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1 IN THE HOUSE

2 SPONSOR SUBSTITUTE FOR 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
14 amount computed under sec. 20 of this chapter and a surtax equal to 40
15 per cent 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, but is less than
20 125 per cent of the sum:

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

23 (2) those field development costs and variable production
24 costs that are attributable to oil, as computed under secs. 50 and 60 of
25 this chapter;

26 (3) cost of transport of the oil from the field in which it
27 was produced to the refinery or the point of first sale, whichever is
28 the base for the value determination for the computation of the tax;

29 (4) severance taxes imposed under chs. 55 and 57 of this

1 title;

2 (5) general administrative costs of an amount equal to 25
3 cents per barrel.

4 Sec. 43.59.030. COMPUTATION OF SURTAX BASE. Surtax under this
5 chapter is imposed on the amount by which the value of the oil at the
6 point of first sale, or the refinery to which it is delivered, whichever
7 is less, exceeds 125 per cent of the allowable costs set out in sec.
8 20(1) - (5) of this chapter.

9 Sec. 43.59.040. EXPLORATION COST DEDUCTIONS. (a) Exploration
10 cost deductions shall be limited to

11 (1) the cost attributable to oil of geophysical and geologi-
12 cal investigations incurred for the purpose of finding oil and gas, if
13 the investigations are carried out on government land in the state;

14 (2) that part of the payments for the right to extract oil
15 and gas from government land in Alaska that is attributable to oil;

16 (3) the cost attributable to oil of drilling for oil and gas
17 on government land in Alaska.

18 (b) The percentage of total costs and payments that is attri-
19 butable to oil shall be equal to the percentage accounted for by oil in
20 the total value at the wellhead of oil and gas produced in the state
21 during the calendar year preceding that in which the cost is incurred or
22 the payment made, i.e.,

23
$$C_o = C_{o+g} \cdot WV_o / WV_{o+g}, \text{ where}$$

24 C_o = an oil producer's deductible costs and payments attributable
25 to oil during a given calendar year;

26 C_{o+g} = the total costs incurred and payments made by the taxpayer
27 in that year in exploring for oil and gas on government land;

28 WV_o = the wellhead value of all oil produced in the state during
29 the preceding year;

1 WV_{o+g} = the wellhead value of all oil and gas produced in the state
2 during the preceding year.

3 (c) No costs paid for services or any portion of services used or
4 provided outside Alaska, salaries or wages not subject to the withhold-
5 ing of state income tax under AS 43.20.170, or payments for materials or
6 supplies not physically located or consumed in Alaska may be deducted as
7 an exploration cost.

8 (d) No costs incurred more than three years before the effective
9 date of this Act may be deducted as an exploration cost.

10 (e) No more than 20 per cent of the exploration costs incurred in
11 any calendar year may be deductible for that calendar year, or for any
12 succeeding calendar year.

13 (f) Exploration costs may be carried forward for purposes of com-
14 puting deductions a maximum of 10 years, and may be allocated among
15 fields at the election of the producer.

16 Sec. 43.59.050. FIELD DEVELOPMENT COST DEDUCTIONS. (a) For the
17 purpose of computing development cost deductions, all field development
18 costs shall be capitalized and depreciated over the life of the field
19 or the useful life of the facility to which they are attributable,
20 whichever is less, in accordance with regulations promulgated by the
21 department. Each year the depreciation chargeable to oil shall be
22 determined by multiplying the total depreciation chargeable to the
23 field for that year by the fraction of the value of the field's produc-
24 tion accounted for by oil during that year.

25 (b) Field development costs shall be limited to the costs of goods
26 and services used in Alaska and useful in the production of the field
27 other than variable production costs as defined in sec. 60 of this
28 chapter; administrative, engineering, or design costs incurred outside
29 Alaska may not be allowed in calculating the deductions or the deprecia-

1 tion basis.

2 (c) No development cost incurred before January 1, 1970 shall be
3 included in calculating allowable deductions, and in the case of facili-
4 ties in operation before the effective date of this Act, the carrying
5 forward of depreciation accruing before the effective date of this Act
6 shall not be permitted.

7 (d) Interest not to exceed nine per cent per annum on funds used
8 during and in the construction of facilities used and useful in the
9 production of a field may be capitalized.

10 Sec. 43.59.060. VARIABLE PRODUCTION COST DEDUCTIONS. (a) Deduc-
11 tible production costs are limited to those costs allocable to oil which
12 would not be incurred if production were to cease, and may be carried
13 forward only under the conditions specified in sec. 80 of this chapter.

14 (b) Production costs allocable to oil shall be determined each
15 year by multiplying aggregate production costs in the field for oil and
16 gas by the fraction of the value of the field's production accounted for
17 by oil.

18 Sec. 43.59.070. TRANSPORTATION COST DEDUCTIONS. When the commis-
19 sioner of revenue determines that transportation tariffs or charges may
20 not accurately represent the true costs and that transportation charges
21 are being paid to an entity affiliated with an oil producer taxpayer,
22 he may, after promulgation of regulations governing the determination by
23 him of the fair transportation costs, and public hearing, make a deter-
24 mination of the deductible transportation cost for the purposes of com-
25 puting the taxes due under this chapter. No producer affected by this
26 determination shall be allowed transportation cost deductions in excess
27 of the amounts determined by the commissioner to be fair and deductible.

28 Sec. 43.59.080. LOSS CARRY FORWARD. Development and production
29 cost deductions may be carried forward only to the extent that they

1 exceed the total value of the oil at the point of value determination
2 for this tax, less transportation costs from the field; they may be
3 carried beyond any succeeding year only if no tax was due in that year.

4 Sec. 43.59.090. ROYALTY OIL. The tax imposed by this chapter is
5 upon the value of the total production of all oil removed or sold from
6 each lease or property, less any part the ownership or right to which
7 is exempt from taxation. In making settlement with a royalty owner
8 the producer may deduct the amount of the tax paid on royalty oil, or
9 may deduct royalty oil equivalent in value to the amount of tax paid,
10 at the time the tax becomes due.

11 Sec. 43.59.100. PAYMENT OF TAX. (a) The oil production income
12 tax shall be paid annually. The tax is due on April 15 on oil or gas
13 removed or sold from each lease or property during the preceding calen-
14 dar year.

15 (b) Every producer whose income is subject to the tax imposed by
16 this chapter shall file annually by February 1 of each year, with the
17 department, a statement showing the value of oil as specified in sec. 20
18 of this chapter, and shall under the penalty of perjury furnish all the
19 information the Department of Revenue prescribes on a form supplied by
20 the department.

21 Sec. 43.59.110. VALUE MAY BE DETERMINED BY DEPARTMENT. The de-
22 partment may, under regulations promulgated in advance, determine the
23 fair market value of the oil at the point of first sale or at the
24 refinery when

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

26 (2) the sale and purchase of the production is not an arm's
27 length transaction or is not representative of competitive market value;
28 or

29 (3) there is no competitive market at the refinery for oil of

1 similar kind and quality.

2 Sec. 43.59.120. ADMINISTRATION OF TAX. AS 43.55.040, 43.55.050,
3 43.55.070, 43.55.090, and 43.55.110 apply with respect to this chapter.

4 Sec. 43.59.130. NONPAYMENT OF TAX. The provisions for civil
5 penalty, interest and remedy established in AS 43.58.120, 43.58.130,
6 and 43.58.150 apply to this chapter.

7 Sec. 43.59.140. REGULATIONS. The department may adopt regulations
8 in accordance with the Administrative Procedure Act (AS 44.62) as appro-
9 priate to administer and enforce this chapter.

10 Sec. 43.59.150. DEPOSIT OF REVENUE. (a) The department shall
11 deposit the money collected under this chapter in the general fund.

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

15 Sec. 43.59.160. PRIVATE LAND INCENTIVE EXEMPTION. The provisions
16 of this chapter are not applicable to oil produced from nongovernmen-
17 tally owned mineral fee interests.

18 Sec. 43.59.170. PAYMENT TO ALASKA NATIVE FUND. When the tax
19 levied under this chapter is payable, an amount equivalent to not less
20 than two per cent of the tax shall be paid by the state from oil and gas
21 royalties, bonuses and rentals into the Alaska Native fund established
22 by sec. 6 of the Alaska Native Claims Settlement Act (P.L. 92-203; 85
23 Stat. 688; 43 U.S.C. 1601 et seq.) until all payments made into the fund
24 equal \$500,000,000.

25 Sec. 43.59.180. DEFINITIONS. In this chapter "department" means
26 the Department of Revenue, and oil and gas are as defined in AS 43.55.-
27 140.

28 * Sec. 2. This Act takes effect January 1, 1977.
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