

ALASKA STATE LEGISLATURE

SESSION

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SENATOR BERT K. STEDMAN

Sponsor Statement

SB 192 – Oil and Gas Production Tax Rate

Senate Bill 192 will amend deficiencies in Alaska’s petroleum production tax. The current tax structure, created by the passage of Senate Bill 21, sets a base tax rate of 35% based on a net profit system which is calculated after deducting the cost of royalties, transportation, operating and capital expenses. The producers also receive a tax credit between \$1 and \$8 paid for each barrel of oil produced. The per barrel tax credit is not contingent on any performance measures. The producers are not required to do anything to receive this credit except pump oil from their existing wells. There is no requirement for expansion, exploration, increased production or capital investment in Alaska. The state is obligated to pay this credit to the producers on a sliding scale which increases as the price of oil decreases. For example, if the price of oil is between \$140 - \$150, the producers receive a tax credit of \$1 per barrel. But if the price of oil falls to under \$80, the producers receive a tax credit of \$8 per barrel.

In FY15, the impact to the state treasury as a result of this per barrel tax credit is estimated to be almost one billion dollars. Senate Bill 192 would reduce that per barrel credit by half so it would start at 50 cents per barrel at high oil prices and cap out at \$4 per barrel at low oil prices. This would return almost a half a billion dollars to the state treasury in FY15. Under the current tax regime, the compensation for the value of Alaska’s hydrocarbons is too low compared to similar world class hydrocarbon basins around the world.

Senate Bill 192 would also raise the minimum production tax from 4% of the gross value at the point of production to 15%. As the price of oil goes down and the credits go up, we need a higher minimum tax to protect the state’s share of its resource wealth from our legacy fields on the North Slope.

Senate Bill 192 would establish a more reasonable, balanced and sustainable petroleum production tax for Alaskans. I encourage you to join me in support of this proposal.

District Q

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