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1 IN THE HOUSE

2 2d 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 equal to 9.4 per cent of the net income computed in accor-
14 dance with sec. 20 of this chapter.

15 Sec. 43.59.020. COMPUTATION OF TAX BASE. The tax under this
16 chapter is imposed on that portion of the value of the oil at the point
17 of first sale or its value at the refinery, whichever is less, which
18 exceeds the sum of the following allowable costs:

19 (1) exploration costs attributable to oil, including bonus
20 payments, as computed under sec. 30 of this chapter;

21 (2) those field development costs and variable production
22 costs that are attributable to oil, as computed under secs. 40 and 50 of
23 this chapter;

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

27 (4) payments of the oil and gas properties production tax
28 made according to ch. 55 of this title during the taxable year, after
29 allowance for the credit accrued for the lease or property under

1 AS 43.58.180;

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

4 Sec. 43.59.030. EXPLORATION COST DEDUCTIONS. (a) Exploration
5 cost deductions shall be limited to

6 (1) the cost attributable to oil of geophysical and geologi-
7 cal investigations incurred for the purpose of finding oil and gas in
8 Alaska;

9 (2) that part of the payments for the right to extract oil
10 and gas in Alaska that is attributable to oil;

11 (3) the cost attributable to oil of drilling for oil and gas
12 in Alaska.

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

18
$$C_o = C_{o+g} \cdot WV_o / WV_{o+g}, \text{ where}$$

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

21 C_{o+g} = the total costs incurred and payments made by the taxpayer
22 in that year in exploring for oil and gas in Alaska;

23 WV_o = the wellhead value of all oil produced in the state during
24 the preceding year;

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

27 (c) No costs paid for services or any portion of services used or
28 provided outside Alaska, salaries or wages not subject to the withhold-
29 ing of state income tax under AS 43.20.170, or payments for materials or

1 supplies not physically located or consumed in Alaska may be deducted as
2 an exploration cost.

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

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

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

11 Sec. 43.59.040. FIELD DEVELOPMENT COST DEDUCTIONS. (a) For the
12 purpose of computing development cost deductions, all field development
13 costs shall be capitalized and depreciated over the life of the field
14 or the useful life of the facility to which they are attributable,
15 whichever is less, in accordance with regulations promulgated by the
16 department. Each year the depreciation chargeable to oil shall be
17 determined by multiplying the total depreciation chargeable to the
18 field for that year by the fraction of the value of the field's produc-
19 tion accounted for by oil during that year.

20 (b) Field development costs shall be limited to the costs of goods
21 and services used in Alaska and useful in the production of the field
22 other than variable production costs as defined in sec. 50 of this
23 chapter; administrative, engineering, or design costs incurred outside
24 Alaska may not be allowed in calculating the deductions or the deprecia-
25 tion basis.

26 (c) No development cost incurred before January 1, 1970 shall be
27 included in calculating allowable deductions, and in the case of facili-
28 ties in operation before the effective date of this Act, the carrying
29 forward of depreciation accruing before the effective date of this Act

1 shall not be permitted.

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

5 Sec. 43.59.050. VARIABLE PRODUCTION COST DEDUCTIONS. (a) Deduc-
6 tible production costs are limited to those costs allocable to oil which
7 would not be incurred if production were to cease, and may be carried
8 forward only under the conditions specified in sec. 70 of this chapter.

9 (b) Production costs allocable to oil shall be determined each
10 year by multiplying aggregate production costs in the field for oil and
11 gas by the fraction of the value of the field's production accounted for
12 by oil.

13 Sec. 43.59.060. TRANSPORTATION COST DEDUCTIONS. When the commis-
14 sioner of revenue determines that transportation tariffs or charges may
15 not accurately represent the true costs and that transportation charges
16 are being paid to an entity affiliated with an oil producer taxpayer,
17 he may, after promulgation of regulations governing the determination by
18 him of the fair transportation costs, and public hearing, make a deter-
19 mination of the deductible transportation cost for the purposes of com-
20 puting the taxes due under this chapter. No producer affected by this
21 determination shall be allowed transportation cost deductions in excess
22 of the amounts determined by the commissioner to be fair and deductible.

23 Sec. 43.59.070. LOSS CARRY FORWARD. Development and production
24 cost deductions may be carried forward only to the extent that they
25 exceed the total value of the oil at the point of value determination
26 for this tax, less transportation costs from the field; they may be
27 carried beyond any succeeding year only if no tax was due in that year.

28 Sec. 43.59.080. ROYALTY OIL. The tax imposed by this chapter is
29 upon the value of the total production of all oil removed or sold from

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

6 Sec. 43.59.090. PAYMENT OF TAX. (a) The oil production income
7 tax shall be paid annually. The tax is due on April 15 on oil or gas
8 removed or sold from each lease or property during the preceding calen-
9 dar year.

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

16 (c) The tax payable under this chapter shall be allowed as a credit
17 against the tax due under ch. 20 of this title.

18 Sec. 43.59.100. VALUE MAY BE DETERMINED BY DEPARTMENT. The de-
19 partment may, under regulations promulgated in advance, determine the
20 fair market value of the oil at the point of first sale or at the
21 refinery when

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

23 (2) the sale and purchase of the production is not an arm's
24 length transaction or is not representative of competitive market value;
25 or

26 (3) there is no competitive market at the refinery for oil of
27 similar kind and quality.

28 Sec. 43.59.110. ADMINISTRATION OF TAX. AS 43.55.040, 43.55.050,
29 43.55.070, 43.55.090, and 43.55.110 apply with respect to this chapter.

1 Sec. 43.59.120. NONPAYMENT OF TAX. The provisions for civil
2 penalty, interest and remedy established in AS 43.58.120, 43.58.130,
3 and 43.58.150 apply to this chapter.

4 Sec. 43.59.130. REGULATIONS. The department may adopt regulations
5 in accordance with the Administrative Procedure Act (AS 44.62) as appro-
6 priate to administer and enforce this chapter.

7 Sec. 43.59.140. DEPOSIT OF REVENUE. (a) The department shall
8 deposit the money collected under this chapter in the general fund.

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

12 Sec. 43.59.150. PAYMENT TO ALASKA NATIVE FUND. When the tax
13 levied under this chapter is payable, an amount equivalent to not less
14 than two per cent of the tax shall be paid by the state from oil and gas
15 royalties, bonuses and rentals into the Alaska Native fund established
16 by sec. 6 of the Alaska Native Claims Settlement Act (P.L. 92-203; 85
17 Stat. 688; 43 U.S.C. 1601 et seq.) until all payments made into the fund
18 equal \$500,000,000.

19 Sec. 43.59.160. DEFINITIONS. In this chapter "department" means
20 the Department of Revenue, and oil and gas are as defined in AS 43.55.-
21 140.

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