SB 201:

Separate Accounting of Income Taxes For the oil and Gas Industry

Fact Sheet

- This bill would re-institute the separate accounting method of calculating corporate income tax paid by the oil industry.

- Since oil production in Alaska began, the state has been strongly urged by industry to use a proportion of worldwide profits or a "unitary tax" method for calculating their income tax.

- In 1978, Alaska realized that we were losing significant revenue under the "unitary" system, so the legislature passed Separate Accounting. Under Separate Accounting, revenues generated in Alaska, less expenses, were the basis for the 9.4% state corporate income tax.

- The oil companies sued. They lost in the lower court and appealed to the State Supreme Court.

- Four years late, the State reverted to the old unitary system because the legislature feared there was a potential cost of $1.8 billion if we lost. At the time the legislature saw that as too great a potential liability with the 1981 treasury balance.

- However, in 1985 the state won on all points at the Alaska Supreme Court, and the United States Supreme Court declined the oil companies' appeal request, stating there was no federal issue.

- Unfortunately, separate accounting has never been reinstated.

- For years, the companies have said they could not do separate accounting since they did not track their revenues and costs that way. While that may have been true under the old ELF gross tax system, it is not true under the profit-based PPT or ACES.

- We also now know they do 'separate accounting' for other oil provinces.

- If we take just the $1.8 billion (the difference between income tax revenue generated under the unitary system and separate accounting between the years 1978-1981) and divide that by four years, it equals an underpayment of $450 million per year.

- Multiply that by 30 years, and the state may have lost up to $13.5 billion (more than the total unfunded liability for the PERS/TRS systems).

- In 2000, the Department of Revenue estimated that we had lost $4.7 billion between 1982 and 1997.

- Recently international oil industry consultant Pedro Van Meurs testified to the legislature that he believes the unity tax method is cumbersome, an obstacle to new investment, and not in the state's best interest.

- As oil industry representatives have recently said that Alaska has comparatively strong cash margins, it appears the state may still be losing revenue under the unity tax method.

- The income tax oil companies pay in Alaska may be effectively lowered by less profitable investments around the world. Conversely, if oil development in Alaska is less profitable than elsewhere, as some have stated, this would result in a tax cut for the oil industry.

- Small Alaska-based businesses pay corporate income taxes based on their Alaska earnings. For simplicity and equity, multinational oil companies should do the same.