

Beg/CEE Think Day: Why Perceptions Matter in Energy

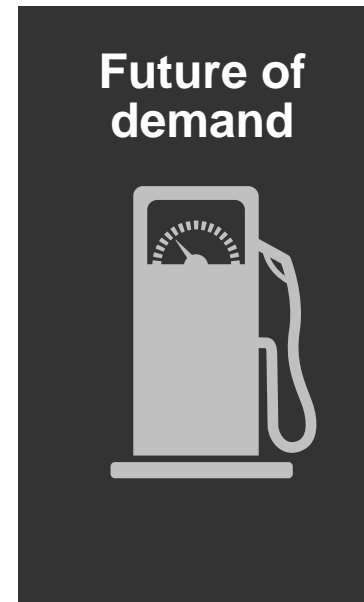
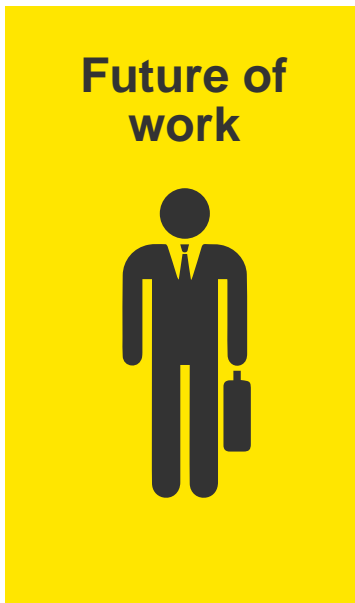
Update on Tax Reform & What it might mean for Energy

December 12

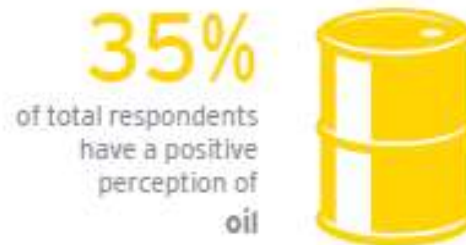
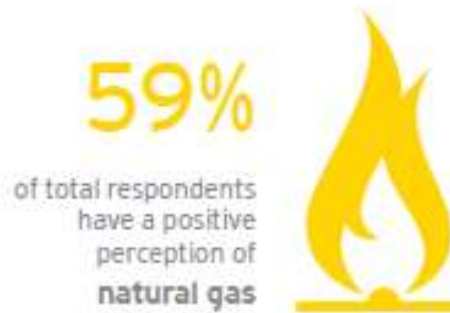


Building a better
working world

Why does perception matter?

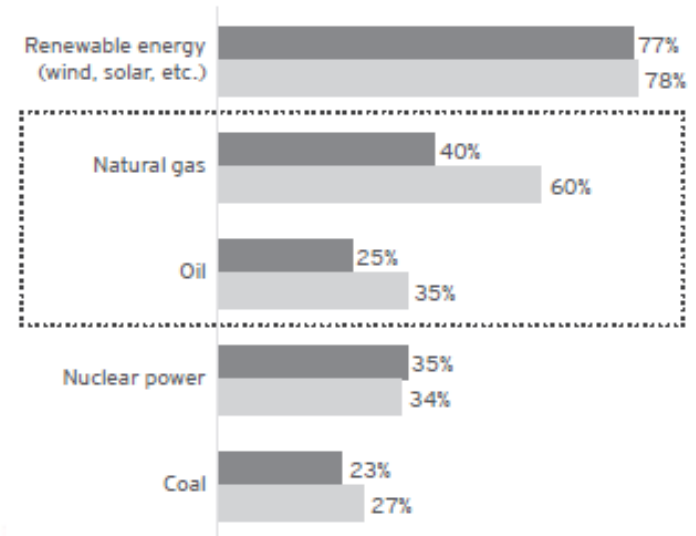


How can oil and gas fuel tomorrow as well as today?

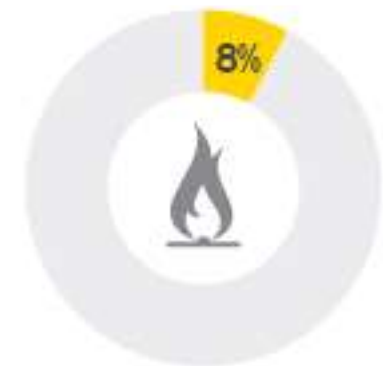
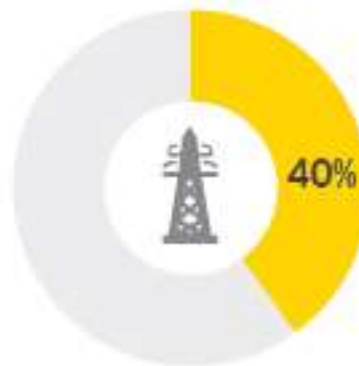


Q Thinking more broadly about the energy industry, do you have a positive or negative perception of the following?

Percentage responding "positive" ■ Teens 16-18 ■ Adults 19+

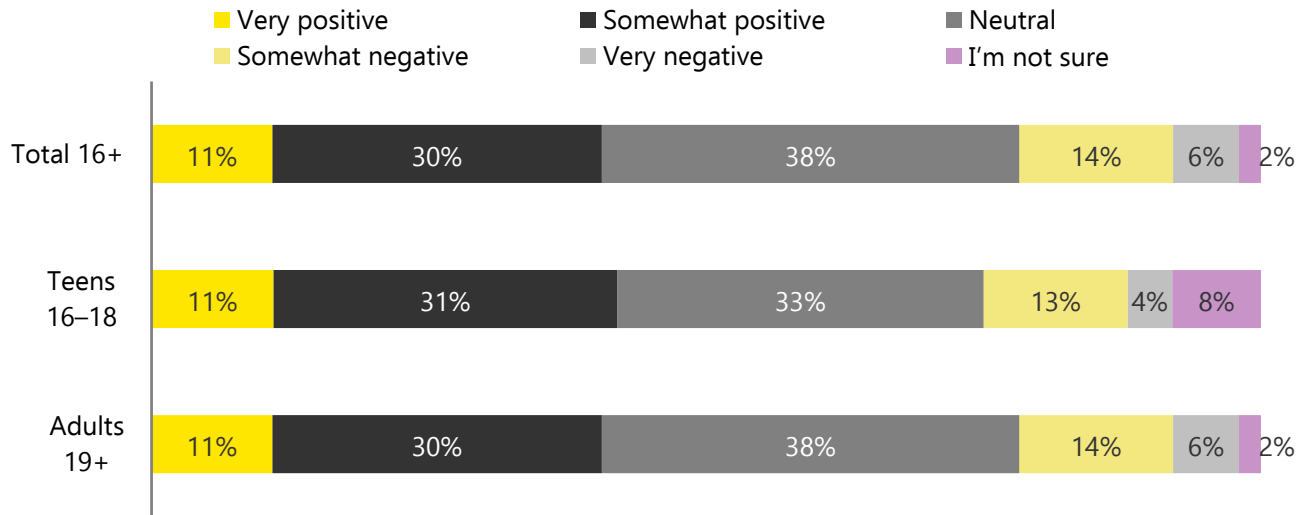


When asked about the energy industry, 40% think of power plants or local utilities first, 18% think of oil and 8% think of natural gas.



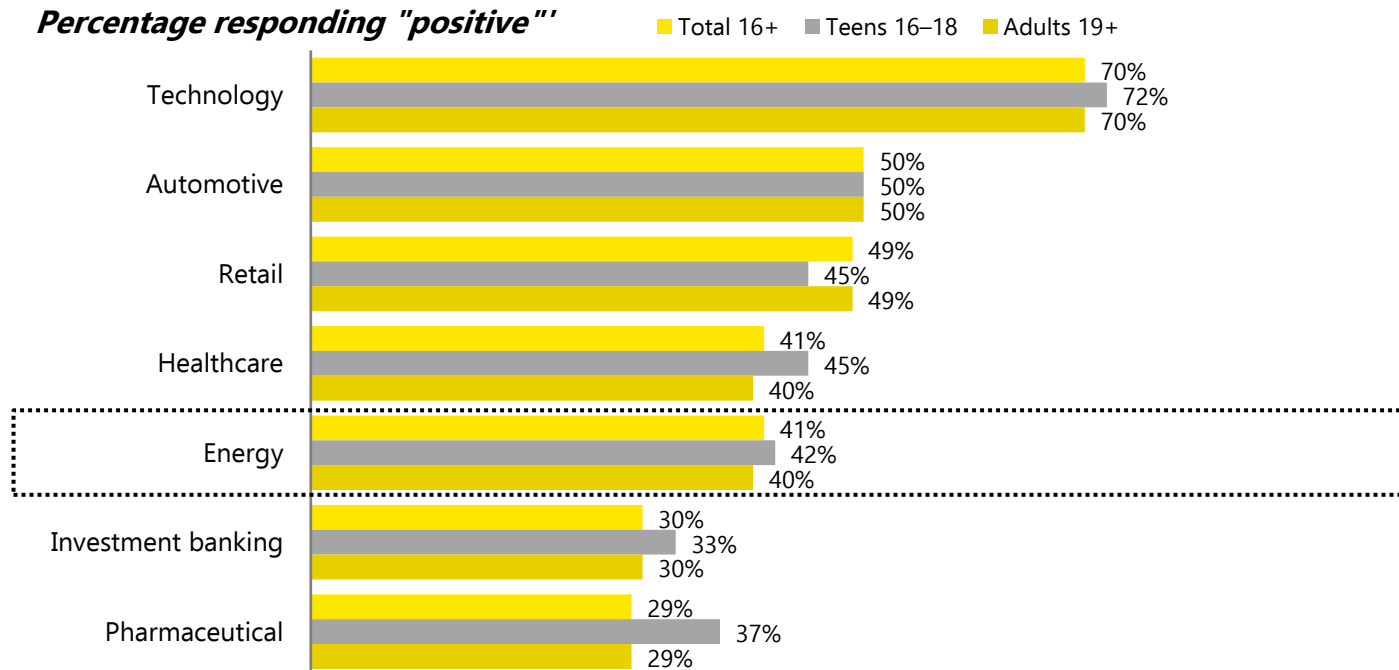
Perceptions of the energy industry

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

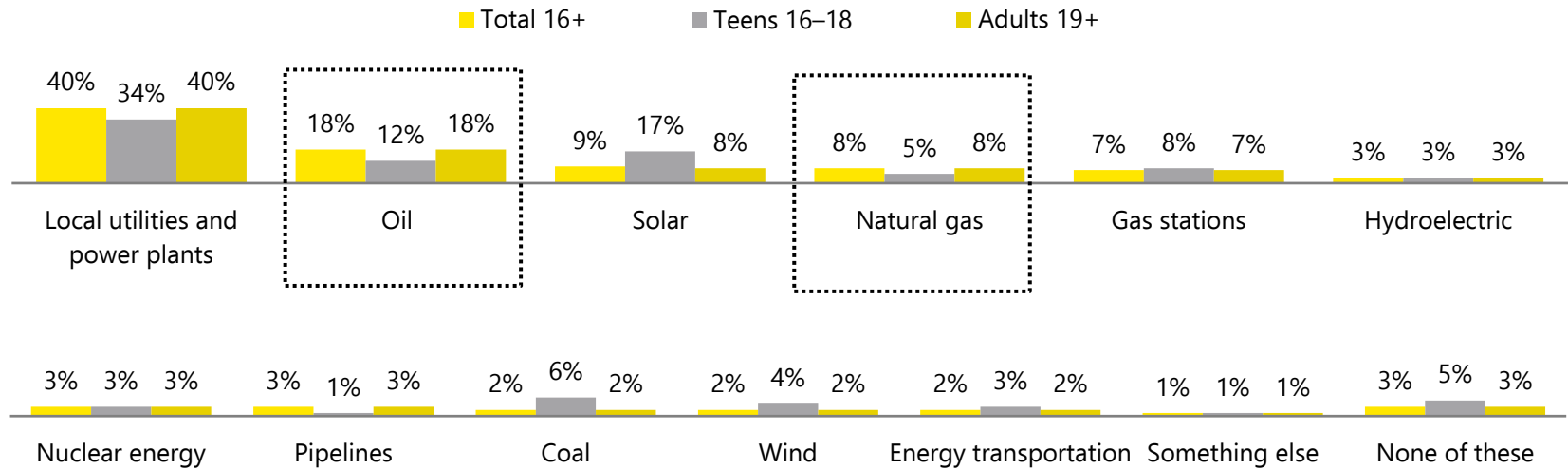
Energy perceptions compared with other industries



Source: EY Oil & Gas Perceptions Study, March 2017

Energy sector thought of first

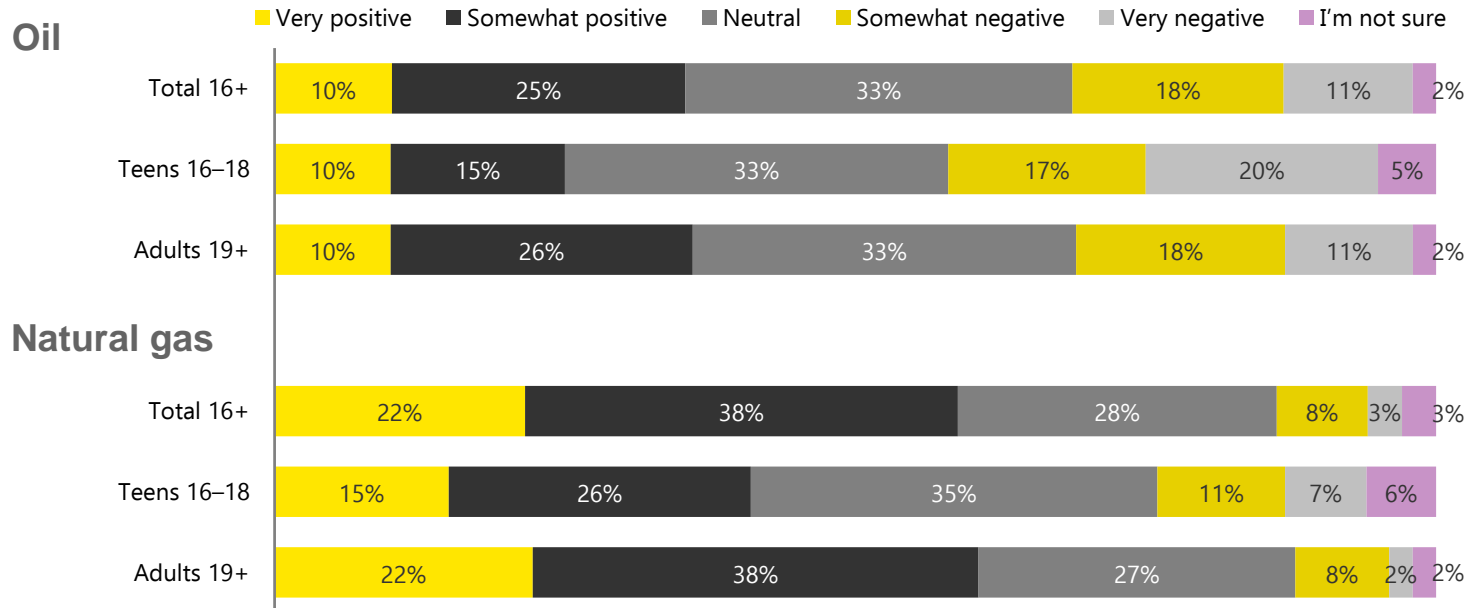
Infrastructure generally, and local utilities specifically, are the face of the energy industry. Among fuel sources, oil has a greater share of mind than natural gas.



Source: EY Oil & Gas Perceptions Study, March 2017

Oil and gas perceptions

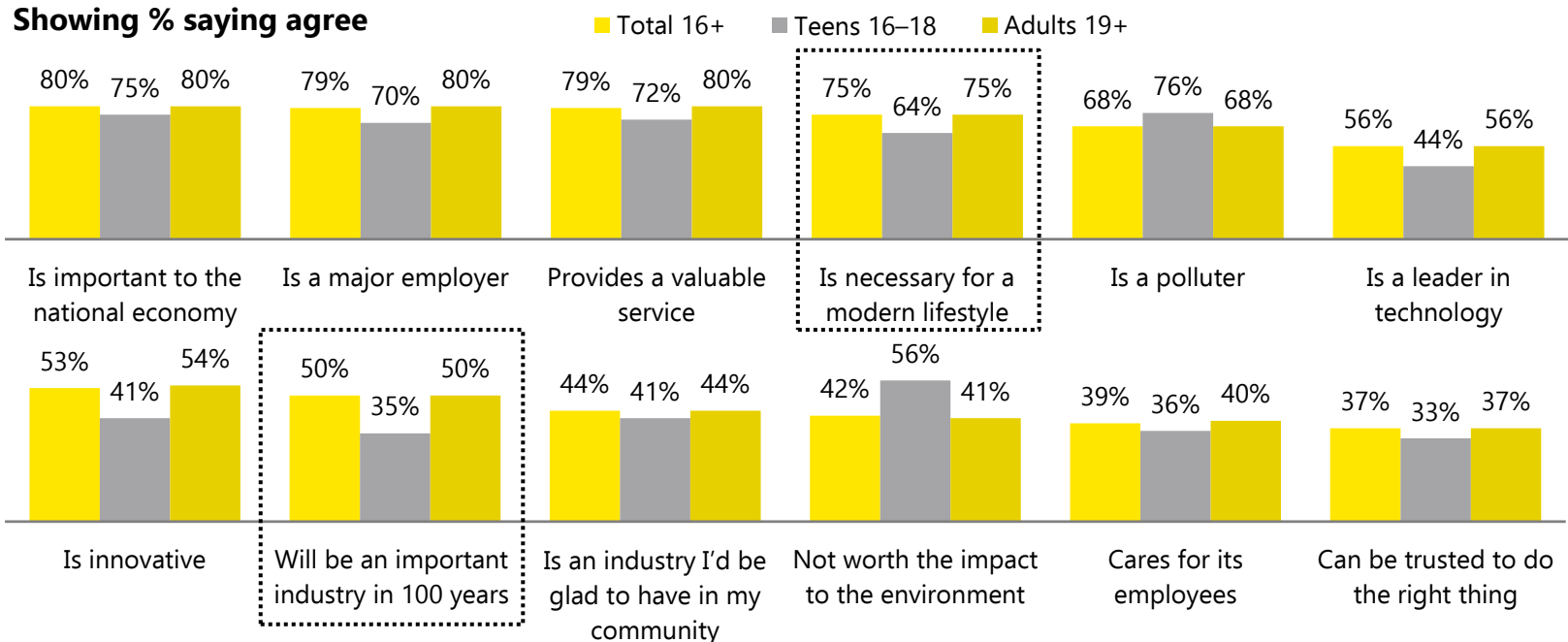
Oil has the greater share of mind, but natural gas has a more positive reputation.



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.

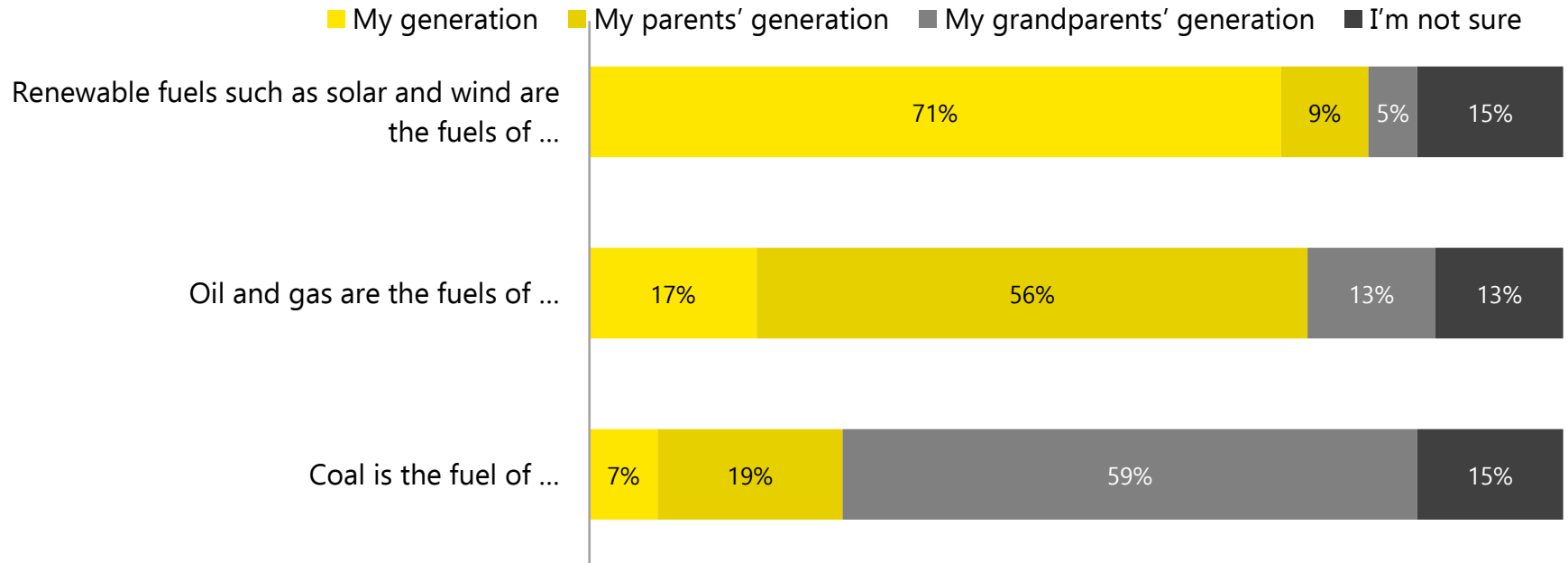


Source: EY Oil & Gas Perceptions Study, March 2017

Fuels of a generation

Which fuel belongs to which generation?

Question directed to teens aged 16–18



Source: EY Oil & Gas Perceptions Study, March 2017

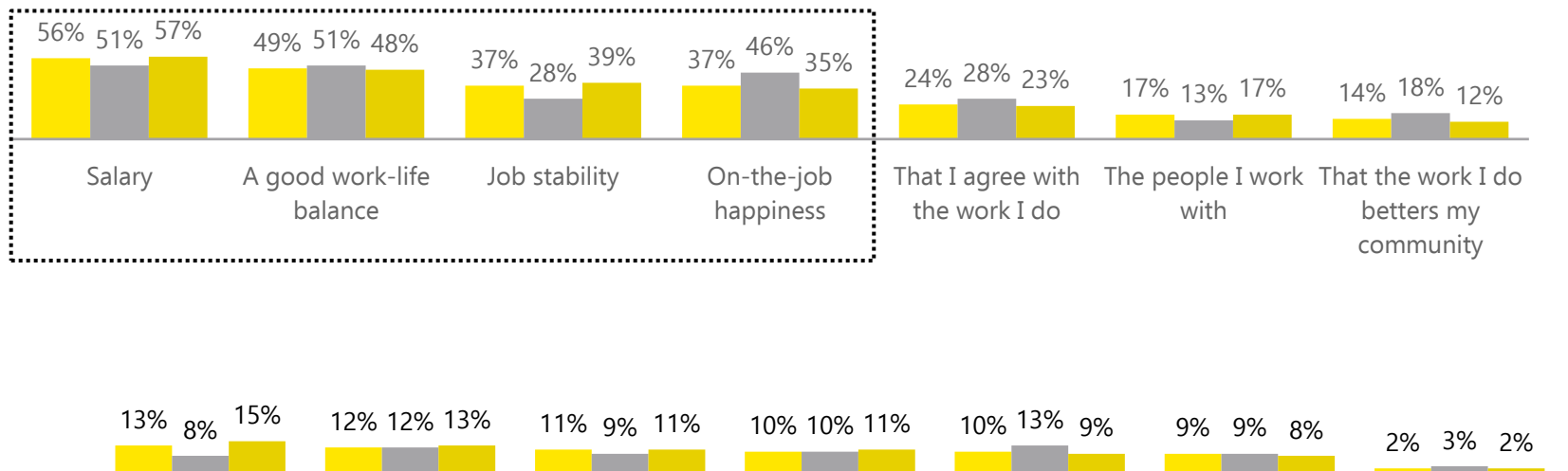
Career

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.

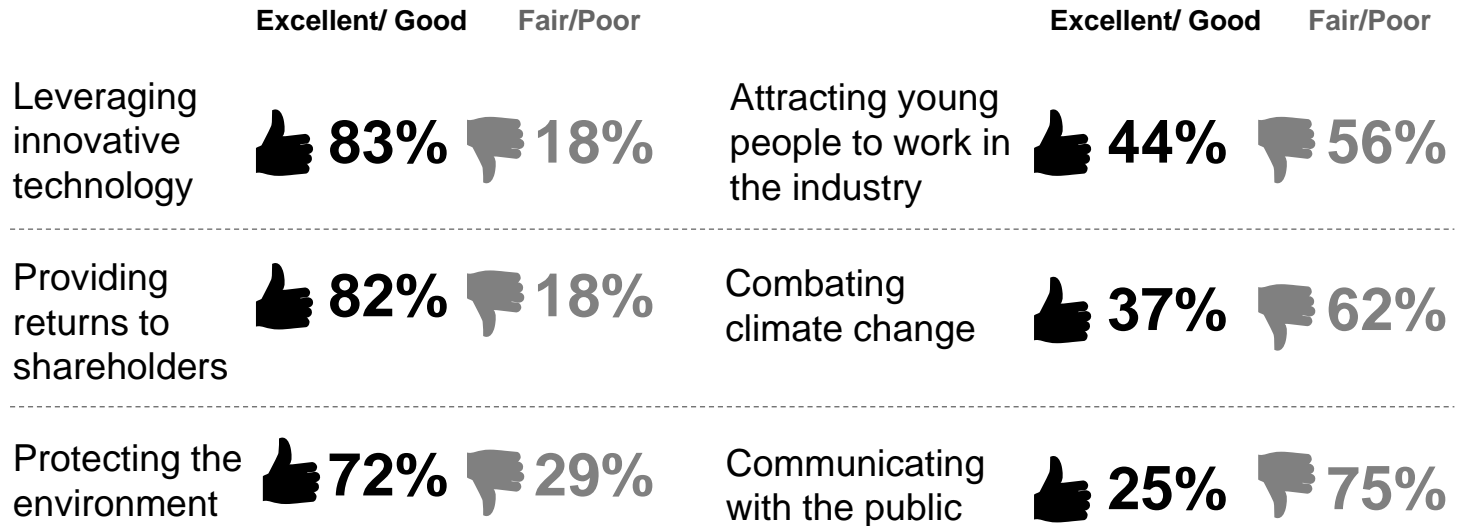
Asked of respondents 16–21 or 22–35 and *career path not set*

■ Total 16+ ■ Teens 16-18 ■ Adults 19-35



Source: EY Oil & Gas Perceptions Study, March 2017

Industry's views on strengths, weaknesses of employment



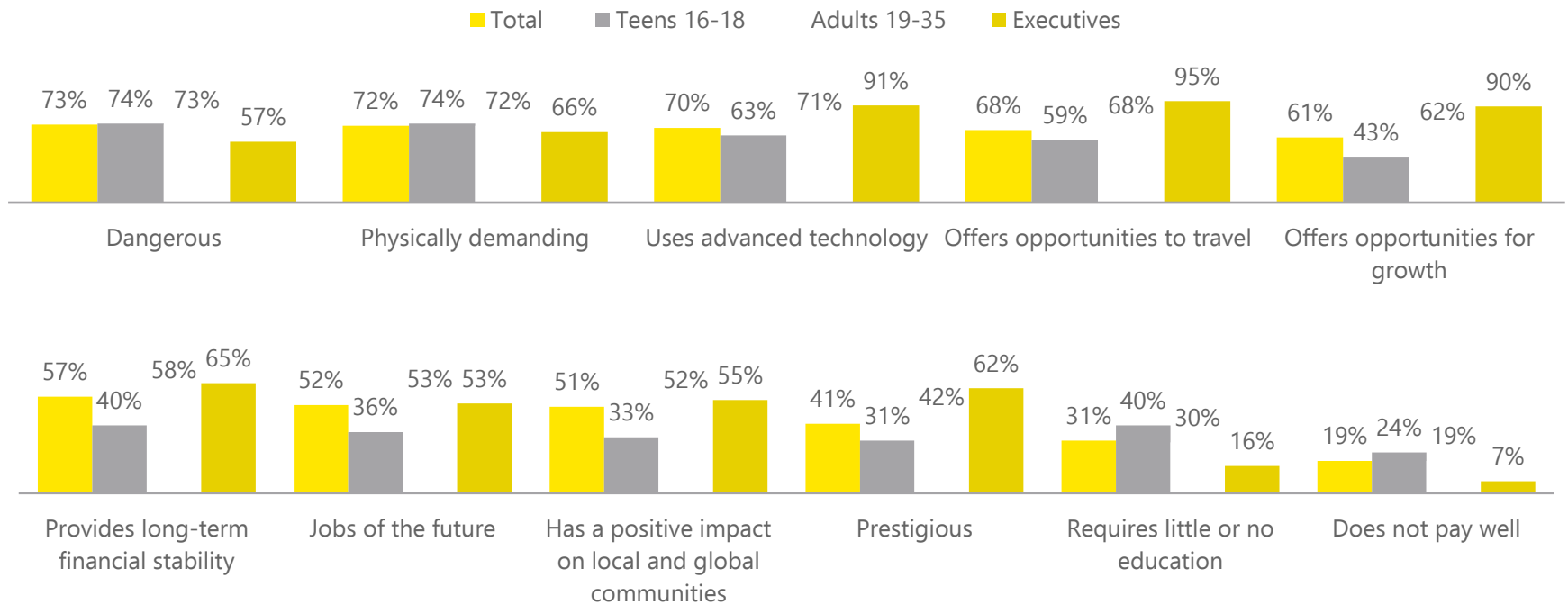
Source: EY Oil & Gas Perceptions Study, March 2017



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

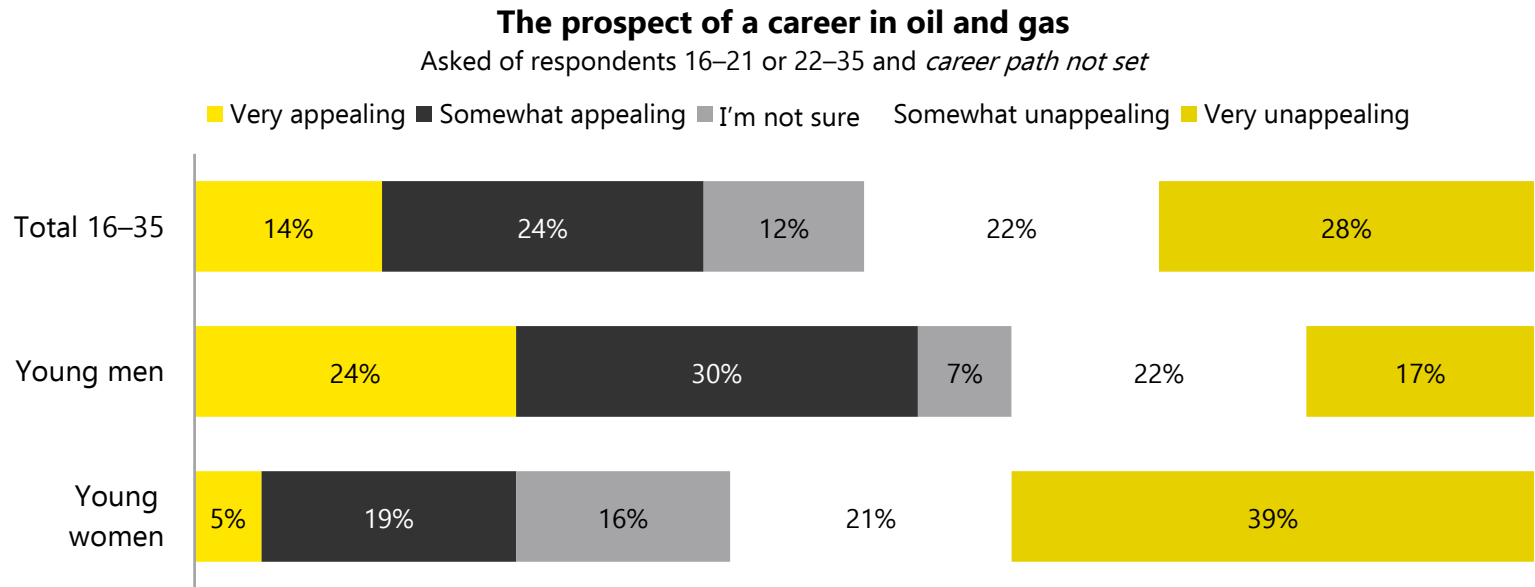
Describing the typical oil and gas job



Source: EY Oil & Gas Perceptions Study, March 2017

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.



Source: EY Oil & Gas Perceptions Study, March 2017

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.



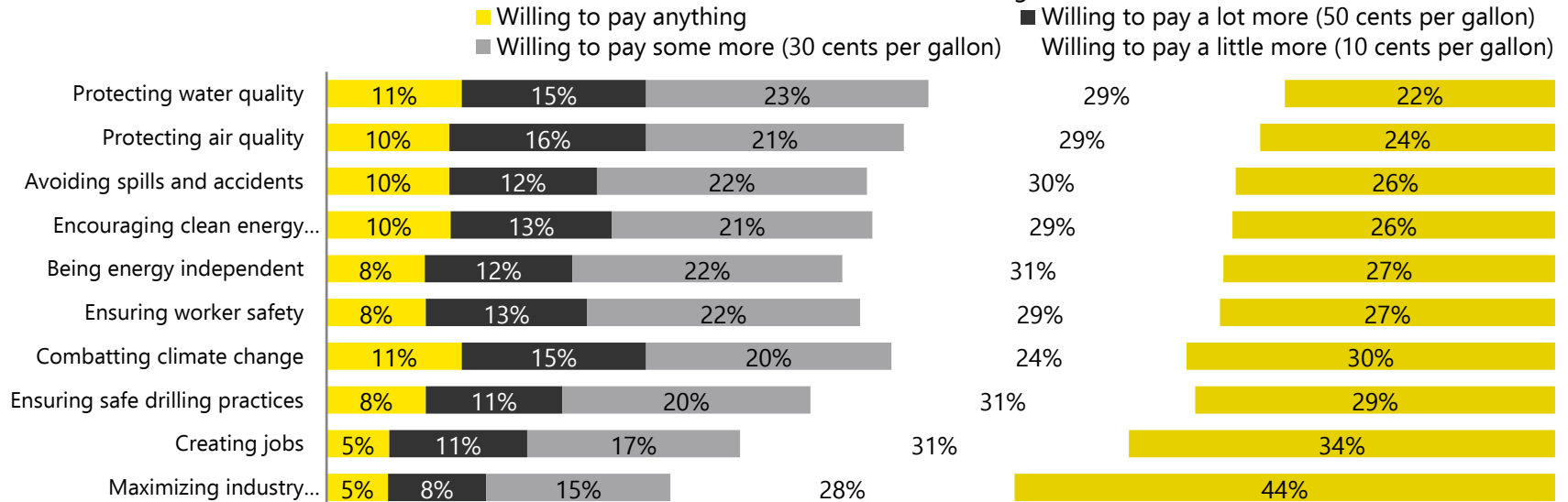
Source: EY Oil & Gas Perceptions Study, March 2017

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.

Willingness to pay for regulation

Showing adults 18+



Source: EY Oil & Gas Perceptions Study, March 2017

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

