

# ALASKA STATE LEGISLATURE

## Session

State Capitol, Rm. 101  
Juneau, AK 99801  
(907) 465-2435  
Fax: (907) 465-6615

## Interim

716 W. 4<sup>th</sup> Ave, Ste. 540  
Anchorage, AK 99501  
(907) 269-0120  
Fax: (907) 269-0122

Senator\_Bill\_Wielechowski@legis.state.ak.us



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State Affairs Committee

## Co-chair

Joint Armed Services Committee

## Vice Chair

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Judiciary Committee

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Administrative Regulation Review

## SENATOR BILL WIELECHOWSKI

### Sponsor Statement: SB 201

SB 201 would re-institute the “separate accounting” method of calculating corporate income tax for the oil and gas industry. This method was used from 1978-1981 but was discontinued after the industry sued. While the state ultimately won on all points before the Alaska Supreme Court, separate accounting was never re-instated. Instead, corporate income taxes have been assessed based on an apportionment of worldwide earnings.

In recent testimony before the Senate Resources and Finance Committees, international oil and gas consultant Pedro Van Meurs called the apportionment method cumbersome, an obstacle to new investment, and not in the state’s best interest. He recommended that Alaska return to separate accounting.

Various estimates have been made of the loss in revenue that has resulted from the state’s use of the “unity tax” method of apportioning world-wide earnings. In 2000, the Department of Revenue (DOR) estimated that Alaska had lost \$4.7 billion between 1982 and 1997. More recently DOR estimated that the state would have collected about \$250 million more in oil industry corporate income taxes during each of the past 5 years had “separate accounting” been in effect.

Regardless of whether the state would gain or lose revenue under separate accounting, it is a simpler and more equitable method of taxing the industry. The corporate income tax paid by international oil and gas companies operating in Alaska should not be decreased based on less profitable investments in other parts of the world or increased based on more profitable investments elsewhere. Instead, taxes should be paid based on Alaska earnings as they for small Alaska businesses throughout the state.

Please join me in supporting SB 201.