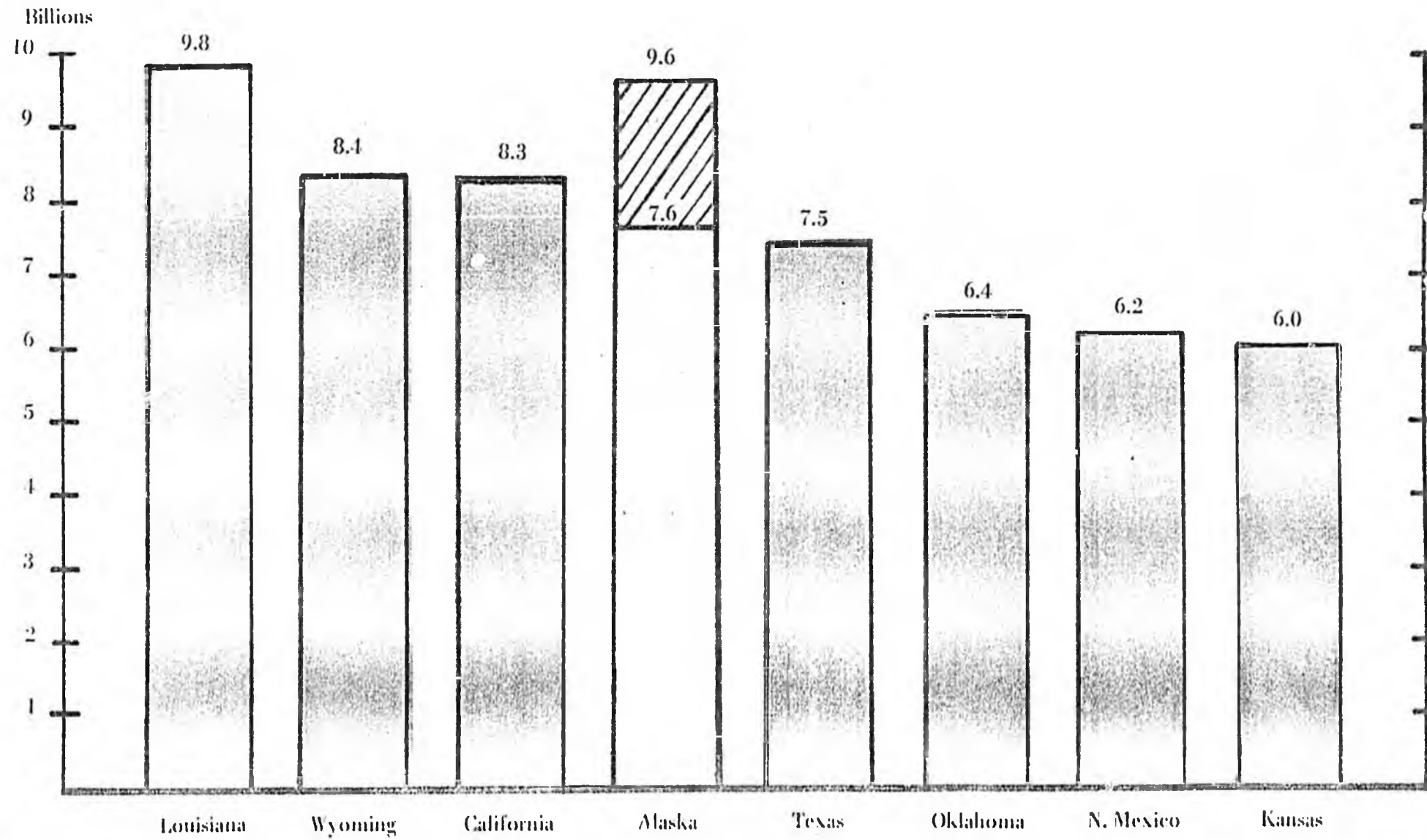


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Tax Comparison



Joseph S. Clark, Jr.

April 29, 1977

ALASKAN TAX LEGISLATION (X)

The Alaskan Legislature has been in session since January 10 and seems likely to end its 1977 session on or about May 10. So far there have been no unpleasant surprises insofar as oil industry taxation is concerned, and we continue to doubt that legislation will be passed encompassing both a "validation" of the 9.4% net proceeds (state income) tax and a higher severance tax. Little or nothing has been heard in Juneau of last year's Huber-Tanzer radical excess profits tax proposals and there is no indication that hearings will be held on this subject. Although the Legislature is concerned with protecting state revenues via as high a Prudhoe Bay wellhead price as is possible under free market forces, the majority conservative coalition of native corporations, Republicans, and business-oriented Democrats in both houses has maintained a policy of reasonableness and deliberation that contrasts with the polemic that characterized last year's session. Since there are no elections this coming Fall, it seems reasonable to assume at this point in time that next year's Legislature will pursue the issue of industry taxation with equal deliberation.

Of the two significant tax proposals now pending, an increase in the present 8% severance tax seems most likely to become law in the current session. A number of proposals are pending, ranging from 10% to 12 1/2% (1) and observers in Juneau believe that an 11% compromise may be reached. Action is expected shortly from the Senate Rules Committee and the House Finance Committee. Both House and Senate versions also contain proposals relating to moderately higher severance tax minimums and inflation escalators. Neither appears particularly onerous for the oil industry. The former presently is set at \$0.62 per barrel, which implies a wellhead price of \$7.75 per barrel and the latter, which seems less likely to pass both houses, is based on various indicators, including a GNP deflator. Since President Carter's energy

- (1) For Prudhoe Bay a 750 B/D "economic limit" factor is deducted before computing the escalating severance tax rates on higher production levels. A 12 1/2% tax, for instance, is therefore reduced to an effective rate of about 12%.

proposal basically ties Prudhoe Bay prices⁽²⁾ to the delivered cost of OPEC oil, it seems unlikely that a reasonable inflation escalator would cause a serious problem for the oil industry.

Various proposals amending the existing 9.4% net proceeds, or state income tax are now residing in the Senate Resources Committee. It will be recalled from our earlier Industry Commentaries on this subject that the objective of these proposals, including one from Governor Hammond, is to create a separate tax accounting structure that will enable the state to determine the amount of income generated by an integrated oil company within Alaska alone. The state has alleged that in the past the oil companies in Cook Inlet have allocated costs to this production that have been external to the state. Accordingly, both the Administration and the Legislature want to be sure that 9.4% rate on Prudhoe Bay output is calculated on a pretax income level they deem to be fair and reasonable.

The legislative complexities of the preceding determination indicate at the present time that the odds do not favor the passage this session of a "validated" net proceeds tax. The issue will become more pressing as production starts later this summer, and probably will be resolved by the 1978 Legislature.

Looking longer term, it is obviously difficult to speculate on the direction of the state's tax policies. Clearly there will be strong pressures to maximize the wellhead price at Prudhoe Bay and to disallow costs that the oil companies may feel are reasonable. However, there are indications that the electorate in Alaska is continuing to move to the right, in part because of the growing political power of the native corporations. If this proves to be the case, we would doubt that oil tax legislation emerging from the 1979 and later legislatures will make major incremental incursions into Prudhoe Bay profitability.

Joseph S. Clark, Jr.
212/578-0410

(2) Up to a wellhead price of \$11.29 which in turn is inflation adjusted, but which is likely to result in a wellhead price in excess of \$7.75.

CHARLIE PARR

ALASKA LEGISLATURE

S. R. Box 50599
Fairbanks, Alaska 99701
456-5029

Pouch V
Juneau, Alaska 99811
465-3797

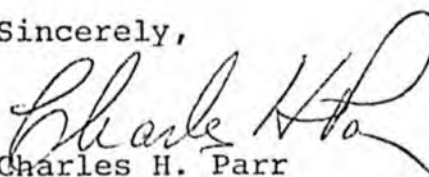
April 1, 1977

Dear Sir or Madam:

I am sorry that this is a Xerox letter but time is important. Enclosed is a copy of HB 171 which would require a 10 cent refundable deposit on any beer or soft drink can or bottle.

I am concerned about the burden this may cause on your business and would appreciate hearing your opinion. You may call 465-3797 or 465-3777 or write Pouch V, Juneau, Alaska 99811.

Sincerely,



Charles H. Parr

CHP:ab