

# **Federal and State Energy and Tax Policies: Implications for the Alaskan Economy**

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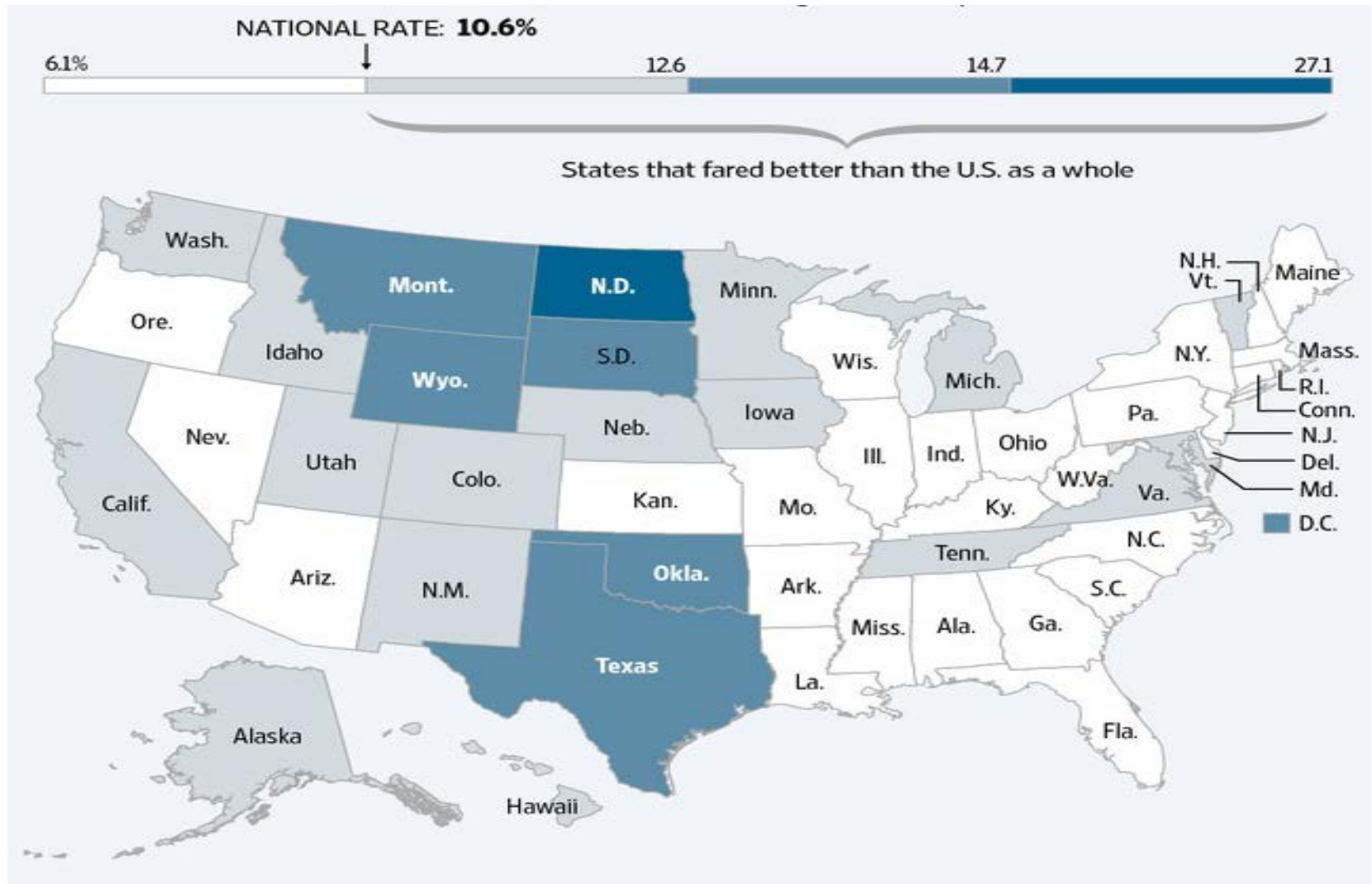
**AMERICAN COUNCIL FOR CAPITAL FORMATION**

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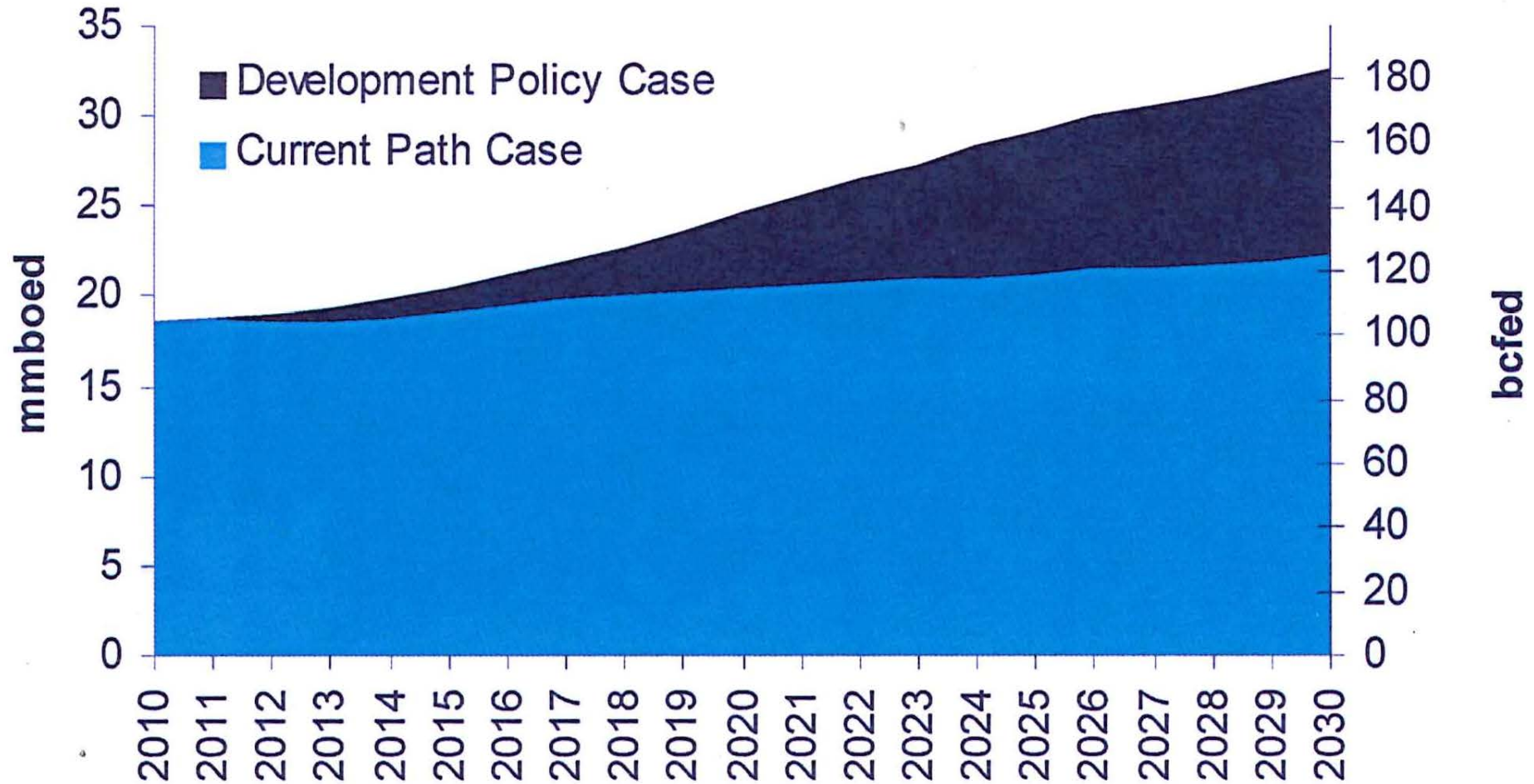
- **Role of energy in U.S. economic growth**
- **Impact of tax policy on new investment**
- **Tax reform proposals and energy sector investment**

# Total Personal Income: Growth from the end of the recession in June 2009 through the first quarter of 2012



Source: "Which States Have Best Income Growth," The Wall Street Journal, July 16, 2012,  
<http://blogs.wsj.com/economics/2012/07/16/which-states-have-best-income-growth/>

# Total U.S. Oil and Natural Gas Production (Projected)



Source: "U.S. Supply Forecast and Potential Jobs and Economic Impacts (2012-2030)," Wood Mackenzie, September 7, 2011, [http://www.api.org/policy/americanatowork/upload/API-US\\_Supply\\_Economic\\_Forecast.pdf](http://www.api.org/policy/americanatowork/upload/API-US_Supply_Economic_Forecast.pdf)

# Development Policy Case for the U.S.: Incremental Impacts (Change from the Current Path Case)

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U.S. Impacts	2015	2020	2025	2030
Production (000's boed)	1,267	4,189	7,937	10,371
Jobs	668,462	1,138,567	1,262,035	1,403,877
Annual Revenues (\$Millions)	10,165	27,796	67,613	99,769

Source: "U.S. Supply Forecast and Potential Jobs and Economic Impacts (2012-2030)," Wood Mackenzie, September 7, 2011, [http://www.api.org/policy/americanatowork/upload/API-US\\_Supply\\_Economic\\_Forecast.pdf](http://www.api.org/policy/americanatowork/upload/API-US_Supply_Economic_Forecast.pdf)

# Development Case Assumptions for Alaska

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- **Resources offshore Alaska and NPRA are developed**
- **ANWR Production begins in 2017**
- **Environmental regulation of shale gas and tight oil plays are not duplicative or unduly burdensome**
- **Permitting levels are at sufficient rates to develop resources in a timely manner**
- **Property to be developed not subject to the Alaska Clear and Equitable Share (ACES)**

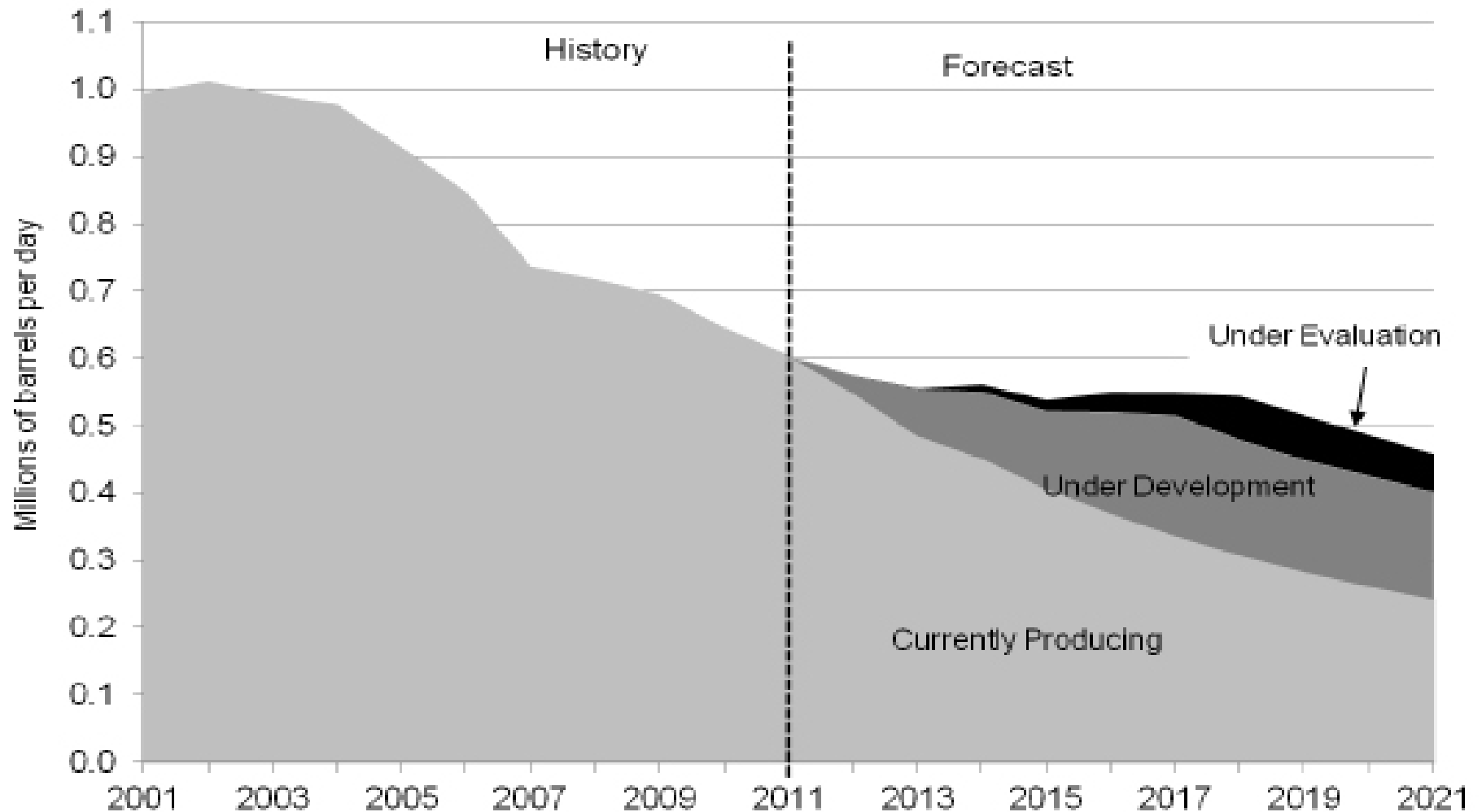
## Key State Results for Alaska

	Annual Production (mboed)			
	2010	2015	2020	2030
Current Path Case	711	641	601	844
Development Policy Case	711	655	1,174	2,467
Difference	---	14	573	1,623
	Total Jobs Supported			
Current Path Case	35,568	32,809	31,375	43,857
Development Policy Case	35,568	85,783	135,164	167,074
Difference	---	52,974	103,789	123,217
	Annual Gov't Revenue (\$M)			
Current Path Case	8,602	8,593	9,002	10,381
Development Policy Case	8,602	8,641	13,096	32,237
Difference	---	1,703	5,968	21,856

Source: "U.S. Supply Forecast and Potential Jobs and Economic Impacts (2012-2030)," Wood Mackenzie, September 7, 2011.

Note: Neither the Current Path nor the Development Policy Case assume ACES is in effect.

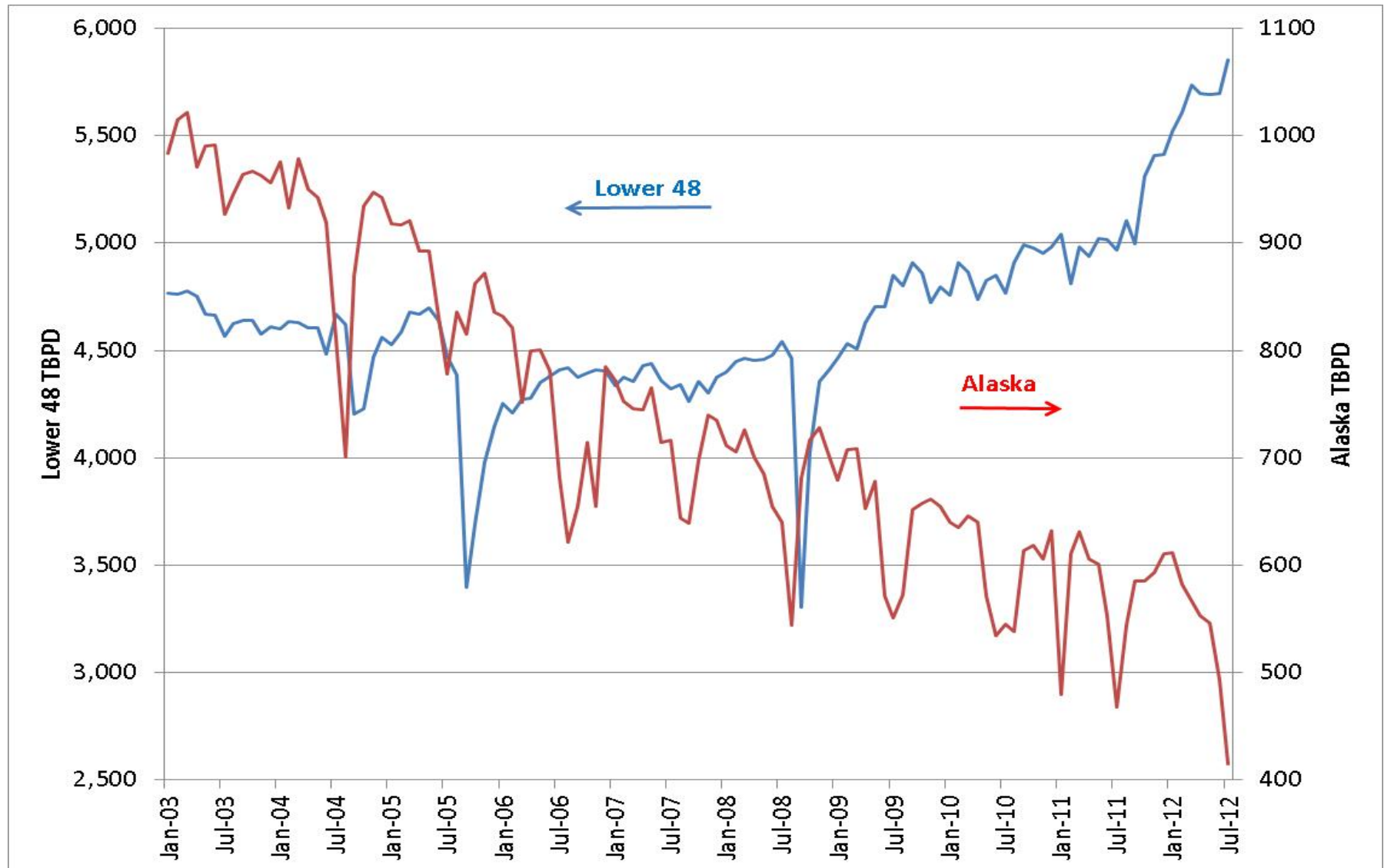
# Alaska Oil Production Rate of Decline, FY 2001-2021



Source: Alaska Department of Revenue, Revenue Source Book 2011.

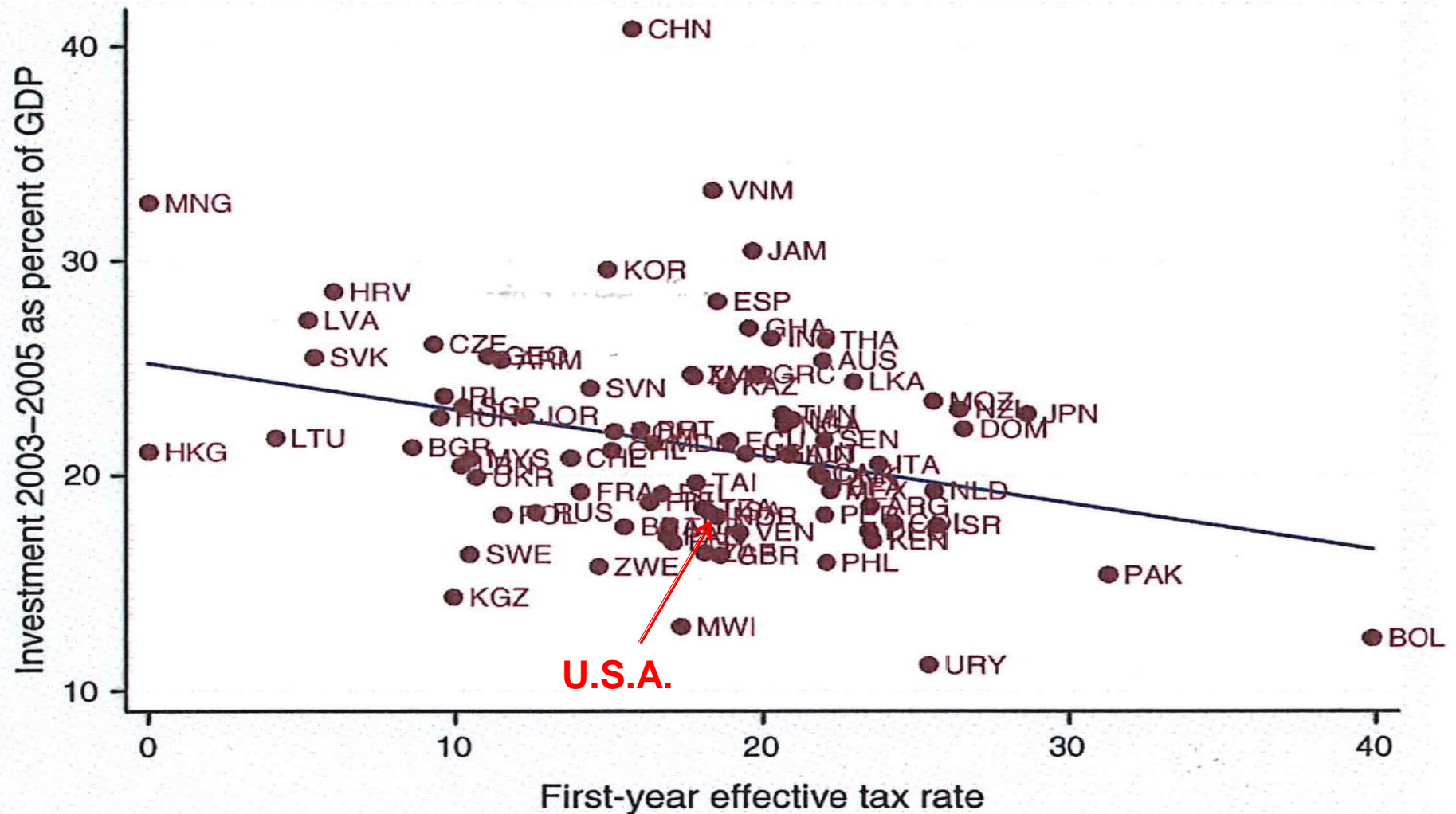


# Trends in Alaskan and Lower 48 Oil Production



Source: Energy Information Administration (EIA).

# First Year Effective Tax Rate and Investment

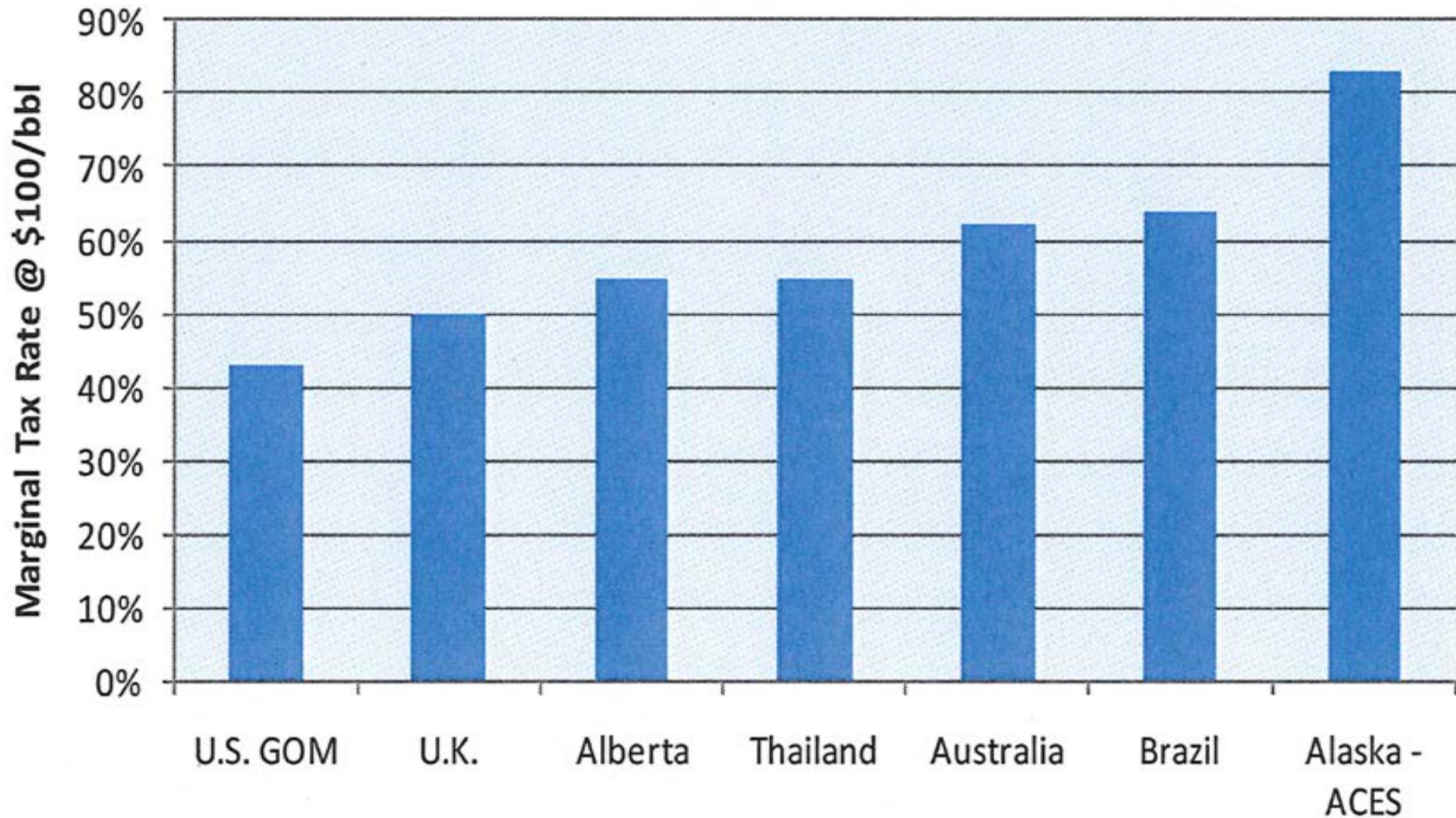


Source: "The Effect of Corporate Taxes on Investment and Entrepreneurship," By Simeon Djankov, Tim Ganser, Caralee McLiesh, Rita Ramalho, and Andrei Shleifer, American Economic Journal: Macroeconomics 2 (July 2010): 31-64.

# International Marginal Tax Rates at \$100/bbl Market Price

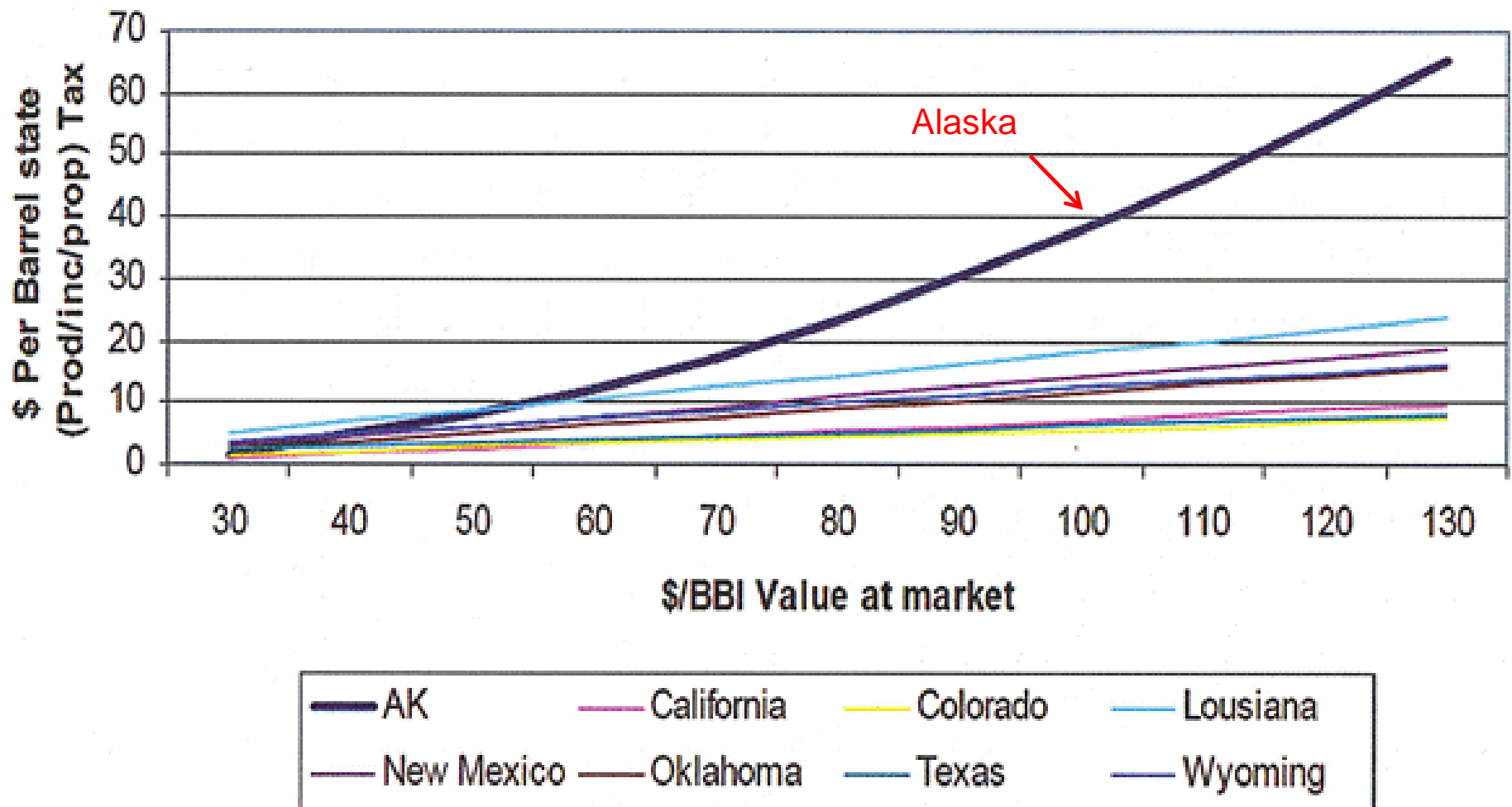
## Tax and Royalty Regimes

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Source: "Alaska's Oil Investment Tax Structure: Establishing a Competitive Alaska," A Commonwealth North Study Report, March 2011. <http://www.makealaskacompetitive.com/wp-content/uploads/2011/02/Final-OITS-Report-3-15-11.pdf>

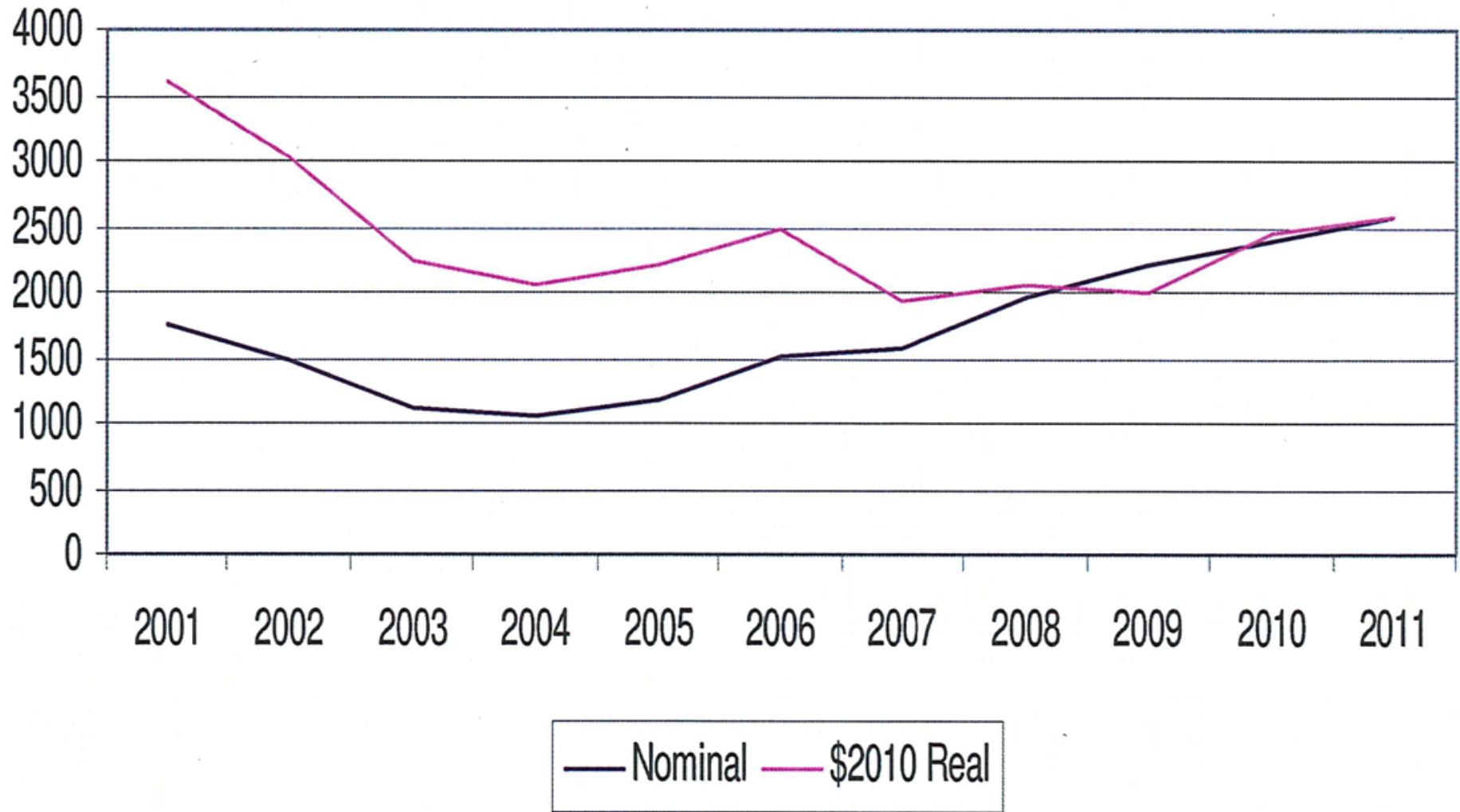
# Prudhoe Bay Taxes Compared to other States



Source: "Alaska's Oil Investment Tax Structure: Establishing a Competitive Alaska," A Commonwealth North Study Report, March 2011. <http://www.makealaskacompetitive.com/wp-content/uploads/2011/02/Final-OITS-Report-3-15-11.pdf>



# Alaska-North Slope Capital Spending 2001-2011 (millions of dollars)



Source: "Alaska's Oil Investment Tax Structure: Establishing a Competitive Alaska," A Commonwealth North Study Report, March 2011. <http://www.makealaskacompetitive.com/wp-content/uploads/2011/02/Final-OITS-Report-3-15-11.pdf>

# **President's National Commission on Fiscal Responsibility and Reform (Bowles/Simpson)**

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- **Top individual income tax rate of 22 to 28%**
- **Reduce corporate tax rate to 26-28%**
- **Repeals Alternative Minimum Tax (AMT)**
- **Eliminates all tax expenditures**
- **Territorial tax system**
- **Deficit neutral**

# **President Obama's Tax Reform**

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- **Top marginal individual income tax rate of 39.6%**
- **Replaces AMT with “Buffett Rule” tax of 30%**
- **Top corporate income tax rate of 28%**
- **Reduces top corporate tax rate on manufacturing income to 25 percent and an even lower rate for income from advanced manufacturing activities by reforming the domestic production activities deduction.**
- **Eliminates many business tax expenditures including LIFO, provisions for the oil and gas industry, accelerated depreciation**
- **Reduces the deductibility of interest expense by corporations**
- **Taxes foreign source income at 28%**

# **Governor Romney's Tax Reform Plan**

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- **Top individual income tax rate of 28%**
- **Eliminates AMT**
- **May eliminate many “tax expenditures” except for middle class deductions for home mortgage, health, retirement and charity or cap deductions**
- **Top corporate income tax rate of 25%**
- **Transitions to a territorial tax system**
- **Creates an investment tax credit**
- **Extends the write off for capital expenditures for another year**



# **A Compromise Plan to Reduce Corporate Tax Rates and Keep Capital Formation Provisions**

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- **Phase down corporate income tax rate to 25% over a 10 year period**
- **Disallow 10 % of C Corporations interest expense deduction**
- **Make permanent the 50% bonus depreciation deduction**
- **Gradually limit the tax deduction for home mortgage interest deductions**
- **Phase out the deduction for state and local taxes**
- **Repeal the Alternative Minimum Tax**

# Conclusions

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- **U.S. energy industry expansion is helping economic recovery**
- **How federal and state tax reforms are structured will impact the cost of capital for U.S. business and energy investment**
- **Reversing Alaska's decline in oil production would be easier if the state tax rate were reduced**