

"An Act providing for an oil production income tax; and providing for an effective date."

COMMITTEE REPORT

HOUSE

4/7/76

FINANCE

Mr. Speaker:

Date 4-15-76

The Committee on RESOURCES has had 2nd SSB 803

under consideration. A Majority of the members of the Committee

() recommends it DO PASS

recommends it DO NOT PASS

() recommends it DO PASS WITH ATTACHED AMENDMENT(S)

() recommends it BE REPLACED WITH CS FOR _____ AND THAT

CS FOR _____ DO PASS

() "and" recommends it BE REFERRED TO THE _____

COMMITTEE

() reports it back WITHOUT RECOMMENDATION

() "other"

Members signing the Majority report:

Do Not Pass Ever Ever Ever!!!

① Nels G. Anderson Do Not Pass J. Huntington Do Not Pass

② Ed Brown Do Not Pass

③ Mike Hershberger Do Not Pass

④ Richardson " " "

Members NOT concurring in the Majority report:

① White recommends: Do Not Pass

② Mike Hershberger recommends: Do Not Pass

③ Alexander Osterhead recommends: Do not Pass

④ Ed Brown recommends: Do Pass

⑤ Louis C. Sullivan recommends: Do pass get our fair share

Nels G. Anderson Chairman

9

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Members signing the Majority report:

Members NOT concurring in the Majority report:

_____ recommends:
_____ recommends:
_____ recommends:
_____ recommends:
_____ recommends:

_____ Chairman

~~John~~ Nancy,

Could you get about 5
copies of

2nd Sponsor Substitute for
HB 803

+ put them in the HB 803
bill file in the front office.

M. H.

Introduced: 4/7/76
Referred: Resources and Finance

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

1 IN THE HOUSE

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 dence 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

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2 (d) Interest not to exceed nine per cent per annum on funds used
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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.

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15 not accurately represent the true costs and that transportation charges
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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-
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17 he may, after promulgation of regulations governing the determination by
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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 calendar
9 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,
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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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29

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BY COWPER, BRADLEY, BROWN, DUNCAN,
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22 * Sec. 2. This Act takes effect January 1, 1977.
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Introduced: 4/7/76
Referred: Resources and Finance

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

1 IN THE HOUSE

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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Ericksen

Introduced: 4/7/76
Referred: Resources and Finance

BY COWPER, BRADLEY, BROWN, DUNCAN,
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17 of first sale or its value at the refinery, whichever is less, which
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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

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20 to oil during a given calendar year;

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22 in that year in exploring for oil and gas in Alaska;

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24 the preceding year;

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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.

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4 date of this Act may be deducted as an exploration cost.

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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-
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29 forward of depreciation accruing before the effective date of this Act

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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,
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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;
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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.

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20 the Department of Revenue, and oil and gas are as defined in AS 43.55.-
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22 * Sec. 2. This Act takes effect January 1, 1977.
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28
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COMMITTEE COPY

ALASKA STATE LEGISLATURE

. NINTH Legislature SECOND Session

2nd Sponsor Substitute
HOUSE BILL..... NO. 803...

By ... Cowper, Bradley, Brown,
Duncan, Gardiner, Gruening,
Kelley, McKinnon, Malone,
Miller, Naughton, Parker,
Parr and Swanson.

"An Act providing for an oil
production income tax; and
providing for an effective date "

Oil production income tax.

Introduced in the House 4/7....., 19..76

HISTORY IN THE HOUSE

19 76

Apr 7

Read first time and referred
to Committee on
Resources and Finance

Reported back with
recommendation that

Read second time and

Read third time and

PASS	Effective Date
Yeas	Yeas
Nays	Nays
Absent	Absent
Excused	Excused

Reconsideration

PASS	Effective Date
Yeas	Yeas
Nays	Nays
Absent	Absent
Excused	Excused

Reported correctly engrossed
Signed by Speaker
Sent to Senate

CHIEF CLERK OF THE HOUSE

HISTORY IN THE SENATE

19

Read first time and referred
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Yeas	Yeas
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Nays	Nays
Absent	Absent
Excused	Excused

Reported correctly engrossed
Signed by President
Returned to House

SECRETARY OF THE SENATE

HISTORY IN THE HOUSE

19

Received from Senate

Reported correctly enrolled

Sent to Governor

..... By Governor

Filed with Lt. Governor

Chapter No.

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

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

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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

1 cents per barrel.

2 Sec. 43.59.030. COMPUTATION OF SUPTAX 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.

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

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

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.

Introduced: 3/17/76
Referred: Resources and Finance

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

1 IN THE HOUSE

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

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7 providing for an effective date."

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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 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.
29

Introduced: 3/17/76
Referred: Resources and Finance

BY COWPER, BRADLEY, BROWN, DUNCAN,
GARDINER, GRUENING, KELLEY, MCKINNON,
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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(?) - (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

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5 A BILL

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14 amount computed under sec. 20 of this chapter and a surtax equal to 40
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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;

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15 and gas from government land in Alaska that is attributable to oil;

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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.,

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

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
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9 production of a field may be capitalized.

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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
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18 Sec. 43.59.070. TRANSPORTATION COST DEDUCTIONS. When the commis-
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20 not accurately represent the true costs and that transportation charges
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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-
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27 of the amounts determined by the commissioner to be fair and deductible.

28 Sec. 43.59.080. LOSS CARRY FORWARD. Development and production
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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.

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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
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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
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18 of this chapter, and shall under the penalty of perjury furnish all the
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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.
29

Introduced: 3/17/76
Referred: Resources and Finance

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

1 IN THE HOUSE

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-
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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;

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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;

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27 in that year in exploring for oil and gas on government land;

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29 the preceding year;

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.

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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-
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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-
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26 determination shall be allowed transportation cost deductions in excess
27 of the amounts determined by the commissioner to be fair and deductible.

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29 cost deductions may be carried forward only to the extent that they

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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.
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13 removed or sold from each lease or property during the preceding calen-
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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.

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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;
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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
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20 the total value at the wellhead of oil and gas produced in the state
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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.

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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
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Introduced: 3/17/76
Referred: Resources and Finance

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

1 IN THE HOUSE

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."

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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 50 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 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.

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13 the investigations are carried out on government land in the state;

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15 and gas from government land in Alaska that is attributable to oil;

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17 on government land in Alaska.

18 (b) The percentage of total costs and payments that is attri-
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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.,

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

24 C_o = an oil producer's deductible costs and payments attributable
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2 (c) No development cost incurred before January 1, 1970 shall be
3 included in calculating allowable deductions, and in the case of facili-
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5 forward of depreciation accruing before the effective date of this Act
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27 of the amounts determined by the commissioner to be fair and deductible.

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15 (b) Every producer whose income is subject to the tax imposed by
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22 by sec. 6 of the Alaska Native Claims Settlement Act (P.L. 92-203; 85
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24 C_o = an oil producer's deductible costs and payments attributable
25 to oil during a given calendar year;

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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
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