<u>Oil producers seek favorable tax climate in SB 21</u>
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This summer we will be voting on whether to repeal SB 21 – a reform of the state's oil and gas production tax passed in 2013. In a recent compass piece Eric Croft expresses some confusion: the Alaska department of revenue recently reported that this year oil and gas taxpayers may be paying more – not less – tax under SB 21. Why, Mr. Croft wonders, would industry support SB 21, if it makes them pay higher taxes?

Here, simplified almost to a point of distortion, is how tax-paying oil producers are probably analyzing the situation. So-called "progressivity" was a critical feature of the oil and gas production tax in place from 2006 to 2013. That meant that when oil prices were high, so too was the tax rate. If the taxable value of oil was $10 a barrel, the tax was 25% or $2.50 a barrel. If the taxable value of the oil was $100, the tax rate increased to approximately 50% or to about $50 a barrel.

With the enactment of SB21 in 2013, that system was replaced by a flat 35% tax. If the taxable value of oil is $10 a barrel, the tax is 35% or $3.50 a barrel. At this oil value, an oil producer pays $1 a barrel more in taxes - $3.50 under the new SB 21 system instead of $2.50 under the old system. The new law is a flat tax, so when the taxable value of the oil rises to $100 a barrel the producer still pays 35% or $35 a barrel. Consequently, under SB 21, at the higher oil value, the producer pays $15.00 less a barrel -- $35 a barrel instead of $50 a barrel.

If you are a tax paying oil producer, and you think oil prices will be higher in the future, you will probably support the new system. In fact, if you are an oil producer and you think that every decade will contain nine years of low prices and one year of high prices, you would still prefer SB 21 because the math shows that your tax savings during the one high value year will more than offset the tax cost during the nine low value years.

Of course there are many other mechanisms that change oil and gas taxes with SB 21 – some of them even maintaining a measure of progressivity in the legacy fields; these few paragraphs illustrate only one aspect.

However it is this aspect that I think leads producers to the conclusion that the new system is more conducive to investment than the system it replaced. As a nation we have been vigorously debating flat taxes versus progressive taxes for a long time. Now Alaska can have a debate between a flat tax and a highly progressive tax.

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