

**Limitations on Upside Profit
Potential under
Alaska's Oil and Gas Production Tax
("The Problem with ACES")**

Roger Marks

Presentation to Commonwealth North

October 8, 2010

Tax Rate under ACES

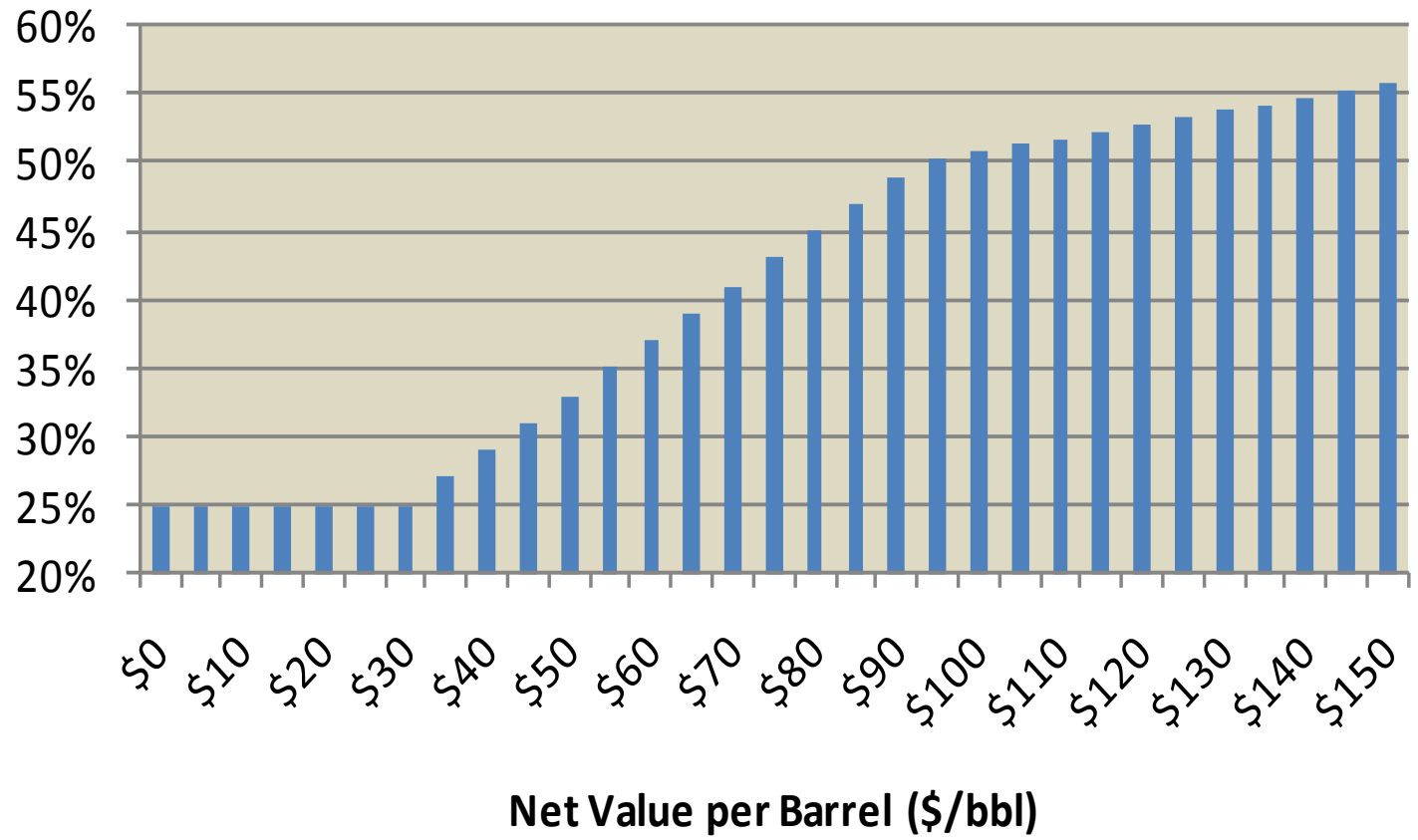
- Base rate of 25% of net value (after deducting all costs)
- Progressivity element when net value per barrel exceeds \$30/bbl:
 - $(\text{Net value per barrel value} - \$30) \times .004$
- So if oil price is \$80/bbl:
 - Net value per barrel is about \$55/bbl
 - $\text{Progressivity} = (\$55 - \$30) \times .004 = 10\%$
 - $\text{Total tax rate} = 25\% + 10\% = 35\%$
 - **APPLIES TO ENTIRE NET VALUE**

U.S. Tax Rate for Single Taxpayer

- First \$8,350 10%
- Next \$25,600 15%
- Next \$48,300 25%
- Next \$89,300 28%
- Next \$201,400 33%
- Anything over \$372,950 35%

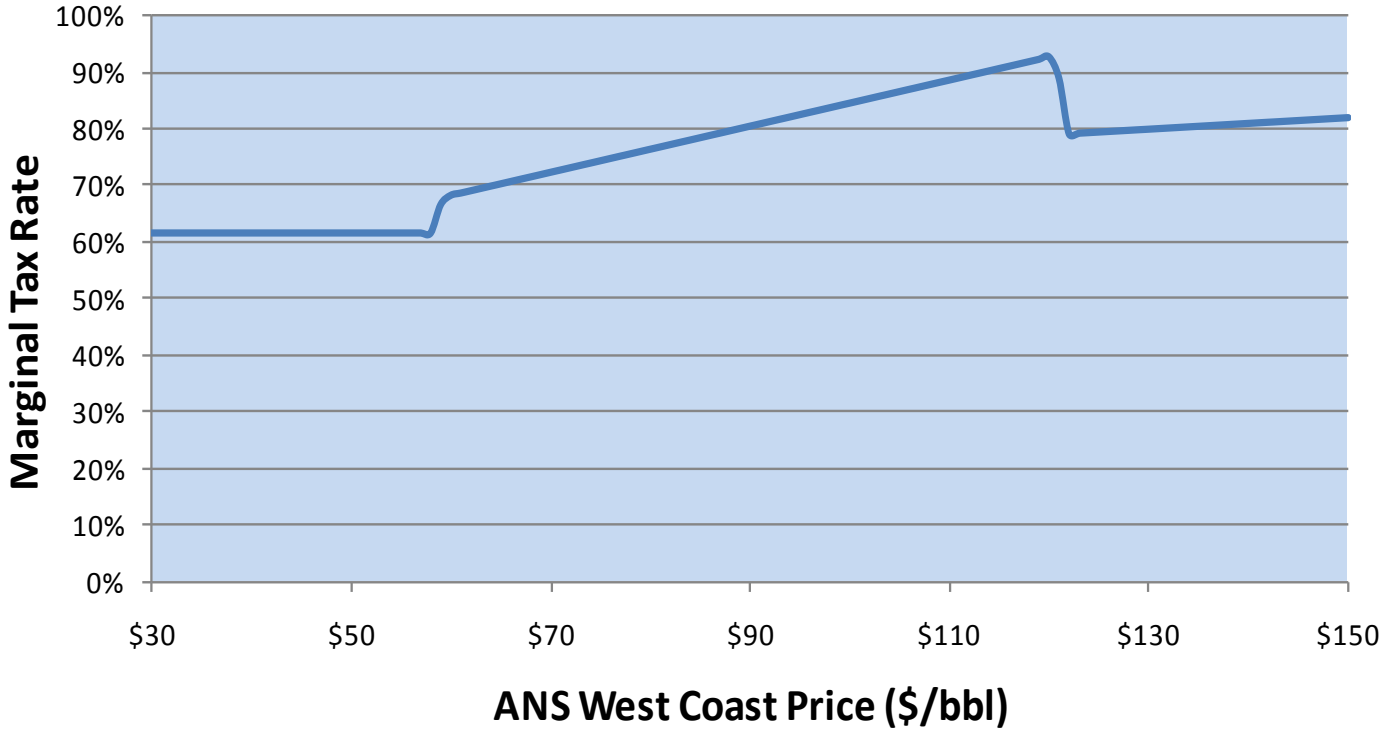
What Happens to the First Dollar of Value under ACES

Tax Rate on the First Dollar of Value

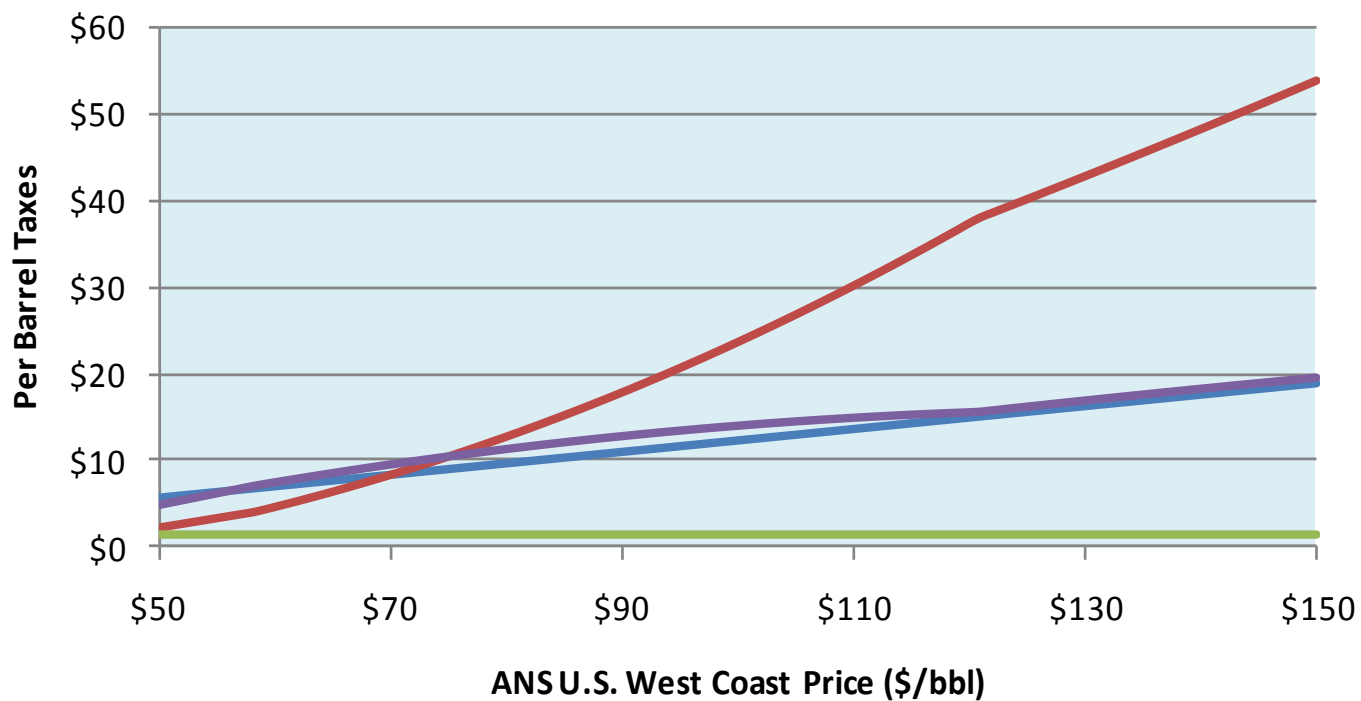


Marginal Tax Rate (All State & Federal Taxes)

How Much Gov't Gets When Price Goes Up \$1

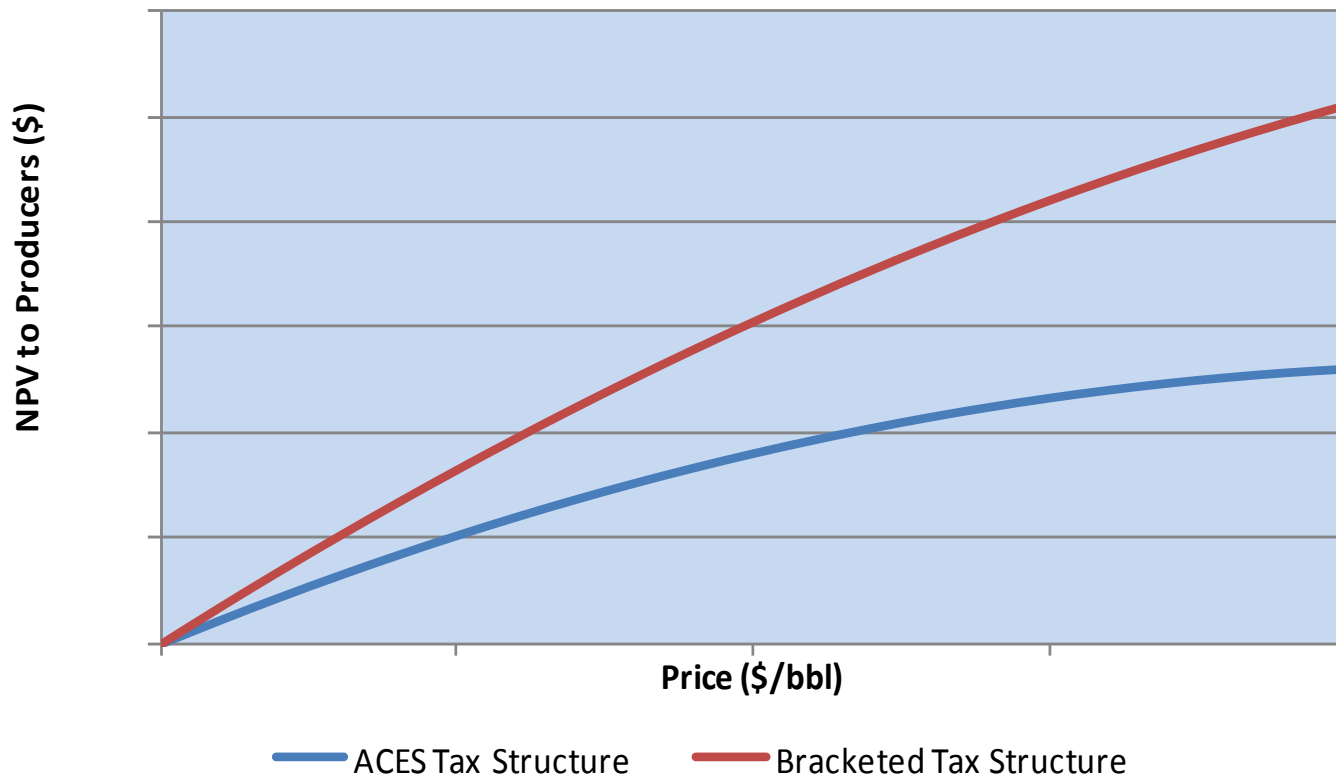


Relative Taxes Under ACES

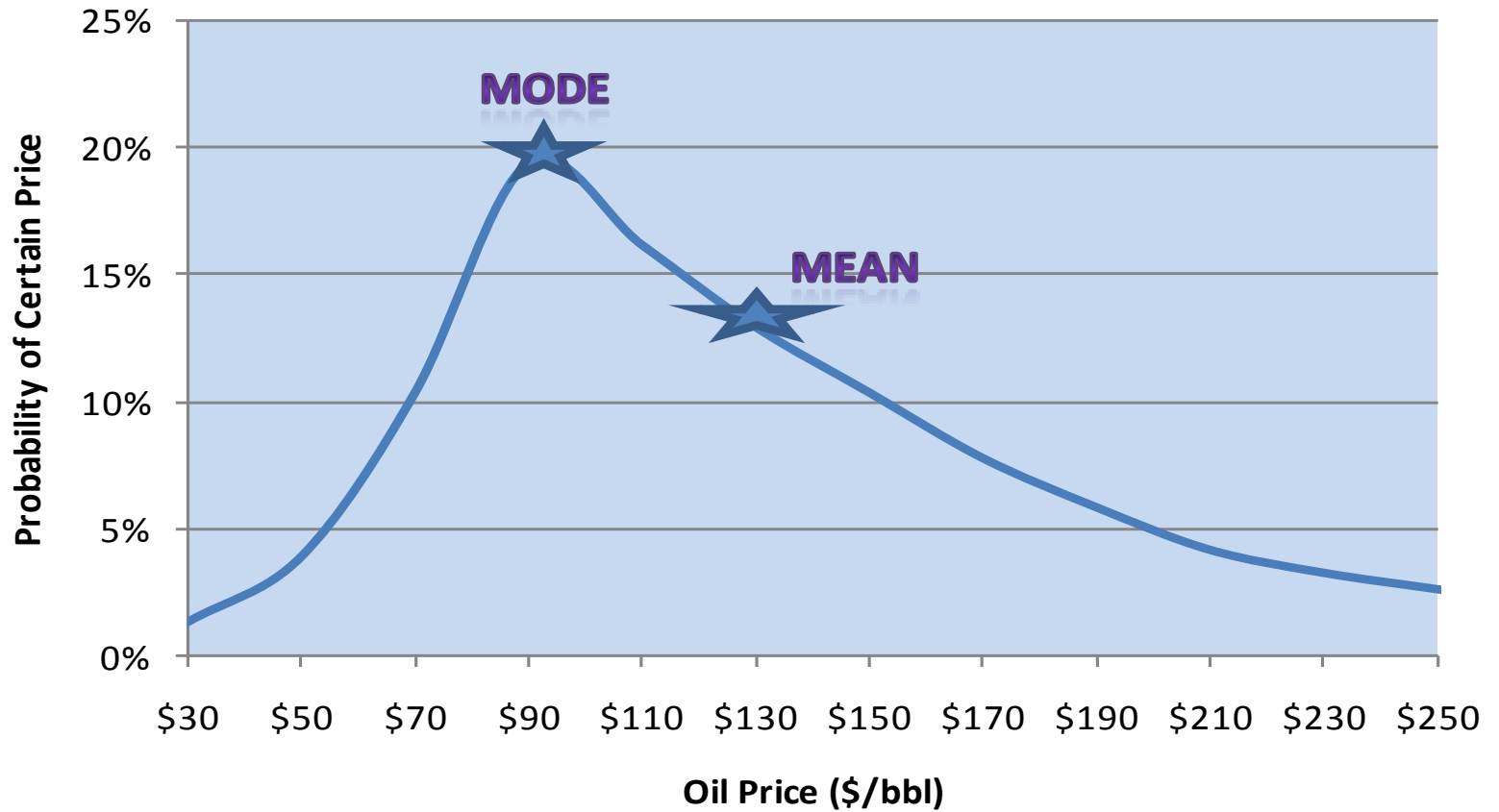


royalty severance tax (ACES) property tax state & fed corp inc tax

Net Present Value to Producers: ACES vs. Bracketed Tax Structure

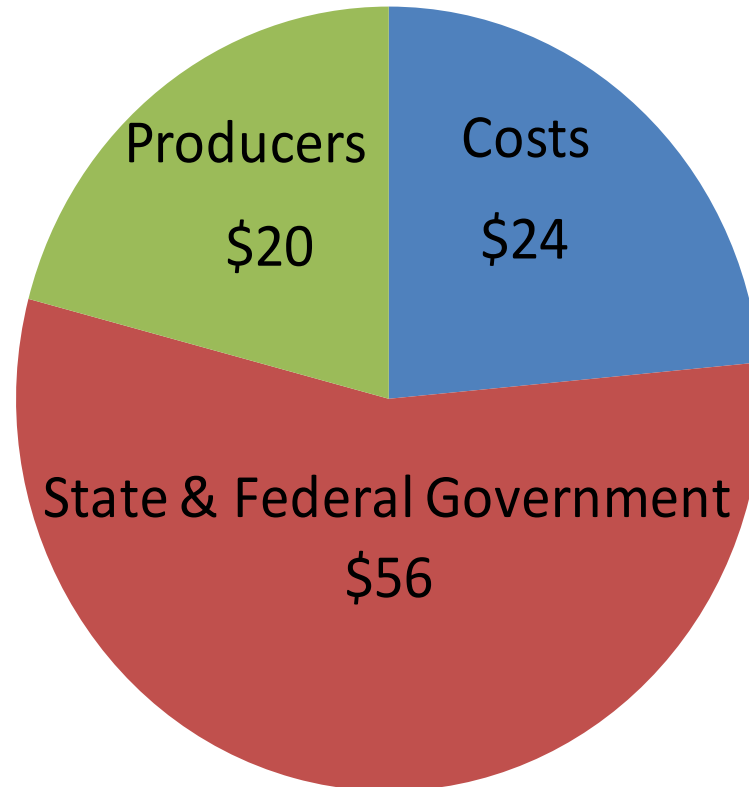


Hypothetical Expected Price Distribution



International Competitiveness

Where did \$100/bbl in Alaska Go in 2008?



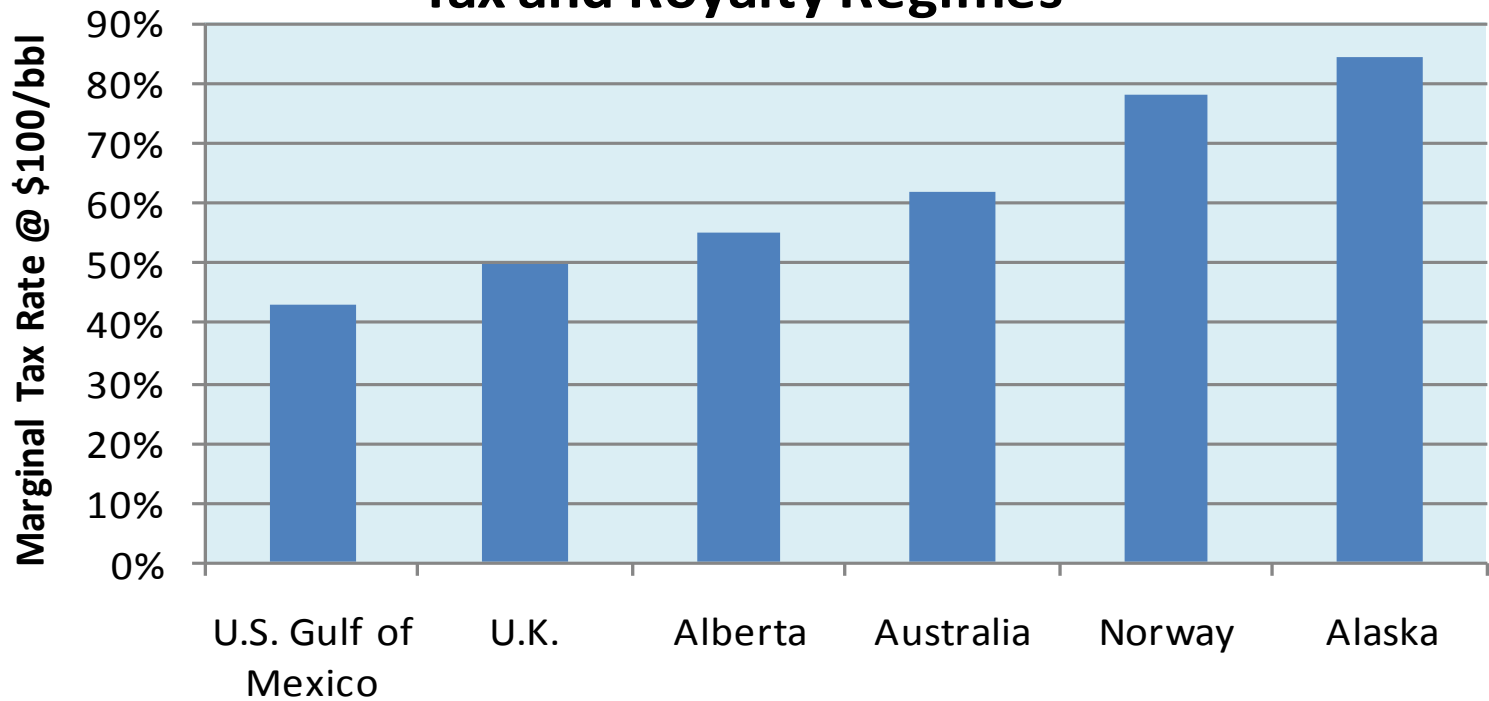
**ConocoPhillips Financial Performance: Alaska vs. Rest of World
2008 & 2009 (\$millions)***

(Oil Prices averaged \$62/bbl in 2009 and \$100/bbl in 2008)

	<u>Alaska</u>			:	<u>Non-Alaska Rest of World</u>		
			Additional	:			Additional
	2009	2008	(Difference)	:	2009	2008	(Difference)
Pre-tax income	3,391	7,064	3,673	:	6,799	21,506	14,707
				:			
Total taxes	1,851	4,749	2,898	:	4,837	12,000	7,163
				:			
After-tax income	1,540	2,315	775	:	1,962	9,506	7,544
				:			
Percentage of additional pre-tax income retained after-tax			21%	:			51%

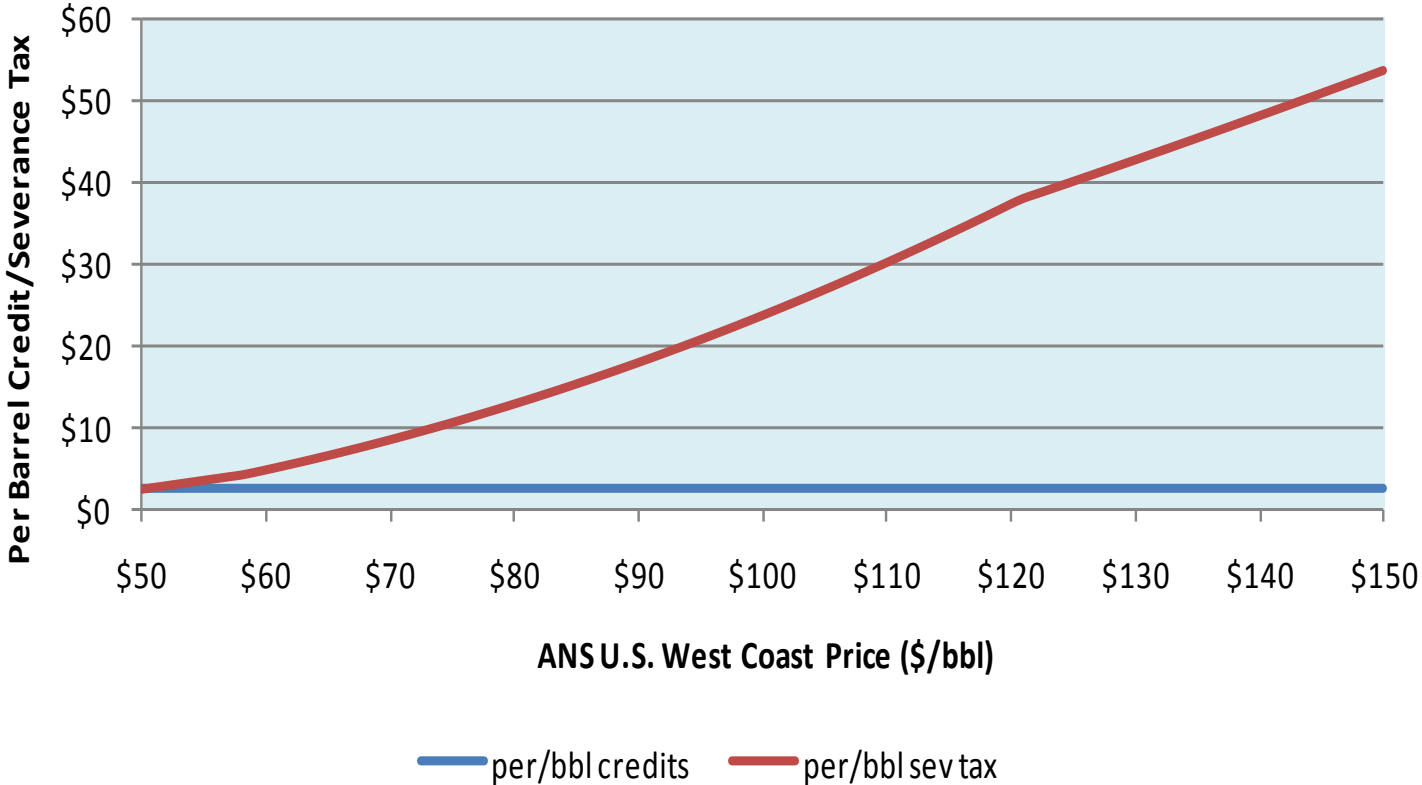
* includes natural gas

International Marginal Tax Rates @ \$100/bbl Tax and Royalty Regimes



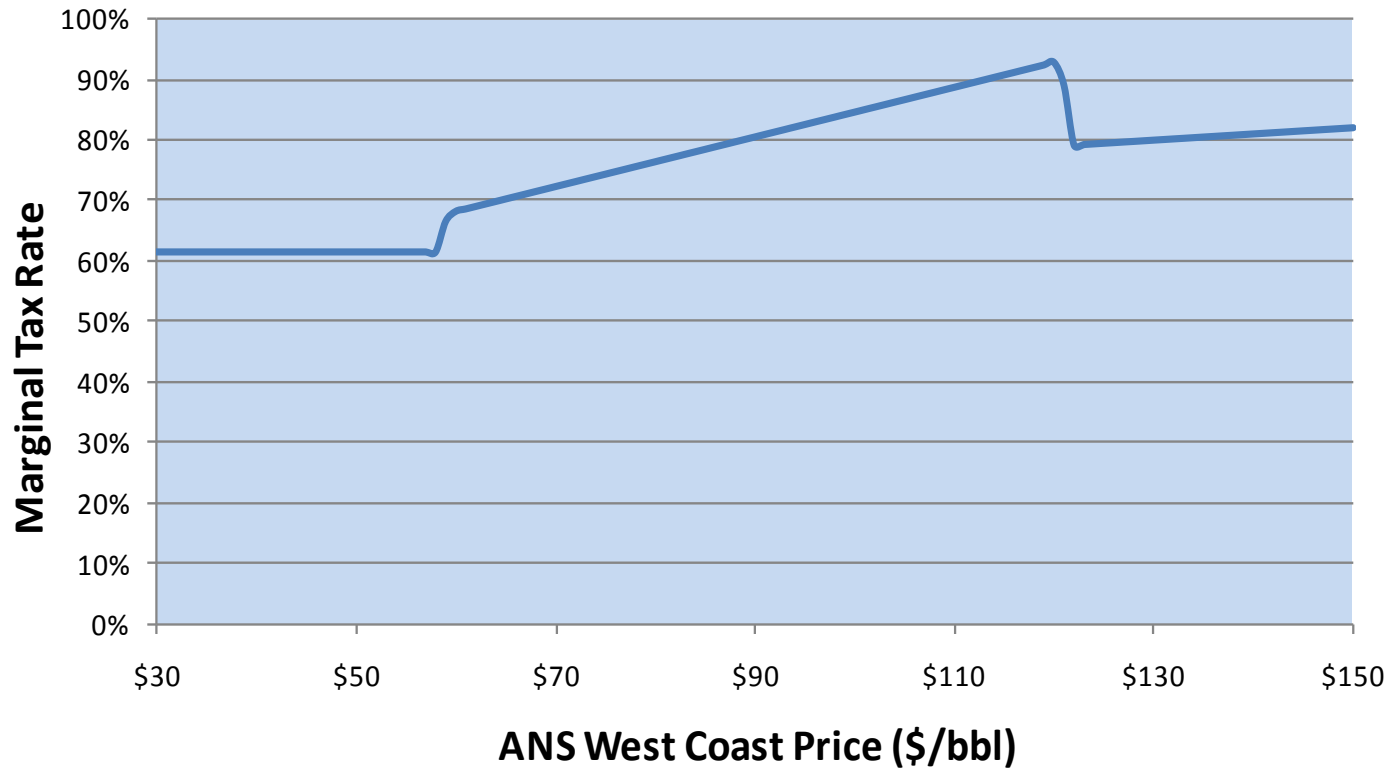
Evaluating ACES

Cash Flow Impact: Credits vs. ACES Severance Tax

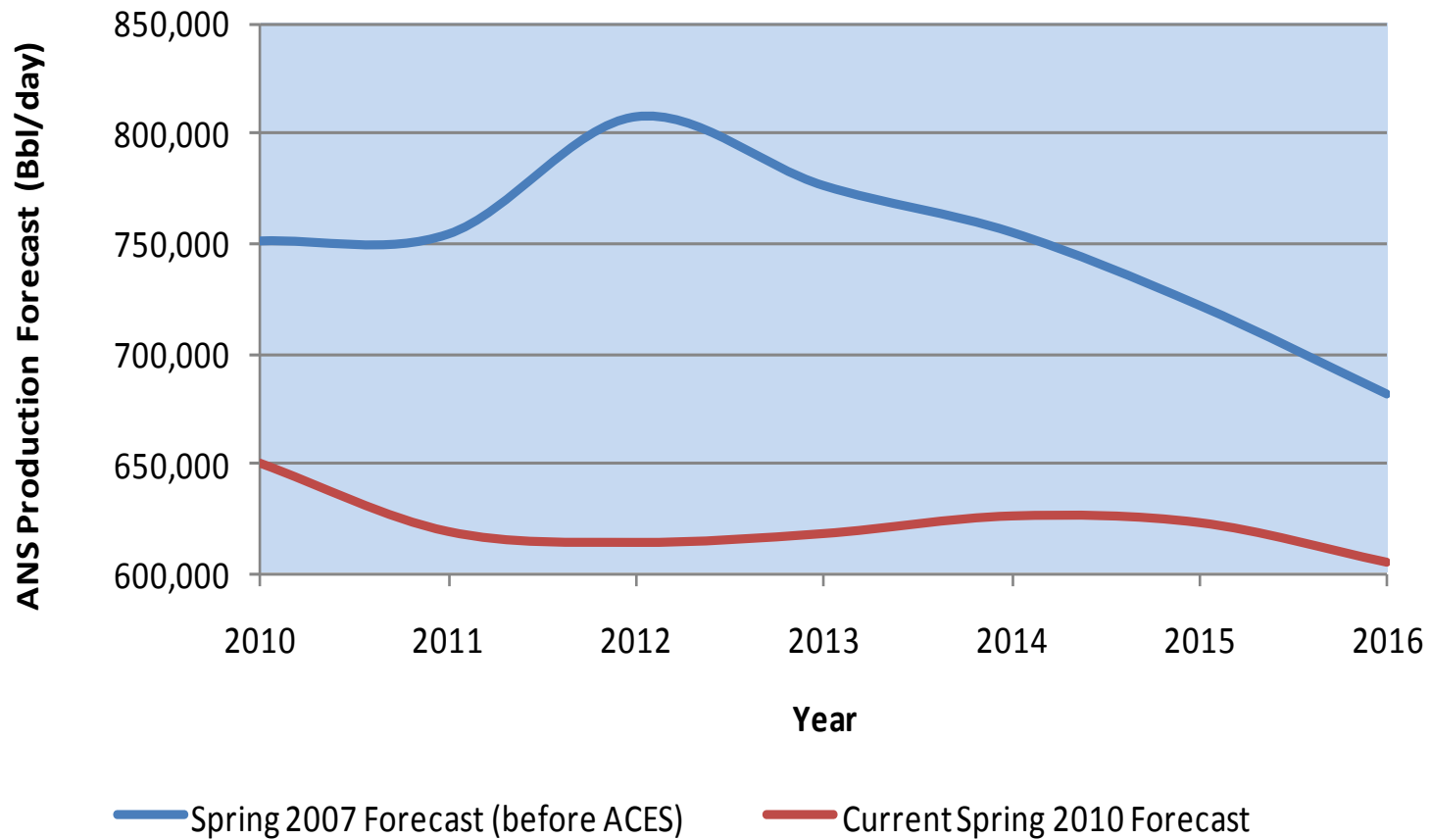


Gold-Plating

How Much of a Dollar of Spending is Picked Up by Gov't



ANS Production Forecast Before & After ACES



Possible Fix?

Fix?

Bracketed Tax Rates

- **HYPOTHETICAL EXAMPLE***

• \$0/bbl - \$30/bbl	25.0%
• Next \$15/bbl (\$30 - \$45/bbl)	28.5%
• Next \$15/bbl (\$45 - \$60/bbl)	32.0%
• Next \$15/bbl (\$60 - \$75/bbl)	35.5%
• Next \$15/bbl (\$75 - \$90/bbl)	39.0%
• Next \$15/bbl (\$90 - \$105/bbl)	42.5%
• Next \$15/bbl (\$105 - \$120/bbl)	46.0%
• Anything over \$120/bbl	50.0%

* This example is only illustrative of a bracketed tax structure. The actual brackets and rates need to be designed very carefully and this by no means represents a proposal for suggested brackets and rates.

Marginal Tax Rates (All State & Federal Taxes) ACES & Example Bracketed

