
House Oil & Gas Committee

**Gross Progressivity Amendment
And Preliminary Review Of
“Net/Gross” Alternative**

Progressivity

- **PPT**

- Tax rate increases 0.25% for every dollar that net cash flow per barrel exceeds \$40

- **House O&G Amendment**

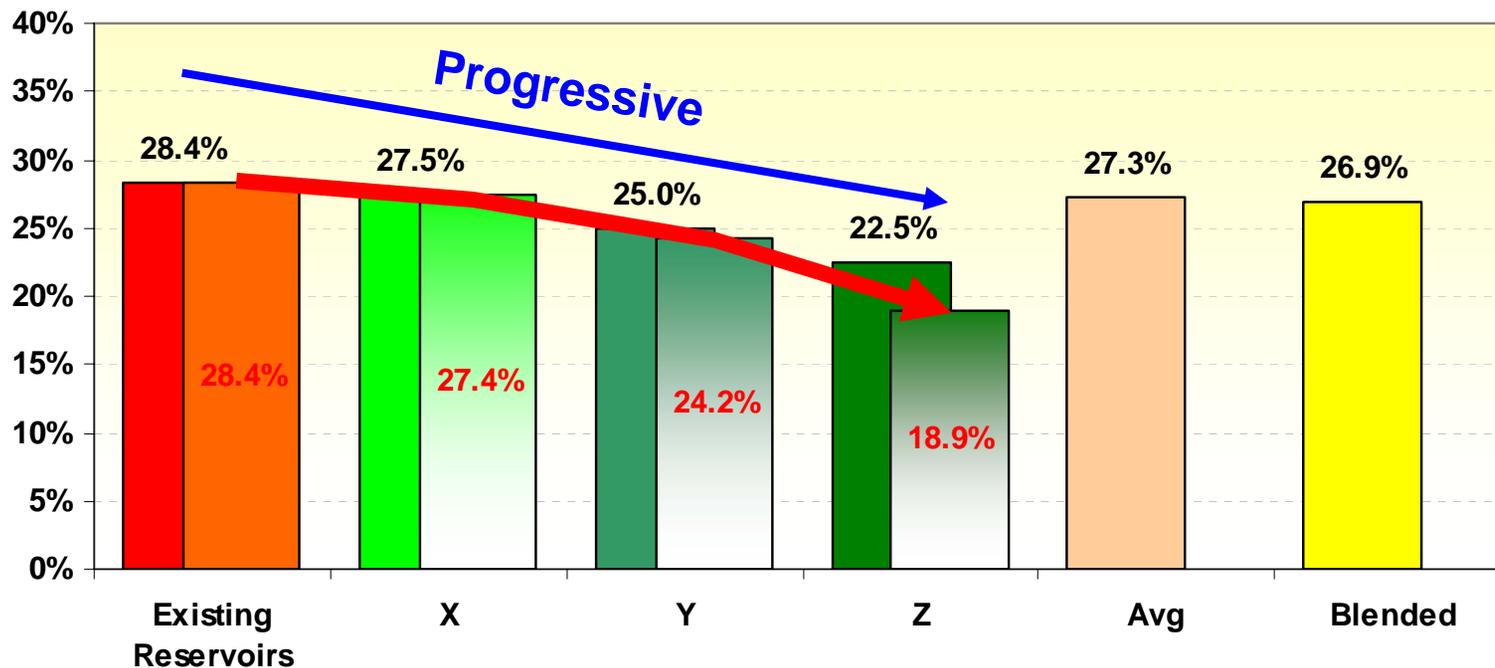
- Maintains the PPT basic rate of 22.5%
- Adds a tax of 0.225% for every dollar that the gross value at the point of production exceeds \$50
- Applied to the gross value at the point of production

Examples

- **Basis of examples**
 - Examples based on PPT base rate of 22.5% for comparability with examples shown previously
- **DOR**
 - Strong recommendation for 25% base rate

PPT Progressivity

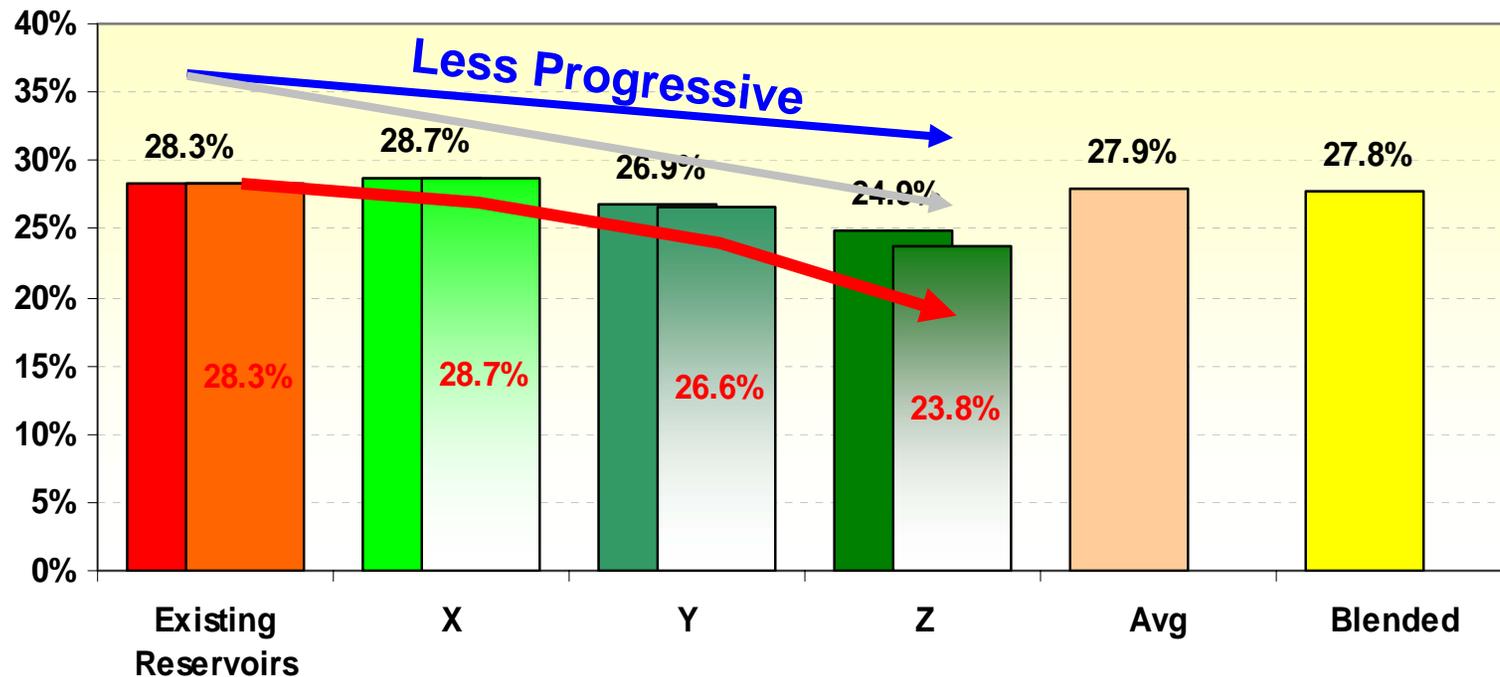
Tax Rate By Field Within A Company - As Affected By Portfolio Blending



The structure of the progressivity feature in the net tax means that low profitability fields can benefit from an effective rate that may be below the base rate

House Oil & Gas Progressivity

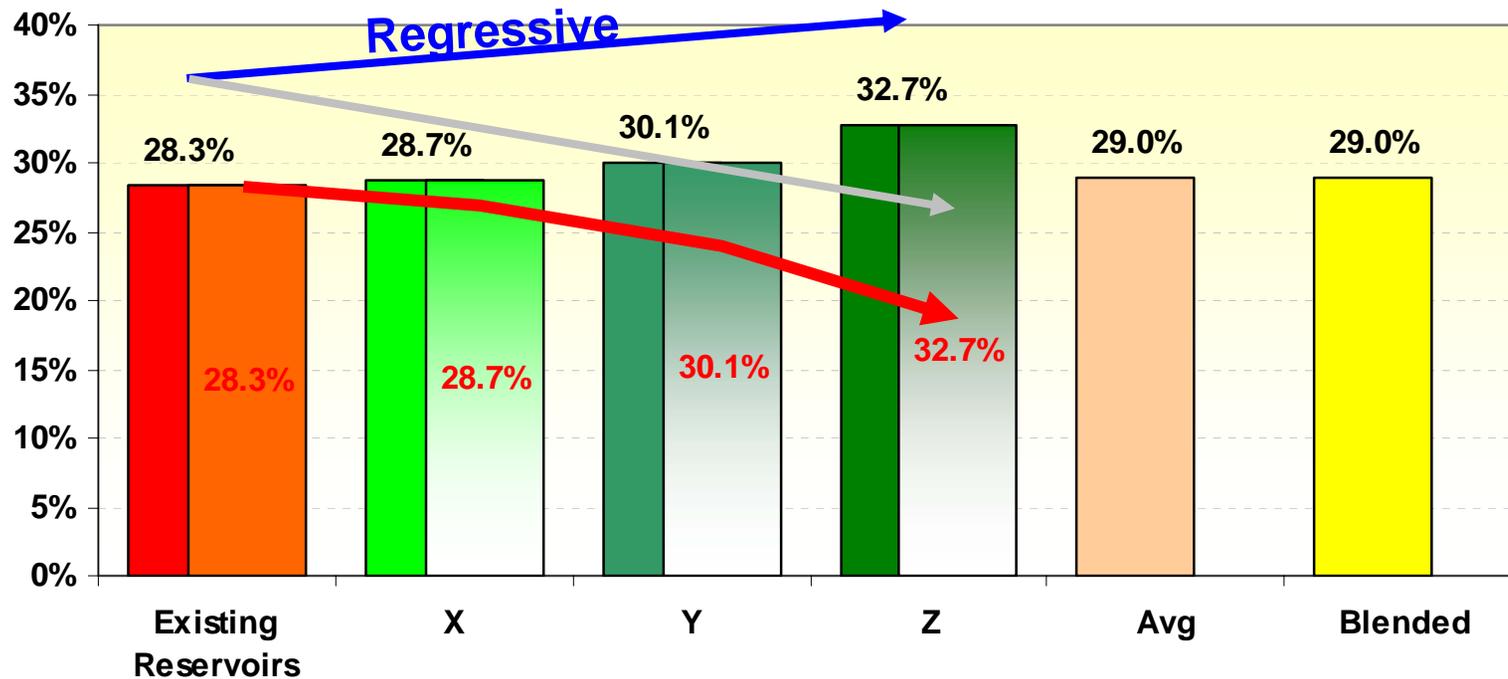
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Under the House O&G CS the impact of progressivity is muted, and the low profitability investments proportionately pick up a larger part of the change

House Oil & Gas Progressivity

Tax Rate By Field Within A Company - As Affected By Portfolio Blending



... to the point where it may even be possible that the effective rate applicable to lower margin fields is actually higher than that on existing fields

“Net/Gross” Progressivity

- **House Resources members have asked if it is possible to design a Progressivity feature where**
 - The tax rate progressivity is triggered by the net margin
 - but ...
 - The rate is applicable to the Gross Value at the Point of Production
- **Example**
 - For the purposes of illustration, a progressivity slope has been chosen that, in the prior example, produces the same amount of petroleum tax revenue, after capital investment, as the House O&G CS

“Net/Gross” Progressivity

- **Progressivity Rate**

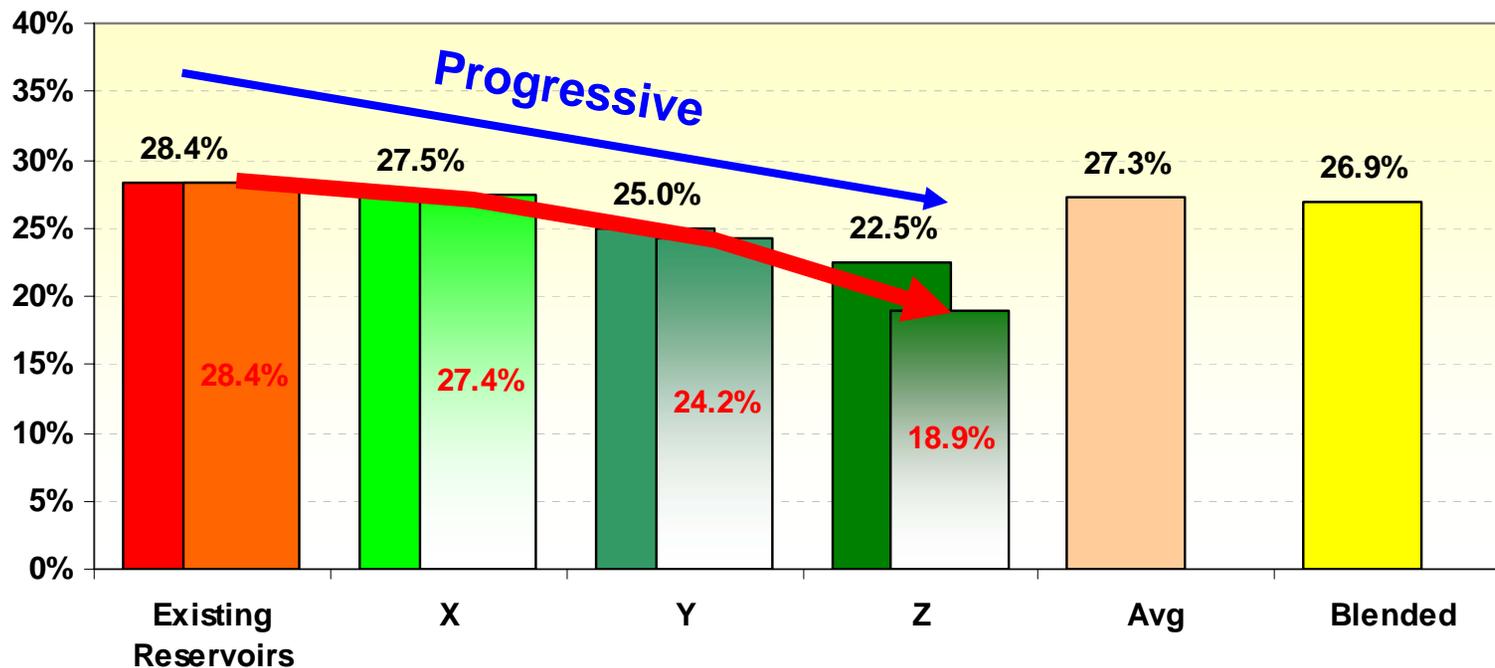
- Based on the Net Cash Flow Per Barrel margin (“NCF/Bbl”)
 - That is, the same \$/Bbl as is currently calculated in PPT
- Has a Progressivity feature (in this example) – the “slope” - that increases the Progressive part of the tax at a rate of [0.2%] per \$ by which the net margin exceeds \$40

- **Why in excess of \$40 ?**

- If you use the entire NCF/Bbl then the slope has to be very low (e.g. 0.1% or less per \$/Bbl)
- If slope is 0.1%, then you do not reach 25% progressivity until the NCF/Bbl exceeds \$290 (\$40 base + \$250 progressivity)
- \$40 is the trigger for progressivity in PPT

PPT Progressivity

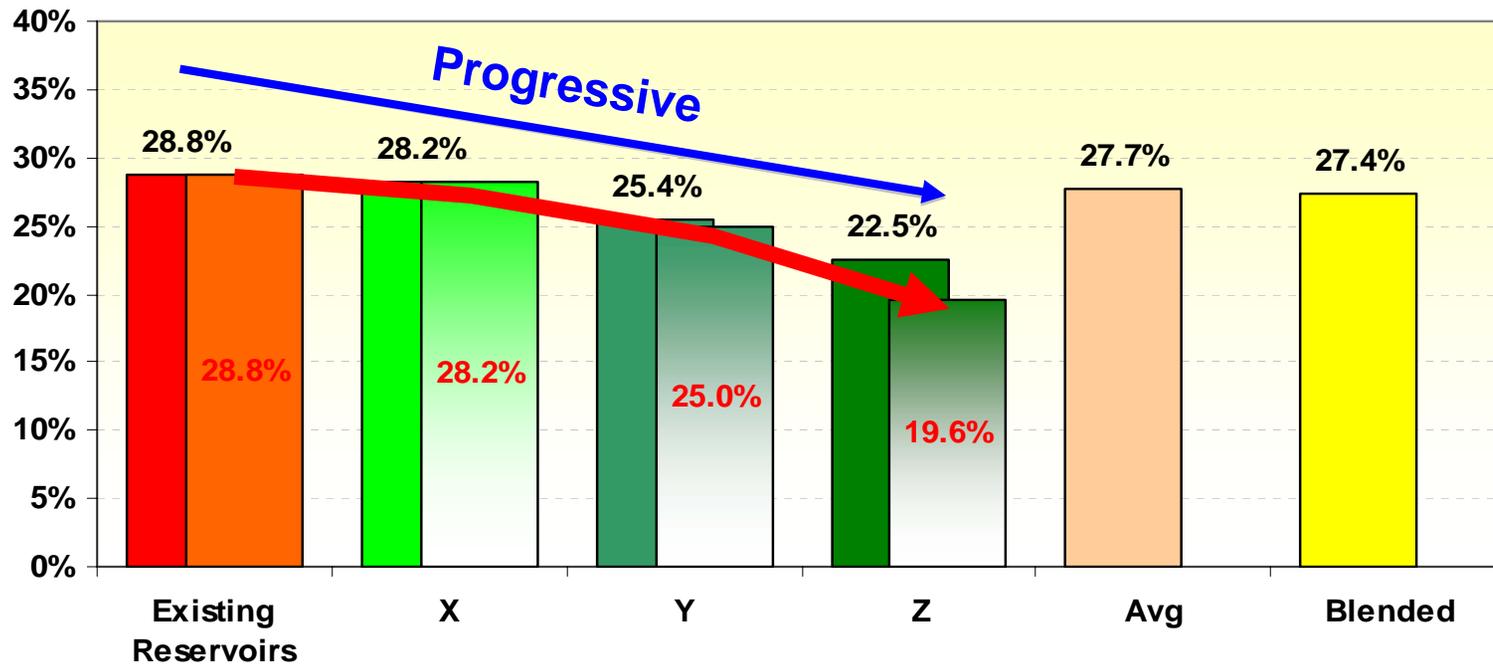
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“Net-Gross” Progressivity

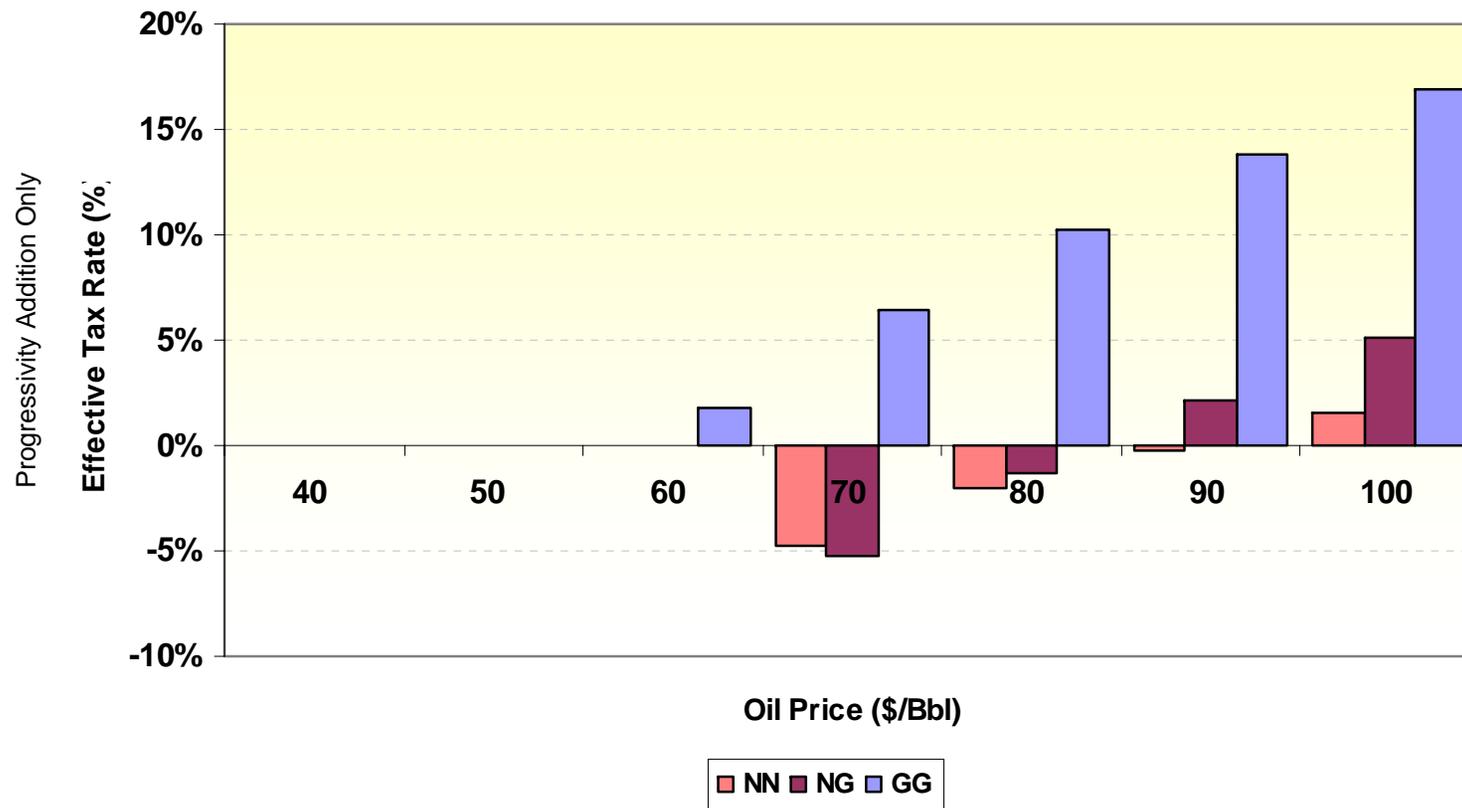
Tax Rate By Field Within A Company - As Affected By Portfolio Blending



“Net-Gross” Progressivity is not quite as progressive as pure net, but still exhibits the same effect or recognizing lower profitability through its calculation of the rate

Comparison Of Progressivity Structures Marginal Take

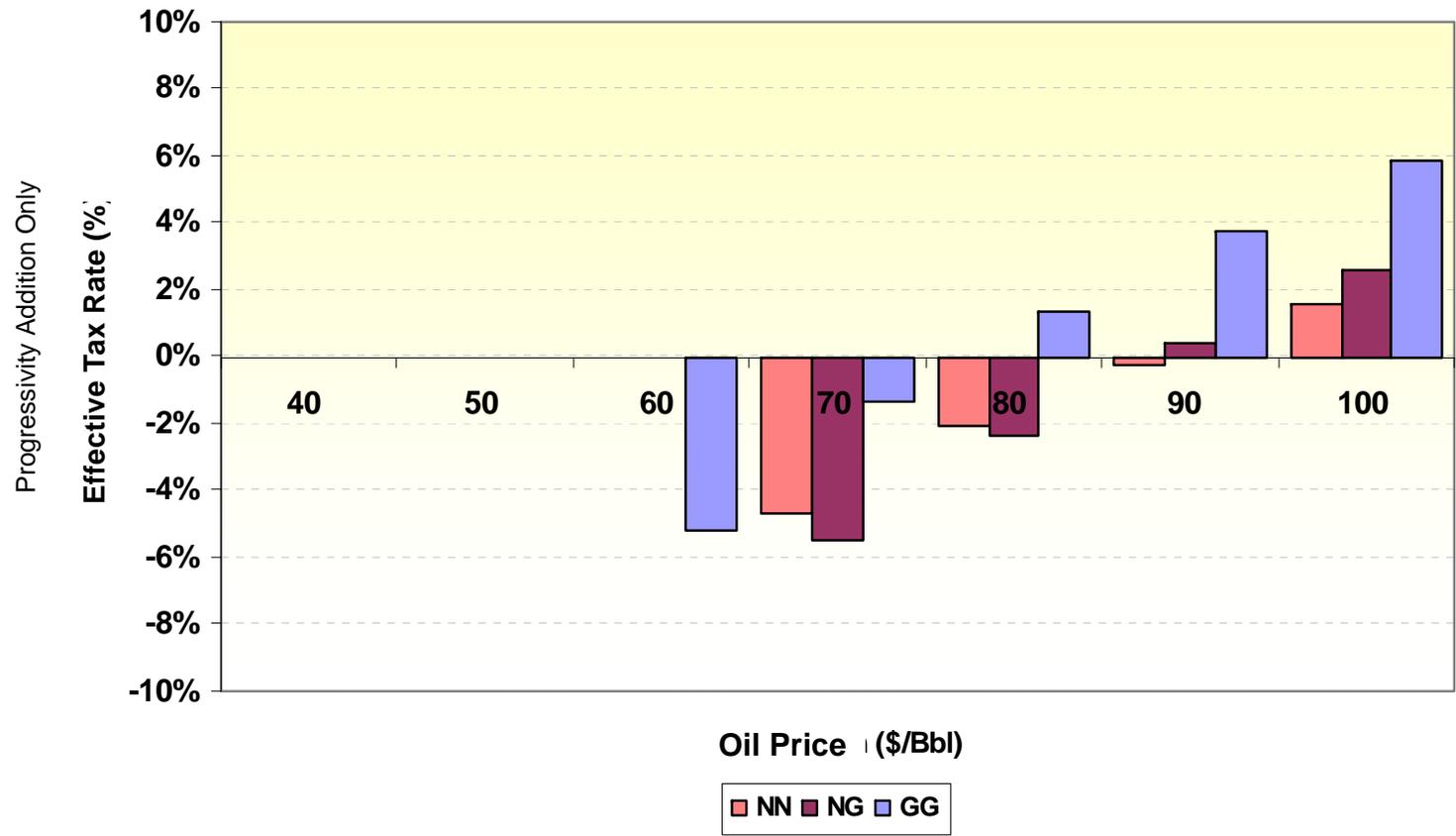
Effective Progressivity Rate On Field Z Resulting From
Different Progressivity Features



All margin effects due to lifting costs

Comparison Of Progressivity Structures Marginal Take

Effective Progressivity Rate On Field Z Resulting From
Different Progressivity Features



Margin effects due in part to product pricing (quality)

Progressivity Conclusions

- **Need to test further against other portfolios / example fields**
 - Based entirely on this one example portfolio structure
- **Gross progressivity, based on oil price and **Gross Value at Point Of Production**, hits lower profitability fields harder**
 - Yet, main proportion of tax (that from basic rate) is actually based on “profitability” (net cash flow per barrel)
- **Gross progressivity where progressivity rate is based on net cash flow per barrel somewhat damps this issue, but still has increasing impact on (real) profit margin**
 - It still applies to Gross Value at Point Of Production
- **Net progressivity is only one of these three options that sets its rate and tax based to profitability (net cash flow per barrel)**

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