

Introduced: 2/17/76  
Referred: Resources and Finance

BY COWPER, BRADLEY, BROWN, DUNCAN,  
GARDINER, GRUENING, KELLEY, MCKINNON,  
MALONE, MILLER, NAUGHTON, PARKER,  
PARR AND SWANSON

1 IN THE HOUSE

*rd 55*

2 HOUSE BILL NO. 803

3 IN THE LEGISLATURE OF THE STATE OF ALASKA

4 NINTH LEGISLATURE - SECOND SESSION

5 A BILL

6 For an Act entitled: "An Act providing for an oil production income tax; and  
7 providing for an effective date."

8 BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF ALASKA:

9 \* Section 1. AS 43 is amended by adding a new chapter to read:

10 CHAPTER 59. OIL PRODUCTION INCOME TAX.

11 Sec. 43.59.010. TAX IMPOSED. There is imposed for each taxable  
12 year upon an oil producer deriving income from oil production in the  
13 state a tax consisting of a normal tax equal to 10 per cent of the amount  
14 computed under sec. 20 of this chapter and a surtax equal to 40 per cent  
15 of the amount computed under sec. 30 of this chapter.

16 Sec. 43.59.020. COMPUTATION OF NORMAL TAX BASE. Normal tax under  
17 this chapter is imposed on that portion of the value of the oil at the  
18 point of first sale or its value at the refinery, whichever is less,  
19 which exceeds the sum of the following allowable costs by an amount not  
20 greater than 25 per cent:

21 (1) exploration costs, including bonus payments, as computed  
22 under sec. 40 of this chapter;

23 (2) field development costs and production costs as computed  
24 under sec. 50 of this chapter;

25 (3) cost of transport of the oil from the field in which it  
26 was produced to the refinery or the point of first sale, whichever is  
27 less;

28 (3) severance taxes imposed under chs. 55 and 57 of this title;

29 (4) general administrative costs of an amount equal to 25

*rd 55*

HB 803

1 cents per barrel.

2 Sec. 43.59.030. COMPUTATION OF SURTAX BASE. Surtax under this  
3 chapter is imposed on the amount by which the value of the oil at the  
4 point of first sale, or the refinery to which it is delivered, which-  
5 ever is less, exceeds 125 per cent of the allowable costs set out in  
6 sec. 20(a) - (e) of this chapter.

7 Sec. 43.59.040. EXPLORATION COST DEDUCTIONS. (a) Exploration  
8 costs shall be limited to:

9 (1) costs attributable to oil of geophysical and geological  
10 investigations for the purpose of finding oil and gas, providing the  
11 investigations are carried out on land subject to this tax at the time  
12 of the investigation;

13 (2) costs attributable to oil of acquiring interests in oil  
14 and gas on lands subject to this tax;

15 (3) costs attributable to oil of exploration and exploratory  
16 drilling for oil and gas on lands subject to this tax.

17 (b) No costs paid for services or any portion of services used or  
18 provided outside Alaska, salaries or wages not subject to the withholding  
19 of state income tax under AS 43.20.170, or payments for materials or  
20 supplies not consumed or physically located in Alaska may be deducted as  
21 an exploration cost.

22 (c) No costs incurred before the effective date of this Act may be  
23 deducted as an exploration cost.

24 (d) No more than 20 per cent of the exploration costs incurred in  
25 any year may be deductible in that year, or in any succeeding year.

26 (e) Exploration costs may be carried forward for purposes of com-  
27 puting deductions a maximum of 10 years.

28 (f) The percentage of exploration costs allocable to oil shall be  
29 equal to the percentage of the total wellhead value of oil and gas

1 production accounted for by oil in the year preceeding that in which the  
2 exploration costs are incurred.

3 Sec. 43.59.050. FIELD DEVELOPMENT AND PRODUCTION COST DEDUCTIONS.

4 (a) Field development and production costs are deductible only in  
5 computing the tax due on oil produced from the field in which they were  
6 incurred.

7 (b) Field development and production cost deductions are limited  
8 to the costs of goods and services used and useful in Alaska in the  
9 development or production of the field; no deduction for administrative,  
10 engineering or design costs incurred outside Alaska may be allowed.

11 (c) Production costs are limited to those costs which would not be  
12 incurred if production were to cease, and are deductible only against  
13 income from oil produced in the year in which the costs were incurred.

14 (d) Development costs shall be deducted over the life of the  
15 field or the useful life of the facility to which they are attributable,  
16 whichever is less, in accordance with depreciation schedules approved by  
17 the department.

18 (e) No development costs incurred before January 1, 1970 are  
19 deductible.

20 (f) Interest paid on funds used during and in the construction of  
21 facilities used and useful in the production or development of a field  
22 shall be capitalized and deducted over the life of the field in accord-  
23 ance with depreciation schedules approved by the department.

24 (g) The percentage of development and production cost allocable to  
25 oil shall be equal to the percentage of the total wellhead value of oil  
26 and gas produced from the field accounted for by oil in the year pre-  
27 ceeding that in which the deduction is taken.

28 Sec. 43.59.060. ROYALTY OIL. The tax imposed by this chapter is  
29 upon the total production of all oil removed or sold from each lease or

1 property, less any part the ownership or right to which is exempt from  
2 taxation. In making settlement with a royalty owner the producer may  
3 deduct the amount of the tax paid on royalty oil, or may deduct royalty  
4 oil equivalent in value, at the time the tax becomes due, to the amount  
5 of tax paid.

6 Sec. 43.59.070. PAYMENT OF TAX. (a) The oil production income tax  
7 shall be paid annually. The tax is due on April 15 on oil or gas re-  
8 moved or sold from each lease or property during the 12 months before  
9 the preceding January.

10 (b) Every person engaged in producing oil and gas from properties  
11 subject to this tax shall file annually by February 1 of each year, with  
12 the department, a statement showing the value of oil as specified in  
13 sec. 20 of this chapter and claimed deductions for each well or field  
14 owned, worked or operated by that person during the previous year.

15 (c) The statement shall be on forms prescribed by or acceptable to  
16 the department, under oath, and shall include, in addition to other  
17 information required by regulation

18 (1) the name and address of the operator of the well or field,  
19 together with a list in duplicate of the names and addresses of any  
20 persons owning or claiming a royalty interest in the production of the  
21 well or field or the proceeds from the sale of it, and the amount paid  
22 or delivered in kind as royalty to each of these persons during the  
23 period covered by the statement;

24 (2) the description and location of the well or field;

25 (3) the number of cubic feet of natural gas, barrels of  
26 petroleum, or other crude or mineral oil extracted or produced from the  
27 well or field during the period covered by the statement;

28 (4) the value of production at the point of first sale or  
29 at the refinery, whichever is greater; and

1 (5) the claimed deductions as allowed under sec. 20 of this  
2 chapter and department regulations.

3 Sec. 43.59.080. VALUE MAY BE DETERMINED BY DEPARTMENT. The depart-  
4 ment may determine the value of the oil at the point of first sale or  
5 at the refinery when

6 (1) the seller and purchaser are affiliated persons;

7 (2) the sale and purchase of the production is not an arm's  
8 length transaction or is not representative of competitive market  
9 value; or

10 (3) there is no free market at the refinery for oil of  
11 similar kind and quality.

12 Sec. 43.59.090. ADMINISTRATION OF TAX. The tax imposed under this  
13 chapter shall be administered in the manner provided in AS 43.55.040,  
14 43.55.050, 43.55.070, 43.55.090, and 43.55.110.

15 Sec. 43.59.100. NONPAYMENT OF TAX. The provisions for civil  
16 penalty, interest and remedy established in AS 43.58.120, 43.58.130, and  
17 43.58.150 apply to this chapter.

18 Sec. 43.59.110. REGULATIONS. The department may adopt regulations  
19 in accordance with the Administrative Procedure Act (AS 44.62) as appro-  
20 priate to administer and enforce this chapter.

21 Sec. 43.59.120. DEPOSIT OF REVENUE. (a) The department shall  
22 deposit the money collected under this chapter in the general fund.

23 (b) Sixty per cent of the money deposited in the general fund under  
24 this chapter shall be placed in a special "permanent fund account" in  
25 the general fund.

26 Sec. 43.59.130. PRIVATE LAND INCENTIVE EXEMPTION. Oil produced  
27 from nongovernmentally owned mineral fee interests is exempt from the  
28 payment of taxes under this chapter.

29 Sec. 43.59.140. PAYMENT TO ALASKA NATIVE FUND. When the tax

1 levied under this chapter is payable an amount equivalent to not less  
2 than two per cent of the tax shall be paid by the state from oil and  
3 gas royalties, bonuses and rentals into the Alaska Native Fund estab-  
4 lished by sec. 6 of the Alaska Native Claims Settlement Act (P.L. 92-  
5 203, 85 Stat. 688, 43 U.S.C. 1601 et seq.) until all payments paid  
6 into the fund equal \$500,000,000.

7 Sec. 43.59.150. DEFINITIONS. In this chapter "department" means  
8 the Department of Revenue.

9 \* Sec. 2. This Act takes effect January 1, 1977.  
10  
11  
12  
13  
14  
15  
16  
17  
18  
19  
20  
21  
22  
23  
24  
25  
26  
27  
28  
29