AOGA

OIL & GAS: FUELING ALASKA'S ECONOMY

Senate Finance Committee

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AOGA Member Companies

PIONEER NATURAL RESOURCES ALASKA

Statoil

XTO ENERGY

Marathon Oil
Marathon Alaska Production LLC

Apache

Hilcorp Alaska, LLC

REPSOL

ExxonMobil

bp

Alyeska pipeline SERVICE COMPANY

TESORO

PETRO STAR INC.
EXCELLENCE IN ENERGY

eni petroleum

Chevron

FLINT HILLS RESOURCES Alaska

Corporate Income Taxes

Question:

How much income of a multistate or international business is properly attributable to its in-state assets and activities so it can be taxed by that state?

Separate Accounting

Looks at what the business actually has and does in the state and then seeks to determine directly the net-income as if that in-state portion of the business stood alone – separate from the rest of the business.

Separate Accounting

Challenges:

- In-state portion of a business does not actually stand alone from the rest of the business.

- Very complicated and difficult to unravel transactions between or among parts of the same overall business.

- IRS has intense, detailed regulations governing transactions between corporate affiliates, which separate accounting requires.

Apportionment

Starts with a “pie” containing the apportionable income for the in-state and outside business together and then determines how wide a “slice” is attributable to the income-generating potential of the in-state portion of the business. It is the “slice” that is then taxes by the state.

Apportionment

- Avoids the need to unravel transactions.

- Avoids the analytical difficulties that arise when a unitary business as a whole is greater than the sum of its individual parts.

- The width of a company's "slice" of their respective business's "pie" is the average of the percentages of that business's real or tangible property (at cost), its sales, and its oil and gas production that is present within the state.