Beg/CEE Think Day: Why Perceptions Matter in Energy

Update on Tax Reform & What it might mean for Energy

December 12

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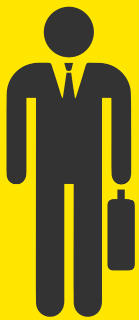
Building a better working world

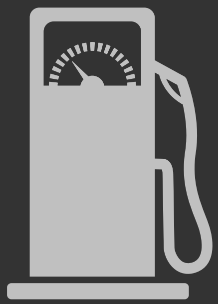
Why does perception matter?

Future of work



Future of operations

Future of demand



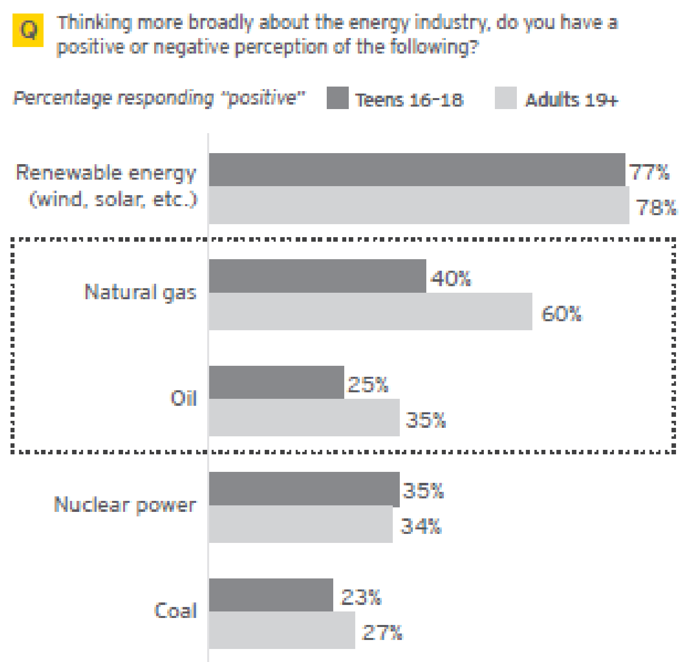
How can oil and gas fuel tomorrow as well as today?

59%

of total respondents have a positive perception of **natural gas**

35%

of total respondents have a positive perception of **oil**



When asked about the energy industry, 40% think of power plants or local utilities first, 18% think of oil and 8% think of natural gas.

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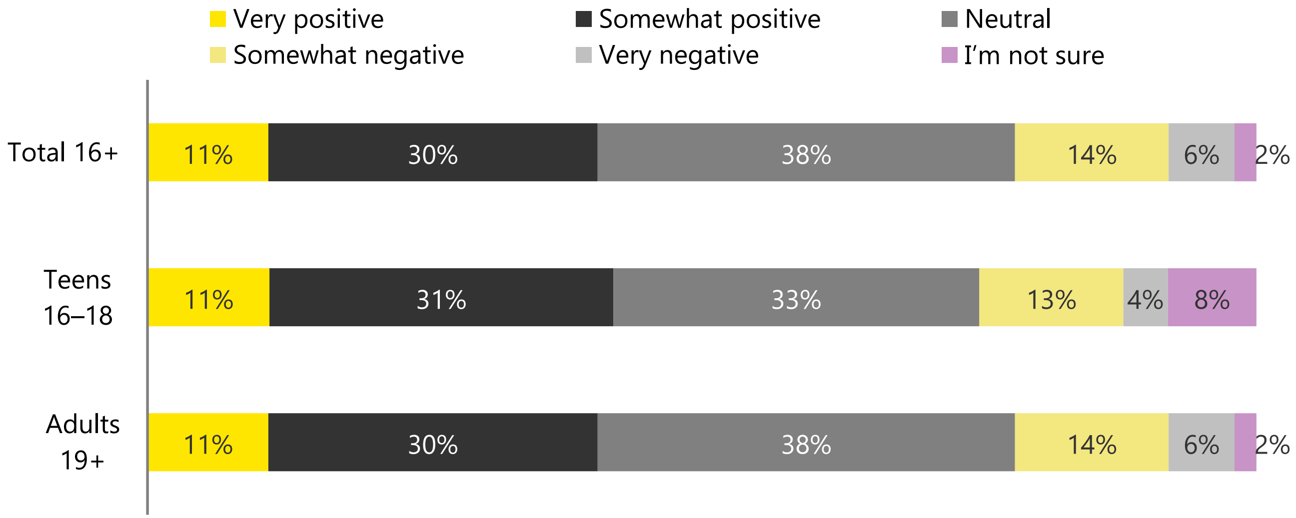
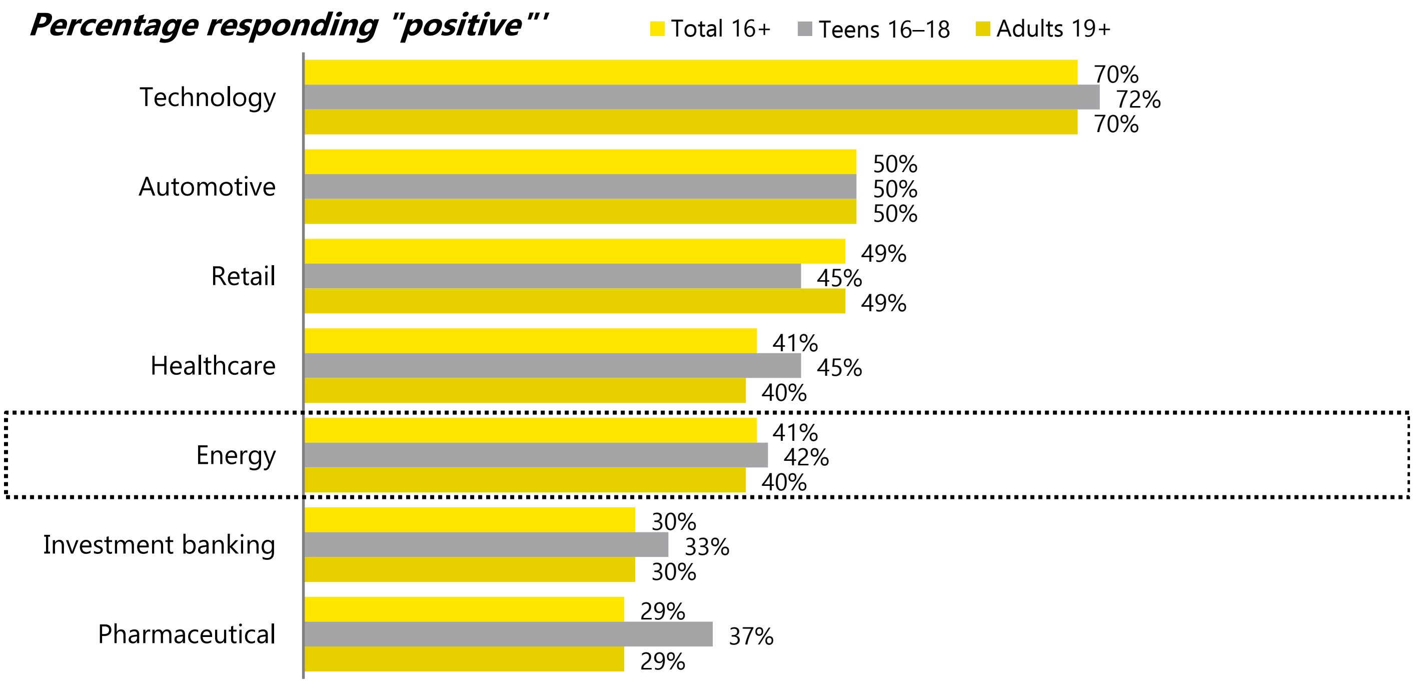
Perceptions of the energy industry

Consumers with a positive perception of the energy industry outnumber those with a negative perception by two to one, and adults and teens hold virtually identical opinions.



Source: EY Oil & Gas Perceptions Study, March 2017

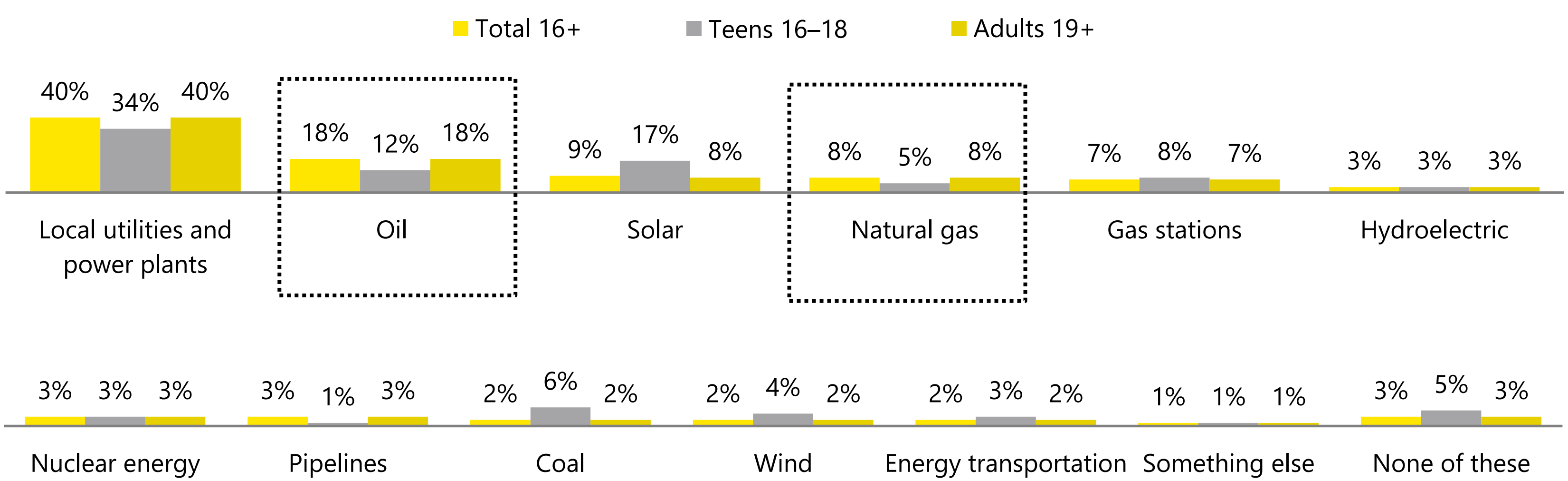
Energy perceptions compared with other industries



Source: EY Oil & Gas Perceptions Study, March 2017

Energy sector thought of first

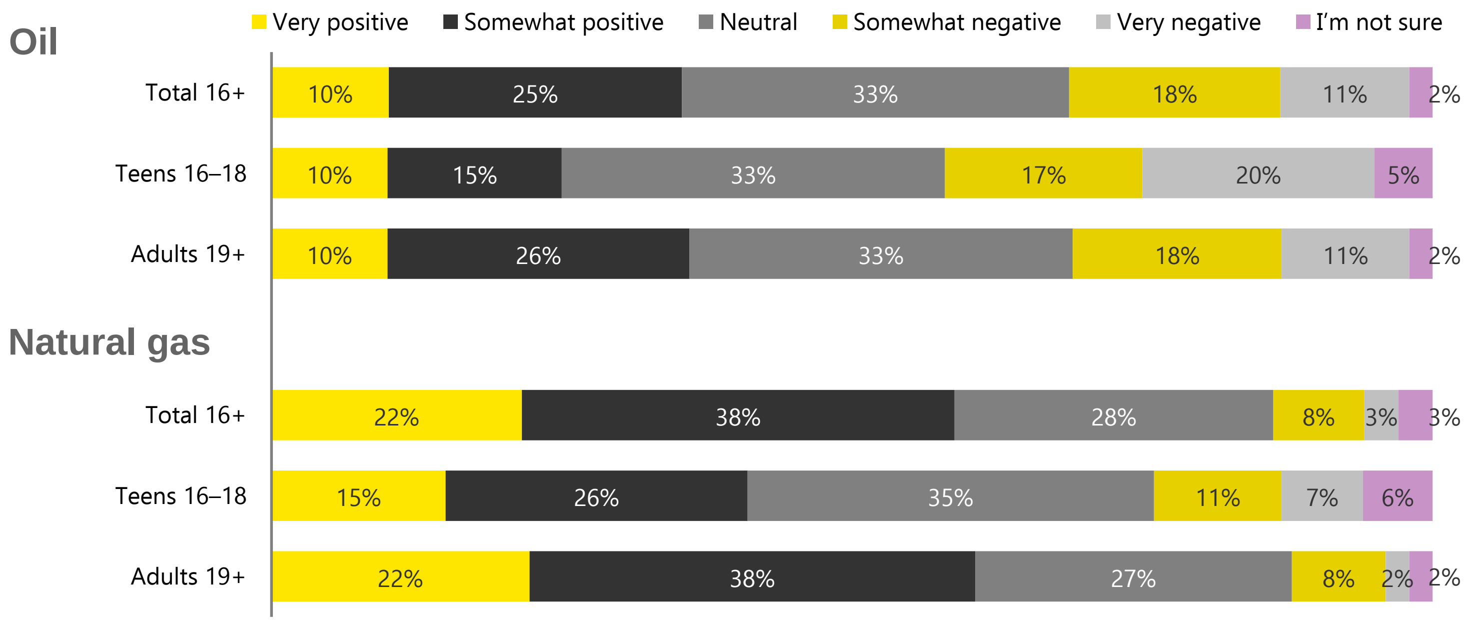
Infrastructure generally, and local utilities specifically, are the face of the energy industry. Among fuel sources, oil has a greater share of mind than natural gas.



Source: EY Oil & Gas Perceptions Study, March 2017

Oil and gas perceptions

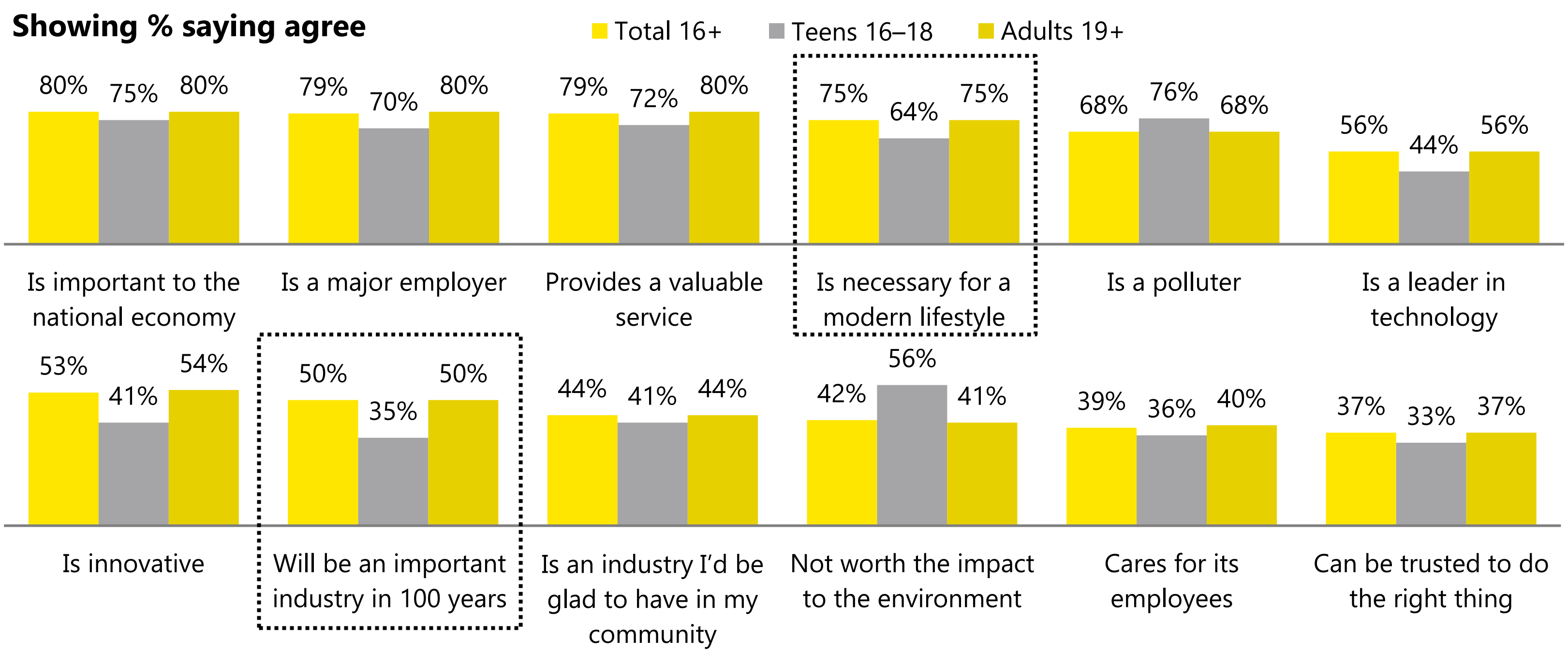
Oil has the greater share of mind, but natural gas has a more positive reputation.



Source: EY Oil & Gas Perceptions Study, March 2017

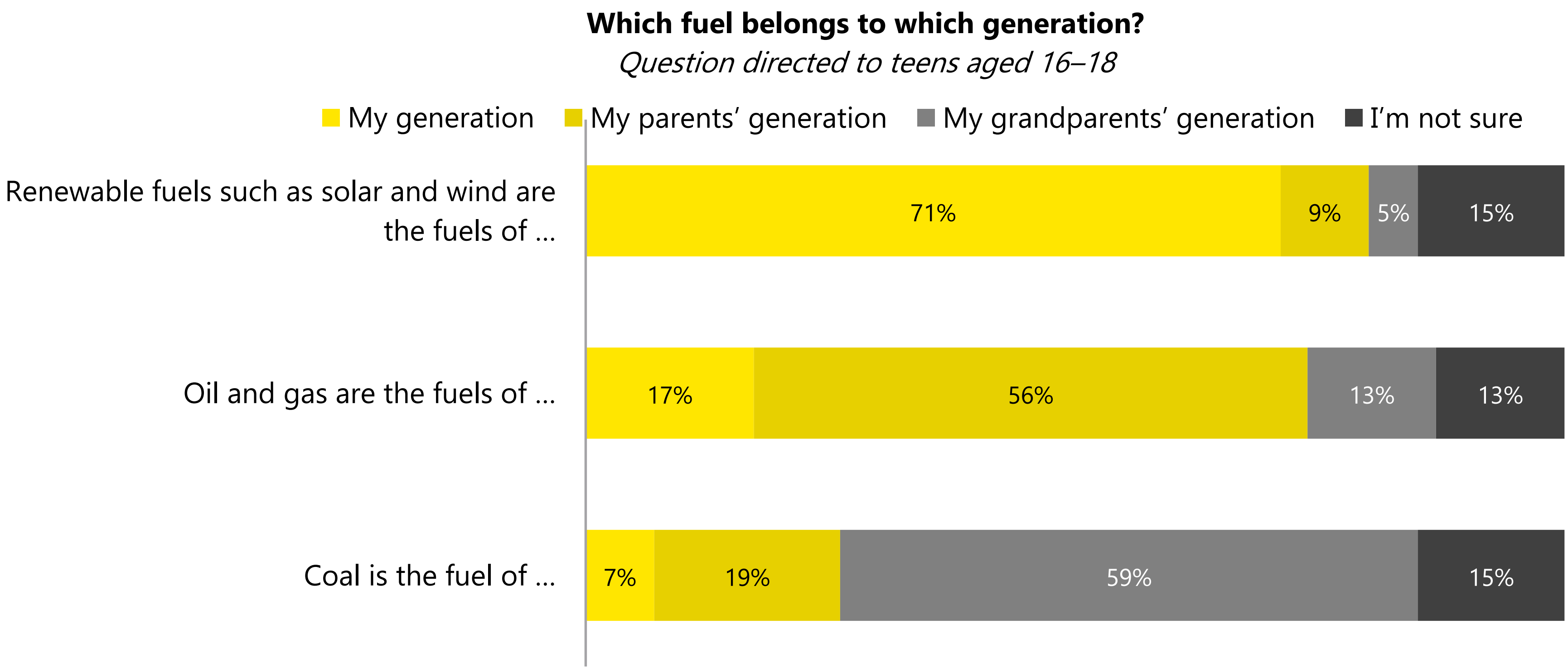
Oil and gas industry attributes

There is agreement about the importance of the industry and its weight as an employer, but few feel industry can be trusted to do the right thing, and only half agree industry will be important in 100 years.



Source: EY Oil & Gas Perceptions Study, March 2017

Fuels of a generation

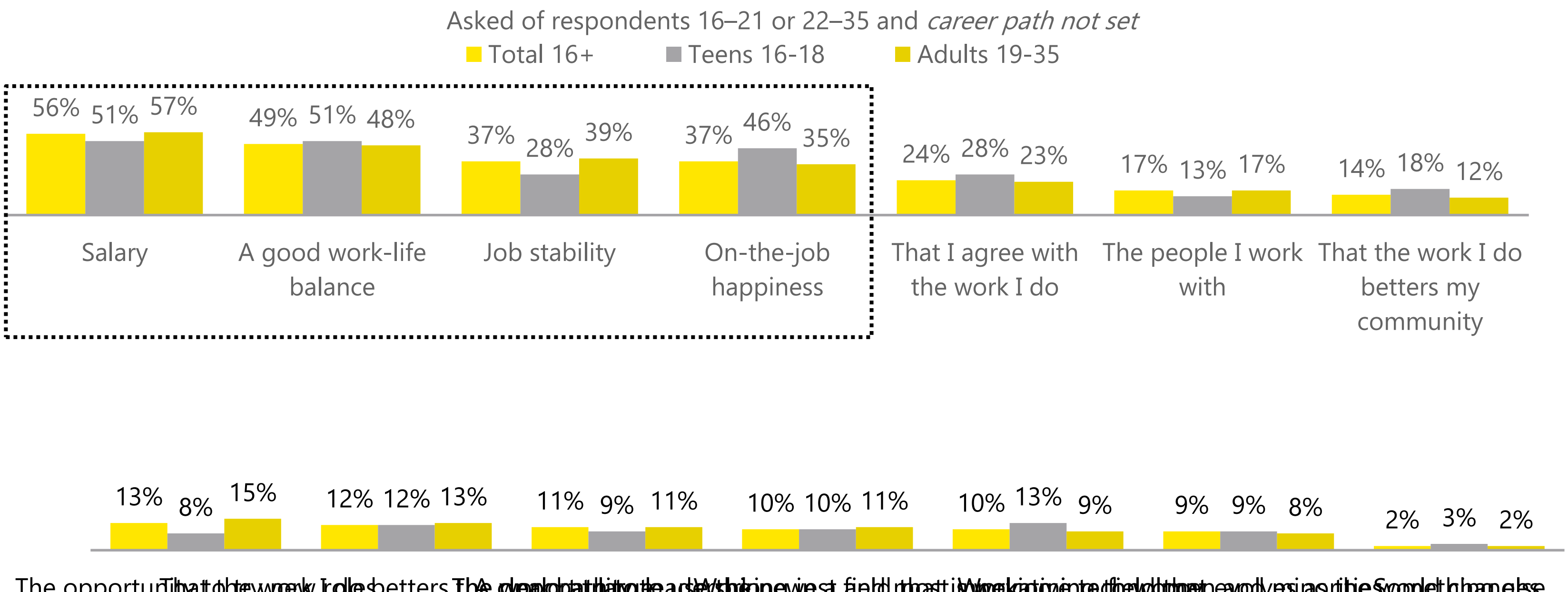


Source: EY Oil & Gas Perceptions Study, March 2017

Career

Most important career considerations

Salary and work-life balance lead career considerations among young people. On-the-job happiness is more important to teens than job stability, but they are tied among young people as a whole.



Source: EY Oil & Gas Perceptions Study, March 2017

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Industry's views on strengths, weaknesses of employment

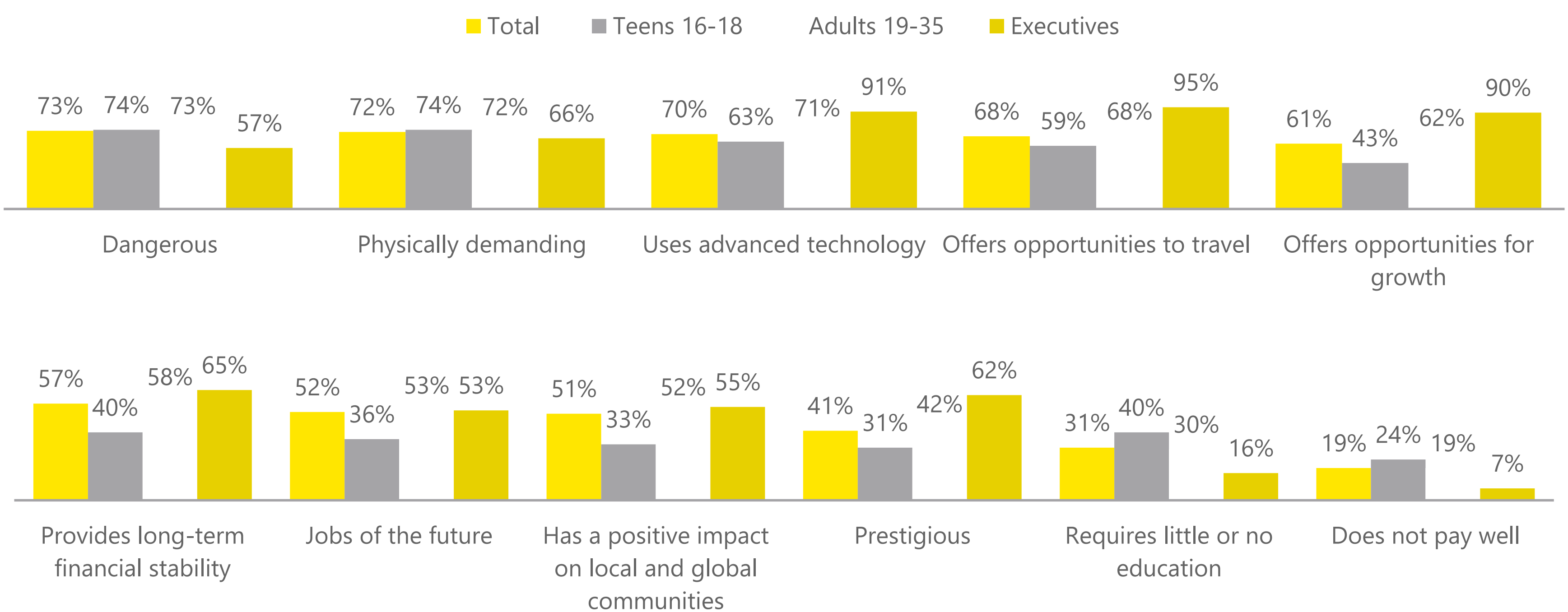
	Excellent/ Good	Fair/Poor		Excellent/ Good	Fair/Poor
Leveraging innovative technology	83%	18%	Attracting young people to work in the industry	44%	56%
Providing returns to shareholders	82%	18%	Combating climate change	37%	62%
Protecting the environment	72%	29%	Communicating with the public	25%	75%

Source: EY Oil & Gas Perceptions Study, March 2017

81% **of executives agree the industry will need to develop an educated, highly skilled workforce over the next ten years, in contrast to a mass workforce.**

Source: EY Oil & Gas Perceptions Study, March 2017

Describing the typical oil and gas job



Source: EY Oil & Gas Perceptions Study, March 2017

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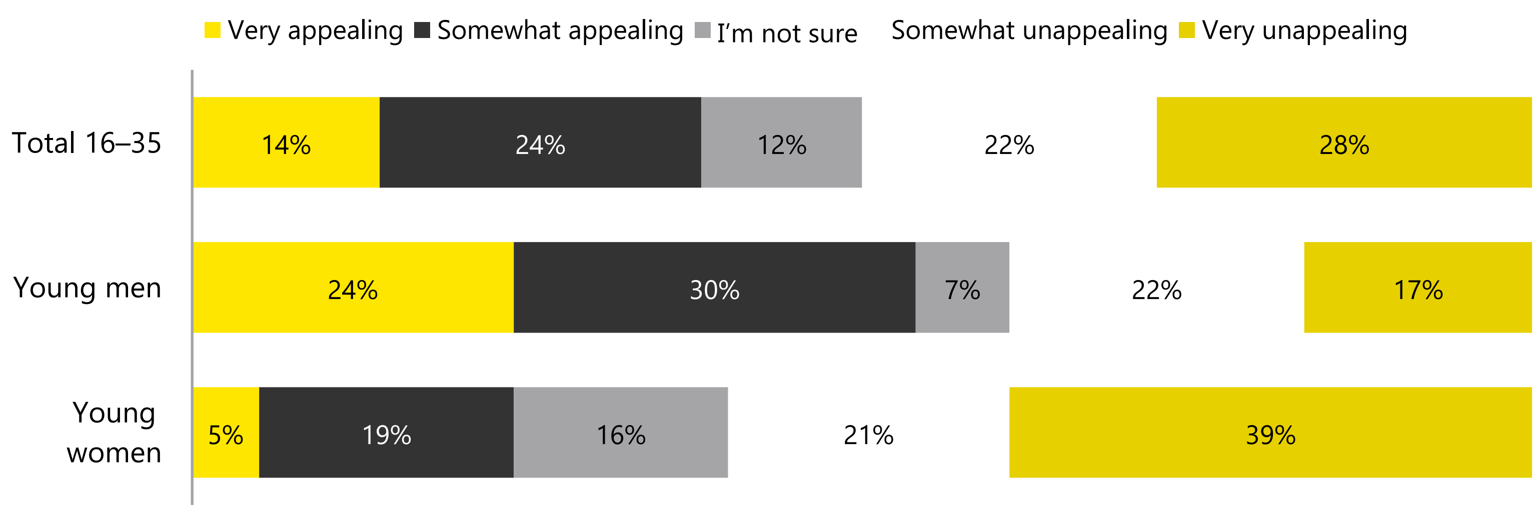
Appeal of oil and gas careers: gender differences

The degree to which young women find oil and gas careers unappealing drives net appeal among all young people below zero.

The prospect of a career in oil and gas

Asked of respondents 16–21 or 22–35 and *career path not set*



Source: EY Oil & Gas Perceptions Study, March 2017

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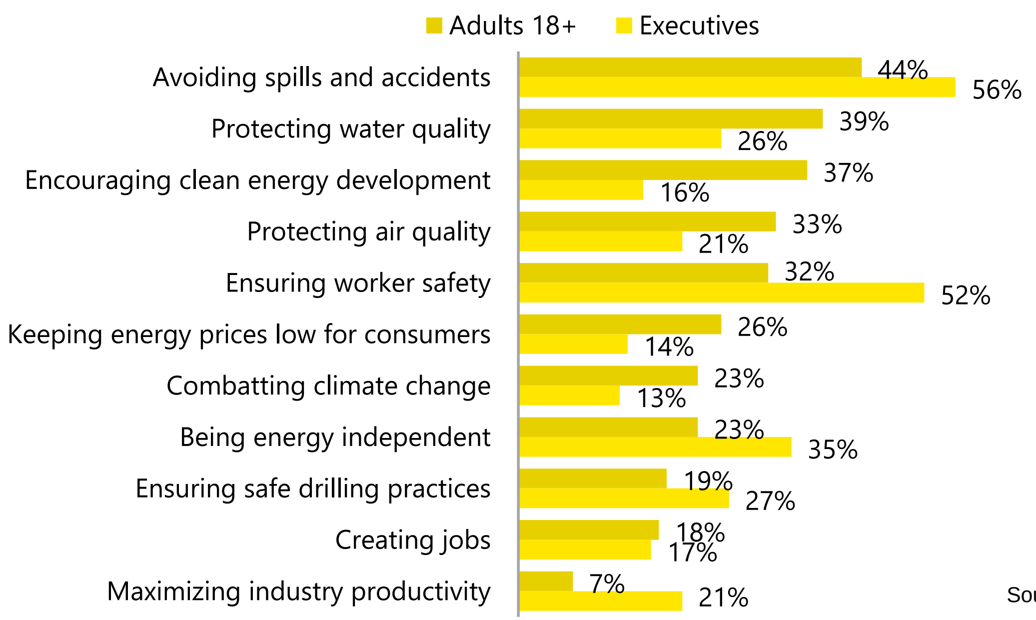
Regulatory

Top three regulatory priorities

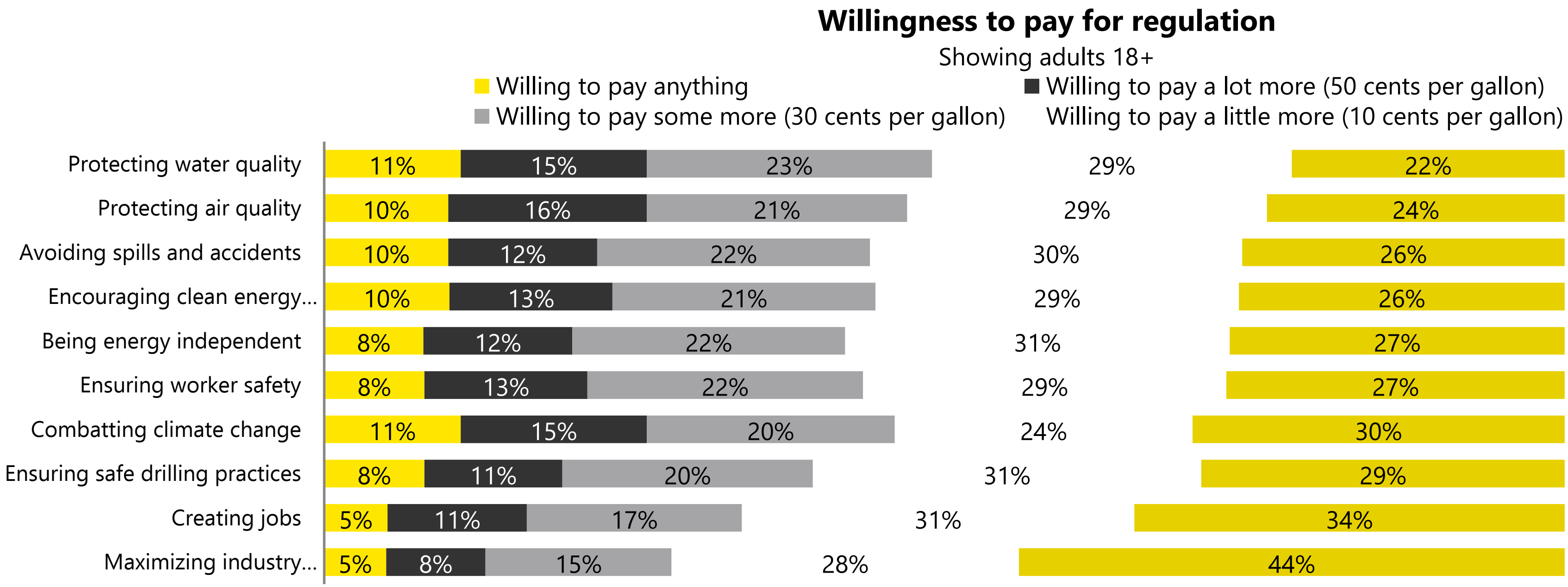
Both consumers and executives have "avoiding spills" at the top of their lists of regulatory priorities, but they diverge on other priorities.



Source: EY Oil & Gas Perceptions Study, March 2017

How much will you pay for regulations achieving these goals?

A majority of Americans are willing to pay to achieve these regulatory objectives, undermining cost to consumers as an argument against regulation.



Source: EY Oil & Gas Perceptions Study, March 2017

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Current State of Tax Reform

Business tax highlights of tax reform bills

US House of Representatives

- 20% corporate rate, beginning 2018; AMT repealed
- 25% tax rate generally applied to passive business activity income plus "capital percentage" (generally 30%) of active income
- Limits interest deduction to 30% of earnings before interest, tax, depreciation and amortization (EBITDA) with additional limit based on global group income
- Immediate expensing – five years
- Expands definition of covered employee (§162m)
- Establishes territorial exemption system for dividends received by US corporations from 10%-owned foreign corporations
- Transition tax on deferred foreign earnings: 14% / 7%
- New broad-based anti-deferral provision taxes foreign high return amount (FHRA) on a current basis at 10% effective tax rate (some foreign tax credits (FTCs) available)
- 20% excise tax on certain deductible payments to related foreign persons with alternative effectively connected income (ECI election)

US Senate

- 20% corporate rate, beginning 2019; AMT retained
- 23% deduction for domestic qualified business income from a partnership, S corporation, or a sole proprietorship
- Limits interest deduction to 30% of earnings before interest and tax (EBIT) with additional limit based on global debt to equity (phased in)
- 100% bonus depreciation – five years; additional five year phase out (20% reduction each year starting in 2023)
- Expands definition of covered employee (§162m)
- Establishes territorial exemption system for dividends received by US corporations from 10%-owned foreign corporations
- Transition tax on deferred foreign earnings: 14.5% / 7.5%
- New broad-based anti-deferral provision taxes global intangible low-taxed income (GILTI) on a current basis at 10% effective tax rate (some FTCs available)
- New deduction for "foreign-derived intangible income"
- Anti-base erosion measures include minimum tax of 10% or 11%, applied on income determined after adding back deductible payments made to related foreign persons

Key differences to resolve in reconciliation

International tax

- Application of minimum tax mechanism; GILTI provision in Senate bill, FHRA in House bill
- Alignment of transition tax rates: Senate 14.5% / 7.5%; House 14% / 7%
- Senate phases in limitation of interest deductions for excess domestic indebtedness; House does not provide
- Senate retains new section 904(d) category for "foreign branch income" and new ODL election as foreign source earnings ; not addressed in House bill

Pass-through taxation

- House bill provides 25% tax rate generally applied to passive business activity income plus "capital percentage" (generally 30%) of active income
- Senate: 23% deduction on qualifying pass-through income; applies to income from services pass-through businesses for taxpayers with taxable income up to $500k (joint) / $250k (single)

Other items to consider

- Effective date of corporate rate to 20% (2018 - House and 2019 - Senate)
- House and Senate differ in approach to interest expense limitation
- Maximum individual rate (38.5% - Senate vs 39.6% - House) and bracket structure
- Expensing, additional 5 year phase out in Senate; not provided in House
- Estate tax repealed after 2024 in House bill; amended but stays in place in Senate bill
- Elimination of work opportunity tax credit in House bill; not addressed in Senate bill
- ACA individual mandate repeal in Senate bill but not House

Legislative process and timeline

November	November/December	December/early 2018
House	**Senate**	**Office of the President of the United States**

House

- Full House passed its version of the Tax Cuts and Jobs Act **November 16**

Senate

- Full Senate passed its amended version of the Tax Cuts and Jobs Act December 2
- Bill now goes to the House for consideration. Options:
  1. House passes bill without additional changes
  2. Formal / informal conference
  3. Amendment exchange (so called ping pong) where House/Senate trade bills

Office of the President of the United States

December/early 2018

- Congress sends President a unified bill after the same bill has been passed by both chambers of Congress
- President signs bill into law

Two chambers reconcile differences and pass a final bill