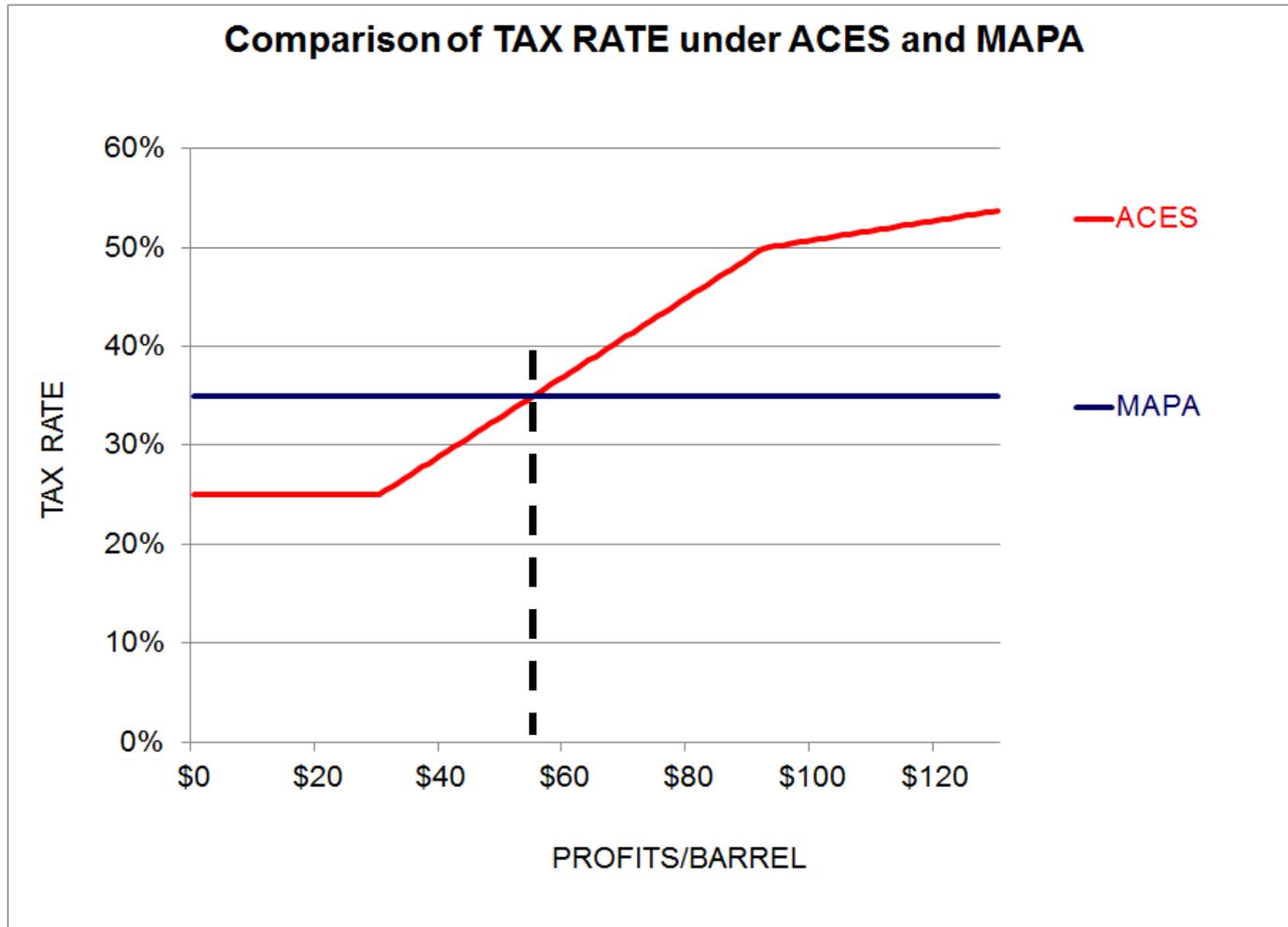
PROFITS are calculated in the same way for both laws.

The TAX RATE and CREDITS are calculated differently.

Under ACES, the TAX RATE rises  
as PROFITS/BARREL increases—  
from as low as 25% to as high as 75%.

Under MAPA, the TAX RATE is fixed at 35%.

If PROFITS/BARREL = \$55, the TAX RATE is the same (35%) for both laws.  
If PROFITS/BARREL < \$55, the TAX RATE is higher for MAPA.  
If PROFITS/BARREL > \$55, the TAX RATE is higher for ACES.



Source for graph: Gunnar Knapp calculations based on the tax formulas.

CREDITS are calculated differently  
under ACES and MAPA.

ACES gives producers credits for CAPITAL COSTS.

MAPA gives producers credits for PRODUCTION.

The CREDIT calculations for both laws are complicated.

MAPA provides a tax reduction for “new oil” called the GROSS VALUE REDUCTION (GVR).

What is “new oil” and how the GVR is calculated is complicated.

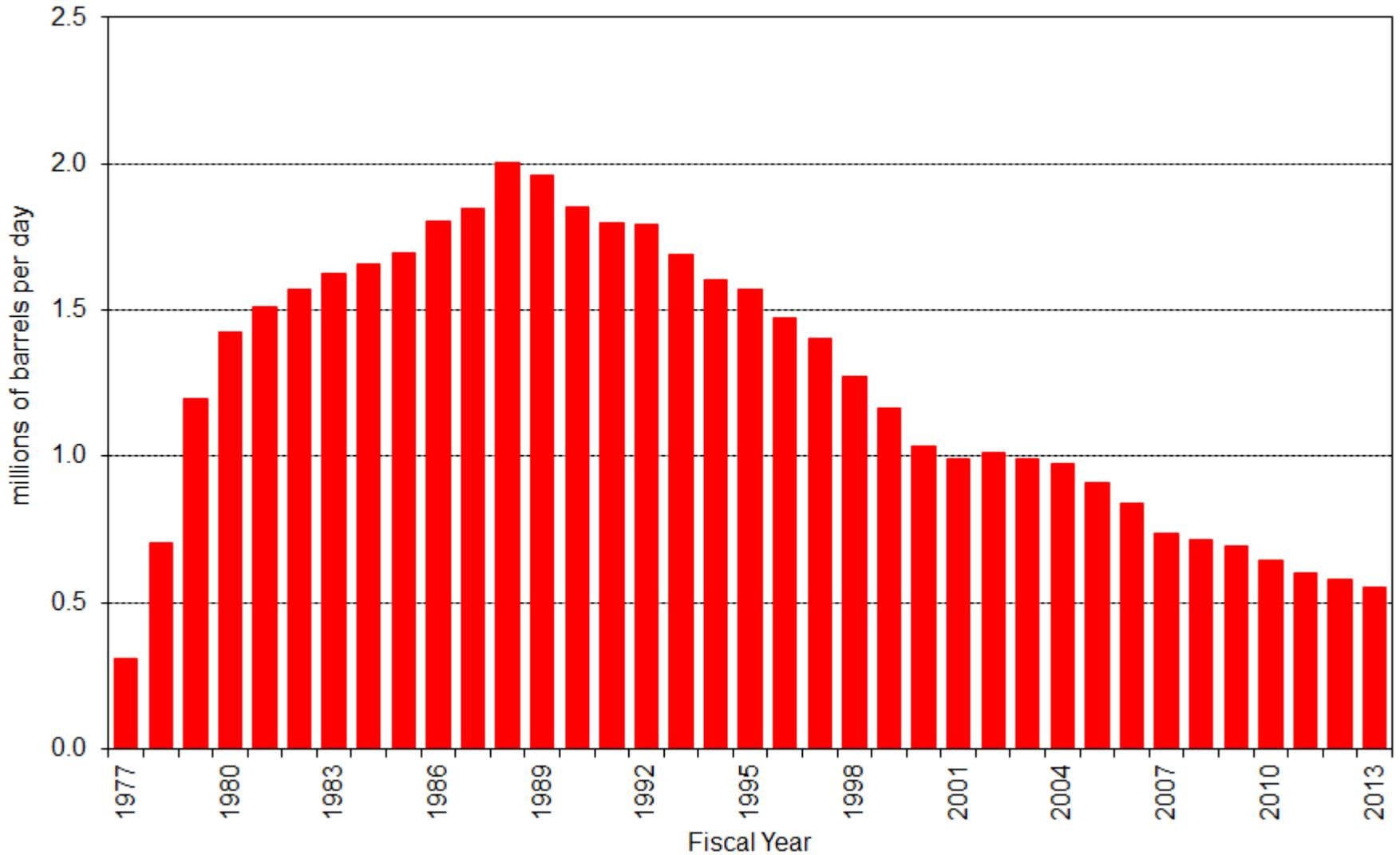
Part of the debate is about the regulations the Department of Revenue wrote to define “new oil.”

The last three slides show historical trends in three critical factors affecting future oil revenues under either tax:

PRODUCTION  
PRICES  
COSTS

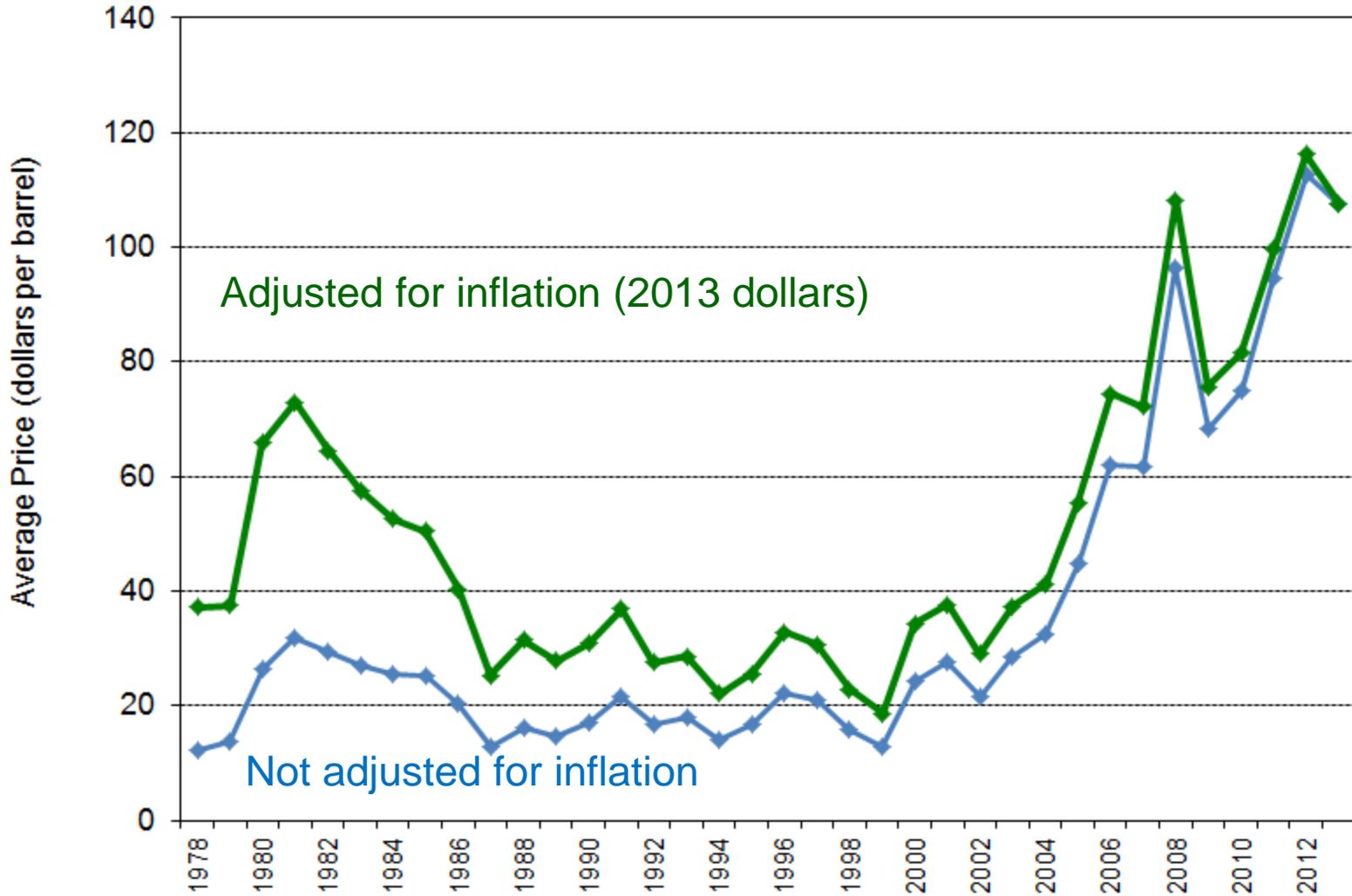
Part of the debate is about what will happen to these factors in the future.

# Alaska North Slope Oil Production



Source: Alaska Department of Revenue, Fall Revenue Sources Books

## Average Annual Oil Prices (ANS West Coast)



*Note: During any given year there is substantial variation in prices over the course of the year.*

# North Slope Average Annual Deductible Costs Per Barrel as Reported by the Alaska Department of Revenue Based on Producers' Tax Filings

