Tax Summaries & Histories

THIS HISTORY OF OIL AND GAS TAXATION IN ALASKA
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STATE OF ALASKA, AND WAS PRESENTED BY HIM IN A SPEECH TO
THE ROCKY MOUNTAIN MINERAL LAW FOUNDATION IN 1978.

Exhibit 97

FOREWORD

The past several years have witnessed a fundamental, and in some senses revolutionary, restructuring of Alaska's system of taxation as it applies to the oil and gas industry. These major changes conclude a decade of innovation and experimentation in an effort by the State to find a comprehensive and effective tax structure for this most complex and sophisticated industry. This evolution has not come about easily, nor has it been without controversy and debate.

In order to understand where Alaska stands now and where we may be going in the future, it is necessary to understand some of the factors and considerations that have brought these changes about. Accordingly, this presentation divides itself naturally into two parts: first, a review of where we are now and how we got here; and second, an analysis of where we seem to be headed, based on the adequacy of the present structure both to fulfill the State's revenue needs and to satisfy the socio-political forces for change.

I. OVERVIEW OF THE DEVELOPMENT OF ALASKA'S PRESENT TAX STRUCTURE.

No less than seven kinds of taxes play, or have played, major roles in the State's taxation of oil and gas: the mining license tax, production taxes for conservation, a "regular" production tax, an ad valorem tax on oil and gas "hardware", a reserves tax, the corporate income tax and the gross receipts tax. In addition Alaska has a state motor fuel tax, and various municipalities have their own ad valorem and sales taxes. Alaska has no statewide sales tax.

A. Mining license tax.

Taxation of the mining industry, and by implication oil and gas, is as old in Alaska as the original Territorial government. Until 1913 Alaska had been administered by federal agencies without formal participation by the residents of the Territory. But in 1912 Congress authorized limited self-rule, including an elected Legislature. Elections were held that November, and in March 1913 the First Territorial Legislature convened in Juneau. Among the most pressing matters facing those legislators was the need to establish sources of revenue. As Governor Clark wrote in the first "State of the Territory" message,

> "...the necessity exists for approaching the subject of taxation early in the session. The importance of early steps is readily appreciated in view of the fact that there is at present no territorial treasury or other repository of funds which can be drawn upon by order of the legislature; and, furthermore, that no act of the legislature requiring the expenditure of money can be executed until revenue be provided for administering the law." 1/

For nearly two months the House Committee on Ways and Means examined the various possibilities, and on the evening of April 30, it introduced House Bill 94, which would impose license taxes on a number of activities including "mining". In a remarkable display of legislative celerity, this bill passed the House and was transmitted to the Senate, where it was amended; it was then returned to the House, which refused to accept the amendment; the Senate declined to recede from its amendment; a free conference committee was apointed, and a compromise was struck and approved by both houses -- all in time for the governor to sign the bill into law the very next day after its original introduction. 2/

1/ House J. (1913), p.37.

2/ House J. (1913), pp. 394-397, 406-407, 412 and 414. HB 94 became ch. 52, SLA 1913.

This original enactment was not the legislature's final word on the mining license tax, by any means. Bills affecting the mining license tax were passed into law by each successive Legislature through 1927. 3/ In all, no less than 19 separate enactments have been made since 1913, including eight changes in the rates. 4/ This volatility in the mining license tax seems to have been largely forgotten during the long interval since the last rate change (1955) or the last change of any kind in this tax (1962). But the record shows a past history of legislative revision and adaptation of an even more sustained duration than the one we have been witnessing with oil and gas.

Originally levied at a flat rate of one-half of one percent of net income, the mining license tax incorporated a progressive rate structure in 1923, 5/ eventually achieving a peak in complexity with nine tax brackets and a separate tax structure for gold, platinum, palladium and other metals of the "platinum-palladium group". 6/ Today there are only three brackets -- three percent of net income over $40,000 but not over $50,000; $1500 plus five percent of net income over $50,000 but not over $100,000; and $4000 plus seven percent of net income over $100,000 -- and there are no groups of metals or minerals having special rates. 7/

Since 1962 the mining license tax has not applied to oil and gas. 8/

3/ Sec. 1(13), ch. 76, SLA 1915; sec. 1(13), ch. 74, SLA 1917; sec. 1(12), ch. 33, SLA 1919; sec. 1(20), ch. 31, SLA 1921; sec. 1(15), ch. 101, SLA 1923; sec. 1(14), ch. 70, SLA 1925; sec. 1(15), ch. 59, SLA 1927.

4/ Besides the Session Laws cited in n. 3, see ch. 74, SLA 1935; ch. 20, SLA 1937; ch. 54, SLA 1939; ch. 62, SLA 1939; ch. 67, SLA 1939, ch. 74, SLA 1941; ch. 64, SLA 1947; ch. 64, SLA 1951; ch. 26, SLA 1953; ch. 78, SLA 1955; and ch. 14, SLA 1962. Session Laws underlined in this note and n. 3 are those in which tax rates were changed.

5/ Sec. 1(15), ch. 101, SLA 1923.

6/ Sec. 1, ch. 20, SLA 1937.

7/ AS 43.65.010(c). Different precentages for depletion are allowed for different minerals, however. AS 43.65.010(e).

8/ Sec. 1, ch. 14, SLA 1962.

B. Production taxes:

Serious and concerted exploration for oil and gas in Alaska renewed itself during the 1950s. In 1954 the Bureau of Land Management had issued 272 oil and gas leases covering over half a million acres of land. That, plus the fact that three companies had already begun drilling wells on their new leases, was deemed sufficiently auspicious as to merit inclusion in Governor Heintzleman's "State of the Territory" address of January 26, 1955. 9/

In hopeful anticipation of commercial discoveries, the 1955 Legislature enacted a comprehensive oil and gas conservation statute. 10/ To help defray the expense of administering this new law, the Legislature provided in section 17 of the bill for a conservation tax of five mills for each barrel of oil produced and every 50,000 cubic feet (50 Mcf) of gas. 11/ The proceeds from this source originally went into a special conservation fund.

When the 1955 Legislature adjourned without having passed a general appropriation bill to fund the territorial government during the next biennium, they were immediately summoned back by the governor into an Extraordinary Session beginning March 28, 1955. 12/ Apparently drawing from Oklahoma's virtually identical production tax law, the House Rules Committee introduced House Bill 7 on April 2nd, providing for an oil and gas production tax of one percent of the gross value of production. The bill went to the floor the same day, where it was amended to say that the production tax was in lieu of state or local taxes on the production property and equipment. It then passed the House, and the next day passed the Senate without further change. The governor signed it on April 6, 1955. 13/

9/ House J. (1955), p. 333

10/ Ch. 40, SLA 1955.

11/ The provisions regarding this tax were later codified in the Alaska Statutes as AS 31.05.130-.140.

12/ House J. (1955 - Extra. Session), pp. 12, 15-19; Senate J. (1955 - Extra. Session), pp. 11-12, 15-21.

13/ House J. (1955 - Extra. Session), pp. 59-61, 68, 74, 76, 93; Senate J. (1955 - Extra. Session), pp. 82-83, 85-86, 113, 129.

These actions proved to have been timely taken. On September 29, 1957 the Swanson River oil field was discovered onshore in the Kenai National Moose Range. A second major field, this time a gas field, was found just south of the city of Kenai on October 11, 1959. The first offshore oil field was discovered in Cook Inlet in 1962, and three more were found in 1965. By the end of 1966 these fields had produced oil and gas worth over $202,786,000 and had provided the State with some $2,044,000 in total revenues from the production and conservation taxes. 14/ Besides this income, the State had also been receiving lease rentals, bonus bids, royalties and shared revenue from federally leased acreage. Total direct oil and gas income to the State totalled nearly $19 million in 1966 and $135 million from 1959 through 1966. 15/

All during this time no changes had been made in the tax structure. Then, in 1967, Fairbanks was struck with a devastating flood. The Legislature was convened in a Special Session to provide appropriate statutory relief to the victims of this disaster. Faced with the extra costs of these emergency programs, the Legislature turned to the oil and gas industry for some of this money by enacting a one-percent disaster severance tax based on the gross value of production. 16/

That the State should pass an emergency tax in the wake of a natural disaster is not surprising, nor did it necessarily reflect any significant departure from the laissez-faire attitude that had prevailed in the area of oil and gas taxes since 1955. However, events were by that time already in progress that would lead to an altering of that attitude.

The first of these occurred in Cook Inlet. The three oil fields discovered offshore in the Inlet in 1965 all came on stream during 1967, increasing tremendously the State's direct oil and gas revenues. 17/ However, as they came into production, a number of anomalies appeared among the prices reported to the State by various producers. With production from the Inlet burgeoning, the revenues from it became too important for these differences to go unnoticed. To head off any legislative stampede on this issue, Governor Walter J. Hickel proposed to the 1968 Legislature that a comprehensive study of the appropriate degree of taxation be undertaken. As his Commissioner of Natural Resources, Thomas E. Kelly, testified to a joint hearing of the House and Senate Finance Committees,

14/ Alaska Dept. of Natural Resources, Division of Oil & Gas, Statistical Report for the Year 1969, p.8. The conservation tax accounted for $278,000 of this total, and the production tax had yielded $1,766,000.

15/ Id.

16/ Ch. 31, FSSLA 1967; codified as AS 42.43.110-.160.

17/ Total direct revenues to the State during 1967 was $34,994,000 -- in contrast to $18,921,000 the year before. Division of Oil & Gas, op.cit., p.8.

and complexities involved in the determination of an optimum and equitable production tax rate -- a rate which should be designed to maintain the highest level of tangible (capital) and intangible investment consistent with maximum revenue to the State.

"...An arbitrary decision, without careful analysis, will undoubtedly incorporate mistakes which will be difficult, if not impossible, to undo.

"Cognizant of this situation, Governor Hickel has clearly and logically requested that a broadly-based tax study be undertaken this year, and accordingly, has asked the Legislature for an appropriation to accomplish this study. I think that this is the only rational approach to solving our tax needs. It is certainly not intended as a stall, or to accomodate any special interest groups, but to make sure that short-range expediency does not overshadow long-range tax objectives which must be properly met to insure stability and continuance of an expanding economy.

"As an integral part of the Governor's tax study, this department urges that consideration be given to the utilization of an economic analysis based on econometric techniques to discover the relationship between state revenues, capital investment, and profitabilty. As specifically concerns the petroleum industry, the objectives would include, among others, a determination of an optimum rate of severance taxation for a given set of development goals." 18/

While too much should not be read into this testimony, it is nevertheless a fascinating reflection of, and response to, some emerging attitudes of the time, as well as being an uncanny prophecy of the lines along which people's ideas and discussions were to proceed during the next decade. Commissioner Kelly's denial that the study would be a "stall" or an accomodation of special interest groups obviously responded to charges that it would be those things. The fact that politicians would level such charges reflects a change from prior attitudes that the oil and gas industry needed to be fostered and persuaded, almost coddled, into coming up to Alaska and staying here. There had been a time when state officials

18/ Thomas E. Kelley, "Address to Joint Senate-House Finance Committee Meeting on Oil and Gas Production (Severance) Tax" (February 19, 1968), pp. 1-2.

actually wrote memoranda proudly and a little boastfully reporting how they had paid good money out of their own pockets to entertain oil company representatives and make sure they got a good, positive feeling about Alaska.

This change was due, at least in part, to the much larger cash flow generated from the still-increasing rates of production from Cook Inlet. In 1967 alone the reported value of production statewide exceeded the cumulative total of lease bonuses paid to the State, while in 1968 this annual value was nearly equal to the total of all the State's direct income from oil and gas. 19/ People seem to have begun to wonder about whether the State had gotten enough in exchange for such prodigious gross revenues to the oil companies.

The call, sounded in Commissioner Kelly's speech, for econometric analysis of profitablity and the relationship between taxation and a desirable level of development, may have been an attempt to preempt those holding such doubts about what the State was getting from the oil industry. Or, it may have been an innovative approach developed solely from within the Administration. Be that as it may, this type of analysis became the battleground, so to speak, on which the subsequent struggles over oil taxation were fought, and economists and other technical specialists became important soldiers in these contests. Already, then, in early 1968 the major issue had been framed: how can taxes ensure maximum revenue for the State while providing an adequate, or "fair", degree of profitability for the industry, so as to maintain a desired rate of development?

While the dramatic increase in production and profits from Cook Inlet in 1967 and early 1968 had itself been sufficient to start a change in attitude on the part of some, they were shortly to be utterly and unimaginably transcended. For, on a hostile forsaken shore of the Arctic Ocean at a place known to a few cartographers and geographers as Prudhoe Bay, a well was about to be drilled.

The discovery on June 24, 1968 of by far the largest field ever found in the United States was, in at least one sense, the greatest single disaster ever to befall the oil and gas industry in Alaska. Here, suddenly, came to the public a realization of the industry's true magnitude on the global scale and a perception of enormous, taxable wealth. Probably even more vivid in the public awareness than the discovery itself was the spectacular $900,000,000 lease sale held in 1969. Dozens of companies

19/ Production in 1967 was worth $94,774,000, while cumulative bonuses paid to the State came to $93,548,000. Production in 1968 had a reported value of $191,083,000 -- 93.8% of the $203,662,000 that the State had received directly from oil and gas from 1959 through the end of 1968. Division of Oil and Gas, op.cit., p.8.

were seen vying with each other in putting up undreamed-of sums of cash for a chance, but only a chance, to get a piece of the action in this giant field. 20/

The questioning that had been prompted by Cook Inlet developments was renewed even before the lease sale. In 1968 the Legislature had been content to raise the "regular" production tax from one percent to three percent, while retaining in addition the one-percent disaster severance tax and the five-mill conservation tax. 21/ Now, on March 31, 1969, amid the tide of rumor and speculation flowing from the announcement a few months before of the discovery at Prudhoe Bay, four State Representatives introduced House Bill 75 as a comprehensive approach to oil and gas taxation. 22/ The bill had cleared three House committees, a substitute recommended by one of those committees had been adopted by the House, and that had cleared one Senate committee, when the 1969 Session adjourned. 23/ Since the same Legislature sat in 1970 as had sat in 1969 (i.e., there had been no regular legislative election held in November 1969), the bill remained alive for the 1970 Session. However, the consensus that had formed around the bill while it was in the House had broken down. The Senate Labor and Management Committee narrowed the scope of the measure to production taxes in its recommended substitute, which the Senate first adopted and then totally rewrote by an amendment made jointly on the floor of the Senate by a majority of the Senators. 24/ The amendment embodied a progressive, or "stair-stepped", rate structure for oil based on average daily production per well: three percent on the first 300 barrels a day, five percent on the next 700, six percent on the next 1500, and finally, eight percent on that production exceeding 2500 barrels a day. Gas production was taxed at four percent. 25/ Since the one-percent disaster severance tax and the 5-mill conservation tax were simultaneously repealed, 26/ there was no increase in the overall gas tax rate.

20/ As it turned out, the sale was much chancier than most companies thought. Over half of the bonuses were paid for acreage outside the economically productive limits of the field. What acreage there was within those limits accounts for only a minor percentage of the reserves of the field. The bulk of the Prudhoe Bay field had been leased in sales conducted in 1964 and 1967.

21/ Ch. 110, SLA 1968.

22/ They were Representatives Fink, Bradner, Kay and Moses. House J. (1969), p. 50.

23/ House J. (1969), pp. 275, 442,620,629-634, 659; Senate J.(1969), pp. 613, 767.

24/ Senate J. (1970), pp.1303-1309.

25/ Sec. 1, ch. 247, SLA 1970.

26/ Sec. 2, ch. 247, SLA 1970.

During 1970, '71 and '72, the central topics of discussion regarding oil and gas in Alaska were Prudhoe Bay and the oil companies' planned pipeline across the state to Valdez. In Congress debate raged over Native claims, the environmental impact of the pipeline and the route the pipeline should take. In Alaska the 1971 Legislature created a special Joint Pipeline Impact Committee to examine the issues surrounding the construction of the pipeline.

By the time Governor William A. Egan gave his "State of the State" address on January 11, 1972, the estimated cost for the trans-Alaska pipeline had risen "from $1.3 billion to over $2 billion and perhaps closer to $3 billion." As the governor then pointed out,

> "The stake of the people of Alaska goes up with the cost.
>
> "The cost of transportation, whatever it is, is ultimately passed on in the price paid at the wellhead which determines the tax and royalty benefits accruing to the State and in the value of the unleased oil resources owned by the people of Alaska." 27/

Expressing reservations about the adequacy of then-existing regulation of pipeline services and tariffs, as well as concern over the spiralling construction costs, Governor Egan urged the Legislature to consider measures to improve pipeline regulation, to provide for possible ownership or direct participation by the State in the pipeline, and (as a hedge against rising costs) to create an ad valorem tax on pipelines. The Legislature did consider these matters. 28/

By April 1972 the Joint Pipeline Impact Committee was issuing reports and proposing legislation based on its findings. At its request, bills were introduced in both Houses of the Legislature on April 6th, which would protect State revenues from unacceptably low wellhead prices at Prudhoe Bay as the result of the high pipeline tariffs that could stem from either inadequate tariff regulation or construction cost overruns, or both. 29/ On April 27, Governor Egan presented his own proposal: a cents-per-barrel tax with a credit for royalties paid to the State. If the cents-per-barrel tax (after allowing for the royalty credit) proved greater than the tax collected under the existing percentage-of-value method, then the cents-per-barrel tax would be payable. The effect of the governor's bill was

27/ Senate and House J. (1972) Supp. 1, p. 2.

28/ E.g., HB 769 and 770 (pipeline regulation and right-of-way lease terms), HB 598 (ad valorem tax).

29/ SB 404 and HB 783; Senate J. (1972), p. 600, House J. (1972), p. 676.

to place a floor on the State's combined production tax and royalty income corresponding to a wellhead price of $2.50. Below that price, the reduced royalty credit against the cents-per-barrel tax exactly offset the "lost" royalty income. 30/

The governor's new bill was referred to the House Finance Committee, which adopted it as a committee substitute for a Senate Bill (168) that had already passed the Senate. 31/ The Senate disagreed with the proposed level of the floor, and eventually, after one Free Conference Committee had failed, a compromise was struck to use a floor of $2.65 until July 1, 1980 and drop it to $2.50 thereafter. 32/ Because of the "stair-stepped" percentage rates, there had to be corresponding cents-per-barrel rates for each "step".

Pattern of industry [illegible]

This law, together with other laws regarding pipeline regulation and pipeline rights-of-way that were enacted in 1972, quickly became the subject of litigation. 33/ Based on considerations of the legal merits of the case of the possible delay in issuing the necessary right-of-way lease across state lands while the case was litigated, and of the risk of federalization or federal preemption of the entire pipeline project, Governor Egan reversed his 1972 position and called a Special Session of the Legislature in October 1973 to amend these laws and thereby allow the settlement of the lawsuit. 34/

30/ HB 817. The governor's transmittal letter appears in House J. (1972), pp. 915-916.

31/ SB 168 was originally intended merely to make the production tax payable on a monthly basis instead of quarterly. Senate J. (1971), pp. 347-8, 354, 403, 413-414; House J. (1971), pp. 579, 755, House J. (1972) pp. 962, 964-965.

32/ House J. (1972), pp. 962, 964-965, 1101-1102, 1128-1129, 1147, 1340, 1397-1398, 1418-1419; Senate J. (1972), pp. 892, 916, 1083, 1095, 1100-1101 1138; ch. 101, SLA 1972.

33/ Amerada-Hess Corp., et al. vs. State (Superior Ct. No. 72-2719), ARCO Pipe Line Co. vs. Herbert (Superior Ct. No. 72-2798), and Mobil Pipe Line Co. vs. State (Superior Ct. No. 72-2720), consolidated.

34/ The governor's public statements did not speak of the eight bills he introduced as the key to settling the litigation, but the Legislature understood the nature of this "package". E.g., Senate J. (1973 - First Special Session), pp. 44, 85-86.

This decision resulted in a bitter division within the governor's own party between those who wanted a settlement and early construction of the pipeline and those who believed the pipeline would be built anyway and that the "compromise" was simply a sell-out of the hard-won legislation of the 1972 Legislature. The governor prevailed at the Special Session, but not without cost. 35/

The production tax measure that emerged from the 1973 Special Session repealed the royalty credit provision, increased the effective tax rate as it would apply to Prudhoe Bay oil production and raised the effective floor of the cents-per-barrel tax to $3.375. Instead of four "stair steps", there were three: the first 300 barrels a day from a well were taxed on the higher of five percent of the oil's value or $0.16875 per barrel, the next 700 at six percent or $0.2025 per barrel, and all production over 1000 barrels a day at eight percent or $0.27 per barrel. In addition, the cents-per-barrel amounts increased or decreased by two percent for each degree of API gravity above or below 27 degrees. Thus a complete schedule of three cents-per-barrel rates (one for each "stair step") could be established for various API gravities. This whole schedule was in turn to be increased or decreased monthly based on changes in the Wholesale Price Index for crude oil, published by the U.S. Bureau of Labor Statistics. The tax on gas production remained a simple four percent of value. 36/

A second and minor production tax measure was also passed by the 1973 Special Session. The old 5-mill conservation tax from 1955 had been repealed in 1970. Governor Egan re-introduced this concept with an oil and gas regulation and conservation tax of one-eighth of a cent per barrel. It did not extend to gas. Unlike the earlier tax, there was no special fund earmarked for conservation into which the revenue from this tax would be deposited. 37/

During 1973 the OPEC cartel successfully quadrupled the world market price for crude oil. Among the consequences of this market revolution were renewed concerns about profitability and "windfall" profits. Nationally, these concerns led to an ever more complex system of federal price controls for oil. In Alaska, they re-opened the question of the appropriate degree of state taxation of oil and gas. Naturally enough, Prudhoe Bay profits and taxes were the chief focus of attention.

35/ One consequence of the intra-party split was the less than enthusiastic support of the disaffected members of the governor's party when governor Egan ran for reelection in 1974 -- a factor that may well have had an effect in his narrow 287-vote loss to Jay Hammond.

36/ Ch. 4, FSSLA 1973.

37/ Ch. 5, FSSLA 1973, codified as AS 43.57.

In 1975 the Legislature retained Tanzer Economic Associates, Inc. to conduct an analysis of those profits and the effects of state taxation on the profitability of that field. In January 1976 the "Tanzer Report" 38/ was released. In it Tanzer concluded that the State of Alaska could significantly increase the level of taxation and still provide the oil companies with a degree of profitability sufficient to reward their efforts in finding and developing Prudhoe Bay. A number of legislative proposals followed on the heels of the Tanzer Report, most of which concerned corporate income taxes (discussed below). However, the report also triggered a drive to increase again the effective rate of the production tax as applied to Prudhoe Bay.

Governor Hammond and the Department of Revenue resisted the move for radical tax innovation during the 1976 Session, urging instead that a comprehensive evaluation be made of Alaska's already existing tax structure rather than simply discarding it for something new and totally untried. This view ultimately prevailed, and a study to that end was conducted by the Department of Revenue in cooperation with the Legislative Council's Interim Committee on Oil and Gas Leasing and Taxation. 39/

With respect to the production tax, the resulting "Revenue Study" 40/ expressed two major concerns with the then-existing production tax. The first was a concern that either federal price controls or unexpectedly (and perhaps artificially) high transportation costs would lower wellhead values to the detriment of the State's production tax revenues. The second was the adverse economic effects of the production tax on a field as it reaches the end of its economic life. To the first concern, the Revenue Study recommended raising the cents-per-barrel floor from $6.10 (the level it had risen to as the result of the Wholesale Price Index escalator) to $7.50. As for the second, the study suggested using a factor, based on the current economic condition of each producing property, that would scale the tax rate down to zero as that property approached its economic limit (i.e., the point where the revenue from producing another barrel of oil just barely covers the cost of producing it). The study also proposed raising the tax rate for gas to the level set for oil and adding a cents-per-Mcf floor.

38/ Tanzer Economic Associates, Alaska's Prudhoe Bay Oil: Profitability and Taxation Potential (January 9, 1976).

39/ CS SCR 101. This Concurrent Resolution also called for the Department of Natural Resources to undertake a review of its leasing procedures and to consider alternatives to its traditional method of leasing by bonus bids. That effort culminated in ch. 155, SLA 1978.

40/ Alaska Department of Revenue, Alaska's Oil and Gas Tax Structure: A Study with Recommendations for Improvement (February 1977).

These ideas were incorporated in a bill introduced by Governor Hammond during the 1977 Session. 41/ After another intense and difficult process of negotiation and debate, the Legislature passed a law adopting the concept of the economic limit factor (ELF). 42/ The nominal tax rate for oil is 12.25 percent, but only 10 percent for gas. In both cases the actual rate is determined by applying the ELF. The cents-per-barrel and cents-per-Mcf rates are also subject to the ELF. Nominally they are 6.4 cents per Mcf (corresponding to a 64-cent floor), 60 cents a barrel for "old oil" (a $4.90 floor) and 80 cents for all other oil (a $6.53 floor). Before being reduced by the ELF, the cents-per-barrel amounts are adjusted up or down by a half-cent for each degree above or below 27 degrees API gravity. There is no automatic escalator for either the cents-per-barrel or cents-per-Mcf rates; instead the Department of Revenue is to recommend any changes in the rates that may be appropriate in light of changed prices or similar market conditions. 43/

C. Ad Valorem Taxes.

As mentioned earlier, Governor Egan had supported a statewide ad valorem tax on oil pipelines in 1972 as a hedge against the spiralling construction costs that had already begun with the trans-Alaska pipeline project. However, because of a number of factors -- including disagreement about the mechanism for sharing the tax proceeds with local governments located along the pipeline, uncertainty about the actual route the pipeline would take (trans-Alaska versus trans-Canada) and oil industry opposition -- no bill was passed in 1972.

As part of the "settlement package" brought before the 1973 Special Session, the industry withdrew its opposition. By that time, too, Spiro Agnew had cast his tie-breaking vote in the U.S. Senate in favor of the trans-Alaska route. Moreover, all the delay in building the pipeline had led to a faster-than-expected depletion of the State's $900,000,000 nest egg from the 1969 lease sale, and the State was beginning to foresee a serious cash crisis before oil, and the revenues therefrom, would begin flowing from the North Slope. Thus conditions were ripe to try again for an ad valorem tax, and Governor Egan did -- this time with success. 44/

41/ SB 238. Senate J. (1977), pp. 540-541.

42/ For gas and "old oil" production the ELF is one minus the ratio of the production rate at the economic limit to the current total production of the property. For "other oil" this is raised to a fractional exponent. Thus the tax rate cannot be calculated without a set of logarithm tables or a fairly sophisticated calculator capable of taking fractional exponents.

43/ FCCS HCS CSSB 238, enacted as ch. 136, SLA 1977.

44/ Ch. 1, FSSLA 1973, codified in AS 43.56.

true value of three types of real and personal property: exploration property, production property and pipeline transportation property. Exploration property is to be valued on the basis of what it would bring in an open market between an informed and willing seller and an informed and willing buyer. Production property is valued on the basis of replacement cost less depreciation based on the economic life of the proven reserves. Pipeline property under construction is assessed using its actual incurred or accrued cost as of the date of the assessment, while operating pipelines are ordinarily valued with due regard to their economic value based on the estimated life of the proven reserves then technically, economically and legally deliverable into the pipeline. If those reserves have an economic life materially shorter than the pipeline's estimated physical life, 45/ then the assessed value is its actual cost with depreciation based on the time since the pipeline began full operations plus the remaining economic life of the deliverable reserves. These assessed values are determined as of January 1 each year by the Department of Revenue.

Municipalities may also tax such "hardware" as may be within their boundaries, but this is subject to certain limitations. At the option of the municipality, either the millage must not exceed that which when applied to the total assessed value of all property in the municipality, will yield $1500 per capita for the residents of the municipality, or else the total assessable value is limited to 225 percent of the average per-capita assessed value statewide, multiplied times the number of residents in the municipality. Suppose, for example, a municipality has 5000 residents, locally assessed property with a taxable value of $100,000,000 and State assessed oil and gas hardware valued at $400,000,000. Under the $1500 per capita limitation, its total property tax revenues could not exceed $1500 times 5000 residents, or $7,500,000. On a total assessed value of $500,000,000, a levy of 15 mills will yield the $7,500,000 limit, so 15 mills would be the highest rate the municipality could levy. Under the 225-percent limitation, if the average statewide per capita assessed value is $20,000, then the maximum assessed value that the municipality could levy against is $20,000 times 225 percent times 5000 residents, or $225,000,000. Thus the assessment ratio for all property in that municipality would be 45 percent, since 45 percent of the full $500,000,000 value equals the

45/ "Estimated physical life" is taken by the Department of Revenue to mean the originally expected economic life of the original deliverable reserves, plus a few years for deterioration into an unusable state once regular maintenance would have ceased after those original reserves would have been delivered. This position is being litigated. Cook Inlet Pipe Line Co. vs. State (Superior Court No. 75-5076).

generally limited to 30-mills, the 225-percent limit would allow this hypo-thetical municipality to raise $6,750,000 (30 mills on $225,000,000 taxable assessed value). Because this is less than the $7,500,000 that could be raised under the $1500-per-capita limitation, this municipality, if it needed funds, would elect to apply the latter limitation.

In his opening address to the 1973 Special Session, Governor Egan said this about his proposed hardware tax:

> "A vital change is that the legislation being proposed now will provide immediate revenues in the next few years, as the trans-Alaska pipeline is being constructed. You are all aware, I am sure, of the drain on our General Fund balance as our expenditures to meet the needs of Alaskans continue at approximately twice the rate of our recurring income. The near-term revenue that would be made available under the ad valorem tax on oil and gas property will help significantly to ease the pinch we might otherwise feel in the late 1970's. This tax is expected to bring in an estimated $180 million even while pipeline construction is taking place and through the first year of production. After that, the ad valorem levy will produce upwards of $100 million annually.
>
> "...I personally feel that the above estimates are very conservative and that by the end of this decade, because of the tremendous activity which will take place in oil and gas exploration and production in Alaska, that [sic] a $7 billion to $9 billion estimated value of such properties is well within the bonds of likelihood." 46/

While the hardware tax produced all of the revenues claimed for it, the State's cash position worsened during 1974, and by 1975 the outlook was bad. To tide the State through the crunch until the pipeline was completed, a special two-year ad valorem tax on proven reserves was enacted in 1975. 47/ Because of a complex system of exclusions and credits for produc-

46/ Senate and House J. (1973 - 1st Special Session) Supp. 1, pp. 2, 3. Reality actually surpassed even Egan's optimism. The total assessed value of property subject to this tax is over $11 billion in 1978.

47/ Ch. 159, SLA 1975, codified in AS 43.58.

tion tax payments, the reserves tax was paid only for certain gas fields in the Cook Inlet area and for the oil reserves at Prudhoe Bay. 48/ Naturally, the greatest burden of the tax fell to Prudhoe Bay, because of its vast size. As an interim measure, the reserves tax was a success, generating over $490 million during its brief life. It expired December 31, 1977, and would be mostly of historical interest today except for a credit, equal to the amount of the reserves tax actually paid, that is applicable against future production tax on those reserves as they are produced. Until the credit is exhausted, the net cash receipts from the production tax are half of what they would be without this credit feature. 49/ Depending on the rate of production and on the price of oil, this credit should be used up in 1980 or 1981.

D. Corporate Income Tax and Gross Receipts Tax.

As early as 1973 deficiencies were claimed for the State's corporate income tax as it applied to the large multinational oil companies operating in Alaska. 50/ The basic criticism addressed itself to the three-factor formula by which such a corporation's worldwide taxable business income is apportioned to Alaska. The formula is simply the average of three ratios: the ratio of property value in Alaska to the corporation's worldwide property value, the ratio of its payroll in Alaska to its worldwide payroll, and the ratio of its sales in Alaska to its worldwide sales. Given the nature of the oil industry's Alaskan activities, Alaskan payroll and sales were quite small in comparison to worldwide payroll and sales. Only in the property fraction was the Alaskan figure very significant. As a result of this, the corporate income tax was seen as allowing some of the profits derived from Alaskan operations to "escape" from Alaskan income taxation. Thus, so the thought ran, the multistate corporations paid less income tax than would an Alaskan corporation conducting the same operations in Alaska.

Such arguments have a strong populist appeal, and consequently this criticism did not simply die away, but continued to be made. After OPEC's pricing upheaval, the question of "windfall" or "excess" profit was linked to this underlying issue. The Tanzer Report in 1976 recommended using the income tax as a vehicle for reducing or eliminating these windfalls,

48/ AS 43.58.020 and -.030.

49/ AS 43.58.180 and AS 43.55.018. For five examples of how this credit works, see 15 AAC 05.695.

50/ E.g., Milton Lipton, "Testimony at the Joint Hearings on Proposed Oil and Gas Legislation before the House and Senate Resources Committees (March 23, 1973)" - Transcript, p. 7.

... simultaneously correcting the perceived unequal treatment between Alaskan and multistate corporate taxpayers.

As recounted earlier, the Hammond Administration opposed the bills that flowed forth on the basis of the Tanzer Report, and urged making a comprehensive study of the situation before adopting any legislative reforms. The review of the State's income tax was conducted as part of this study by Jerome M. Zeifman and Kenneth G. Ainsworth. Their report 51/ concluded that the existing corporate income tax had several serious flaws. First, the tax simply adopts the federally defined concept of taxable income, which reflects federal policies, subsidies, and the like, and these may or may not be consistent with Alaska's interests. Second, the three-factor apportionment factor is ineffective when a multistate corporation's activities in a state are directed primarily toward the extraction of resources, as opposed to the manufacture of those resources into finished goods and the marketing of those goods.

Zeifman and Ainsworth recommended remedying these defects, first, by replacing federally defined "taxable income" with an equally reliable indicator of income -- namely, the book income reported to stockholders and investors in the corporation -- and second, by replacing the sales factor in the apportionment formula with one based on the quantity of resources extracted in Alaska versus those extracted worldwide. These proposals were adopted by the Administration and proposed to the Legislature in the 1977 Session.

There they were opposed by legislators and staff who believed that any apportionment system could not completely eradicate the differences in tax treatment between Alaskan and multistate corporate taxpayers. For them the only solution was to account separately for the income gained from Alaskan operations as if those operations had been conducted by an Alaskan corporation instead of a multistate or multinational business. This "separate accounting" approach had the appeal of seemingly treating all taxpayers exactly the same. The Administration opposed separate accounting because of the practical difficulty of assigning profit to a particular phase of a single integrated enterprise, and because of the serious risk of tax avoidance under the separate accounting bills as then drafted.

And so, two competing approaches ground their way slowly through the Legislature in 1977 and early 1978, seemingly destined for a political showdown or a stalemate. But neither of these expected results took place -- instead, there was was a compromise.

51/ Zeifman and Ainsworth, The Taxation of the Petroleum Industry under Alaska's Corporate Income Tax (January 1977).

accounting features with respect to income from production and pipeline operations. Production income is determined by the gross value of production minus certain specified direct costs associated with production. Pipeline income is the net pre-tax income allowed for the pipeline under the tariff-setting rules of the Federal Energy Regulatory Commission. A third component of the income taxable by Alaska is a portion of worldwide book income reported to the stockholders. This book income is first reduced by the amount of Alaskan production and pipeline income, which are already 100 percent allocated to Alaska, so as to avoid taxing that income twice. The non-production, non-pipeline book income thus remaining is then apportioned to Alaska under a version of the traditional three-factor (property, payroll and sales) formula. The only departures from the traditional formula are, first, the numerators of the property and payroll factors do not include property or payroll for Alaskan production or pipeline operations, and second, those numerators do include property and payroll for operations conducted on the Outer Continental Shelf that are supported from onshore bases within Alaska.

As part of the political accomodations made to break loose the compromise income tax, the State's gross receipts tax (AS 43.70) was repealed. 53/ Before its repeal, the tax was a specified percentage of the gross receipts of a business, regardless of whether the business turned a profit or not. In this it was much the same as other states' sales and use taxes.

52/ Ch. 110, SLA 1978, codified in AS 43.21.

53/ Ch. 144, SLA 1978.

In the wake of the tax upheavals since 1968, what lies in store for Alaska? What future shocks may we expect? What will the effect of these recent actions be on continued oil and gas activity in Alaska? Obviously no one can predict with perfect assurance what the answers to these questions will be, but I do have some opinions to offer.

First, I believe that the wave of change has crested and that there will be no more major innovations in our tax laws for a while. There are several reasons for this view. For one thing, the almost continuous wrangling in the Legislature has left many members exhausted or fed up with oil and gas tax issues. They want and need a break. For another thing, one of the most sustaining pressures for the "new tax" movement has at last been addressed and, I believe, resolved: namely, the perceived inequality of treatment, under the old State income tax law, between multistate and Alaskan corporations Also, a number of the exponents of tax change are leaving the Legislature, at least temporarily, while others seem to have lost some influence among their peers. Another consideration is the emerging influence of Alaska's Native population, whose lands are even now being explored for their oil and gas potential. A major strike on Native land would give the industry an important political ally that is found in all other states but Alaska -- the private royalty owner. Weathly corporations based outside a state's borders are prime targets for increased taxation, but wealthy royalty owners in a legislator's own precinct tend to moderate his views about taxes. Finally, some respite from almost continuous change is required if further oil and gas developments are to occur in Alaska.

This last factor causes me far greater concern about industry's reaction to all this tax legislation than the actual level of the new taxes. In the decision to invest or not invest in an oil or gas development in Alaska, other factors generally have a far greater influence on the attractiveness of that development than does the tax rate. These other factors include how quickly the development can come on stream, how much it will cost to acquire the development, what the rate of production will be and what price the production can fetch. Each one of these is at least as important to the investment decision as the costs of operating the development, which is chiefly where tax rates would enter the picture. But an unstable tax structure requires the invester to include a factor for tax risk, and a prudent investor discounts the attractiveness of a prospect as tax instability, or risk, increases. Right now this risk must seem great to would-be investors in Alaska. What the oil industry regards as ordinary restraints on the level of taxation -- such as one's tax burden in comparison to that of other state's, or a state's current revenue requirements -- may seem to have been ignored or even deliberately rejected in recent years. To offset this impression and to ensure a future based on reasoned development, a reassuring period of tax stability appears to be in order.

STATE, FEDERAL AND INDUSTRY SHARES OF ALASKA OIL RESOURCE INCOME: FISCAL 1982-1985
(millions of dollars except as noted)

Fiscal year	[1] Total Revenue	[2] State Royalty	[3] Sever. Conser. tax	[4] Total Prop. tax	[5] Total Oper. Costs	[6] Total Deprec.	[7] Total Acquis. Costs	[8] Windfall Profits Tax
1982	$16,456	$1,553	$1,581	$276	$940	$602	$1	$2,018
1983	$15,470	$1,448	$1,494	$307	$1,101	$780	$1	$1,018
1984	$14,955	$1,409	$1,393	$358	$1,259	$998	$1	$412
1985	$15,136	$1,390	$1,389	$397	$1,449	$1,093	$1	$70

Fiscal Year	[9] Uncap. Interest Expense	[10] Explore. Costs	[11] Admin. Costs	[12] Other Deducs.	[13] Total Deducs.	[14] State Taxable Net Income	[15] Corp. Petrol Income Tax	[16] Federal Taxable Income
1982	$721	$191	$236	$149	$8,268	$8,188	$669	$7,519
1983	$676	$204	$252	$142	$7,423	$8,047	$236	$7,811
1984	$614	$219	$265	$136	$7,064	$7,891	$265	$7,626
1985	$566	$234	$278	$130	$6,997	$8,139	$169	$7,970

Fiscal Year	[17] Federal Corp. Income Tax	[18] Oil Industry Alaska Profits	[19] Total Federal Tax	[20] Total State Tax & Royalty	[21] ----Share of Oil Income---- State	[22] Federal	[23] Industry
1982	$2,098	$5,421	$4,116	$4,079	30%	30%	40%
1983	$2,140	$5,671	$3,158	$3,485	28%	26%	46%
1984	$2,242	$5,384	$2,654	$3,425	30%	23%	47%
1985	$2,343	$5,627	$2,413	$3,345	29%	21%	49%

SOURCES AND FORMULAS --

Column [1]: Vincent Wright, chief of research, to Mary Nordale, Commissioner of Revenue, Memorandum of October 31, 1985, Table 3.
Columns [2] & [3]: January 1986 DOR Revenue Sources, p. 39.
Columns [4] to [12]: Vincent Wright, loc. cit.
Column [13]: sum of columns [2] through [12]
Column [14]: column [1] - column [13]
Column [15]: Revenue Sources, p. 39.
Column [16]: column [14] - column [15].
Column [17]: column [16] * (production-weighted average tax rate -- 1982 = .279; 1983 = .274; 1984 = .294; 1985 = .294). Company effective rates for '82-84 from R. McIntire and R. Folen, "Corporate Income Taxes in the Reagan Years," Oct. 1984, pp. 32-36; '85 estimated by OMB.
Column [18]: column [16] - column [17].
Column [19]: column [8] + column [17].
Column [20]: sum of columns [2], [3], [4], and [15].
Column [21]: (column [18])/(sum of columns [18], [19], and [20]).
Column [22]: (column [19])/(sum of columns [18], [19], and [20]).
Column [23]: (column [20])/(sum of columns [18], [19], and [20]).

Office of Management and Budget
Division of Strategic Planning
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DRAFT COMPASS ARTICLE

OIL PROFITS

In the last month separate studies by the Governor's Office of Management and Budget and the legislature's House Research Agency have been released which claim to show how much money the oil companies, the state, and the federal government made from Alaska oil between 1982 and 1985. The two studies, summarized below, are surprising. Despite falling oil prices, the oil companies appear to have actually earned more in 1985 than they did in 1982. State revenues, on the other hand, took a nose dive.

Some months ago ARCO Alaska, Inc. began a co-ordinated radio, television and newspaper campaign disputing the AkPIRG study. ARCO's media effort particularly targets the assertion that the oil companies are now collecting 50 percent of the net income from Alaska oil production. According to ARCO, the reality is that the state and federal government are grabbing the lion's share of Alaska oil income, "leaving our industry with less than a third." And what about the claim that the oil industry's Alaska income has increased over the last several years? Nonsense, replies ARCO. "It doesn't take a masters degree in economics to realize that when the price of oil drops, the owners of oil are going to receive less income."

I guess I agree with ARCO on at least one point: These numbers are important. Alaska's taxes on the oil industry do need to be related to the profits being earned in Alaska. If the profits are as large as AkPIRG says, it strengthens the case for higher taxes; if profits are as small as ARCO claims, it weakens the argument. But the issue goes further than that: The AkPIRG findings--if valid-- raise real questions about the credibility of what ARCO and other oil companies have been telling us since1981.

So what about the AkPIRG work? Is it valid? ARCO Alaska president Harold Heinze says we should dismiss it as another product of AkPIRG's "anti-business, anti-development bias." Whatever biases AkPIRG may or may not hold, I cannot give the study quite so glib a dismissal. Most of the numbers used by AkPIRG appear to come directly from published Department of Revenue documents. The methodology they used to put those number together seems at least plausible. On the issue of how the companies could possibly increase their Alaska profits in the face of falling oil prices, the study makes the case that federal windfall profits taxes and changes in the state's corporate income tax have protected Alaska production profits from the effects of falling prices.

A study that is only "plausible," however, is not adequate. What we need is an unbiased analysis of oil profits attributable to Alaska production and pipeline operations, and we need it from a source of unquestioned credibility, someone beholden neither to oil company or state. How could we possibly achieve this? My suggestion is that the Alaska Board of Public Accountancy conduct such a study using a recognized expert on the accounting faculty of a major university. The legislature and ARCO should share the costs but otherwise keep hands-off.

I have put this proposal to ARCO officials. I hope they respond favorably.

Mary Ellen Frank

TABLE 1

PERCENTAGE SHARES OF AGGREGATE MONEY INCOME (1)

INCOME RANK (TENTHS OF TOTAL HOUSE-HOLDS)	TOTAL INCOME	WAGES & SALARIES	BUSINESS INCOME	-------PROPERTY INCOME------- TOTAL(2) PROPERTY INCOME	DIVIDENDS FROM PUBLICLY TRADED STOCK	INTEREST INCOME	PENSIONS AND ANNUITIES
LOWEST	1 %	0 %	-1 %	1 %	1 %	3 %	11 %
SECOND	3	1	1	3	1	6	19
THIRD	4	3	3	4	2	6	16
FOURTH	6	5	4	4	2	6	17
FIFTH	7	8	6	4	2	5	4
SIXTH	9	10	7	6	7	6	9
SEVENTH	11	13	7	4	3	6	5
EIGHTH	13	15	10	7	1	12	6
NINTH	16	18	13	12	14	12	4
HIGHEST	30	27	49	53	68	39	8

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(1) SOURCE: THE ECONOMIC OF PUBLIC FINANCE, BREAK ET AL, P 120.
(2) INCLUDES INTEREST INCOME, DIVEDENDS, RENTS, ROYALTIES AND INCOME FROM TRUSTS AND ESTATES.

TABLE 2

DISTRIBUTION OF U.S. HOUSEHOLD INCOME AND CONSUMPTION EXPEDITURES

FAMILY MONEY INCOME	MONEY INCOME	CONSUMPTION EXPENDITURE
UNDER $2000	2 %	4.6 %
$2000-2999	4 %	7.6 %
3000-3999	5 %	8.8 %
4000-4999	8 %	16.1 %
5000-7499	28 %	38.9 %
7500-9999	20 %	11.7 %
10,000 AND OVER	33 %	12.3 %
TOTAL	100 %	100.0 %

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SOURCE: THE ECONOMICS OF PUBLIC FINANCE, BREAK ET AL, P. 121.

TABLE 25 --TAX REVENUE BY MAJOR SOURCE, BY LEVEL AND TYPE OF GOVERNMENT, SELECTED YEARS 1957-1984

3. Percentage Distribution, By Type of Tax

Fiscal Year	Total Taxes	Property Taxes	Sales, Gross Receipts & Customs	Ind. & Corp. Income Taxes	All Other Taxes
		Federal, State and Local Governments			
1957	100.0%	13.0%	20.9%	60.4%	5.7%
1967	100.0	14.8	20.6	58.8	5.8
1972	100.0	16.3	21.9	55.6	6.2
1977	100.0	14.9	20.0	59.6	5.6
1979	100.0	12.4	19.3	63.4	5.0
1981	100.0	11.5	20.7	62.6	5.2
1982	100.0	12.2	20.7	61.5	5.5
1983	100.0	13.4	21.7	59.4	5.5
1984 est.	100.0	13.3	22.0	59.2	5.4
		Federal Government			
1957	100.0	0.0	15.9	81.3	2.7
1967	100.0	0.0	13.7	83.0	3.3
1972	100.0	0.0	13.1	82.5	4.4
1977	100.0	0.0	9.5	86.8	3.7
1979	100.0	0.0	8.4	88.9	2.7
1981	100.0	0.0	12.0	85.5	2.5
1982	100.0	0.0	11.3	85.7	3.0
1983	100.0	0.0	11.7	85.5	2.8
1984 est.	100.0	0.0	11.8	85.3	2.9
		State and Local Governments			
1957	100.0	44.6	32.9	9.5	13.0
1967	100.0	42.7	33.7	13.2	10.4
1972	100.0	39.1	34.2	17.9	8.7
1977	100.0	35.5	34.5	21.8	8.2
1979	100.0	31.6	36.1	23.9	8.4
1981	100.0	30.7	35.2	24.8	9.3
1982	100.0	30.8	35.2	24.7	9.4
1983	100.0	31.4	35.2	24.4	9.0
1984 est.	100.0	30.5	35.2	25.5	8.7
		State Governments			
1957	100.0	3.3	58.1	17.5	21.1
1967	100.0	2.7	58.2	22.4	16.8
1972	100.0	2.1	55.5	29.1	13.3
1977	100.0	2.2	51.8	34.3	11.7
1979	100.0	2.0	51.0	35.8	11.2
1981	100.0	2.0	48.6	36.8	12.6
1982	100.0	1.9	48.4	36.7	12.9
1983	100.0	1.9	48.9	36.7	12.4
1984 est.	100.0	2.5	48.2	38.1	11.2
		Local Governments			
1957	100.0	86.7	7.2	1.3	4.8
1967	100.0	86.6	6.7	3.2	3.5
1972	100.0	83.7	8.6	4.5	3.3
1977	100.0	80.5	11.1	5.0	3.4
1979	100.0	77.5	13.1	5.3	4.0
1981	100.0	76.0	13.9	5.8	4.3
1982	100.0	76.0	14.3	5.9	3.9
1983	100.0	76.0	14.5	5.7	3.9
1984 est.	100.0	75.0	14.5	5.6	4.8

(continued on next page)

TABLE 3 -TAX REVENUE BY MAJOR SOURCE, BY LEVEL AND TYPE OF GOVERNMENT, SELECTED YEARS 1957-1984
(continued)

3. Percentage Distribution, By Type of Tax

Fiscal Year	Total Taxes	Property Taxes	Sales, Gross Receipts & Customs	Income Taxes	All Other Taxes
			Cities		
1957	100.0%	72.7%	15.8%	3.1%	8.4%
1967	100.0	70.0	15.7	7.8	6.6
1972	100.0	64.3	18.8	11.1	5.9
1977	100.0	60.0	22.3	11.9	5.9
1979	100.0	55.8	25.4	12.2	6.6
1981	100.0	53.6	26.3	13.3	6.8
1982	100.0	52.6	27.5	13.4	6.5
1983	100.0	52.3	27.9	13.1	6.7
1984 est.	not available				
			Counties		
1957	100.0	93.7	2.8	0.0	3.6
1967	100.0	92.1	4.5	0.3	3.1
1972	100.0	85.6	8.9	1.9	3.6
1977	100.0	81.2	12.4	2.4	3.9
1979	100.0	77.1	15.3	3.0	4.6
1981	100.0	76.4	16.5	2.9	4.2
1982	100.0	77.3	16.0	2.9	3.9
1983	100.0	77.8	15.6	2.8	3.8
1984 est.	not available				
			School Districts		
1957	100.0	98.6	0.1	0.2	1.2
1967	100.0	98.4	0.2	0.7	0.8
1972	100.0	98.1	0.4	0.7	0.9
1977	100.0	97.5	0.9	0.7	1.0
1979	100.0	96.7	1.2	0.8	1.3
1981	100.0	96.1	1.2	0.9	1.8
1982	100.0	96.8	1.2	1.0	1.0
1983	100.0	96.9	1.1	0.8	1.2
1984 est.	not available				
			Townships		
1957	100.0	93.6	2.1	0.4	3.9
1967	100.0	92.8	2.3	0.6	4.4
1972	100.0	93.5	2.2	0.9	3.4
1977	100.0	91.7	3.4	1.8	3.1
1979	100.0	90.7	3.8	1.8	3.7
1981	100.0	94.1	0.2	2.4	3.3
1982	100.0	93.7	0.2	2.5	3.6
1983	100.0	94.0	0.1	2.5	3.4
1984 est.	not available				
			Special Districts		
1957	100.0	100.0	0.0	0.0	0.0
1967	100.0	100.0	0.0	0.0	0.0
1972	100.0	94.9	5.1	0.0	0.0
1977	100.0	91.2	7.6	0.0	1.1
1979	100.0	89.6	9.3	0.0	1.1
1981	100.0	80.4	17.8	0.0	1.8
1982	100.0	78.9	19.4	0.0	1.7
1983	100.0	74.0	24.0	0.0	2.0
1984 est.	not available				

est.--estimated

Source: ACIR staff computations based on U.S Bureau of the Census, Governmental Finances in [year]. See preceding tables.

Table 4

A Comparison of Selected State Taxes

	Individual(1) Income Taxes	Corporation(1) Income Taxes (Max. Rates)	General Sales(1) and Use Taxes	Motor Fuel(1) Taxes (Gasoline)	Cigarette(1) Taxes (Cents/20 Pk)	Alcoholic (2) Bev. Taxes (Distilled Spirits/Gal.
Alaska	No Tax	9.4% Max	No Tax	8.0%	16.0¢	$5.60
Alabama	X	5.0	X	13.0	16.5	C.B.
Arizona	X	10.5	X	13.0	15.0	3.00
Arkansas	X	6.0	X	9.5	21.0	2.50
California	X	9.6	X	9.0	10.0	2.00
Colorado	X	5.0	X	12.0	15.0	2.28
Connecticut	X	11.5	X	15.0	26.0	3.00
Delaware	X	8.7	No Tax	11.0	14.0	2.25
District of Columbia	X	9.9	X	15.5	13.0	1.50
Florida	No Tax	5.0	X	9.7	21.0	6.50
Georgia	X	6.0	X	7.5	12.0	3.79
Hawaii	X	6.435	X	8.5	24.0	(3)
Idaho	X	7.7	X	14.5	9.1	C.B.
Illinois	X	4.0	X	12.0	12.0	2.00
Indiana	X	3.0	X	11.1	10.5	2.68
Iowa	X	12.0	X	13.0	18.0	C.B.
Kansas	X	6.75	X	11.0	16.0	2.50
Kentucky	X	6.0	X	10.0	3.0	1.92
Louisiana	X	8.0	X	16.0	16.0	2.50
Maine	X	8.93	X	14.0	20.0	C.B.
Maryland	X	7.0	X	13.5	13.0	1.50
Massachusetts	X	8.33	X	11.0	26.0	4.05
Michigan	X	2.35	X	15.0	21.0	C.B.
Minnesota	X	12.0	X	17.0	18.0	4.39
Mississippi	X	5.0	X	9.0	11.0	2.50
Missouri	X	5.0	X	7.0	13.0	2.00

A Comparison of Selected State Taxes

	Individual[1] Income Taxes	Corporation[1] Income Taxes (Max. Rates)	General Sales[1] and Use Taxes	Motor Fuel[1] Taxes (Gasoline)	Cigarette[1] Taxes (Cents/20 Pk)	Alcoholic[2] Bev. Taxes (Distilled Spirits/Gal.)
Montana	X	6.75	No Tax	15.0	16.0	C.B.
Nebraska	X	6.65	X	14.7	18.0	2.75
Nevada	No Tax	No Tax	X	12.0	15.0	2.05
New Hampshire	X	8.0	No Tax	14.0	17.0	C.B.
New Jersey	X	9.0	X	8.0	25.0	2.80
New Mexico	X	7.2	X	11.0	12.0	3.94
New York	X	10.0	X	8.0	21.0	4.09
North Carolina	X	6.0	X	12.25	2.0	C.B.
North Dakota	X	10.5	X	13.0	18.0	4.05
Ohio	X	9.2	X	12.0	14.0	C.B.
Oklahoma	X	4.0	X	9.0	18.0	5.00
Oregon	X	7.5	No Tax	9.0	19.0	C.B.
Pennsylvania	X	9.5	X	12.0	18.0	C.B.
Rhode Island	X	8.0	X	13.0	23.0	2.50
South Carolina	X	6.0	X	13.0	7.0	4.91
South Dakota	No Tax	No Tax	X	13.0	15.0	3.80
Tennessee	X	6.0	X	10.0	13.0	4.00
Texas	No Tax	No Tax	X	10.0	19.5	2.40
Utah	X	5.0	X	14.0	12.0	C.B.
Vermont	X	9.0	X	13.0	17.0	C.B.
Virginia	X	6.0	X	13.72	2.5	C.B.
Washington	No Tax	No Tax	X	18.0	23.0	C.B.
West Virginia	X	7.0	X	15.35	17.0	C.B.
Wisconsin	X	7.9	X	16.0	25.0	3.25
Wyoming	No Tax	No Tax	X	8.0	8.0	C.B.

(1) Significant Features of Fiscal Federalism, Advisory Commission on Intergovernmental Relations (ACIR), March 1985.

(2) A Comparison of Selected Tax Rates, Government of the District of Columbia, June 1984.

(3) Rate is 20% of wholesale price.

C.B. Control Board State

TABLE 5 --PERCENTAGE DISTRIBUTION OF STATE-LOCAL GENERAL REVENUE BY SOURCE, BY STATE AND REGION, 1983

	PERCENTAGE DISTRIBUTION BY SOURCE								EXHIBIT:	
	Federal Aid	Property Taxes	General Sales Tax	Indiv. Income Taxes	Corp. Income Taxes	Other Taxes	Interest Earnings	Charges & Misc.	Per Capita General Revenue	As a % of State Personal Income
U.S. Average	18.5%	18.3%	13.3%	11.3%	2.9%	12.5%	5.4%	17.7%	$2,081	18.9%
New England										
Connecticut	15.5	29.0	16.6	2.7	5.4	13.8	5.2	11.8	2,126	15.4
Maine	23.3	22.7	13.0	11.4	1.6	11.2	3.7	13.2	1,808	20.2
Massachusetts	21.9	22.9	8.0	18.8	5.0	7.7	3.4	12.4	2,285	18.9
New Hampshire	20.0	36.5	0.0	1.1	4.7	15.2	4.9	17.7	1,654	15.5
Rhode Island	21.4	23.2	9.6	11.8	1.9	9.4	7.5	15.2	2,319	21.5
Vermont	25.5	21.9	6.2	10.5	2.3	14.2	4.6	14.8	2,066	22.1
Mideast										
Delaware	18.3	7.7	0.0	22.1	2.0	20.5	7.4	22.0	2,433	20.9
Washington D.C.	42.2	13.6	10.1	13.1	3.2	9.3	1.5	7.1	4,335	29.4
Maryland	18.3	15.6	8.9	22.0	1.5	11.6	4.2	18.0	2,267	18.7
New Jersey	15.1	28.4	10.0	8.6	4.0	14.2	3.2	16.4	2,233	17.1
New York	18.0	20.8	12.4	18.6	4.6	8.2	4.5	12.8	2,920	23.7
Pennsylvania	20.7	16.3	10.3	14.3	3.6	16.2	4.0	14.5	1,924	17.6
Great Lakes										
Illinois	19.2	23.8	14.5	9.5	2.6	12.1	5.1	13.2	2,008	16.7
Indiana	18.2	19.2	17.0	9.8	1.6	7.9	3.7	22.7	1,635	16.3
Michigan	19.1	24.2	9.2	13.3	4.7	6.7	3.8	19.0	2,354	21.4
Ohio	16.9	19.4	11.3	15.2	2.1	12.1	3.4	19.6	1,832	17.1
Wisconsin	17.8	23.2	11.0	15.8	3.1	8.5	3.7	17.0	2,316	21.4
Plains										
Iowa	16.7	23.8	10.0	12.6	2.4	10.6	2.8	21.1	1,973	18.3
Kansas	16.0	22.3	11.3	10.9	2.9	9.0	6.2	21.4	2,001	17.1
Minnesota	16.6	16.1	9.3	18.5	2.4	10.9	6.8	19.4	2,573	23.1
Missouri	19.6	15.4	16.9	12.9	1.5	12.2	4.9	16.7	1,582	15.6
Nebraska	16.2	22.9	12.3	8.5	1.6	10.0	6.8	21.8	2,075	19.6
North Dakota	19.7	13.7	9.3	2.2	1.9	20.3	6.7	26.2	2,318	21.6
South Dakota	24.7	20.8	15.3	0.0	0.2	12.5	10.7	15.8	1,873	19.6
Southeast										
Alabama	21.5	6.0	14.1	9.0	2.0	17.2	5.0	25.1	1,666	19.3
Arkansas	24.2	10.9	13.6	11.2	2.5	13.6	4.9	19.0	1,484	17.8
Florida	15.5	19.8	18.6	0.0	2.1	17.2	6.4	20.3	1,675	15.6
Georgia	21.9	13.8	13.3	12.1	2.2	9.0	4.5	23.3	1,933	20.5
Kentucky	23.6	10.2	12.0	14.6	3.0	16.8	5.7	14.1	1,568	17.8
Louisiana	18.4	7.2	18.7	2.5	3.5	19.3	7.1	23.2	2,050	20.4
Mississippi	23.9	10.3	18.4	4.9	1.7	12.8	2.8	25.3	1,601	20.9
North Carolina	21.0	13.4	11.0	16.0	3.2	13.7	4.1	17.9	1,596	17.8
South Carolina	20.0	13.4	13.2	13.7	2.4	11.9	6.7	18.7	1,608	19.3
Tennessee	23.0	13.1	21.0	0.7	2.8	13.5	4.9	21.0	1,576	17.8
Virginia	16.9	18.1	9.8	15.6	1.8	15.8	4.9	17.2	1,790	16.3
West Virginia	21.8	10.3	21.7	9.1	1.3	13.2	5.4	17.1	1,745	20.1
Southwest										
Arizona	13.3	16.6	18.5	8.5	2.8	9.5	6.5	24.2	1,900	19.3
New Mexico	23.4	5.4	14.5	0.4	1.7	17.2	13.5	23.8	2,647	29.6
Oklahoma	17.6	10.2	13.1	10.7	1.7	25.0	5.0	16.8	1,853	16.9
Texas	14.7	21.4	14.5	0.0	0.0	22.2	6.3	20.8	1,775	16.0
Rocky Mountain										
Colorado	15.5	19.7	17.3	10.1	0.9	8.3	6.7	21.6	2,075	17.4
Idaho	21.7	14.6	10.2	13.8	1.9	12.9	6.3	18.4	1,634	18.5
Montana	19.0	23.2	0.0	7.7	1.8	16.2	10.1	21.9	2,409	25.6
Utah	19.9	14.6	15.4	11.1	1.0	7.9	11.8	18.3	1,927	22.6
Wyoming	17.0	21.8	9.7	0.0	0.0	21.4	9.2	21.0	4,620	38.3
Far West										
California	18.9	15.3	16.9	13.4	4.5	8.9	5.4	16.6	2,263	18.3
Nevada	14.9	10.6	18.7	0.0	0.0	25.6	7.8	22.5	2,214	18.7
Oregon	19.0	22.0	0.0	19.3	2.0	10.0	10.8	16.8	2,299	22.4
Washington	17.9	16.9	27.6	0.0	0.0	13.6	6.2	17.8	2,249	19.7
Alaska	8.0	7.1	0.7	0.0	4.7	28.8	22.4	28.2	11,871 1/	79.9
Hawaii	19.7	11.1	24.4	14.1	0.9	9.9	6.1	13.8	2,412	21.3

Note: For distribution of state only general revenue, local only general revenue and local government general revenue by type of local government, see the state profiles section of this publication.

1/ Because much of Alaska's revenue is derived from the taxation of oil production and the income of oil companies, per capita general revenue as well as general revenue expressed as a percentage of personal income overstates the actual tax burden borne by the residents of Alaska.

Source: ACIR staff computations on data tape supplied by the U.S. Bureau of the Census, FY 1983.

U.S. Advisory Commission on Intergovernmental Relations

HISTORICAL REVIEW OF ALASKA PETROLEUM TAXES

-- 1955 - 1978 --

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- - - REPORT CONTENTS - - -

AGO 529001

The decade 1967 to 1978 was one of intense conflict between Alaska state policymakers and the petroleum industry. It was a period of great policy instability and change. The intensity of the issue at times took on more the complexion of policy "warfare," with the state and its petroleum partners quarreling severely over the division of their respective partnership profit shares. The warfare of the period saw both sides make generous use of whatever political weapons they could as they bid to win the public's support to their side.

The period 1967 to 1968 began with a modest petroleum tax burden of one percent. Policy was based on the moderate economic realities of Cook Inlet production. The mid-1960s climate was one of stable federal policy and generally stable market conditions. In 1967 Alaska was ten years into the period of oil development following the Swanson River discovery on the Kenai Penninsula. But while expectations were high, the fact of finding oil amidst the much promoted "good prospects" of Alaska was proving long hard work. The disappointments were many, ranging from dry wells on the Alaska Penninsula, to similar experience in Bristol Bay, in the Kuskokwim, the middle-Yukon, and on the North Slope.

However, in 1968 the discovery of North America's largest oil field at Prudhoe Bay was to put a new mark on the momentum of Alaska tax policy, and escalate the tax war between state and industry to a high pitch.

By mid-1969 the "world class" dimension of the Prudhoe Bay discovery was well established. A few months later the $900-million in bonus monies paid the state for the few remaining unsold tracts at Prudhoe Bay would further underscore the dimension of Prudhoe Bay in the public sector. The net result was that Alaska oil tax policy would suddenly be geared to the largest oil field in North America, and not the mid-range economics of what might be the norm over the long haul.

A second key factor was also to impact the intensity of the warfare between state and oil industry. This factor was "time." Under the usual conditions of the 1950s and 1960s, the time-frame to bring Prudhoe Bay into production was naturally expected to be much shorter. The resulting extended time-frame served also to prolong the period of tax controversy through many years, at least five seperate legsislatures, a steady string of enactments, until the final point at which some sembalance of final policy might be expected --when Prudhoe Bay oil actually began to flow to market.

CURRENT STABILITY -

Persons of different viewpoints will disagree as to whether stability has been achieved, what stability is, or what either party has a right to expect in each being responsible to their interests. However, most parties would now agree that Alaska has succeeded in securing for itself a tax interest in petroleum above the level of other states.

ROYALTY AND TAXES

The State of Alaska has had two predominant revenue relationships with its petroleum resource. As a government the state has the inherent right to levy and collect taxes on its resources. However, as a public lands state, Alaska also has the dual benefit of also being owner of the resource. The latter role as owner allows the state to sell or lease the resource, and in so doing establish whatever sale or lease terms the prospective bidder is willing to pay at the time of contract.

The state can adjust its share of the resource by either increasing general taxes on the resource, or by adjusting the lease terms. However, the problem with adjusting lease terms is that adjustments to such contracts can only be made for new leases. One of the issues of early tax battles in Alaska was the challenge that the state was really abridging the royalty provisions of oil leases by tax increases. The thrust of such argument was that the dual owner/taxor role gave the state an unfair advantage to redress unhappiness over lease terms with tax hikes. It is true that in most states, with some exception in regard to offshore lands of coastal states, that the "usual owner" is in the private sector, with government being confined as the taxing body. The state's dual role in Alaska is certainly the more unusual, and likely does offer some special advantage as well as alternative policy opportunity to the state. As the state entered its decade of policy change the opportunity was present to approach revenue issues through taxation, leasing, or some combination of both approaches.

The pathway into the escalating tax battles of the 1970s was perhaps selected by historical circumstance. The shere magnitude of the Prudhoe Bay discovery, together with the fact that the leases were already set in terms, left Alaska policymakers no other course but to pursue taxation as the only course to ascertain what they perceived as "the state's fair share." While the tax battle started well prior to Prudhoe Bay, the escalated fight that Prudhoe Bay destined to follow has perhaps set aside and overshadowed leasing issues for a decade.

Both tax and leasing approaches pose special problems. Taxes with their requirements of equitable assessment in time may prove economically inflexible and burdensome when applied to marginal fields, while leasing terms must be fixed in the face of unknown future economics, but with some hope of flexibility or even perhaps negotiability in marginal circumstances.

In any event Alaska's first oil well at Katalla in 1905 produced no direct revenue from production. It tapped the oil seeps of the Cordova region in terms of just a few barrels a day to serve the needs of the Copper River and Northwestern Railroad. Today, after almost a decade of policy geared to North America's largest oil field, the state has an expectation as high as $15-billion from Prudhoe Bay. Tomarrow the state may have to adjust policy to meet a variety of economic circumstances of oil development, ranging from the prolific to the marginal. A brief review of Alaska petroleum tax history may lend some perspective to the future deliberations.

THE BEGINNINGS OF POLICY: 1955

Alaska forged its first revenue, leasing, and oil conservation policy in the mid-1950s, and at the time there was no petroleum production in the state, few acres under lease, and only beginning exploration.

Reportedly, in 1952 outgoing Territorial Ernest Gruening made the suggestion to Commissioner of the Department of Mines Phil Holdsworth that he should attend the 33-member Interstate Oil Compact of the states. Hence, following on those suggestings the growing interests of the Commissioner of Mines coincided with the interests of a far-seeing lady geologist serving in the State House, Rep. Irene Ryan of Anchorage. The year was 1955, two years before the Swanson River discovery on the Kenai, and while those enactments passed without the outcrys of public controversy that followed future tax enactments, Commissioner Holdsworth and Rep. Ryan did have their share of trouble convincing colleages that they should set policy to tax and regulate a yet non-existant industry and to lease yet non-existant public lands.

However, the prospects of oil development were not unknown at the time. Federal leases were active on the Kenai, exploration though small was underway in that area, and expectation was high. Additionally, federal exploration and drilling had been underway in Navy Pet-4 until 1953.

House Bill No. 75 in 1955 was submitted by the Commissioner of Mines, and proposed basic legislation for regulating and taxing petroleum development in the Territory.

1st enactment

The legislation created an Alaska Oil and Gas Conservation Commission, attached to the Department of Mines, with the commission made up of the Governor, Commissioner of Highways, and the Commissioner of Mines. The legislation was largely seen as conservation management legislation, but did **set a one percent tax on oil and gas production.** The bill passed the House on the 29th day without a dissenting vote, and only 15-days later passed the Senate without a dissenting vote to become Chapter 41 of 1955.

Two days after the conservation measure passed, Rep. Ryan brought HB-216 to the House floor, providing for the leasing of Alaska's tide and shorelands. The legislation was clearly a "future looking" piece of law, since Alaska as a Territory essentially had no such lands. The effective date clause of the bill read: "This Act shall become effective at such times as the Congress . . . . conveys the tidelands and shorelands, in fee simple or otherwise, to Alaska." The bill passed the House with a unanimous vote, and 11 days later drew only one dissenting vote in the Senate after an argument about grammer in the effective date clause.

During the same time-frame in 1955 the Legislature was hammering out the drive statehood, and while the two enactments were not perceived as revenue measures, the high hopes for oil prodded by increasing exploration did relate to the controversial issue of whether an isolated and marginally populated state might be able to pay its "own way." The same expectations of oil as a hopeful financial prop was to be written into the Statehood Act in the generous terms of granting Alaska a 90% share of revenue from federal mineral resources.

Legislative events moved slowly after the 1955 enactments. It was over two years before the Department of Mines adopted regulations, and it was over two years before Atlantic Richfield was to discover oil at Swanson River on the Kenai Penninsula on July 19, 1957.

The Swanson River discovery caused great excitment and interest in Alaska oil potential. Federal acerage under lease jumped within months from 6.5-million acres to over 19-million acres. However, other future discoveries were to await statehood, the early leasing of offshore lands in Cook Inlet, and meaningful revenue flow was to await development of the Swanson River Field and the beginning of oil flow and the flow of the generous 90% of federal 12.5% royalty into the state treasury.

STATEHOOD AND ROYALTIES

Statehood brought fast action to offer for sale prime state lands offshore in Cook Inlet. The lands brought prospect of bonus bids to a young state nervous about its financial future, but additionally the state (and not the federal government) happened to have the lands of primary oil industry interest in the Inlet.

Additionally, tax issues were overshadowed by the state's unique ability as a public land state to command a sizable royalty share (12.5%), and further to command an almost equal share of royalties from federal oil lands. Initially most royalty revenue flow came from federal lands in the Swanson River Field.

If the state had not received a share of federal oil revenues, or even only a minimal share, the state might have been pushed in those early days to consider severance taxes as a means of capturing a share of resource value for the state from federal lands. Additionally, if the state had had private holders, who captured the royalty instead of the state, which of course is the usual pattern in private land states, the state might have again been pushed towards an early tax policy. As it was in the early 1960s the royalty income seemed generous, and indeed the debate was on the imbalance oil revenues caused the young state's budget, especially in terms of the Cook Inlet bonus payments of the early years. The debate and concern was not much unlike today.

BEGINNING OIL FLOW IN THE 1960s

Beginning oil flow began the flow of oil dollars to the state treasury. Swanson River produced only 35,754 barrels of oil in 1958 from two wells. In 1959 five wells produced 186,590 barrels, and even by 1960 18-wells only produced 557,999 barrels. Despite 1957 production the Swanson River Field did not produce significant production until 1961, when 6.3-million barrels were produced for a value of $17.8-million. The Swanson River Field then ran a production of from 10-million to 13-million barrels annually throughout the 1960s.

Oil money to the state treasury in 1959 came from an early state lease sale in Cook Inlet on Dec. 10, 1959, yielding $4,020,342, and a $4.2-million federal payment to the state as a share of federal land rents.

The 1959 total of $8.2-million seems small by today's standards, but in 1959 that represented a sizable share of the state's $31-million budget. In 1960 the revenue yield came mostly in a $2.6-million federal payment as a share of land rents, but in 1961 Cook Inlet lease sales produced $22.4-million. Total federal payments and state monies totaled $26-million in 1961. However, Swanson River was not yet fully onstream, and a one percent severance tax on production of a total production value of $17.8-million in 1961 appeared insignificant. In 1961 all attention was on the bonus system and royalties as revenue producers.

Indeed, public attention and controversy was beginning to focus on the worry that the young state's budget would become over-dependent on a succession of one-shot oil bonus sales. In 1962 the state received $15.7-million in bonus payments, added $4.6-million as a share of federal rent payments, and beginning royalty flow from Swanson River produced the state a $2.4-million share for a total $23.8-million. In 1963 state oil and gas revenue fell off due to only $7-million in bonus sales, but the federal payments reached over $8-million due to increasing Swanson River production, and the state nevertheless earned a total of almost $17-million.

The years 1964 and 1965 saw only minimal return from bonus sales, but Swanson River had approached a stable production of about 13-million barrels, and by 1965 Middle Ground Shoal in Cook Inlet was approaching production, to be joined by the McArthur River, Trading Bay, and Granite Point Fields in the Inlet by 1967. Beginning state production and the deminishing emphasis on bonus income appeared to set the stage for a rising interest in produc[illegible]on tax issues beginning in late 1965.

CLIMATE OF THE MID-1960s

A number of different forces began to come together in the mid-1960s to shift attention to oil tax issues. By 1961 the state had assumed most of its state powers from the federal government, and the state budget was beginning to grow at sizable percentage increments. The transition budget of $26.9-million for 1961 jumped to $55.7-million for fiscal 1962, went to $69.4 million for 1963, and to $79-million for fiscal 1964. At the same time the prospect for fueling the state budget with continued bonus sales began to dim as so-called "oil alley" in Cook Inlet approached the potential of being fully leased. As a result budget constraint efforts cut the budget to $75.3-million for 1965 and held the fiscal 1966 increase to $86.1-million. However, the budget constraints, stable production from Swanson River, and production beginning from Cook Inlet in 1965-1966 appear to have created the environment for the birth of tax issues in 1965-1966. Additionally, the state's one percent severance tax was "in lieu" of other forms of taxation of production and production facilities. Hence, the Kenai area suffering under an economic boom was beginning to become uneasy under constraints to even levy property taxes on the facilities that were generating the burdens of government. The result was the stirring of ideas to either allow taxation of oil related facilities, or to at least refund a portion of oil taxes to local governments where production took place as a replacement for the denied taxation.

However, clearly into the mid-1960s oil was the goose that was laying the golden egg, and it was not the most politically popular thing to do to suggest doing anything to inhibit the laying habits of the goose.

Oil and gas legislation between 1959 and 1965 focused mainly on minor amendments to the state's oil and gas conservation and leasing laws. The only suggestion of taxation was a resolution in 1963, HCR-42, introduced by the House Rules Committee by request, which suggested that the Legislative Council might prepare a memorandum detailing only "problems" with oil and gas taxation and production. The measure died an unnoticed death in the House Rules Committee.

OIL TAX ISSUES 1965-66

Oil tax issues began to perculate mid-way through the 1965 session. State Rep. Norbert Skinner, who represented the Yukon Valley, carried a House concurrent resolution around and picked up 30-cosponsors for a study of oil taxation in Alaska. HCR-18 was to get some tough treatment in the House despite its impressive aray of sponsors, but it is likely the battles that followed broke the ice on oil tax issues and turned loose a number of legislative proposals in the 1966 session. Several weeks after HCR-18 was introduced the first tax bill hit the hopper as HB-247, increasing the severance tax from one percent to three percent. It was submitted by the Rules Committee bill "by request."

HCR-18 emerged on the House floor in the final days of the 1965 session. The Finance Committee substituted a "general tax study" for the oil study. However, the resulting floor fight on the floor saw the Finance substitute fail 17 to 21. Next an amendment to study timber taxation was tacked on to the measure. But the fight had just begun and finance committees didn't generally lose in t ose days.

The next day under reconsideration the oil tax study lost, with the issue being turned back to a comprehensive tax study as proposed by the House Finance Committee. The battle over HCR-18 was insignificant, but while the oil tax advocates lost the battle, the oil tax issue was out of the closet and the war was on. In 1965 the study lost but the issue didn't.

In 1966 over seven tax related measures hit the legislative hopper. The legislation split between proposals to simply increase taxation, and proposals to resolve the problem of denying local governments the right to tax oil related facilities. Sen. Kilcher, who represented the Kenai offered seperate bills, one increasing taxation and removing ad valorem tax prohibitions, and a second seeking a 25% rebate to local governments from oil and gas taxes. Representative Skinner introduced HB-416, calling for an eight percent tax, and other bills went in under the sponsorship of the Rules or Local Government Committees. Rep. Skinner so harrassed his colleages in 1966, suggesting that he would renew a motion daily to pull his stalled bill out of committee, that the House finally did pull the bill out of committee and indefinitly postponed it. The action was unprecedented, and again while the battles were being lost the issue was picking up interest. A second unusual offering in 1966 was HR-3, requesting consideration of a constitutional amendment prohibiting changes in laws on oil and gas taxation. The thurst of the suggestion was aimed at the argument that the state was seeking to use its general law and tax powers to abridge its royalty contracts. Oddly, the measure was not in the form of a constitutional resolution, but rather was a simple House resolution.

However, in the final days of 1966 a tax measure did pass one of the two Houses of the Alaska Legislature. On April 15th, just two days prior to adjournment, the Senate passed SB-318, sponsored by the Local Government Committee, after amending the measure from a total of 2.75% to two percent (a one percent increase). SB-318 came out of Senate Finance with three "do pass" recommendations, and two members (including the chairman) recommending "do not pass" with the notation: " . . . should encourage industrial growth of state." The bill had a fight every step of the way, with floor votes on amendments, advancement, and even the effective date clause. In the end it passed by a 13 to 7 margin into oblivion in the "ready-to-adjourn" State House.

OIL TAX ISSUES 1967-'68

The 1967 and 1968 sessions of the legislature were to see a dozen or more oil measures introduced, and two seperate tax increases pass into law.

HB-214 was introduced in the House recognizing both the issue of increasing severance taxes, and secondly the issue of refunding revenue to local government. However, the primary tax battle of 1967 was in the State Senate under the sponsorship of Senate President John Butrovich. Butrovich introduced SB-168 calling for a 4% severance tax. The bill came to the Senate floor with no assurance of passage. Opponents cut the bill back to a 2.5% tax rate from four percent, but the bill died on the Senate Floor in a seven to 13 vote.

Under reconsideration advocates of the tax bill sought to salvage the situation by agreeing to a further amendment to postpone the effective date one year. The bill still died in a 10 to 10 split vote. However, the battles of 1967 paved the way for enactment of a special one percent increase in the 1967 Special Flood Disaster Session, and for Butrovich to renew his efforts successfully in the 1968 session.

The Fairbanks Flood of August, 1967 brought the legislature into special session in September, 1967. One of the revenue measures to fund disaster legislation was a special one percent increase in the state's oil severance tax rate to a total of two percent. Under the motherhood of "disaster" the measure was unopposable.

The 1968 regular session brought a flury of oil tax bills into both the House and Senate. Additionally, other oil issues were beginning to emerge, such as pollution control, gas flaring, and leasing. And oil severance tax bills focused both on the issue of a tax increase and on the revenue needs of local government. SB-405 proposed to allow local government to tax oil facilities, SCR-3 was aimed at the industry on Cook Inlet pollution issues, SB-408 would have placed a 20% special tax on royalty income, HB-683 placed penalties and prohibitions on gas flaring, and HB-712 would have allowed the option of royalty bidding.

However, SB-399 was the successful oil tax bill of 1968. The bill had the sponsorship of Senate Preisdent John Butrovich seven other Senators.

SB-399 increased the severance tax from one percent to three percent, but on top of the state's 1967 disaster tax, the total tax would become a combined 4 percent on oil production. The billed passed the Senate after efforts to amend by a 14 to 6 vote. In the House the bill did not draw any "rave" recommendations, coming out of House Finance Committee with three "do not pass" recommendations, three "no" recommendations, and only one "do pass." The bill survived attempts to amend by exempting oil processed by Alaska utilities, and to exempt the northern leasing district (the North Slope). Ultimately SB-399 passed the House 32-8, and the legislature had set major oil tax policy for the first time since actual oil discovery (and for the first time since 1955).

2nd time

A TAX GEARED TO COOK INLET

The four percent tax enacted in 1968 was clearly geared to Cook Inlet. The tax would increase by 300% the yield from the annual production of about 13-million barrels from Swanson River, but the tax hike caught Cook Inlet right at the beginning of major oil production. The McArthur River Field would jump from almost nothing in 1967 to 22-million barrels in 1968, Middle Ground Shoal would produce 14-million barrels, Trading Bay would produce 3-million barrels, and Granite Point 13-million barrels. Total state production jumped from 14.3-million (1966) to 28-million (1967), and then took an even bigger jump to 66-million (1968).

The state was right on the crest of the production wave. The state's revenue policy had shifted away from royalty to production taxes.

The new taxes riding on the increasing production of Cook Inlet jumped severance taxes in the first year from $1.9-million to $5.6-million, and then to $7.9-million and $10.4-million in the next two years. Royalty income still represented the lions share of the state's petroleum revenue. However, in the late 1960s another key revenue shift was taking place. Up until 1968 the preponderance of state petroleum revenue came from the federal royalties of which the federal government provided a 90% share to the state. Beginning in 1968 state royalty earnings from state lands surpassed federal earnings and with increasing Cook Inlet production by 1969 doubled the federal royalty contribution. In 1969, when lawmakers were planning the 1970 state budget, they were looking at severance tax income of approximately $8-million, federal reciepts of approximately $8-million, and royalty income from state lands of almost $19-million.

However, the new sources of non-bonus income also fueled increases in state spending in the late 1960s. Concerned about dependence on bonus payments lawmakers had held the budget between $70-million and $93-million in fiscal 1963, 1964, 1965, and 1967. In 1967 lawmakers drafted the 1968 budget which broke the $100-Million Mark ($103-million), but bolstered by rising royalty and oil tax revenue the budget jumped to $124-million in general fund outlay for fiscal 1969, and in the year prior to the Prudhoe Bay discovery jumped from $124-million to $154-million (a 30% increase in two years). In 1970 in the wake of the $900-million lease sale held in late 1969 for unleased tracts at Prudhoe Bay, the state would make the bid budget jump for fiscal 1971 to $314-million.

1968: DECADE OF PETROLEUM TAX ISSUES

The 1968 tax increase fired the gun for what was to be a decade of intense confict over tax issues beteen the state and the petroleum industry. The 1968 tax increased were conceived in terms of the basic economic realities as the state understood them from Cook Inlet. The Cook Inlet field was considered a good field. But lawmakers of the time were also aware of the many failures in drilling elsewhere in the state. They were also aware that remoteness would make many fields of Cook Inlet's size uneconomic in the short run. The period was also one of reasonably stable oil prices and federal policy. Hence, as a first shot at oil tax policy a straight percentage of value increase as expressed in the 1968 legislation seemed suitable to protect state interests.

1969: PRUDHOE BAY AND POLICY

The discovery at Prudhoe Bay in late 1968 was at the end of a long string of exploration disappointments for the Industry outside of the Kenai/Cook Inlet region. Reports in late 1968 were that the industry was about to abandon efforts on the North Slope after a string of dry wells. The area also seemed of some dubious promise simply because of its extremely remote location and transportation problems. Neither the success nor the magnitude of discovery at Prudhoe Bay was anticipated by the state or industry. However, the magnitude of discovery was to have a high impact on state tax policy as well as state government in general.

The search for oil on the North Slope was long, hard, and success was elusive for 10-years. The North Slope was opened to leasing by an executive order of the Secretary of the Interior in the mid-1950s. The first federal offering was by lottery in 1958. However, the areas opened for federal leasing were well inland from the Arctic Ocean shoreline, since the poorly defined low-lying coastline opened serious, prolonged, and costly survey problems in regard to survey boundary lines between federal shorelands and offshore tidelands to pass to the new state.

The primary area at issue between the state and federal authorities lay along the Arctic Coast between the federal Navy Pet-4 Reserve on the west, and the federal Arctic Wildlife Refuge on the east. In discussing the problem state officials became aware of the oil potential of the general region, but the specific motivation for selecting the Prudhoe Bay lands by the state was primarily to resolve the survey issue. If both the offshore tidelands and the onshore lands in what was called Township 9-North were state lands, then the line between state lands and the lands of federal oil interest became a neatly defined line along the southern boundary of Township 9-North. The old survey issue is now seen in reverse in the current proposed Beaufort Sea sale. Presently both state and federal officials are trying to define just where the vague beginnings of the shoreline actually is in order to determine where federal enclaves outside the three-mile limit between the coast and the Barrier Islands might be. Additionally, the industry's primary oil interest at the time appeared to be focused farther to the South, and not in the area of Prudhoe Bay.

Four to five more federal offerings : North Slope prior to the land freeze in 1966. Compan: : area were Sinclair, British Petroleum, Richfield, C Oil, and others, and they left a string of dry hol· i their way northward.

In 1964 the state leased most of its oe Bay, which opened up the coastal zone to the explor The sales brought $5.6-million and $6.1-million re: 5 and $6 per acre for what was to become some of the ite in North America. The state sold a small amount of rage at Prudhoe Bay in 1967 for $1.4-million ($35 an acr ile of 1969 was essentially what "was left" at Prudho),218, 590, or $2,182 an acre. Nor, was the 1969 acreage :e evidence being that those lands did not draw sizab. : existing lease holders at Prudhoe Bay who had access to ation. In other terms, the the main Prudhoe operators wor .sks placed for just a few dollars an acre in 1964 an. eat many of the 1969 tracts were no where worth the companies who had only marginal geologic information.

The Prudhoe Bay discovery took place 968, just prior to a new legislature coming into session. ation wells that would define the great magnitude of succes ay would not come until later in 1969.

THE 1969 SESSION

The 1969 session was the session of beginning Prudhoe Bay policy. Discovery had been made, and while the magnitude of the discovery was not certain, it was clear that the proposed bonus sale scheduled for the legislative interim in 1969 would bring a record bonus (discovery had ready taken place). However, other crucial issues were present in the form of the "land freeze" and the rising momentum of the native land claims movement.

The special session of 1967 and the session of 1968 had boosted oil severance taxes by 300%, but the 1969 session brought no relief from proposals for tax increases. Two major bills were introduced, and one of those bills reflected something of issues to come over the next decade. House Bill No. 75 (1969) was introduced in the form of a fixed cents-per-barrel tax rather than a percentage-of-value at the wellhead.

The fixed center-per-barrel concept was patterned after Lousiana legislation. The concept was to exempt the state's production interest from economic fluctuations of the marketplace, or of the fluctuations of federal policy impacting oil revenues. The tax would simply be on the physical extraction of the barrel of oil and have no pretense of a relation to value. The approach reflected a growing uncertainty as to the value of oil in the marketplace, and due to federal tampering with the depletion allowance under the U.S. tax codes, there was a growing local uncertainty (Alaska and elsewhere) that wellhead values would be "realistic."

The simplistic rational had been that generous federal tax depletion allowances permitted oil companies encouraged bumping profits back to the wellhead. Hence, a royalty holder or taxing authority could depend on a reasonably honest wellhead despite the complexity of downstream marketing and tariff/fee taking by the generally vertically organized industry. The eroding depletion allowance, finally to be abandoned, legitimately left the industry to turn to tax accounts to determine where along their system they should now best take profits in order to maximize tax advantages. The net result was the tax benefits that gave the wellhead price of petroleum an honest ring was gone, with the net result that royalty holders and tax authorities were left in an uncertain position.

The second major oil bill of 1969 was SB-262, introduced by Sen. John Butrovich, who was still unhappy with the handling of tax legislation in 1968, despite the fact his own legislation had passed. The Butrovich bill proposed a hike to 5% (1% addition above 1968 enacted level), but the legislation stuck with a conventional "percentage-of-value" approach.

Additionally, the issue of local governments rights to tax facilities was still very much alive with legislation in both the House and Senate. Sen. Blodgett also had his bill in the hopper for a 20% tax on royalty profits. The legsislation was aimed at certain prominent Alaska businessmen who held overriding royalty interests in Swanson River leases. An explosive issue was also present in the form of a major state land selection just south of Prudhoe Bay. The selection dislodged very prominent entrepreneur's lease "options" allowed under the first phase of the land freeze.

House Bill 75 moved through three House Committees in 1969, and passed the House on April 4th still in the form of a fixed fee tax. The bill drew three committee referrals in the Senate and a bitter fight began almost immediately. After attempts to vote the legislation out of the Senate Commerce Committee, the bill moved to Senate Labor and Management, but despite major efforts in the closing days of the 1969 session the legislation stayed in committee.

House Bill No. 75 remained dormant in the session until the final hours of the 1970 session, passing the Senate on June 6th as a part of last minute compromises. However, the bill was converted from the fixed fee approach to an approach based on a percentage of value applied to different rates of production.

The tax rate in the 1970 enactment varied from three percent on production under 300 barrels, to an eight percent rate on production over 2,500 barrels.

The variable tax rate recognized something of the new realities. By 1970 the magnitude of Prudhoe Bay was known, the 1969 sale had yielded an undreamed of bonus, and the economic disparity between setting tax policy realistic for both Cook Inlet and future more prolific Prudhoe Bay was becoming apparent. The 1970 variable rate bill allowed a variable lower tax on production from the five Cook Inlet/Kenai fields, and was reasoned to capture a high rate from Prudhoe Bay wells then thought to be approaching production as early as 1974.

The climate at the beginning of the 1970 session was one of optimism. The state had received $900-million in Prudhoe Bay bonus payments, and a flow of royalty payments would likely begin as early as 1974. However, by the end of the session storm clouds had begun to gather, the 1969 enacted federal National Environmental Policy Act became effective early in 1970, and unexpectedly the "permit" for the pipeline was under threat of prolonged litigation. Additionally, it had become apparent that Alaska Native Land Claims would have to be resolved before issuance of a pipeline permit. However, the budget planned under the momentum of the $900-million, and expected early oil royalties, in 1970 enacted a budget that jumped from $154-million to $314-million, mostly due to investment in the state's new 90% local school support program.

In 1971 a new legislature came to Juneau and a new administration. The storm clouds of uncertainty over pipeline construction had become real, and as a result a nervous legislature pared back the budget into a holding pattern that lasted for a number of years.

However, despite Prudhoe Bay production delay and the fact taxation would weigh in the interim on less productive Cook Inlet and Swanson River, the tax fight was renewed in 1971-1972. The cents-per-barrel tax was back, but other oil issues were also developing. The thrust from 1972 on would take oil issues beyond the policy area of revenue, and enter the area of right-of-way leasing, pipeline regualtion, labor issues, and environmental concerns, such as oil spill liability and habitat control.

THE 1972 OIL TAX AND REGUALTORY PACKAGE

In 1972 the legislature approved seven major pieces of oil and gas legislation, all of which were highly controversial.

They were:

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(1) CENTS PER BARREL SEVERANCE TAX (FCCHB-168), establishing a cents-per-barrel tax floor to be triggered by a falling percentage of value yield. Both the value and fixed fee rates were tied to well productivity with a variable schedule.

(2) RIGHT-OF-WAY LEASING ACT (CSSB-294), providing conditions for right of way leasing. Allows addition of "soft benefits" in state leases as a "contractual" obligation.

(3) PIPELINE REGUALTION ACT (CSSB-314), permitting state regualtion assertion, as per the present Alyeska tariff disputes, etc.

(4) ALASKA LOCAL HIRE ACT (CSHB-726), requiring Alaska resident hire as a provision of leasing.

(5) BRISTOL BAY LEASE BAN (SB-2am), banning oil and gas leasing in the submerged areas of Bristol Bay.

(6) CRITICAL HABITAT AREAS (CSHB-614), allowing the establishment of certain areas to be regulated with special restrictions as critical habitat areas.

All the above bills passed into law in 1972 in a lengthy 161-day session. The only bill proposed as part of the package which did not pass was a proposal to levy a 20-mill tax on oil and gas production and transmission facilities. The 1969-1970 and 1971-1972 legislatures clearly marked the turning point where oil policy shifted from a minority advocacy issue in the legislature, to an issue which generally had leadership backing in both House and Senate with opposition tending to minority quarters (minority is not meant in partisan terms).

THE 1972 OIL TAX maintained the same general tax structure, and imposed a percentage-of-value tax above a certain "price level," which would then be triggered by falling oil prices to a fixed fee "cents-per-barrel" tax. The fixed fee tax would in essence establish a floor wellhead price of $2.50 per barrel. In other words, under falling oil prices the state would deal itself out of the economic system at $2.50. On one hand, the cents-per-barrel system reflected uncertainty in the market place and uncertainty over oil prices under federal policy change. An uncertainty and concern that has magnified in recent years to a primary state policy area. On another hand, both the percentage-of-value and cents-per-barrel tax methods were applied to variable tax schedules linked to variable well productivity, recognizing the issue and problems of tax equity and burden as applied to oil fields of varying productivity.

The 1972 legislation also finally resolved the old issue of local government ad valorem taxation of oil field facilities, allowing taxation of oil field machinery, appliances, and equipment (but not reserves). The feature was added in Free Conference to FCCHB-168 by the House Minority leader, who also represented the local government chiefly impacted (the Kenai Penninsula). However, the resolution of this old issue earned its maker the status of becoming a non-minority leader a few days later, perhaps reflecting the intensity of the 1972 oil policy issues.

However, a new area of concern of oil policy developed in 1972, as rural lawmakers initially withdrew support due to the fear that increased taxes would have a negative effect on overriding royalty payments to the

Alaska Native Claims Fund (a deduction from the state's 90% share until $500-million is paid). The issue was resolved by a provision that .05¢ per barrel would be paid into the claims fund if the fixed fee tax floor were triggered. Rural lawmakers supported the 1972 legislation, but the land claims provision had also created an awareness that taxes would be applied to native lands. A concern began to emerge that oil discovery on native lands would likely be moderate size fields, might be remote from transportation, of low volume, or require costly deep drilling and costly field development. Hence, there began a period when rural lawmakers began to judge the economic burdens of taxation in terms of future potential for development in their regional areas and on native lands.

It is not the purpose of this report to deal with the non-tax issues, but the Right-of-Way Leasing Act and the Pipeline Regulation Act were bitterly fought by the industry. The Right-of-Way Leasing Act pioneered the concept of using the state's (more private) contractual rights inherent in owning land and resources, to require certain performances from the industry that they might not be able to accomplish by use of general state powers (due to the Commerce Clause of the U.S. Constitution). The issues inherent in this concept are still with us today. The Pipeline Regulatory Act was simply an effort for the state to assert regulatory effort, rights, and advocacy into any opening left to the state under federal law.

The Right-of-Way Leasing Act contained provisions particulary onerous to the industry, these being common purchaser provisions and provision to acquire at a later date a 20% inte st in the pipeline.

The onerous features of the 1972 tax package generated a special session in October, 1973. The companies claimed amendment was necessary to financing, and under a compromise worked out with the State Administration amendments were submitted to the special session along with a bill to levy a 20-mill tax on all oil and pipeline facilities in the state.

SPECIAL SESSION 1973

60 7th The 1973 Special Session produced two tax increases, the 20-mill ad valorem tax on facilities, and a revision and increase in the state severance tax.

The 20-mill pipeline tax was one of the largest tax measures ever to come before the legislature at that time. But at issue was the old issue of "local government rights" in taxation. The 20-mill tax was introduced as a state tax, and contained an "in lieu" provision prohibiting local taxes. The exclusivity approach to taxation of transportation systems is a usual approach in other parts of the nation, since such systems cross multiple jurisdictions creating complex taxing problems.

However, in Alaska many communities were tax poor with no industry tax base, and worse yet, many had a government facilities tax base exempt from taxation. On the other hand, because such facilities and resources are unevenly spread, policymakers feared creating a great disparity between industry tax-rich communities in the state and classic tax-poor communities. The result was a compromise levying a state ad valorem tax of 20-mills, but a refunding to local governments of their levy under the constraint of a ceiling formula.

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Despite the fact that the legislature had just revised the severance tax in 1972, the special session revised the tax schedule as applied to well productivity. The special session enactment left the top tax rate at 8%, but dropped that rate to apply to wells producing 1500 bbls a day or more, and increased the tax rate also for wells in the 300 and 700 bbl. range. The cents-per-barrel rates were also revised. The net result was a heavy impact on Cook Inlet, where the effective tax rate was estimated to jump from .159¢ per barrel to 24¢ per barrel.

The final severance tax bill took another key step to be a hallmark of future state tax policy. The final version of the special session legislation tied an "escalator" to the cents-per-barrel schedule. The escalator was keyed to the Wholesale Price Index for Crude Petroleum, published by the federal government.

The actions of the 1973 special session created a period of general quiet on tax issues in the immediately following session of 1974. The focus of the 1974 went toward "pipeline impact" planning keyed to the beginning of pipeline construction in 1974. Other issues emerged relating to the use of royalty oil. HCR-78 passed the legislature mandating a study on corporate income taxes with a focus on oil. The issue of revising the corporate income tax as it relates to petroleum emerged in the special session of 1973. The issue of an advalorem tax on reserves was also beginning to emerge, having also been one of the side issues aired briefly in the 1973 special session.

THE 1975-1975 LEGISLATURE

1975 brought both a new legislature and a new state administration to Juneau. Both of those policy groups faced a sizable budget problem that would occur in late fiscal 1976 and last until royalty and tax funds began to flow to the treasury on completion of the Alyeska Pipeline.

The big budget jump took place in fiscal 1971. The succeeding legislatures faced a heavy drawdown on the $900-million reserve from programs such as the 90% School Foundation Act. Efforts were made to hold the budget, which ranged from $292-million (1972), $333-million (1973), to $355-million (1974). The 1974 legislature faced the accumulated double diget inflation pressures of the 1970s, and the budget went from $344-million in 1974 to a budget planned in 1974 of $467-million for fiscal 1975.

The incoming 1975 legislature and the Hammond Administration faced a budget gap of such size that no runup of taxation on Cook Inlet could hope to close the gap. A variety of alternatives were reviewed, such as a Beaufort Sea Lease sale, sale of state royalty oil and gas, the 20-mill reserves tax, and borrowing. In the end the 20-mill reserves tax prevailed as the most prudent approach.

THE 20-MILL RESERVES TAX from the beginning was viewed as an undesirable tax that would be temporary. It was an approach that most parties to oil issues agreed was discouraging to exploration, and could weigh heavily on marginal fields.

The reserves tax generated resistance from rural interests, who feared that the tax would have an impact on ventures on native lands, or would be converted to be a regular ongoing tax. The tax also came at a time when industry was placing some of the largest financing issues in the nation's history in behalf of the Alyeska Pipeline. The tax also posed a very serious problem for the smallest company of the Alyeska consortium who had the biggest share of the financing obligation on the pipeline --SOHIO/BP.

SOHIO/BP owned a 53% share in the petroleum pool at Prodhoe Bay, and as such they carried the majority financing obligation for the pipeline. However, as a relatively small company principally involved in marketing, SOHIO's profits were much less than its major partners ARCO and EXXON. The problem centered on the fact the 53% obligation of the reserves tax fell princapally on SOHIO, and since there was no cash flow from the assets of Prudhoe Bay yet, the sizable level of the reserves tax essentially wiped out SOHIO's profits from a bookkeeping point of view. Hence, the finance community being locked in by securities law, a problem emerged as to whether under the 20-mill tax SOHIO could offer its financing securities in certain necessary markets. Conceivably SOHIO could have liquidated some of its interests to a larger entity, which presumedly would have meant selling future oil or a share of the field. Such a sale under the conditions of 1975 could have meant construction delay, and also would likely have resulted in a sale under undesirable conditions for the seller, perhaps resulting even in a discounted price eventually impacting wellhead value.

Once the legislature decided essentially on the thurst of the 20-mill reserve tax three options were present:

(1) A pure 20-mill tax levied for two years with no provision for industry recovery. This option was most favorable to the state.

(2) A provision under a 20-mill approach termed "royalty credit," under which the state temporarily sold its royalty oil to SOHIO, this allowing the "oil" (in return for tax payment) to be reflected as an asset (and not a tax liability wiping out profits). This approach was most favorable to industry.

(3) A middle-ground approach allowing imposition of the tax with a provision for a future "credit" against the payment of production taxes. This allowed SOHIO enough flexibility to meet legal requirements.

The legislature adopted the third option as a **compromise**. The 20-mill reserves tax was adopted as a **temporary measure**, keyed to be phased out when Prudhoe production reached a trigger point, or by December 31, 1977. The "credit" feature allowed the industry to recover the tax from its future production on a basis of its payments in any one year. Hence, the 20-mill reserves tax became something of an interest-free loan to the state repaid from future inflated dollars.

The credit provision took SOHIO off the hook on its financing problems. The state also had the option of countering the credit benefit by possibly removing the credit after all financing was placed, or by extending the 20-mill tax for a period into Prudhoe production without provision for the credit (avoiding constitutional retroactivity arguments that might be applied to retroactive repeal of the credit).

The 20-mill reserves tax was adopted in 1975. It filled the budget gap measured in hundreds of millions a year, and its levy provisions lapsed as provided for by law in 1977.

The reserves tax issue brought to the forefront economic issues of heavy state tax burdens in relation to other field development. Rural Alaska interests had a keen interest in oil prospects on native lands, but such prospects were judged to be likely much smaller, and in view of transportation problems, much more marginal economically. The issue generated open opposition of rural lawmakers and native corporations. However, the reserves issue was perhaps important because it broke the overwhelming focus of oil policy channeled solely on Prudhoe Bay, and forced recognition that in the long run tax policy would have to fit a great variety of fields much smaller than Prudhoe Bay.

Further, the reserves tax posed the dilemma for rural lawmakers of balancing somewhat "unknown values" of future oil development in their regions, against an obvious high need for input of state spending in the underdeveloped communities they represented. The situaton placed the rural lawmakers in a swing position in which they had a distinct interest in both sides of the reserves tax, as well as other tax issues. Observers may view the native position simply in terms of political bargaining, a swing position to be exploited on petroleum tax issues in behalf of hard cash capital projects. Such political tactical advantage to the rural oil tax position was later to become very apparent as the 1978 corporate tax issue balanced off against $110-million in rural school construction.

However, beneath the apparent tactics of day-to-day politics, the rural position was a very fundemental two sided issue. The rural communities had to weigh the need for upfront, hard cash, present day benefits derived from a healthy flow of government revenue coming predominantly from petroleum, against a somewhat undeterminable set of future values attached to future discovery in a wide variety of regions of the state. In the end rural interests supported the reserves tax with a stress on the temporary nature of the legislation.

NATURAL GAS PRODUCTION TAXATION

The reserves tax stressed the special and varied interests of rural regions and native corporations in oil taxation. However, events in the taxation of natural gas between 1970 reflected a diverse interest of the Anchorage area in the level severance taxes as applied to natural gas production.

The rate of severance tax on gas and oil remained under the same severance tax rate until 1970. The 1967 and 1968 tax increases had treated oil and tax the same.

However, in 1970 when the legislature adopted the sliding scale percentage of value tax ranging on well productivity between 3% and 8%, the natural gas severance tax remained at a simple 4% rate (note: there was a technical 1970 shift with 1967 disaster 1% being repealed and converted to a regular tax).

Reducing the tax rates applied in 1970 to generalized rates, the rate on oil went to a top level of 8%, and the rate on gas stayed at a rate of 4%. The lower rent meant that increased taxation would not be a burden to Anchorage area gas consumers. However, the lower 4% rate also meant that the large portion of Alaska gas going to the Japanese export market also was left at a reduced rate. An arguement can be made that the Alaska lost a 4% differential in the export market, and an argument can be made that the 4% differential for Anchorage consumers represented a subsidy to energy users of one region by residents of the entire state.

The local consumer issue surfaced again in the reserves tax issue. Since the tax must be applied equitably to all oil-fields, the reserves tax had to be applied to Cook Inlet oil and gas production. The tax would therefore mean increased costs to Anchorage gas users. The issue did emerge out of the Anchorage area, but only briefly due to a heated response from lawmakers representing areas across most of the remainder of the state where energy costs were among the highest in the world. The gas tax differential was not a major issue, but it does represent the complexity of petroleum tax issues, and also reflect that one of the state's major urban center had a special set of interests and conflicts in petroleum tax rates in some ways akin to the conflicts faced by rural lawmakers. The gas and oil tax disparity also stresses the variance of interest in oil and gas benefits between various regional areas of Alaska.

The disparity in tax rates for oil and gas remained until 1977. The legislature in 1975, 1976, and 1977 had begun to review gas policy in terms of the large volumes of Prudhoe Gas entering interstate commerce and becoming subject to strong regulation by the federal regulatory authorities. Consultants warned that the state must establish a track record for the level of state taxation, and that under certain regulatory actions the state might find its tax take restricted. Hence, with the potential of gas volumes weighing to export due to North Slope gas, the state was well advised to establish its tax record in 1977 law at a reasonably high rate.

1976 OIL LEGISLATION

The legislature in 1975 enacted the reserves tax, and in the early days of the 1976 session a number of new oil bills were introduced that made Wall Street Journal headlines. Chief among the 1976 introductions were bills for a 14% severance tax and an excess profits tax. For reasons that are uncertain the legislation attracted the attention of prominent east coast financial journals. There is some suggestion that the extreme degree of notice in financial journals was due to the fact that many financial houses were still placing Alyeska financial securities, and therefore reacted against any uncertainty that might affect that financial placement. In any event, the resulting flap tended to quiet the passage of other petroleum revenue bills in 1976. The focus of the legislature instead focused on the regulation of tankers entering Alaska waters, and the creation of legislation underwriting a oil spill liability fund and mandating certain tanker construction and safety features.

The tanker legislation of 1976 was geared primarily toward North Slope oil tanker traffic entering Prince William Sound bound for Valdez. The Alaska law was patterned after Washington State Legislation applied to Puget Sound, and like the Washington law the Alaska legislation later ran into commerce-clause constitutional issues in the federal courts.

Another budding issue in 1976 was legislation proposing leasing alternatives available to the state. In the 24 lease sales held by the state between the years 1959 and 1976 the state had used the conventional bonus bid plus fixed royalty system. In 23 of the sales the bonus was fixed at 12.5%, with the only exception being the 24th sale held for Kachemak Bay, in which the royalty was fixed by the Commissioner at a rate of 16.5%.

The 1976 legislation sought to recognize that while bonus bidding would be the system most frequently used, that the commissioner should have other options available to use should circumstances make such options in the public interest. The 1976 bill included two-tier exploration bidding, and other more conventional options such as net profits methods. An approach considered in 1976 was to detail the more conventional methods to be used at the option of the Commissioner, and then specify a kind of economic impact statement to be filed with the legislature should the commissioner opt to use more unusual methods. The statement would detail the unusual circumstances justifying the more unusal approach and be offered for public comment and/or filed with the legislature.

The 1976 leasing issue finally generated into a mandate to the Legislative Council and State Administration to conduct an interim study in the area of leasing alternatives and in the area of a corporate income tax as applied to the petroleum industry. Both issues were to emerge in the 1977-1978 legislature.

A side issue of the 1976 session also deserves brief mention. The state in 1975-1976 enacted quite controversial legislation which bought back from industry offshore oil leases previous issues in Kachemak Bay in 1974.

THE 1977 SEVERANCE TAX

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In 1977 oil tax issues were back in the legislative forefront, but this time increased severance taxes and the corporate tax legislation were pushed both by legislative leaders and by gubenatorial sponsorship. In the past advocacy of increased petroleum taxtion had come primarily from the legislature, the exceptions being Administration support for the one percent disaster tax in the Special Session of 1967 and the 20-mill pipeline tax introduced by the Governor in the 1973 Special Session on oil regulatory legislation.

The 1977 law brought gas taxation up to 10% as previously discribed, and imposed a 12.25% value tax on oil or a conversion to .60¢ per barrel. However, the legislation developed a sophisticated approach to the more marginal field by applying a so-called ELF factor (Economic Limit Factor) to leases of low productivity.

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The passage of the 1977 severance tax law reflected the same nervous concern relating to oil issues by native interests in rural Alaska. Additionally, the passage of the severance tax, and the probability that a corporate tax increase geared specifically to petroleum companies would pass the legislature the next session, generated an intense public media campaign during the legislative interim of 1977-78. The focus of the campaign was the overall level of Alaska petroleum taxation, and the large percentage of oil revenue funding the state budget. Regardless of the merits of the arguments, or whether the campaign helped or hindered passage of a corporate tax bill in 1978, the campaign waged during the 1977-78 interim did bring home to the public an awareness of the dimension of oil income to the State of Alaska and the fact that Alaska was either almost equal to, equal to, possibly slightly above, or soon to be above, the other high petroleum taxing states.

THE 1978 OIL CORPORATE INCOME TAX

In 1978 the Alaska Legislature came to grips with the issue of creating a special corporate income tax to apply to the petroleum industry. The issue is complex and its details perhaps not of importance to the theme of this report, but the issue was driven along politically by the allegation that the petroleum industry was unfairly able to escape an equitable application of the state's regular corporate income tax law.

The issues of 1978 centered around different approaches to a petroleum corporate tax (franchise, separate accounting, etc.), which in the end resulted in a separate accounting income tax approach.

The corporate tax issue was not easily won. It was also cast in the climate of a $110-million tradeoff with rural lawmakers for a direct appropriation for construction of rural schools. The trade stressed the swing position of rural lawmakers, and while on one had the action is cloaked in the trappings of political bargainmaking, once again at the bottom of the issue was the very real balance of rural interests, and of rural lawmakers between a critical need for public facilities now, as opposed to still very valid concerns they have over the impact of taxation on less tangible petroleum development interests that might come about in the future. The tax was estimated to produce an increase of $160-million in additional petroleum revenue at the time of its enactment in 1978.

1979 AND TAX ISSUES OF A DECADE

There is some suggestion that the Alaska Legislature may have arrived at some kind of tax stability. However, stability may be perceived in different ways by the various affected interests. Certainly the state faces uncertain federal policy and other market conditions that impacts its projected expectation of oil revenues, and in any view of taxation it may be realistic to perceive that as other forces tamper with policy that affects state revenues, that the state will attempt to tamper back in adjusting its revenues to some relation with expectations. However, such a suggestion may generate issue as to how realistic state expectations might be, and might suggest a high degree of state expertise in projecting oil revenues is desirable to all parties.

The decade 1967 to 1977 produced eight major oil tax measures and a variety of other basic policy issues such as the Right-of-Way Leasing Act, the Alaska Pipeline Regulatory Authority, tanker legislation, and a wide variety of other petroleum related legislation. In all an estimated 60 petroleum related policy bills passed the legislature in the years 1967 to 1978.

The is perhaps justifiable to speak in terms of the 1967 to 1977 time period as a period in which the state battled with its petroleum private partners over their respective shares of the resource. The decade started with the focus on the moderate resource of Cook Inlet. The pattern of policy was interrupted by the discovery of Prudhoe Bay and a focus of a different dimension.

The culmination of Prudhoe Bay policy realistically could be expected to reach final resolution in some relationship to beginning production. It now appears that this was the case, with culmination of a number of petroleum revenue issues on the idea boards since 1972 reaching some resolution at "oil flow" in 1977 and 1978.

The focus on Prudhoe inspired policy diverted attention from leasing revenue issues. The late 1960s posed the arguments that the state should take its "fair share" in initial leasing contract terms, hence providing the industry with known economic rules of the game for a particular field. Industry charged a runup of taxes was a de facto abridgement of leasing contracts by the dual use of the tate's unusual alter-ego role as government.

Prudhoe Bay temporarily junked leasing issues. The state, right or wrong, was confronted with the political realism of the largest oil field in North America. The Prudhoe contracts were made, with the largest acreage going for only $8 and $6 per acre in 1964. Despite the fact the remaining acreage went for a likely overvalued $900-million, policymakers were left feeling that did not receive fair value in 1969, and that the fixed royalty would not give fair return. Hence, the option open to the state was through taxation powers, which because of constitutional requirements for equity across the oil resource, did present complex economic issues. In response to the charge that the state was abridging royalty contracts, it is likely very true that the dual owner/government role of the state allowed the state to do just that. Obviously, a private leassor would not have had that opportunity to cover their interests downstream in the development chain. It is perhaps of interest to note that as Prudhoe policy neared what appears to be some semblance of final resolution, that once again leasing issues emerged.

The 1976 legislation resulted in a shift to an interim leasing study which in turn resulted in Administration legislation offered and a broader variety of leasing options enacted in 1978 legislation. Those issues may yet prove not to be fully resolved, pose questions for future policy study, and perhaps bring the focus of policy full circle to the state focus on royalty income of the early petroleum days of the 1960s.

BACKGROUND INFORMATION ON CONTEMPORARY TAX ISSUES

This paper provides background information on taxation issues in Alaska. The purpose of it is to provide perspective on discussions which are anticipated in the 1986 legislative session.

Non-Petroleum Taxes

Nowhere in the United States does the burden of state and local government taxation rest so lightly on households and local businesses as in Alaska. Although Alaskans generally receive higher levels of state and local services than most of their U.S. contemporaries, they pay on average only one-sixth as much as other Americans.

It wasn't always this way: Following statehood in 1959, Alaskans paid relatively heavy state and local taxes, which became even heavier as the State worked its way through the deepening financial difficulties of the 1960s. By 1969 per capita State tax collections in Alaska reached 10 percent of per capita personal income. On the local level, property tax rates in excess of 20 mills combined with relatively stiff sales taxes were not uncommon.

Tax payments as a percentage of personal income declined slightly in the early 1970s, after the State received it's $900 million windfall from the 1969 North Slope lease sale, but it wasn't until the opening of the Trans-Alaska pipeline in 1977 that pressure for really radical tax cuts became a potent political force. The business gross receipts tax was repealed by the 1978 Session, and the $10 per head school tax fell the following year. In 1979, Libertarian legislator Dick Randolph began an initiative campaign to repeal the State's personal income tax, then set at 16 percent of the individual's federal tax liability, and replace it with a flat one percent tax. The initiative petition was wildly popular, gathering in a matter of weeks more than enough signatures to place it on the ballot.

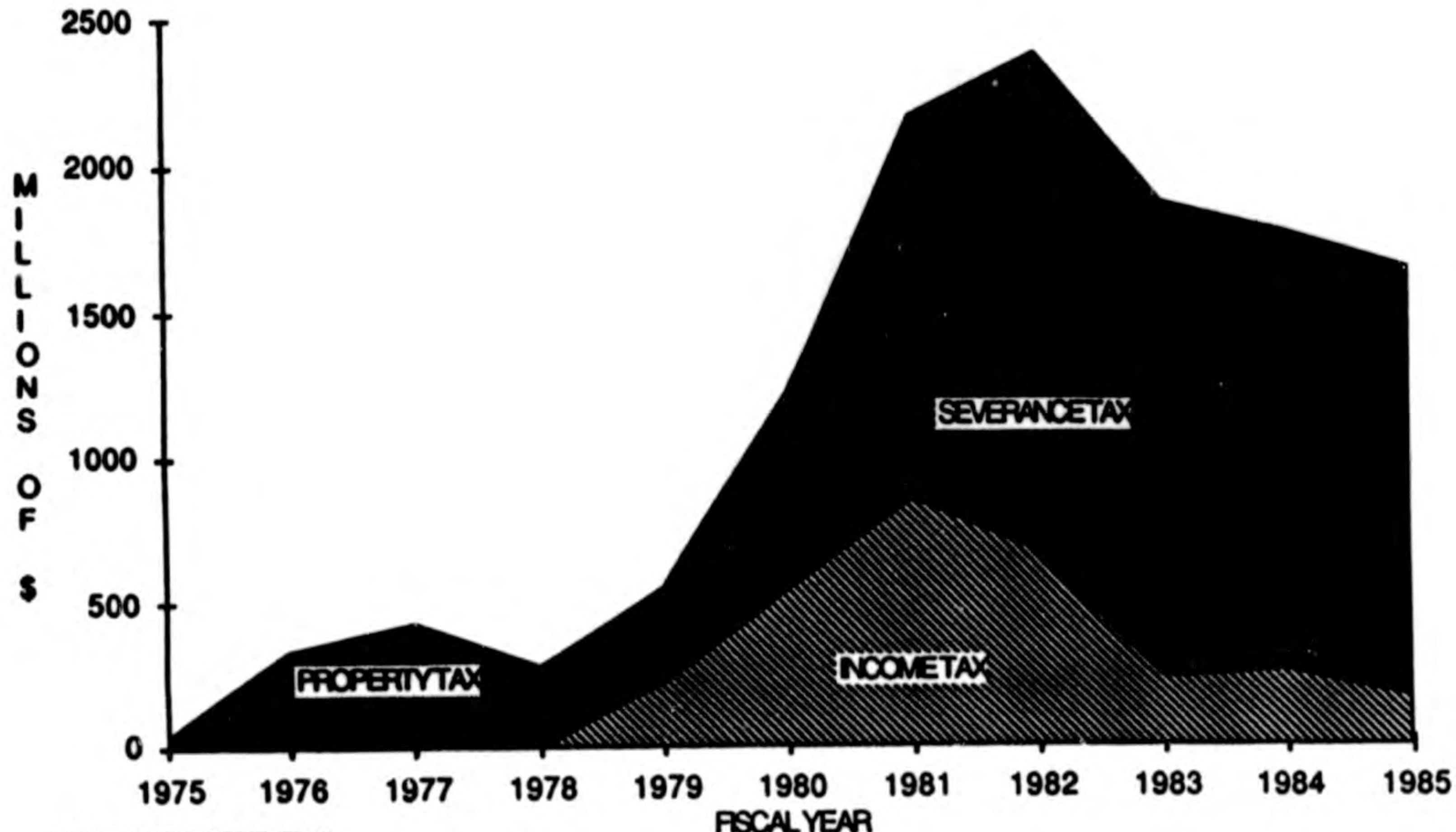
Many politicians had serious concerns about ending the income tax, which in FY 77 (the last year before pipeline completion) accounted for 53 percent of all non-petroleum revenue, and 24 percent of all unrestricted collections. Nevertheless, the 1980 Session stopped the initiative by passing its own version of repeal, eliminating the tax entirely, but only for persons with three or more years of residency. This approach was torpedoed by the Zobels' lawsuit, but the 1981 Session then repealed the tax entirely. By 1982, State tax and license collections from sources other than oil equalled only 2.5 percent of personal income. Moreover, the amounts collected from Alaskan households and businesses were substantially less than the State's payments to households in the form of Permanent Fund dividends. The non-petroleum taxes that were collected mostly came from fish processing and large corporate businesses.

Petroleum Taxes

The tax cuts described above and simultaneous increases in State services were made possible by rising oil revenues generated by Prudhoe Bay royalty income/1 and tax payments to the State. Between 1967 and 1978, eleven separate oil tax increases broadened Alaska's oil tax base from a simple severance tax assessed on wellhead value to a triad of tax bases: wellhead value, profits earned from oil production in Alaska, and the value of real property held by the oil industry in the State. Over the years the relative importance of the three tax bases has shifted back and forth. The severance tax was most significant before 1973, the property tax carrying the weight in the mid-to late 1970s, the income tax of greater importance in the late 1970s, and the severance tax resuming prominence in the 1980s. (See the figure.) In addition, the taxes applied to each tax base became increasingly sophisticated.

/1 Royalty payments have accounted for more than one-third of the State's oil and gas revenue since FY 78, when Prudhoe Bay deliveries commenced; in FY 84 royalties accounted for about 44% of State oil and gas revenues.

ALASKA'S OIL TAX TRIAD



NOTE: PROPERTY TAX
INCLUDES RESERVES TAX
IN FY 76 & FY 77

SOURCE: DOR

OMB: JULY 30, 1985

Severance Tax

Before 1967, Alaska's system for taxing oil and gas consisted of a flat one percent severance tax adopted in 1955, a time when the State had no commercial oil production. The first increase, to two percent, was adopted by a legislative special session called to deal with the Fairbanks flood disaster of August 1967. As House Speaker Mike Bradner was later to write, "Under the motherhood of 'disaster' the measure was unopposable."

Although each was a major legislative battle, further severance tax increases came with regularity. Nineteen-sixty eight saw a straightforward boost to four percent, but in 1970 a more sophisticated sliding scale severance tax was adopted, designed to tax more productive fields at higher percentage rates. Wells producing under 300 barrels per day actually received a tax reduction, but productive wells producing over 2,500 barrels per day had the severance tax rate hiked from four percent to eight percent. The bill was a direct response to arguments that the development of "marginal fields" was being discouraged by the State's rising tax take.

In 1972, the severance tax was again modified by the addition of a cents-per-barrel provision promoted by then Representative Tom Fink. The bill reflected two fears often raised in oil tax debates: first, that the oil companies were somehow reporting and paying taxes on the basis of unrealistically low wellhead prices; second, that falling oil prices would derail State budget planning. The Fink bill, wellhead values less than $2.50 per barrel were ignored in calculating the liabilities put an effective floor on severance tax collections, at least in the short run.

An even more sophisticated severance tax was adopted in 1977. The basic nominal tax rate was raised to 12.25 percent, but this was reduced by an "economic limit factor," or ELF, determined separately for each producing property. The ELF calculation is complex, but the result is to sharply lower the tax rates on marginal properties. The ELF remains on the books today, but the 1981 Legislature suspended it with respect to Prudhoe Bay at the same time it raised the nominal rate on that field to 15 percent. As the law now stands, the ELF will again apply at Prudhoe beginning in FY 88, reducing the severance tax collected from that field in that year by about $200 million annually.

Property Tax

The value of oil company personal property was adopted as a tax base by the 1973 special session. Local governments had always been able to tax these assets, but much of the oil development was expected to fall outside the cities and boroughs (existing at the time). The so-called "hardware tax" established a statewide, state-assessed 20 mill tax on oil related personal property. Unlike other oil taxes, receipts from this levy are largely unaffected by changes in oil prices or production levels.

In 1974, the State imposed a second 20 mill property tax, this one on the value of oil reserves in the ground. The tax was designed to bridge the revenue gap expected to develop in the years before Prudhoe Bay oil began flowing to market, and was intended from the onset to collect money only during fiscal 1975 and 1976. An unusual provision made all payments made under the tax ($500 million over the two years) deductible from future severance taxes. In effect, the tax was a zero interest loan from the prospective Prudhoe Bay producers to the State.

Corporate Income Tax

The third component of Alaska's triad of oil taxes is the oil and gas corporate income tax, adopted in 1978, and greatly modified in 1981. The State always had a corporate income tax but before 1978 Alaska used the "unitary" system that relied on the standard three factors of property, sales and payroll to allocate income among jurisdictions in which a multi-state corporation does business. Because of the particular characteristics of oil production, the pre-78 tax collected virtually nothing from large oil companies doing business in Alaska.

The 1978 tax law adopted the "separate accounting" system, under which Alaska ceased to worry about the worldwide income of its oil companies, or bother with formulas for apportioning that income among the various jurisdictions in which each firm does business. Instead, the new tax looked only at the operations in Alaska, and figured what the profits or losses would have been had each been operated separately from the parent. The result was a large expansion of the tax base (i.e., profits allocated to Alaska) and a roughly ten-fold increase in collections. The tax rate, 9.4 percent of net profits, remained unchanged.

The oil industry does not like tax laws that increase the amounts they must pay the government, but their aversion to the separate accounting approach seemed to transcend its normal reaction. It may be that the companies really believed the argument, advanced later in court, that the 1978 tax somehow abrogated the lease contracts the companies had entered with the State. In any event, ARCO, SOHIO, and later EXXON sued to have the separate accounting tax overturned.

Meanwhile, the Alaska profits of those companies soared, as oil price rose, and so did the separate accounting income tax collections - $233 million in FY 79, $548 million in FY 80, and

$860 million in FY 81. Had the tax stayed in effect through the end of FY 82 it would have approached $1 billion in annual collections. Instead, the 1981 session replaced it with a modified apportionment tax which has since collected between one-third and one-quarter of what the 1978 tax would have raised. To offset the loss of revenue, the Legislature abandoned the ELF factor on Prudhoe Bay, which raised the effective severance tax rate for that field from an average of about 11.5 percent to a flat 15 percent.

The Legislature's action was a direct response to fears that the oil companies might win their lawsuit against separate accounting, and force the State to pay a huge (some calculated as much as $8 billion by 1986) tax refund. By changing the law the total potential liability was limited to the $1.8 billion already collected, plus interest (totaling altogether today about $2 billion). Legislators also believed that the increase in severance tax would be more than enough to offset the future loss in revenue from the change in the income tax. Unfortunately, it seems to have fallen far short of that goal.

The reason the State changed its oil tax system in 1981 seems likely to disappear sometime soon. The 1981 amendments were an attempt to limit the potential losses from an adverse court decision on the oil producers' constitutional challenge to the State's pre-1981 oil tax system. Two years ago the State prevailed on these issues in the Superior Court, and a State Supreme Court decision is expected shortly. The Department of Law believes a similarly favorable decision is likely. A further appeal to the U.S. Supreme Court is possible, but recent decisions of that court substantially improve the State's case. During the 1985 Session, this development focused attention on the changes in separate accounting made in 1981.

Recent Developments

Oil taxes have not been a major State policy issue since 1981, but it now appears that oil taxes are back on the table, and that the issue could dominate the 1986 Legislative Session, as falling oil revenue has set in motion a search for new sources of income. House Finance Committee attention during the 1985 session to the petroleum corporate income tax are signs of this renewed interest.

Two House committees - the Oil and Gas Committee headed by Representative Mike Davis, and a subcommittee of the Finance Committee headed by Sam Cotten - were planning to work on the oil tax issue over the interim. So far, however, not much has been heard from either on the issue, as both have focused on the pending TAPS tariff settlement and a recent FERC decision affecting that case. It is not clear what effort either committee may make on oil taxation this fall.

There are probably only a few potential supporters of revised oil taxation in the Senate. These senators currently appear to be of the opinion that the issue is not worth the expenditure of much political effort. This attitude might change if they were to receive some encouragement from the Administration. Senator Sackett has said he would support a change in oil taxes if it can be shown that the Legislature was misled in 1981. Opposition to a change in the tax law from the Administration could doubtless prevent a bill from passing the Senate.

So far, a return to separate accounting along the lines proposed in the House Finance Committee bill is the only concrete oil tax proposal on the table. Preliminary estimates show that the bill, HB 353, would produce substantially more revenue than Alaska's current oil tax system. For this reason, oil industry representatives have strongly opposed the proposal.

Non-Petroleum Tax Issues

A major question in our minds is whether the same cabinet committee addressing the oil tax issues should try to handle, simultaneously, the question of new taxes on households and local businesses. While there is certainly a relationship between the two issues, separating them might make more manageable tasks; tend to produce more concrete recommendations; and leave more flexibility for the Governor after the recommendations have been delivered.

There are two important issues that must be considered in any discussion of new non-petroleum taxes (the personal income tax for example). One concerns the Permanent Fund dividend. Should the dividend be repealed instead of imposing a personal income tax, or should there be both? The options have profoundly different impacts on lower and upper income households.

A second issue that must be considered is the effects of a personal income tax on the State's economy. The low level of State and local taxes is doubtless an important factor (along with State spending), in the rapid economic growth that Alaska has enjoyed for the last five years. As State spending winds down, that growth is ending. An effort to sustain State spending or mitigate required spending reductions through increased collections from households may well produce adverse net effects. In any event, the economic effects of any tax increases need to be carefully considered.

Alaska Department of Revenue

Various Tax Types, Statutes, Rates, Incidence

1985

Tax Type	AK Statutes	Effective Tax Rate	Tax Incidence
Corporate Income Tax	AS 43.20 AS 43.19	1% to 9.4%	Net Income
Oil & Gas Producers & Pipeline	AS 43.20 AS 43.19	1% to 9.4%	Net Income
Mining License Tax	AS 43.65	3% to 7%	Net Income
Alaska Business Tax	AS 43.70	$25.00 fee	Annual Fee
Electric & Telephone Cooperative	AS 10.25	1% under 5 years 2% over 5 years	Gross Receipts
Salmon Enhancement Tax	AS 43.76	Cook Inlet 2% Prince William Sound 2% Northern Southeast 3% Southern Southeast 3%	Purchase Price or Value
Seafood Marketing Assessment	AS 16.51	.002%	Purchase Price or Value
Alaska Fisheries Business Tax	AS 43.75 AS 43.140	Established Fisheries Salmon, shore based 4.5% Shore based 3.0% Floating 5.0% Developing Fisheries Shore based 1.0% Floating 3.0%	Purchase Price or Value
Motor Fuel Tax	AS 43.40	Aircraft Gas 4.¢ per gallon (p.g.) Other 2.5¢ p.g. Watercraft All 5.¢ p.g. Highway All 8¢ p.g.	Excise

Excise Tax on Intoxicating Liquors	AS 43.60	Malt Liquors 35¢ per gallon (p.g.) Wine & Other under 2% Alcohol 85¢ p.g. Beverage over 21% Alcohol $5.60 p.g.	Excise
Tobacco Tax			
License	AS 43.50	License $5 to $50	License Fee
Cigarette Tax	AS 43.50	16¢ pack	Excise
Alaska Estate Tax	AS 43.31	Limited to Federal Credit for state tax	Estate
Oil & Gas Exploration Production & Pipeline Transportation Property Tax	AS 43.56	20 mills	Property
Oil & Gas Production	AS 43.55	12.25% or 15% of gross value at point of production multiplied by E.L.F.	Severance
Oil & Gas Regulation & Conservation Tax	AS 43.57	one eighth of one cent per barrell	Severance

Prepared by Division of Audit
Department of Revenue
October 9, 1985

A Comparison of Selected State Taxes

	Individual[1] Income Taxes	Corporation[1] Income Taxes (Max. Rates)	General Sales[1] and Use Taxes	Motor Fuel[1] Taxes (Gasoline)	Cigarette[1] Taxes (Cents/20 Pk)	Alcoholic[2] Bev. Taxes (Distilled Spirits/Gal.
Alaska	No Tax	9.4%	No Tax	8.0%	16.0¢	$5.60
Alabama	X	5.0	X	13.0	16.5	C.B.
Arizona	X	10.5	X	13.0	15.0	3.00
Arkansas	X	6.0	X	9.5	21.0	2.50
California	X	9.6	X	9.0	10.0	2.00
Colorado	X	5.0	X	12.0	15.0	2.28
Connecticut	X	11.5	X	15.0	26.0	3.00
Delaware	X	8.7	No Tax	11.0	14.0	2.25
District of Columbia	X	9.9	X	15.5	13.0	1.50
Florida	No Tax	5.0	X	9.7	21.0	6.50
Georgia	X	6.0	X	7.5	12.0	3.79
Hawaii	X	6.435	X	8.5	24.0	(3)
Idaho	X	7.7	X	14.5	9.1	C.B.
Illinois	X	4.0	X	12.0	12.0	2.00
Indiana	X	3.0	X	11.1	10.5	2.68
Iowa	X	12.0	X	13.0	18.0	C.B.
Kansas	X	6.75	X	11.0	16.0	2.50
Kentucky	X	6.0	X	10.0	3.0	1.92
Louisiana	X	8.0	X	16.0	16.0	2.50
Maine	X	8.93	X	14.0	20.0	C.B.
Maryland	X	7.0	X	13.5	13.0	1.50
Massachusetts	X	8.33	X	11.0	26.0	4.05
Michigan	X	2.35	X	15.0	21.0	C.B.
Minnesota	X	12.0	X	17.0	18.0	4.39
Mississippi	X	5.0	X	9.0	11.0	2.50
Missouri	X	5.0	X	7.0	13.0	2.00

A Comparison of Selected State Taxes

	Individual (1) Income Taxes	Corporation (1) Income Taxes (Max. Rates)	General Sales (1) and Use Taxes	Motor Fuel (1) Taxes (Gasoline)	Cigarette (1) Taxes (Cents/20 Pk)	Alcoholic (2) Bev. Taxes (Distilled Spirits/Gal.)
Montana	X	6.75	No Tax	15.0	16.0	C.B.
Nebraska	X	6.65	X	14.7	18.0	2.75
Nevada	No Tax	No Tax	X	12.0	15.0	2.05
New Hampshire	X	8.0	No Tax	14.0	17.0	C.B.
New Jersey	X	9.0	X	8.0	25.0	2.80
New Mexico	X	7.2	X	11.0	12.0	3.94
New York	X	10.0	X	8.0	21.0	4.09
North Carolina	X	6.0	X	12.25	2.0	C.B.
North Dakota	X	10.5	X	13.0	18.0	4.05
Ohio	X	9.2	X	12.0	14.0	C.B.
Oklahoma	X	4.0	X	9.0	18.0	5.00
Oregon	X	7.5	No Tax	9.0	19.0	C.B.
Pennsylvania	X	9.5	X	12.0	18.0	C.B.
Rhode Island	X	8.0	X	13.0	23.0	2.50
South Carolina	X	6.0	X	13.0	7.0	4.91
South Dakota	No Tax	No Tax	X	13.0	15.0	3.80
Tennessee	X	6.0	X	10.0	13.0	4.00
Texas	No Tax	No Tax	X	10.0	19.5	2.40
Utah	X	5.0	X	14.0	12.0	C.B.
Vermont	X	9.0	X	13.0	17.0	C.B.
Virginia	X	6.0	X	13.72	2.5	C.B.
Washington	No Tax	No Tax	X	18.0	23.0	C.B.
West Virginia	X	7.0	X	15.35	17.0	C.B.
Wisconsin	X	7.9	X	16.0	25.0	3.25
Wyoming	No Tax	No Tax	X	8.0	8.0	C.B.

(1) Significant Features of Fiscal Federalism, Advisory Commission on Intergovernmental Relations (ACIR), March 1985.

(2) A Comparison of Selected Tax Rates, Government of the District of Columbia, June 1984.

(3) Rate is 20% of wholesale price.

C.B. Control Board State

ALASKA TAXATION -
POLICY AND STRUCTURE

A SEMINAR PRESENTED
by DEPARTMENT OF REVENUE

Prepared by:

Department of Revenue
October 1985

DEPARTMENT OF REVENUE
SEMINAR
ALASKA TAXATION - POLICY AND STRUCTURE

October 8 and 9 and October 15 and 16

TUESDAY

INTRODUCTION	(Commissioner Mary A. Nordale)	
8:30 - 8:45	- A NEED TO GO BEYOND HEADLINES OF "FALLING REVENUES". - A NEED TO UNDERSTAND TAX LAW AND TAX ADMINISTRATION	
REVENUE SOURCE(S) PICTURE	(Treasury)	
9:00 - 9:30	- REVENUE CLASSIFICATION OVERVIEW. - ACCOUNTING FUND STRUCTURE OF THE STATE.	Brian Andrews Page 1 - 10
TAX PHILOSOPHY	(Research Section)	
9:45 - 10:15	- TAXATION EVALUATION - TAXES COMMONLY LEVIED BY STATES - TAX EXPENDITURE ANALYSIS	Mary Ellen Frank Page 11 - 12
TAX LAW	(Hearing Officers)	
10:30 - 11:30	- CONSTITUTIONAL AND FEDERAL LAW - STATUTORY AND OTHER REFERENCES - PRINCIPLES OF CONFIDENTIALITY	Theresa Hillhouse/ Diane Colvin Page 13 - 21
TAX STRUCTURE	(Division of Audit)	
- INCOME		
1:30 - 2:20	CORPORATE - GENERAL CORPORATE - PETROLEUM	Mark Graber Page 23 - 31
2:20 - 2:45	MINING LICENSE TAX	Steve Kettel Page 32
- GROSS RECEIPTS		
2:45 - 3:00	ALASKA BUSINESS LICENSE ELECTRIC AND TELEPHONE CO-OP	Richard Brewer Page 33 - 35
3:00 - 3:15	- BREAK -	
3:15 - 3:30	SEAFOOD MARKETING SALMON ENCHANCEMENT	Sylvia Vining Page 36 - 39
3:30 - 4:00	FISH - CANNED SALMON FISH - SHOREBASED FISH - FLOATING	Emilio HONDOLERO Page 40 - 50
4:00 - 4:30	QUESTION AND ANSWER	

WEDNESDAY

- EXCISE

8:30 - 8:50	FUEL TAX - AVIATION FUEL TAX - HIGHWAY FUEL TAX - MARINE	Tim Cottongim Page 51 - 53
8:50 - 9:00	ALCOHOLIC BEVERAGES TOBACCO ESTATE	Sylvia Vining Page 54 - 59

- PROPERTY

9:00 - 9: 15	OIL AND GAS	Don Bullock Page 60 - 62

- SEVERANCE

9:15 - 9:50	OIL AND GAS PRODUCTION OIL AND GAS REGULATION AND CONSERVATION	Gay Vann Page 63 - 68
9:50 - 10:05	- BREAK -	
10:05 - 10:20	REAGAN TAX REFORM PROPOSAL	Carl Meyer Page 69 - 76
10:20 - 11:00	MULTISTATE INCOME TAX a. WORLDWIDE UNITARY b. WATER'S EDGE LIMITATION THE UNITARY METHOD c. SEPARATE ACCOUNTING	Monte Renfro Page 77 - 80
11:00 - 11:30	QUESTION AND ANSWER	

TAX ENFORCEMENT	(Division of Enforcement)	
1:30 - 2:15	- PROCESSING RECEIVABLES - COLLECTING DELINQUENT TAXES - ACCOUNTS - CRIMINAL INVESTIGATIONS - MODERN COLLECTION TECHNIQUES - COMPROMISE - AMNESTY	Jim Leet Page 81 - 95
APPEALS PROCESS	(Hearing Officers)	
2:30 - 3:15	- INFORMAL CONFERENCE - FORMAL HEARING - LITIGATION	Theresa Hillhouse/ Diane Colvin Page 96 - 97

<u>REVENUE FORECASTING</u> (Research Section)

3:30 - 4:30	- DATA BASE - DELPHI GROUP - ECONOMETRIC MODELING - FORECAST a. UNDERSTANDING THE NUMBERS b. 30% CASE	Vince Wright Page 98 - 116

DEPARTMENT OF REVENUE
SEMINAR
ON
TAXATION/REVENUES

Revenue Sources/Classifications

Brian C. Andrews
Comptroller, Treasury Division
September 13, 1985

I. Revenue Classification Overview

A. Originating Source
1. Revenues from taxes, licenses, and State resource sales or use would primarily be unrestricted.
2. Revenue From federal grant-in-aid programs or interagency transfers would be restricted revenues.
3. Unrestricted or restricted revenues can be classified special purpose revenues if State or Federal law prescribed special treatment of those revenues.

B. Appropriation
1. An agency has the ability to spend money even if it can't earn unrestricted revenues
2. An agency must earn restricted revenue before it can spend it.

C. Accounting of Revenues
1. Governmental, proprietary and fudiciary fund structures of the State. (Hand out)

D. Estimated Revenue Accounts
1. The FY 85 total estimated revenue of 4 Billion 248 million is comprised of unrestricted revenues of 3 billion 237 million, restricted revenues of 284.5 million, and special purpose revenues of 726 million.(Hand out)

DEPARTMENT OF REVENUE
SEMINAR
TAXATION/REVENUES

Accounting Fund Structure of the State

Type	Short Description
Governmental Funds	
General Fund	All Funds not accounted for in another fund.
Special Revenue Funds	Statutorily Created or created before statehood, i.e. Fish & Game Fund.
Debt Service Funds	Bond issue repayment funds.
Capital Project Funds	Bond issue proceeds to be used for acquisitions.
Proprietary Funds	
Enterprise Funds	Revolving loans/International Airports.
Internal Service Funds	Goods and services provided to other funds on a cost reimbursable basis.
Fudiciary Funds	
Agency Trust Funds	Funds held by the State acting as a trustee for other governments, funds, or external parties.
Expendable Trust Funds	Principal and interest will be fully disbursed in the course of operation, i.e. PERS, TRS.
Non-Expendable	Corpus to remain intact. i.e. Public School, University of Alaska.

June 85

General Fund Unrestricted Revenues

In Thousands of Current Dollars

Taxes	FY 1985 Estimate June	FY 1986 Estimate June	FY 1987 Estimate June	
Income				
Corporate-General	41,000	41,000	41,000	(Forecast to drop)
Corporate-Petroleum	168,600	230,000	250,000	
Gross Receipts				
Alaska Business License (1)	39,000	2,000	2,000	
Fish-Canned Salmon	5,500	5,000	5,000	
Fish-Shorebased	7,000	7,000	7,000	
Fish-Floating	6,000	6,000	6,000	Fish =
Seafood Marketing	1,000	1,000	1,000	21.8m
Salmon Enhancement (2)	2,500	2,800	2,800	est
Insurance Companies – Dept of Commerce	17,500	18,000	18,000	
Electric and Telephone Co-ops	1,900	1,800	1,800	
Mining License Tax	300	300	300	
Severance				
Oil & Gas Production (3)	1,366,800	1,165,000	980,200	
Oil & Gas Conservation	700	700	700	
Property				
Oil & Gas	128,300	123,000	126,200	
Sale/Use				
Alcoholic Beverages	14,000	14,500	14,500	
Fuel Taxes-Aviation (4)	8,000	8,000	8,000	
Fuel Taxes-Highway (4)	24,000	22,500	22,500	
Fuel Taxes-Marine (4)	4,200	4,300	4,400	
Tobacco Products (5)	2,300	5,700	7,800	
Other				
Estate	500	600	600	
Total Taxes	1,839,100	1,659,200	1,499,800	
Licenses & Permits				
Business (6)	12,000	12,800	15,600	
Non-Business	16,000	16,500	17,000	
Total Licenses & Permits	28,000	29,300	32,600	
Intergovernmental Receipts				
Federal Shared Revenues (7)(8)(9)	11,500	11,500	11,500	
State Resource Revenue				
Sale/Use				
Bonus Sales (7)(10)(11)	10,200	-0-	-0-	
Investment Earnings	247,000	200,000	195,000	
Rents (7)(10)(11)	5,500	5,500	6,000	
Royalties (3)(7)	1,019,400	886,300	749,000	
Sale of State Property	7,500	8,000	8,500	
Gravel, Timber, etc. (12)	3,000	10,000	5,800	
Facilities Related Charges				
Airports	1,600	1,600	1,700	
Ferry System Southeast	30,000	32,500	34,000	
Ferry System Southwest	3,700	4,000	4,400	
Other	5,000	5,000	5,000	

Service Related Charges			
Court System	4,600	4,900	5,200
Other	5,000	5,000	5,000
Total State Resources Revenues	1,342,500	1,162,800	1,019,600
Miscellaneous Revenues	16,500 (13)	10,000	10,000
Total Unrestricted Revenues (14)	3,237,600	2,872,800	2,573,500

(1) The large amounts in FY 85 are the result of litigation in favor of the State on gross receipts taxes for years prior to 1979. The amounts shown for FY 86 and FY 87 do not include any estimate of proceeds from cases which are still in litigation.

(2) The FY 86 and FY 87 estimates reflect the recent approval by the Prince William Sound Aquaculture Corporation to assess a 2% salmon enhancement tax, effective upon the first opening of the 1985 commercial salmon season.

(3) The FY 85 forecast assumes the mean case. The forecasted numbers for FY 86 and FY 87 assume the 30 percent case; however, if the mean case had been utilized for FY 86 and FY 87, the production taxes would change to $1,203.6 million and $1,069.4 million, respectively. The royalty figures would change to $9.5.2 million and $820.28 million, respectively.

(4) Revenues from the three main categories of fuel tax are shown separately. However, under the provisions of AS 43.40.010(h), all refunds are made from the highway fuel tax account. If gross collections of highway fuel taxes remain constant, an increase in refunds for aviation and marine fuels could lower the net revenues shown for highway fuels. Also, increasing use is being made of tax credits, which can be taken in lieu of claiming a refund on certain non-taxable use of fuel (15 AAC 40.200).

(5) SLA 85, Ch. 24 raised the general fund portion of the cigarette tax from a rate of 1-1/2 mills ($.0015) to 5-1/2 mills ($.0055) per cigarette. The Act takes effect October 1, 1985.

(6) The FY 86 and FY 87 estimates reflect Ch. 26 and Ch. 37, SLA 1985 which increase the revenue collected for insurance and occupational licensing fees.

(7) Net Permanent Fund contribution by Ch. 18 SLA 1980.

(8) Ch. 94, SLA 1984 establishes the National Petroleum Reserve, Alaska, Special Revenue Fund, and provides for federal mineral receipts to be divided equally between the Alaska Permanent Fund and the National Petroleum Reserve Fund. FY 85 and subsequent year estimates have been lowered to reflect this change in allocation.

(9) The FY 85 estimate does not include any revenues shared (50/50 basis) with the federal government from the NPR A lease sale held July 20, 1983. Although high bids totaled $16.7 million, leases will not be awarded until challenges of the sale by the State of Alaska are resolved. The State's share, assuming the case is resolved, will be equally divided between the General Fund and the Permanent Fund.

(10) Reflects state lease sales of $33.8 million held May 22, 1984 (Sale 43 and 43A Beaufort Sea), $0.8 million held September 18, 1984 (Sale 41 -Bristol Bay), and $2.5 million held February 26, 1985 (Sale 46A - Upper Cook Inlet). Due to the timing of collections, some receipts from the May 1984 lease sale are shown as FY 85 revenue. The FY 85 figure represents the General Fund's 50 percent share with the remaining 50 percent deposited in the Permanent Fund.

(11) The Department of Natural Resources projects the following FY 86 and FY 87 state lease sales: FY 86 (Sale 45A -North Slope onshore, Sale 47 -Kuparuk Uplands, Sale 48 -Kuparuk Uplands, Sale 49 -Cook Inlet); and FY 87 (Sale 52 -Beaufort Sea, Sale 51 -Prudhoe Bay Uplands, Sale 50 -Camden Bay). However, bonus bids are impossible to anticipate prior to sales and, therefore, no estimates are provided.

(12) Estimates reflect increased construction of roads and drilling pads as projected by the Department of Natural Resources, however, some of these projects may be delayed or changed due to permit denials or environmental impact statement requests.

(13) The FY 85 estimate reflects the termination of the Alaska Resources Corporation. Corporate assets ($6.2 million) were deposited in the General Fund per Ch. 161, SLA 1984.

(14) The state, per AS 38.05.180, will be granting incentive credits against royalties, severance taxes, and rentals to the oil companies for drilling exploratory wells. The anticipated deduction is approximately $15.3 million which has not been subtracted from the aforementioned FY 85 figure of $3,237.6 million. Additional credits are anticipated in subsequent years.

Restricted Revenues

In Thousands of Current Dollars

	FY 1985 Estimate June	FY 1986 Estimate June	FY 1987 Estimate June
Federal Grants-in-Aid			
I. Education	47,500	54,300	55,400
II. Social Services	103,600	114,400	115,900
III. Health	6,000	6,000	6,000
IV. Natural Resources	14,700	20,300	23,300
V. Public Protection	9,300	9,700	9,700
VI. Administration of Justice	600	600	600
VII. Development	4,000	3,700	3,200
VIII. Transportation	70,000	73,500	77,000
IX. General Government	100	100	100
Total Federal Grants-in-Aid	255,800	282,600	291,200
Other Grants-in-Aid			
I. Education	1,500	1,400	1,400
II. Social Services	5,400	3,100	3,300
III. Health	100	100	100
IV. Natural Resources	500	700	500
V. Public Protection	1,500	2,200	2,000
VI. Administration of Justice	100	200	200
VII. Development	6,200	8,300	8,700
VIII. Transportation	700	900	900
IX. General Government	2,700	3,000	3,100
Total Other Grants-in-Aid	18,700	19,900	20,200
Miscellaneous Restricted Revenue-All Categories	10,000	10,000	10,000
Total Restricted Revenue 1/	284,500	312,500	321,400
Total Unrestricted Revenue	3,237,600	2,872,800	2,573,500
Total General Fund Revenue	3,522,100	3,185,300	2,894,900

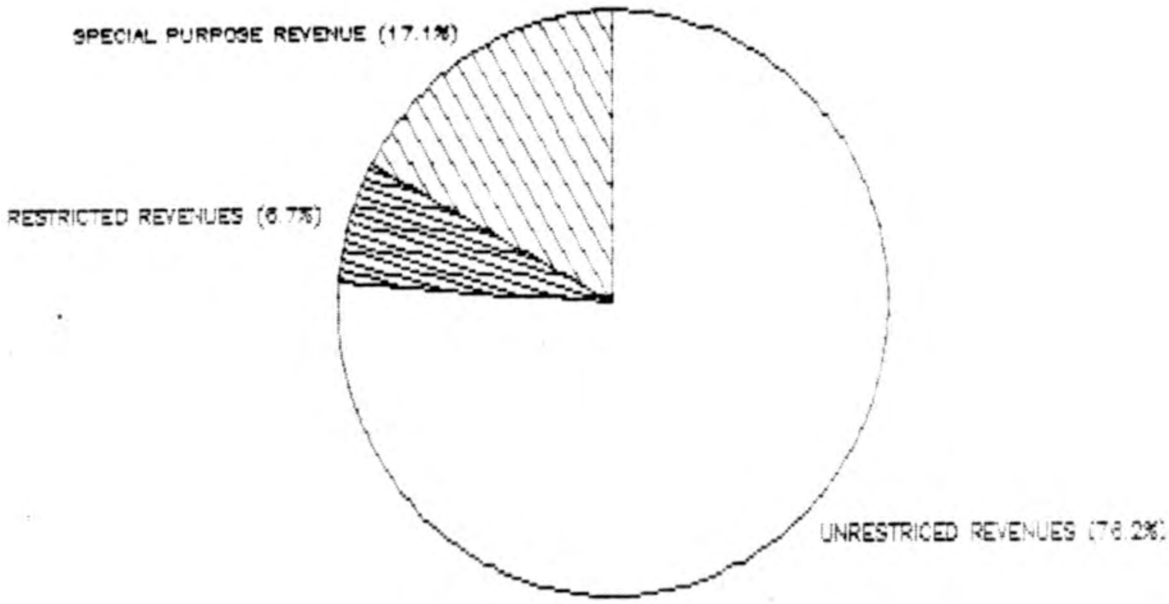
1/ Restricted Revenue figures may not agree with those shown in the Governor's budget due to categorical differences between the budget and accounting system.

Special Funds
In Thousands of Current Dollars

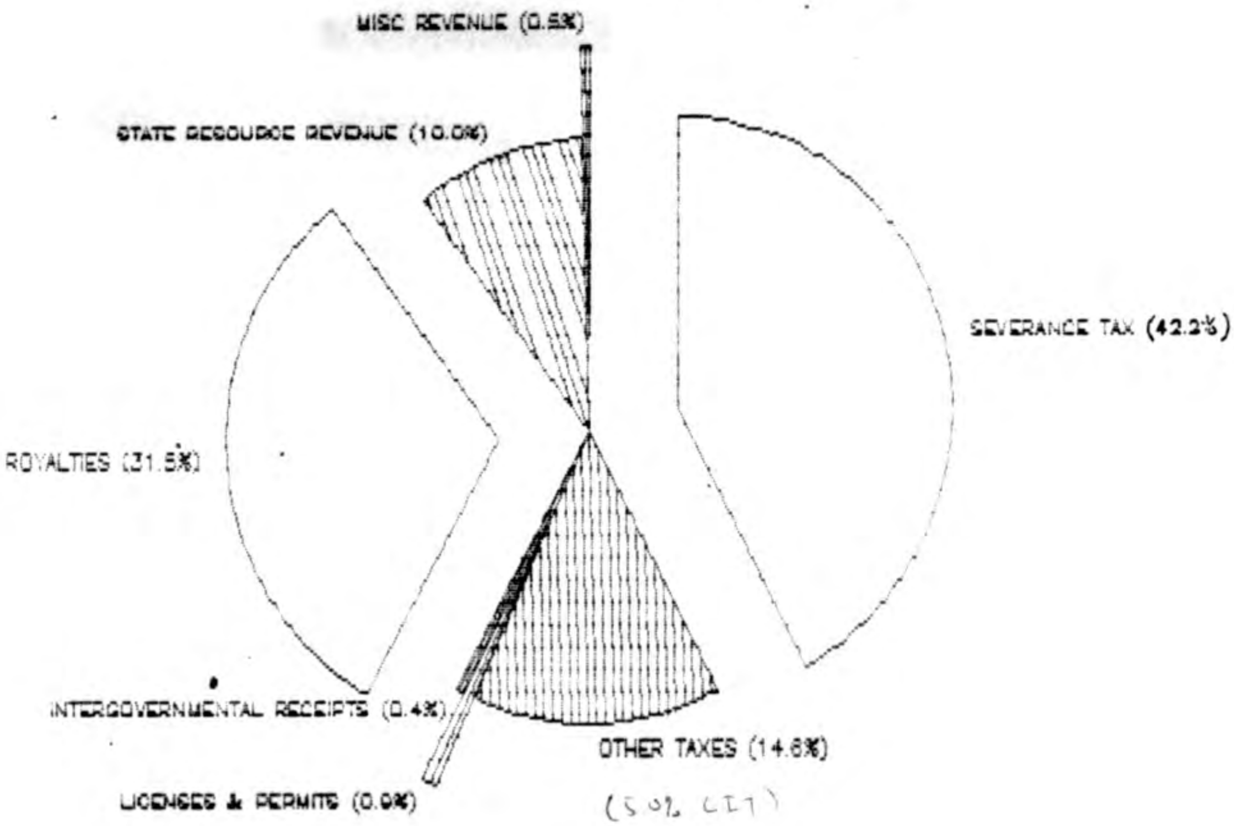
	FY 1985 Estimate June	FY 1986 Estimate June	FY 1987 Estimate June
Enterprise Funds			
Agriculture Loan Fund	1,400	1,400	1,400
Alternative Technology and Energy Loan Fund	500	600	600
Bulk Fuel Loan Fund	-0-	-0-	-0-
Child Care Facility Loan Fund	-0-	-0-	-0-
Commercial Fish Loan Fund	3,100	3,600	4,000
Fisheries Enhancement Loan Fund	-0-	-0-	-0-
Fisheries Product Loan Fund	-0-	-0-	-0-
Historical District Loan Fund	-0-	-0-	-0-
International Airport Revenue Fund	41,800	44,000	45,900
Medical Malpractice Loan Fund	-0-	-0-	-0-
Mining Loan Fund	1,100	1,100	1,100
Power Project Loan Fund	1,200	1,300	1,300
Residential Energy Conservation Loan Fund	300	200	200
Scholarship Loan Fund	1,600	2,000	2,500
Small Business Loan Fund	2,600	2,900	2,600
Tourism Loan Fund	300	300	200
World War II Veterans Loan Fund	1,000	1,000	900
Total Enterprise Funds	54,900	58,400	60,700
Special Revenue Funds			
Alaska Permanent Fund (1)	654,200	299,600	254,000
Revenue Sharing Fund	-0-	-0-	-0-
NPR-A Special Revenue Fund	5,500	5,500	5,500
Fish and Game Fund	7,300	7,600	7,900
Marine Coastal Damage Fund	-0-	-0-	-0-
School Fund	3,500	3,500	3,700
Training & Building Fund	600	600	600
Total Special Revenue Funds	671,100	316,800	271,700
Total Special Funds	726,000	375,200	332,400

(1) The FY 85 figures includes the final $300 million of the $1.8 billion appropriated to the Alaska Permanent Fund per Ch. 61 SLA 1981 and Ch. 101 SLA 1982. This obligation has now been fully satisfied.

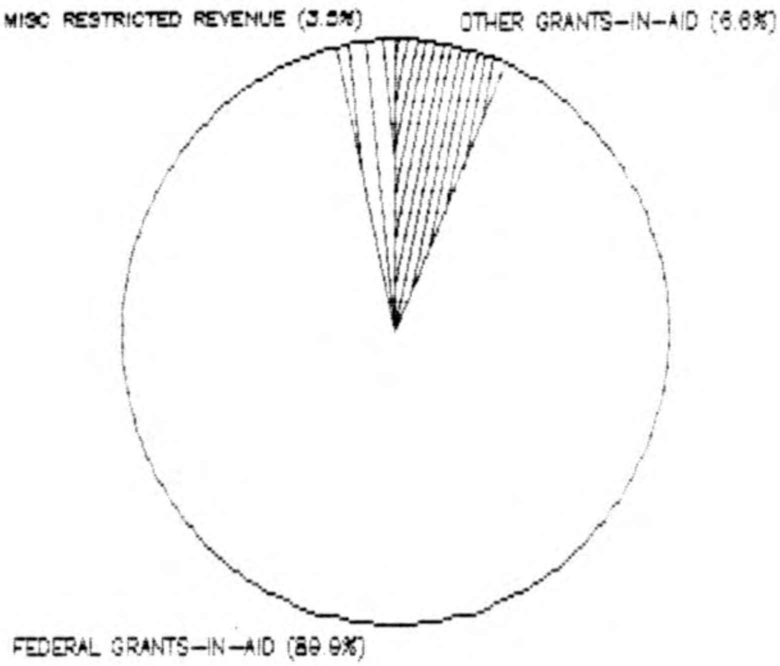
STATE OF ALASKA REVENUES
FY JUNE 1985 ESTIMATE



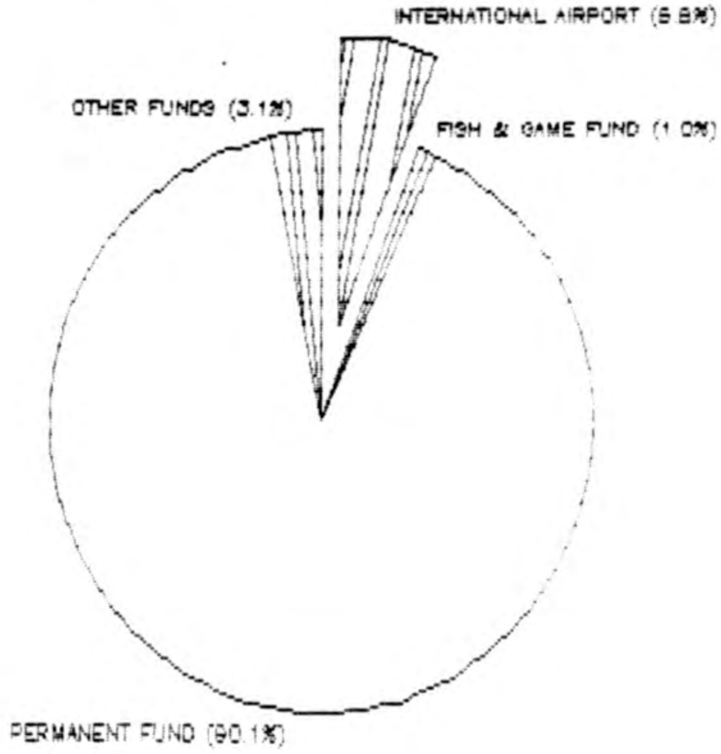
GENERAL FUND UNRESTRICTED REVENUES



RESTRICTED REVENUES



SPECIAL PURPOSE REVENUE



TAXATION/REVENUE SEMINAR

OUTLINE

By Mary Ellen Frank

1. Taxation Evaluation

   a. Evaluation of groups in taxation process

      1) Individuals (Workers, Consumers, Stockholders, etc.)

         a) Income Distribution (Table 1)

         b) Income Sources by Income Group (Table 2)

         c) Income Uses by Income Group (Table 3)

      2) Firms

      3) Governments

         a) Deductibility of one governments taxes against another

         b) Typical taxes by layer of government

   b) Evaluation of Tax Incidence and Shifting

   c) Issues

      1) Economic Efficiency

      2) Equity and Fairness (Table 4)

      3) Elasticity

      4) Administrative Efficiency

      5) Political Feasibility and Justification

2. Taxes Commonly Levied by States

   a. Types and Rates (Table 5)

   b. Percent Total Revenue by Type (Table 6)

3. Tax Expenditure Analysis

   a. Definition

   b. Rationale for Tax Expenditures

      1) Federal Conformity

      2) Removal of Inequities

      3) Ease of Administration

      4) Tax Reduction

         a) Encourage Certain Business Activity

         b) Relieve Social Hardship

   c. Evaluation of Fiscal Impact

TAXATION/REVENUE SEMINAR

OUTLINE
by Hearing Examiner Section

TAX LAW.

1. Constitutional and Federal Law.

a. Alaska Constitution.

i. Art. 9, sec. 1. Taxing Power.

ii. Art. 9, sec. 2. Non-discrimination.

iii. Art. 9, sec. 3. Assessment standards.

iv. Art. 9, sec. 4. Exemptions (state, political subdivisions, non-profit religious, charitable, cemetery and educational purposes, and other exemptions prescribed by law).

v. Art. 9, sec. 5. Interests in government property.

vi. Art. 9, sec. 6. Public purpose.

b. Commerce and Due Process Clauses, U.S. Constitution. US Const. Art I Sec 3 cl 8

i. Commerce clause prohibits states from inhibiting or placing an undue burden on interstate commerce.

ii. Due process clause prevents states from imposing a tax where the relationship of the taxing state with the taxed event is insufficient to sustain the tax. 'Nexus' 14th Am

A. Event taxed must bear a rational relation to the taxing state.

B. Opportunities, benefits or protection must be conferred or afforded by taxing authority before tax may be imposed.

iii. Nexus, or a definite link or minimum connection between the activity within the state and the tax, is required.

c. Public Law 86-272. 15 USC 381-384

1. Forbids a state from imposing an income tax on income derived within a state from interstate commerce if the only business activity within the state is solicitation of orders for sales of tangible personal property.

A. Orders solicited by seller's own employees must be sent outside the state for approval or rejection and orders, if approved, must be filled by shipment or delivery from a point outside the state.

B. Seller may also solicit where solicitation is directed toward obtaining orders in the name of or for the benefit of a prospective customer.

C. Sales through independent contractors also permitted without incurring liability for taxation.

ii. Interpretation of statutory terms "solicitation" and "delivery" common subject of litigation.

2. Statutory and Other References.

a. Alaska statutes (Title 43) and regulations (Title 15).

b. Internal Revenue Code and Treasury regulations adopted by reference through AS 43.20.021(a) and AS 43.20.300.

c. Formal Hearing Decisions.

d. Revenue Rulings.

e. Court decisions.

3. Principles of Confidentiality.

a. Disclosure restricted to certain persons, materials and purposes. (AS 9.25.100, AS 43.05.230, AS 43.20.021).

b. Statutory provisions applicable to all Department of Revenue personnel.

c. Consequence of unauthorized disclosure:

i. Criminal - Fine or imprisonment or both.

ii. Civil - Personal action against employee.

d. Statutory terms.

i. Tax information - tax return, return information, applications, refund claims, schedules, etc..

ii. Confidential information - all Department of Revenue tax information.

iii. Disclosure - making known any tax information orally, in writing or through action.

e. Authorized Disclosure.

i. Authorized by statute.

ii. Written request for return by an authorized person.

iii. Information requested by authorized persons - taxpayer, third party in the presence of taxpayer, and third party by written authorization.

iv. Joint return releasable to either spouse.

v. Corporate return releasable to persons, employees, and officers designated by corporation.

vi. Partnership return releasable to either partner.

f. Business license information releasable to public, but application information not appearing on license is confidential.

g. Returns and monthly statements confidential.

h. Tax information <u>may</u> be released to other Agencies and Departments.

i. Child Support Enforcement Agency

ii. Multistate Tax Commission

iii. Commercial Fisheries Entry Commission

iv. Attorney General

v. Employment Security Division

vi. Law Enforcement Agencies

vii. Internal Revenue Service

i. Guidelines for releasing tax information to taxpayers - identification, written request.

CONSTITUTION OF ALASKA

Article IX <u>Finance and Taxation</u>

Section 1. <u>Taxing Power.</u> The power of taxation shall never be surrendered. This power shall not be suspended or contracted away, except as provided in this article.

Section 2. <u>Nondiscrimination.</u> The lands and other property belonging to citizens of the United States residing without the State shall never be taxed at a higher rate than the lands and other property belonging to the residents of the State.

Section 3. <u>Assessment Standards.</u> Standards for appraisal of all property assessed by the State or its political subdivisions shall be prescribed by law.

Section 4. <u>Exemptions.</u> The real and personal property of the State or its political subdivisions shall be exempt from taxation under conditions and exceptions which may be provided by law. All, or any portion of, property used exclusively for non-profit religious, charitable, cemetery, or educational purposes, as defined by law, shall be exempt from taxation. Other exemptions of like or different kind may be granted by general law. All valid existing exemptions shall be retained until otherwise provided by law.

Section 5. <u>Interests in Government Property.</u> Private leaseholds, contracts, or interests in land or property owned or held by the United States, the State, or its political subdivisions, shall be taxable to the extent of the interests.

Section 6. <u>Public Purpose.</u> No tax shall be levied, or appropriation of public money made, or public property transferred, nor shall the public credit be used, except for a public purpose.

Section 7. <u>Dedicated Funds</u> (<u>Alex</u>)

Section 15. Alaska Permanent Fund

"(a) Except as provided in subsection (b), the amendments made by this Act [to sections 375 to 378 of this title] shall take effect thirty days after the date of its enactment [Aug. 9, 1955].

"(b) The provisions of section 2(a) of the Act of October 19, 1949, as amended by this Act [section 376(a) of this title], insofar as it requires the filing of memoranda or copies of invoices with the appropriate tax administrator for shipments of cigarettes into the District of Columbia, Alaska, Hawaii, and the Commonwealth of Puerto Rico, shall apply in respect of memoranda or copies of invoices covering shipments made during calendar months beginning after the month in which this Act is enacted [August 1955]."

ADMISSION OF ALASKA AND HAWAII TO STATEHOOD

Alaska was admitted into the Union on Jan. 3, 1959, upon the issuance of Proc. No. 3269, Jan. 3, 1959, 24 F.R. 81, 73 Stat. c16, and Hawaii was admitted into the Union on Aug. 21, 1959, upon the issuance of Proc. No. 3309, Aug. 21, 1959, 24 F.R. 6868, 73 Stat. c74. For Alaska Statehood Law, see Pub. L. 85-508, July 7, 1958, 72 Stat. 339, set out as a note preceding section 21 of Title 48, Territories and Insular Possessions. For Hawaii Statehood Law, see Pub. L. 86-3, Mar. 18, 1959, 73 Stat. 4, set out as a note preceding section 491 of title 48.

§ 376. Reports to State tobacco tax administrator; contents; presumptive evidence

(a) Any person who sells or transfers for profit cigarettes in interstate commerce, whereby such cigarettes are shipped into a State taxing the sale or use of cigarettes, to other than a distributor licensed by or located in such State, or who advertises or offers cigarettes for such a sale or transfer and shipment, shall—

(1) first file with the tobacco tax administrator of the State into which such shipment is made or in which such advertisement or offer is disseminated a statement setting forth his name and trade name (if any), and the address of his principal place of business and of any other place of business; and

(2) not later than the 10th day of each calendar month, file with the tobacco tax administrator of the State into which such shipment is made, a memorandum or a copy of the invoice covering each and every shipment of cigarettes made during the previous calendar month into such State; the memorandum or invoice in each case to include the name and address of the person to whom the shipment was made, the brand, and the quantity thereof.

(b) The fact that any person ships or delivers for shipment any cigarettes shall, if such shipment is into a State in which such person has filed a statement with the tobacco tax administrator under subsection (a)(1) of this section, be presumptive evidence (1) that such cigarettes were sold, or transferred for profit, by such person, and (2) that such sale or transfer was to other than a distributor licensed by or located in such State.

(Oct. 19, 1949, ch. 699, § 2, 63 Stat. 884; Aug. 15, 1953, ch. 512, title II, § 201(a), 67 Stat. 617; Aug. 9, 1955, ch. 695, § 1, 69 Stat. 627.)

AMENDMENTS

1955—Act Aug. 9, 1955, designated existing provisions as subsec. (a), inserted provisions therein requiring the filing of a statement of name, trade name, address, and places of business by persons who sell or transfer for profit cigarettes in interstate commerce or by persons who advertise or offer cigarettes for such sale or transfer, and added subsec. (b).

1953—Act Aug. 15, 1953, required that the memorandum or copy of invoice be filed with, rather than forwarded to, the tobacco tax administrator.

EFFECTIVE DATE OF 1955 AMENDMENT

For effective date of amendment by act Aug. 9, 1955, see section 2 of act Aug. 9, 1955, set out as a note under section 375 of this title.

EFFECTIVE DATE OF 1953 AMENDMENT

Section 201(b) of act Aug. 15, 1953, provided that the amendment to this section "shall apply only in respect of memoranda or copies of invoices covering shipments made during the calendar month in which this Act is enacted [August 15, 1953] and subsequent calendar months."

§ 377. Penalties

Whoever violates any provision of this chapter shall be guilty of a misdemeanor and shall be fined not more than $1,000, or imprisoned not more than 6 months, or both.

(Oct. 19, 1949, ch. 699, § 3, 63 Stat. 885; Aug. 9, 1955, ch. 695, § 1, 69 Stat. 628.)

AMENDMENTS

1955—Act Aug. 9, 1955, substituted "any provision of this chapter" for "the provisions of this chapter".

EFFECTIVE DATE OF 1955 AMENDMENT

Amendment by act Aug. 9, 1955, effective 30 days after Aug. 9, 1955, see section 2 of act Aug. 9, 1955, set out as a note under section 375 of this title.

§ 378. Jurisdiction to prevent and restrain violations

The United States district courts shall have jurisdiction to prevent and restrain violations of this chapter.

(Oct. 19, 1949, ch. 699, § 4, as added Aug. 9, 1955, ch. 695, § 1, 69 Stat. 628.)

EFFECTIVE DATE

Section effective 30 days after Aug. 9, 1955, see section 2 of act Aug. 9, 1955, set out as a note under section 375 of this title.

CHAPTER 10B—STATE TAXATION OF INCOME FROM INTERSTATE COMMERCE

SUBCHAPTER I—NET INCOME TAXES

Sec.

SUBCHAPTER I—NET INCOME TAXES

§ 381. Imposition of net income tax

(a) Minimum standards

No State, or political subdivision thereof, shall have power to impose, for any taxable year ending after September 14, 1959, a net income tax on the income derived within such State by any person from interstate commerce if the only business activities within such State by or on behalf of such person during such taxable year are either, or both, of the following:

(1) the solicitation of orders by such person, or his representative, in such State for sales of tangible personal property, which orders are sent outside the State for approval or rejection, and, if approved, are filled by shipment or delivery from a point outside the State; and

(2) the solicitation of orders by such person, or his representative, in such State in the name of or for the benefit of a prospective customer of such person, if orders by such customer to such person to enable such customer to fill orders resulting from such solicitation are orders described in paragraph (1).

(b) Domestic corporations; persons domiciled in or residents of a State

The provisions of subsection (a) of this section shall not apply to the imposition of a net income tax by any State, or political subdivision thereof, with respect to—

(1) any corporation which is incorporated under the laws of such State; or

(2) any individual who, under the laws of such State, is domiciled in, or a resident of, such State.

(c) Sales or solicitation of orders for sales by independent contractors

For purposes of subsection (a) of this section, a person shall not be considered to have engaged in business activities within a State during any taxable year merely by reason of sales in such State, or the solicitation of orders for sales in such State, of tangible personal property on behalf of such person by one or more independent contractors, or by reason of the maintenance, of an office in such State by one or more independent contractors whose activities on behalf of such person in such State consist solely of making sales, or soliciting orders for sales, or tangible personal property.

(d) Definitions

For purposes of this section—

(1) the term "independent contractor" means a commission agent, broker, or other independent contractor who is engaged in selling, or soliciting orders for the sale of, tangible personal property for more than one principal and who holds himself out as such in the regular course of his business activities; and

(2) the term "representative" does not include an independent contractor.

(Pub. L. 86-272, title I, § 101, Sept. 14, 1959, 73 Stat. 555.)

STUDY AND REPORT BY CONGRESSIONAL COMMITTEES OF STATE TAXATION FROM INTERSTATE COMMERCE

Title II of Pub. L. 86-272, as amended by Pub. L. 87-17, Apr. 7, 1961, 75 Stat. 41; Pub. L. 87-435, Apr. 21, 1962, 76 Stat. 55; Pub. L. 88-42, June 21, 1963, 77 Stat. 67; Pub. L. 88-286, Mar. 18, 1964, 78 Stat. 166, and repealed by Pub. L. 94-455, title XXI, § 2121(a), Oct. 4, 1976, 90 Stat. 1914, provided for a study by the Committee on the Judiciary of the House of Representatives and the Committee on Finance of the United States Senate, acting separately or jointly, or any duly authorized subcommittee thereof, of all matters pertaining to the taxation of interstate commerce by the States, territories, and possessions of the United States, the District of Columbia, and the Commonwealth of Puerto Rico, or any political or taxing subdivision of the foregoing, and for a report together with their proposals for legislation on or before June 30, 1965.

SECTION REFERRED TO IN OTHER SECTIONS

This section is referred to in section 382 of this title.

§ 382. Assessment of net income taxes; limitations; collection

(a) No State, or political subdivision thereof, shall have power to assess, after September 14, 1959, any net income tax which was imposed by such State or political subdivision, as the case may be, for any taxable year ending on or before such date, on the income derived within such State by any person from interstate commerce, if the imposition of such tax for a taxable year ending after such date is prohibited by section 381 of this title.

(b) The provisions of subsection (a) of this section shall not be construed—

(1) to invalidate the collection, on or before September 14, 1959, of any net income tax imposed for a taxable year ending on or before such date, or

(2) to prohibit the collection, after September 14, 1959, of any net income tax which was assessed on or before such date for a taxable year ending on or before such date.

(Pub. L. 86-272, title I, § 102, Sept. 14, 1959, 73 Stat. 556.)

§ 383. Definition

For purposes of this chapter, the term "net income tax" means any tax imposed on, or measured by, net income.

(Pub. L. 86-272, title I, § 103, Sept. 14, 1959, 73 Stat. 556.)

§ 384. Separability of provisions

If any provision of this chapter or the application of such provision to any person or circumstance is held invalid, the remainder of this chapter or the application of such provision to persons or circumstances other than those to which it is held invalid, shall not be affected thereby.

(Pub. L. 86-272, title I, § 104, Sept. 14, 1959, 73 Stat. 556.)

SUBCHAPTER II—DISCRIMINATORY TAXES

§ 391. Tax on or with respect to generation or transmission of electricity

No State, or political subdivision thereof, may impose or assess a tax on or with respect to the generation or transmission of electricity which discriminates against out-of-State manufacturers, producers, wholesalers, retailers, or consumers of that electricity. For purposes of this section a tax is discriminatory if it results, either directly or indirectly, in a greater tax burden on electricity which is generated and transmitted in interstate commerce than on have to the money, instrument, or property, or he waives it. If the objection is to the amount of money, the terms of the instrument, or the amount or kind of property, he shall specify the amount, terms, or kind which he requires, or is precluded from objecting later. This section shall not be construed to modify or change in any manner corresponding provisions of the Uniform Commercial Code (AS 45.05). (§ 3.20 ch 101 SLA 1962)

It is not necessary to tender cash. Ward v. Miller, 13 Alaska 752 (1952).

And a check, unobjected to, would constitute a proper tender. Ward v. Miller, 13 Alaska 752 (1952).

Sec. 09.25.100. Disposition of tax information. Information in the possession of the department of revenue which discloses the particulars of the business or affairs of a taxpayer or other person is not a matter of public record, except for purposes of investigation and law enforcement. The information shall be kept confidential except when its production is required in an official investigation or court proceeding. These restrictions do not prohibit the publication of statistics presented in a manner that prevents the identification of particular reports and items, or prohibit the publication of tax lists showing the names of taxpayers who are delinquent and relevant information which may assist in the collection of delinquent taxes. (§ 3.21 ch 101 SLA 1962)

Sec. 09.25.110. Inspection and copies of public records. Unless specifically provided otherwise the books, records, papers, files, accounts, writings, and transactions of all agencies and departments are public records and are open to inspection by the public under reasonable rules during regular office hours. The public officer having the custody of public records shall give on request and payment of costs a certified copy of the public record. (§ 3.22 ch 101 SLA 1962)

Cross references.—See Civ. R. 44(b)(4). As to management and preservation of public records, see AS 40.21.

It is "specifically provided otherwise" by AS 12.45.050.—With respect to the right of inspection and copying records under this section, it is "specifically provided otherwise," so far as police records are concerned, by the terms of AS 12.45.050, thus meeting the express exception to this section. Howard v. Jackson, 7 Alas. L.J. No. 3, p. 431 (March 12, 1969).

Stated in State v. Coon, 2 Alas. L.J. No. 1, p. 3 (Jan. 1964).

ALR and C.J.S. references.—Finding of draft board as evidence of physical condition of one registered, 16 ALR 247.

Admissibility of report of public officer or employee on cause of or responsibility for injury to person or damage to property, 153 ALR 163.

32 C.J.S. Evidence §§ 649 to 675.

Sec. 09.25.120. Inspection and copying of public records. Every person has a right to inspect a public writing or record in the state, including public writings and records in recorders' offices except (1) records of vital statistics and adoption proceedings which shall be treated in the manner required by AS 18.50.010—

Sec. 43.05.230. Disclosure of tax retuns and reports. (a) Except in connection with official investigations or proceedings of the department, whether judicial or administrative, involving taxes due under this title, except in connection with official investigations or proceedings of the child support enforcement agency, whether judicial or administrative, involving child support obligations imposed or imposable under AS 25 or 47, and except as otherwise provided in this section, it is unlawful for a current or former officer, employee or agent of the state to divulge the amount of income or the particulars set out or disclosed in a report or return made under this title. (§ 2 ch 113 SLA 1980)

(b) The department, upon written request, shall furnish to the taxpayer a copy of his tax return upon payment of a fee of $1 per page.

(c) The department may permit the proper officer of the United States or of a state, territory or possession of the United States or of the Dominion of Canada or of a province or territory of Canada, or his authorized representative, to inspect tax returns or reports filed with the department, or may furnish to the officer or representative a copy of the tax return, if the other jurisdiction grants substantially similar privileges to the department or its representative or to counsel for the state; and if the department determines that the other jurisdiction provides adequate safeguards for the confidentiality of the returns and reports, and that the returns and reports will be used for tax purposes only. The department may also permit the employment security division of the Alaska Department of Labor to inspect tax returns or reports filed with the department or may furnish a copy of the tax returns for tax purposes only.

(d) The commissioner of revenue at his discretion may furnish to the Multistate Tax Commission or other authorized agent information contained in the tax returns, reports, related schedules and documents filed under an audit or investigation of a multistate business made by the department. This information may be furnished for tax purposes only. The Multistate Tax Commission or other authorized agent may make the information available to the tax officials of other states, the District of Columbia, the United States and its territories for tax purposes only.

(e) Nothing in this section prohibits the publication of statistics so classified as to prevent the identification of particular returns or reports or the publication of delinquent lists showing the names of taxpayers who have failed to pay their taxes at the time and in the manner provided by law, together with other relevant information which in the opinion of the department may assist in the collection of delinquent taxes.

(f) A wilful violation of the provisions of this section is punishable by a fine of not more than $5,000, or by imprisonment for not more than two years, or by both. (§ 2 ch 166 SLA 1976; am § 32 ch 126 SLA 1977)

(g) The information contained in a license issued by the commissioner of revenue under AS 43.50, AS 43.60, AS 43.65, AS 43.70, and AS 43.75 is public information. (§ 3 ch. 113 SLA 1980)

Effective date. — Section 8, ch. 144, SLA 1978, makes this section effective January 1, 1979.

Editor's note. — Section 6, ch. 144, SLA 1978, effective January 1, 1979, provides: "TRANSITIONAL RULES FOR REVENUE SHARING UNDER THIS ACT. The revenue raised under AS 43.70 which relates to the 1978 calendar year (including the $25 license fee due March 1, 1978 and the fees on the total gross receipts for 1978 which accompany returns filed in 1979 under AS 43.70.030(d) is the source of revenue to be shared in 1979 in accordance with AS 43.70.080. The increase in the corporate income tax which goes into effect in 1979 is the source of revenue to be shared with the municipalities under AS 43.20.016 in 1980 and subsequent years. This Act does not entitle any organizated borough or any city of any class to revenue under both AS 43.70.080 and AS 43.20.016, for the same period of time."

Sec. 43.20.017. Individual tax exemptions. Repealed by § 9 ch 2 SSSLA 1980.

Sec. 43.20.020. Exemptions. Repealed by § 13 ch 70 SLA 1975.

Editor's note. — The repealed section derived from § 5E, ch. 115, SLA 1949; added by § 1, ch. 132, SLA 1951; § 3, ch. 175, SLA 1959; § 1, ch. 202, SLA 1968; § 1, ch. 214, SLA 1968.

Sec. 43.20.021. Internal Revenue Code adopted by reference. (a) Subtitle F and chapter 1 of subtitle A of the 1954 Internal Revenue Code, Public Law 83-591, as amended, are adopted by reference as a part of this chapter, except that those provisions of the Internal Revenue Code adopted after December 31, 1975 which change or modify exemptions from tax or credits against tax are not adopted by reference as a part of this chapter until the second January 1 following the effective date of the federal law. These portions of the Internal Revenue Code have full force and effect under this chapter unless excepted to or modified by other provisions of this chapter.

(b) For purposes of calculating the federal tax payable on personal holding companies provided for in the provisions of Internal Revenue Code § 541, the rate is 12.6 percent.

(c) For purposes of calculating the alternative tax on capital gains provided for in the provisions of Internal Revenue Code § 1201, the rate is 4.5 percent for corporations. (am § 3 ch 2 SSSLA 1980)

(d) Where a credit allowed under the Internal Revenue Code is also allowed in computing Alaska income tax, it is limited to 18 percent for corporations of the amount of credit determined for federal income tax purposes which is attributable to Alaska. (§ 12 ch 113 SLA 1980; am § 4 ch 2 SSSLA 1980)

DIVISION OF AUDIT
INSTRUCTION SCHEDULE (PREPARED AUGUST 8, 1985)
TAX SEMINAR
OCTOBER 8TH AND 9TH AND OCTOBER 15TH AND 16TH

TUESDAY

TAX STRUCTURE

- INCOME

1:30 - 2:20	CORPORATE - GENERAL CORPORATE - PETROLEUM	Mark Graber
2:20 - 2:45	MINING LICENSE TAX	Steve Kettel

- GROSS RECEIPTS

2:45 - 3:00	ALASKA BUSINESS LICENSE ELECTRIC AND TELEPHONE CO-OP	Richard Brewer
3:00 - 3:15	- BREAK -	
3:15 - 3:30	SEAFOOD MARKETING SALMON ENCHANCEMENT	Sylvia Vining
3:30 - 4:00	FISH - CANNED SALMON FISH - SHOREBASED FISH - FLOATING	Emilio Hondolero
4:00 - 4:30	QUESTION AND ANSWER	

WEDNESDAY

- EXCISE

8:30 - 8:50	FUEL TAX - AVIATION FUEL TAX - HIGHWAY FUEL TAX - MARINE	Tim Cottongim
8:50 - 9:00	ALCOHOLIC BEVERAGES TOBACCO ESTATE	Sylvia Vining

- PROPERTY

9:00 - 9: 15	OIL AND GAS	Don Bullock

- SEVERANCE

9:15 - 9:50	OIL AND GAS PRODUCTION OIL AND GAS REGULATION AND CONSERVATION	Gay Vann
9:50 - 10:05	- BREAK -	
10:05 - 10:20	REAGAN TAX REFORM PROPOSAL	Carl Meyer
10:20 - 11:00	MULTISTATE INCOME TAX a. WORLDWIDE UNITARY b. WATER'S EDGE LIMITATION THE UNITARY METHOD c. SEPARATE ACCOUNTING	Monte Renfro
11:00 - 11:30	QUESTION AND ANSWER	

ALASKA TAXATION - POLICY AND STRUCTURE SEMINAR

TOPIC: Corporate - General and Petroleum

PRESENTER: Mark Graber
Appeals Officer
Division of Audit

I Introduction

A. Approximately 10% of state revenue comes from corporate income tax

B. Total revenues in 1984 were about $300 million

II Status - General Application

A. AS 43.20.011 - Imposes a tax on the entire taxable income of every corporation derived from sources within the state.

B. Tax rates are progressive from 1% to 9.4%

C. AS 43.20.021 - Adopts the Internal Revenue Code with certain exceptions unless modified by other provisions of Alaska law.

D. Modifications to Internal Revenue Code:

1. No deduction for income taxes
2. No foreign tax credit
3. Special rules for investment tax credit
   a) $20 million qualified property limit
   b) must be placed in service in Alaska

Multistate Tax Compact 19 states

III Multistate Taxpayers

A. "Multistate Taxpayers" are those taxpayers who derive income from sources within and without Alaska

B. Alaska has adopted the multistate tax compact at AS 43.19

C. 43.19 requires a multistate taxpayer to apportion income based upon a formula of payroll, property and sales within Alaska. See handout for illustration.

IV Oil Companies

A. In 1981 the legislature enacted AS 43.20.072 which provides special apportionment rules for oil and gas producers and pipeline companies.

B. Only a very small amount of oil and gas is sold in Alaska and payroll is a minor input in generating oil and gas income. Therefore, 43.20.072 provides for the following apportionment factors:

C. Pipeline Companies

$$\text{Worldwide Pipeline Income} \times \frac{\dfrac{\text{Alaska Tariffs}}{\text{Everywhere Tariffs}} + \dfrac{\text{Alaska Property}}{\text{Everywhere Property}}}{2} = \text{Alaska Pipeline Income}$$

D. <u>Oil & Gas Producers</u>

$$\text{Worldwide Oil \& Gas Income} \times \frac{\frac{\text{Alaska Property}}{\text{Everywhere Property}} + \frac{\text{Alaska Extraction}}{\text{Everywhere Extraction}}}{2} = \text{Alaska Oil \& Gas Production Income}$$

E. <u>Companies with Oil & Gas Production and Pipelines</u>

$$\text{Worldwide Pipeline \& Production Income} \times \frac{\frac{\text{Alaska Property}}{\text{Everywhere Property}} + \frac{\text{Alaska Extraction}}{\text{Everywhere Extraction}} + \frac{\text{AK Tariffs}}{\text{Everywhere Tariffs}}}{3}$$

= Alaska Pipeline and Production Income

modifications Also for:

Airlines

Transportation Co's

i.e. $\frac{\text{Time in AK}}{\text{Time Everywhere}}$

STATE INCOME TAXATION OF MULTISTATE AND MULTINATIONAL CORPORATIONS

When a taxpayer earns income derived from or attributable to sources both within and without Alaska, the state must use some method of determining the income attributable to the activity within this state. Generally, Alaska accomplishes this determination of income through the use of methods which are referred to as allocation and apportionment. Each of these terms refers to an accounting method which may be used to attribute income or loss to the individual states in which a corporation is doing business or deriving income.

Allocation is the term generally used to describe the direct assignment of income or expense unrelated to the corporation's regular business to the state within which the income or expense has its source. This is commonly called the separate accounting method.

Apportionment is a term which is generally used to describe the formulary division of net income or loss from the corporation's regular business among the various states within which a portion of its business is conducted.

Separate Accounting

At first glance, one might think that it would be proper to use separate accounting whereby you would compute the revenue and expenses in each state, thus arriving at a separate net income from each state. However, the use of separate accounting in most instances will not accurately reflect the income from each state.

In a simple illustration of the use of separate accounting, our example assumes that a corporation headquartered in California is engaged in fishing operations, has its processing plant in Alaska and its sales divisicn in Washington. See page 3A. It shows that, despite the fact that the corporation earned a net profit of $3,700,000 from its business activities everywhere, separate accounting attributes a net loss to its headquarters operation, a net loss to its processing facility and a sizeable net income to its sales outlet in Washington, a state with no corporate net income tax. Is Alaska entitled to tax any of the income from the entire operation? It is difficult to imagine that the processing activities performed in Alaska produced no income for the corporation, yet, by the use of separate accounting, the Alaska business would reflect a net loss.

If either Alaska or California were to contest this result, each would, short of using the formula apportionment method, be required to demonstrate that transactions between the divisions were not at "arm's length"; that is, that they reached a different result than would be realized if the divisions were not related to one another. Normally, "arm's length" audits are impossible to successfully defend, because the question of what constitutes an "arm's length" price for the sale of sometimes unique goods and services is usually a question of individual judgement which cannot be definitively established by either the corporation or the state. At its best, this is a very costly and time-consuming audit problem since the Internal Revenue Service is not concerned with inter-division transactions which shift a corporation's profits between states. The IRS is only concerned with "arm's length" adjustments of international, not interstate, transactions. And even the IRS admits that its program to monitor international "arm's length" pricing is understaffed and inadequate.

Separate Accounting Attribution of Income

Alaska

Sales	5,000,000 (a)
Processing Cost	(3,500,000)
Admin. Cost	(1,750,000)(b)
Net (Loss)	(250,000)

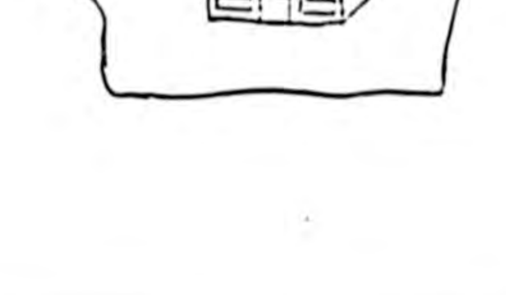
California

Admin. Fees:	
Processing - AK	1,750,000 (b)
Sales - WA	500,000 (b)
Expenses	(2,300,000)
Net (Loss)	(50,000)

Washington

Sales	10,000,000
Cost of Merchandise	(5,000,000) (a)
Admin. Cost	(500,000) (b)
Selling Expense	(500,000)
Net Income	4,000,000

(a) (b) Intercompany Transactions



Formula Apportionment

The solucion to the problem presented in our separate accounting analysis lies in the use of the formula apportionment method. (See page 5A) This method attributes net income of an integrated business enterprise based upon the comparative extent of its activities in each state. This instate activity is measured as a percentage of the corporation's use of capital, labor and the marketplace within the state, because these factors are generally recognized as the key elements necessary to the production of income.

Our illustration of the results reached for the same corporation using the formula apportionment method shows that, based upon its percentage of property, payroll and sales activity in each state, the corporation would attribute 33% of its net income to Alaska and 26% and 41% respectively to California and Washington.

Since the corporation's business operation as a whole was profitable, and because its activities in each of the three states contributed to or were dependent upon each other to achieve this result, measurement of the corporation's activities using each state's percentage of property, payroll and sales produces a reasonably defensible and clearly determinable method of attributing the corporation's net income among the states. In fact, decisions of the U.S. Supreme Court dating back as far as 1941 have held that formula apportionment is a proper method of attributing the income of an integrated business among the states in which it operates, even if the business is operating as multiple related corporations.

(WA has no Corp. income tax)

Does have gross receipts tax

Apportionment of Income by per AS 43.20 & 43.19

Assume factors as follows:

	AK	CA	WA	Total
Property	$6M	$3M	$1M	$10M
Payroll	1M	1.2M	.3M	2.5M
Sales	-	-	10M	10M

Apportionment:

	Alaska	
Property	6M/10M = 60%	
Payroll	1M/2.5M = 40%	100% / 3 = 33% (Alaska Factor)
Sales	-0-	
	California	
Property	3M/10M = 30%	
Payroll	1.2M/2.5M = 48%	78% / 3 = 26% (California factor)
Sales	-0-	
	Washington	
Property	1M/10M = 10%	
Payroll	.3M/2.5M = 12%	122% / 3 = 41% (Washington Factor)
Sales	10M/10M = 100%	

Net Income of Unitary Business:

$3,700,000 x 33% = 1,221,000 = Alaska Source Income
$3,700,000 x 26% = 962,000 = California Source Income
$3,700,000 x 41% = 1,517,000 = Washington Source Income

100% = 3,700,000 = Total Income

Borax
Greens Creek · Noranda
Kennecott copper
Diamond AK - Beluga Coal
Usibelli Coal
Goodnews Bay · Platinum
Red Dog

'84 Mining tax Returns
260
'83 = 155

Taxpayers '83 '84
23 26 Businesses

Tax Paid

	83	84
Coal	42%	37%
Gold	11%	8%
Sand + Gravel	47%	55%

HB 258 ITC on 1st 250m = 17/2m
1999 Sunset
apply to Corp

~~Q: Dept. Resources expended on mining tax~~
~~7 + 8 Regs hearings, etc.~~

ALASKA TAXATION - POLICY AND STRUCTURE SEMINAR

TOPIC: Mining License Tax

PRESENTER: Steven E. Kettel
Chief, Audit Services
Division of Audit

I. Brief History of Mining and Taxation in Alaska.

A. The Mining License Tax was initiated by the Territory's First Legislature in 1913 as Chapter 52.

B. Chapter 74 of the Laws of Alaska, 1935 increased the rate of taxation.

C. The discovery of platinum at Goodnews Bay resulted in substantial production.

D. Gold mines were shut down by federal order in 1942 in support of the war effort.

E. Chapter 64 of the Laws of Alaska, 1947 raised tax rates.

F. 1951 law change provided 3 1/2 year exemption from tax.

'62 Law
1st $40,000
Exempt

II. Description of Mining Tax Law

A. AS 43.65.010 levies the tax.

B. A free, annual license must be obtained from the department.

C. The department will issue a certificate of exemption to operators who qualify for the 3 1/2 year exemption.

D. Operators must file a return before May 1 following the end of the tax year, or by the last day of the fourth month following the end of the fiscal year.

E. Detailed explanation of the tax rates.

F. Computation of net income subject to tax.

III. Current Developments

A. The DOR, in conjunction with the Department of Natural Resources has been developing mining license tax regulations.

B. Details of the additional explanation provided of the law.

C. The key challenge in the near future will be in dealing with the world class size mines soon to begin operation.

ALASKA TAXATION - POLICY AND STRUCTURE SEMINAR

TOPICS: Alaska Business License & Electric & Telephone Co-Op

PRESENTER: Richard D. Brewer, CPA
Chief of Audit Operations
Division of Audit

Statutes: AS 43.70.020 - .040, .080 - .090, .110 - .120
Regulations: 15 AAC 70.210, 70.230

I. Introduction - Present law is a vestige of the past license fee.

A. For the privilege of engaging in a business in the State of Alaska.

B. Covers all operations for a particular line of business e.g. roadhouses have multiple operations, but require only one license; a drug store within a hotel would require two licenses i.e. functional integration would govern.

C. Renewal application and initial fee payment is due not later than January 31 at each year. Amt. = $25.00.

D. License is not transferable or assignable.

a. 10 day notification requirement for a new owner or lessee.

II. History - Effective January 1, 1979 substantial modification.

A. Only $25.00 license fee kept intact.

B. Application of 7% rate of net income to all banks and financial institutions.

C. Bank provision repealed effective January 1, 1984.

Banks under business license tax
T-bills income untaxable otherwise
i.e. Corp. Income Tax
So, est bank tax liability will be halved

Burlington Northern
v
Montana
Business License Tax Act

Q: Liabilities to banks for refunds?
w/ unfavorable Ruling

ALASKA TAXATION - POLICY AND STRUCTURE SEMINAR

TOPICS: Alaska Business License & Electric & Telephone Co-Op

PRESENTER: Richard D. Brewer, CPA
Chief of Audit Operations
Division of Audit

Statutes: AS 10.25.010 - 10.25.650
Regulations: 17 AAC 15.301, 3AAC 16.060

I. Introduction

A. Conversion into a cooperative for an existing corporation supplying electric energy or telephone service requires a two-thirds majority.

B. Organized under Title 10.

II. Taxation.

A. Initial fee ($25.00) under the Alaska Business License Act.

B. Prior to March 1, shall pay to the State a percentage of gross revenue earned during the preceding calendar year.

1. In lieu of any State and local ad valorem, income, and excise tax.

2. Rates.

a. one percent of gross revenue for cooperatives that have furnished electricity or telephone service for less than five years as of December 31 of the prior year.

b. Two percent . . . . having served consumers for five years as of December 31 of the prior year.

3. Gross revenue.

a. for electric cooperatives gross revenues include that derived from sales to consumers exclusive of revenue from the sale or transmission of electricity energy and power to or on behalf of another distributor.

b. for telephone cooperatives gross revenues include all revenues earned from local and toll services.

Retail sales of Electricity, only.

II. Continued.

C. Sharing of revenues.

1. Proceeds less costs of administration to be refunded to local taxing authorities by legislative action.

2. Taxes collected outside a taxing authority shall be retained and deposited into the general fund.

D. Inventory and fixtures incidental to furnishing of central station electric service including appliance stores or departments is not exempt from ad valorem taxes.

III. Current developments.

A. Section 1, Chapter 136, SLA 1982 expanded the allowable functions of a telephone cooperative to include "related telecommunications service to its members."

1. Does this include cable television service?

2. If so, and there is nothing to the contrary, are cable television receipts subject to the cooperative's gross revenue tax?

3. Definition - "Service where there is the transmission and reception of messages, impressions, pictures, and signals by means of electricity, electromagnetic waves, and any other kind of energy, face variations, or impulses, whether conveyed by cable, wire, radiated through space or transmitted through other media within a specific area or between designated points. (AS 10.25.640)

ALASKA TAXATION - POLICY AND STRUCTURE SEMINAR

TOPICS: Salmon Enhancement
Seafood Marketing

PRESENTER: Sylvia Vining
Anchorage Audit Group
Division of Audit

Alaska Statute 43.76

Salmon Enhancement Tax

I. **Imposition of this tax became effective April 1, 1981.**

   A. The Salmon Enhancement Tax replaced the aquaculture tax previously levied on limited entry permit holder by the Department of Fish and Game.

   B. Tax is voted on by qualified regional associations.

   C. Currently there are ~~three~~ 4 such qualified regions:

      i. Cook Inlet - 2%
      ii. Northern Southeast - 3%
      iii. Southern Southeast - 3%
      IV Prince William Sound 2%

   D. Tax is based on "value" which is defined as the actual cash price paid plus other consideration (such as fuel, meals, and repairs).

   E. Salmon roe is taxed only if sold separately from the carcass.

   F. Payments for previous years currently received are also taxable.

II. Reporting and Paying the Tax

   A. The limited entry permit holder is liable for the tax.

      i. He must report and pay the tax if salmon are caught in a qualifying region and sold outside that region.

      ii. He is liable for the tax for salmon sold inside a qualified region. However, the buyer of such salmon is charged with the collection of the tax and the filing of the report.

   B. Reports and tax are due the last day of the month following the month in which salmon were removed or sold.

   C. Buyers and fishermen are also required to file an annual report to reconcile the monthly reports at year end.

      i. Annual report and payment is due March 1 of the following year.

      ii. No extensions allowed for either filing the report or paying the tax.

III. Records

A. Buyers should maintain the following records:

i. Fish and Game tickets for salmon acquired

ii. Daily records for each transaction to show

a. person from whom acquired
b. that person's limited entry permit number
c. pounds and value by species of salmon
d. amount of tax collected
e. the region in which the salmon were caught

B. Limited entry permit holders should maintain:

i. Fish and Game tickets for salmon sold or transferred outside of a qualified region

ii. Daily records for each transaction to show

a. person to whom sold
b. pounds and value by species of salmon
c. the region in which the salmon were caught

IV. Revenue

A. Revenue collected is deposited in the General Fund.

B. Legislature then appropriates monies to provide financing for qualified regional associations.

C. Monies may be used to stock lakes and build hatcheries.

D. Amount of revenue collected for the twelve months ending June 30, 1984, totalled $2,223,516.

ADF&G

Alaska Statute 16.51

Seafood Marketing Assessment

I. Origin of Tax

A. Eligible seafood processors vote on the assessment as provided by this chapter.

B. Initially a graduated tax, the tax is now levied at the rate of .2 percent (.002) of the total value paid for the seafood products.

C. The tax is levied only on processors whose value paid for seafood products during a year is at least $50,000.

II. Returns

A. Even if no assessment is due, a return must be filed.

B. A return must be filed and the tax due paid by March 31 of the year following the year in which the assessment applies.

C. An extension for filing may be obtained by filing Form 04-577 which is available from the Department of Revenue. There is no extension for payment of the tax.

D. If additional payments are made currently for fisheries resources purchased in a previous year and after filing the report, Form 04-586, Seafood Marketing Assessment Report of Bonus or Other Additional Payments, must be filed.

i. This report and the applicable tax is due by the last day of the month following the month the payment is made.

ii. If the Form 04-577, the annual report, has not been filed, additional payments currently made should be included.

III. Administration and Enforcement

A. This tax is a voluntary tax and is governed by the Department of Fish and Game.

B. However, administration and enforcement of the tax is covered by the same statute applicable to other taxes administered by the Department of Revenue.

IV. Revenue

A. Revenue collected for the twelve month period ending June 30, 1984, totalled $1,124,215.

B. The revenue is deposited in the General Fund.

C. The legislature appropriates funds for the following:

i. programs of education, research, advertising, and sales promotion
ii. promotion of all seafood processed for sale
iii. development of market-oriented quality specifications for Alaska seafoods
iv. preparation of market research and product development plans for the promotion of all seafood

V. Alaska Seafood Marketing Institute (ASMI)

A. ASMI is a public corporation of the state.

B. ASMI's job is to promote and develop the seafood industry in Alaska.

C. Programs and information available from ASMI is quite extensive.

D. Further information on ASMI is available from

Alaska Seafood Marketing Institute
526 Main Street
Juneau, Alaska 99801
(907) 586-2902

18 member board processors & fishermen, + 1 [illegible]

ALASKA TAXATION - POLICY AND STRUCTURE SEMINAR

TOPICS:	Fish: Canned Salmon, Shorebased, Floating	PRESENTER:	Emilio P. Hondolero Supervisor Fisheries & Mining Tax Unit Division of Audit

I. Introduction

A. Brief History - From initial "flat tax" on canned salmon and freezerships through "raw fish tax" and the current statutes.

B. Revenues currently generated by the Alaska Fisheries Business Tax.

C. Shared revenues and their importance to boroughs and municipalities.

II. Definitions

A. What is a fisheries business? - Examples of fisheries businesses with separation of processors and exporters from primary buyers. AS 43.75.100 & 140(3), 15 AAC 75.300(1)

B. The importance of fair market value and ex-vessel price in determining fisheries business tax.

C. Processing as defined for purposes of determining fish tax. AS 43.75.140

III. Alaska Fisheries Business Return Tax
AS 43.75.015

A. Currently there are five different tax rates on fisheries resources.

B. The rates are broken down into two major categories, established fisheries and developing fisheries.

C. More than one set of criteria is used to determine whether a fisheries resource is developing and qualifies for lower tax rate.

IV. Liability for Payment

A. A liability for the fisheries business tax exists when a person, partnership, corporation or joint venture processes a fisheries resource for subsequent sale, or transports an unprocessed fisheries resource out of the state of Alaska's jurisdiction for subsequent sale or processing.

B. Liability when more than one processor is involved.

   1. The tax liability is with the initial processor.

   2. A liability exists for fisheries by-products when they are purchased separately from the carcass.

C. A custom processor is a fish processor who is not the legal owner of the fish.

D. The custom processor is liable for the fisheries business tax when he processes fish for an unlicensed fisheries business.

E. A fisherman who performs limited processing in order to preserve the quality of the raw fisheries resource may qualify for an exclusion from the fisheries business return tax.

F. Bonus payments made to the fisherman based on the wholesale price of the raw fisheries resource or the wholesale price of the finished product are subject to the fisheries tax.

V. All licensed fisheries businesses are required to file a fisheries business tax return and pay the tax on or before April 1 after the close of the calendar year.

__A GUIDE TO ALASKA FISHERIES BUSINESS TAX__

Authority: Alaska Statutes Title 43, Chapter 75

October, 1985

Fisheries & Mining Tax Unit
Audit Division
Alaska Department of Revenue
Pouch SA
Juneau, Alaska 99811-0400
(907) 465-2371

Table of Contents

I. **WHAT IS A FISHERIES BUSINESS?**

A person, partnership, corporation or joint venture who processes or custom processes a fisheries product or fisheries resource in any way in the state of Alaska for subsequent sale is a fisheries business. A person, partnership, corporation or joint venture who transports an unprocessed fisheries resource out of the state of Alaska's jurisdiction for subsequent sale or processing is also a fisheries business. Persons or businesses who may come under this category include, but are not limited to:

1. Canneries;
2. Cold Storages;
3. Commercial fishermen who process their catch;
4. Custom Processors;
5. Fish buyers, processors, or fishermen who transport unprocessed products out of the taxing jurisdiction of Alaska;
6. Freezerships;
7. Processing Plants; or
8. Restaurants, supermarkets and meat markets that buy unprocessed resources directly from fishermen and process them for sale to the public.

Statutory Authority: AS 43.75.100 and 140(3)
Regulatory Authority: 15 AAC 75.300(1)

II. WHAT IS PROCESSING?

Processing is any activity which modifies the physical condition of a fisheries resource. This activity includes but is not limited to butchering, freezing, salting, cooking, canning, beheading (except for shrimp), dehydrating or smoking. Processing does not include the activity performed by the fisherman to preserve the fish, such as gutting, gilling, sliming or icing.

Statutory Authority: AS 43.75.140(3)
Regulatory Authority: 15 AAC 75.300(2), (4) and (5)

III. WHAT REQUIREMENTS OF THE STATE MUST BE MET BEFORE ENGAGING IN A FISHERIES BUSINESS?

There are numerous permits and licenses that may be required. Listed here are only those requirements of the Departments of Revenue, Labor, and Fish & Game.

A. Department of Revenue

1. Before engaging or attempting to engage in a fisheries business, a person or company shall first apply for and obtain an Alaska Fisheries Business License for each location of operation. The application must be accompanied by a twenty-five dollar license fee plus security for estimated

fish taxes. To determine the estimated tax you must first indicate the total pounds and value of fisheries resources you expect to:

a. process;
b. have custom processed; or
c. transport unprocessed out of the taxing jurisdiction of Alaska.

2. Once a total value is determined, this must be multiplied by the applicable tax rate which will give you the amount of your estimated fish taxes. This must then be secured by one of the following three methods:

   a. Secure a Fisheries Business Tax Bond form 04-062 from an insurance company or bonding company in an amount of twice the estimated taxes. At the discretion of the Commissioner, the Department of Revenue also accepts as collateral, certificates of deposit, letters of credit, money market certificates, or Federal Treasury Bonds, any of which must be in the favor of the State of Alaska, in an amount equal to twice the total estimated tax, and have a term of at least 18 months.

   b. Prepay the total estimated tax (make a check payable to the Department of Revenue for the amount of the total estimated fisheries business tax only).

   c. Provide proof of real property in the state of Alaska, owned by the applicant, the lienable value of which is at least three times the total estimated tax. A copy of the property deed or title and current property tax assessment notice, market appraisal, or some other independent legal valuation must accompany the application. In addition, if there are any liens on said property, the applicant must provide third party documentation on these amounts as well.

   d. If the applicant purchases salmon for export in the round, the amount of security must be $50,000 using one of the three methods as described above.

   NOTE: Nonresidents must file a nonresident affidavit form 04-654 on or before June 2 of each license year. Any applicable taxes (other than fisheries taxes) which may be due must also be secured at this time.

Statutory Authority: AS 43.75.011, 020, 055 and 100
Regulatory Authority: 15 AAC 75.100

B. Department of Labor

All fish procesors and primary fish buyers must obtain a license and a $10,000 bond prior to starting operations for each calendar year, and must keep the bond current while working within the state of Alaska. A separate security is required for each operational location which requires a separate license. The bond is to cover any unpaid wages or unpaid fish purchases and will remain in force for two years. The law permits firms to satisfy the bonding requirement by posting a surety bond, cash deposit, or lienable real property. Waivers of this requirement may be obtained if the applicant harvests his own product and does not hire employees. The Department of Labor will notify the Department of Revenue when this requirement has been met or waived.

C. Department of Fish and Game

An Intent to Operate form must be completed and submitted by those persons or companies who expect to purchase, and/or process fisheries resources. There is no fee to be submitted. This form requires that you indicate type of operation, species of resources you expect to purchase or process, and management area in which you will be operating. The Intent to Operate form will be approved only if all the requirements of the Departments of Labor and Revenue are met. When all requirements are met and it is determined that the Intent to Operate form is complete, the Department of Fish & Game (ADF&G) will issue fish tickets and processor codes. The fish tickets are used by ADF&G to manage specific fisheries resources and provide statistical information which is used by a wide variety of governmental agencies and the public. The processor code is an identification code similar to a vehicle registration or vessel registration number.

IV. WHAT ARE THE TAX RATES?

There are different tax rates which are dependent upon the type of processing facility and the type of resource processed. These rates are as follows:

Established Commercial Fisheries	
Salmon canned at a shore-based facility	4.5%
Shore-based	3.0%
Floating	5.0%
Developing Commercial Fisheries	
Shore-based	1.0%
Floating	3.0%

Statutory Authority: AS 43.75.015 and 100

V. WHAT IS A DEVELOPING COMMERCIAL FISHERY?

The 1979 legislative session allowed for a reduced tax rate to be paid on developing fisheries resources. This reduced tax rate was established to encourage fisheries businesses to purchase or catch and process fisheries resources that were underutilized in the waters of the state of Alaska.

The Department of Fish and Game establishes the developing commercial fisheries list. This list is used by the Department of Revenue to determine tax liability. If a fisheries business claims a fisheries resource on the Alaska Fisheries Business Return as a developing fishery, the tax rate is two percent less in each case.

Statutory Authority: AS 43.75.015(b) and 140(2)

VI. WHAT IS "VALUE" OR "MARKET VALUE"?

The processor must pay the tax based on the value or market value of the fisheries resource purchased or caught. If the fisheries resource is purchased from a fisherman, the value is established by the actual price paid plus other consideration offered to the fisherman for catching the fish. Other consideration includes fuel, meals, repairs or other items that are offered to the fisherman as compensation for the resource. If the product is caught in a company-owned boat, then the value is established by the current market value of the resource. Market value generally means industry standard for the price paid in a general locality at the time the resource or other similar products are caught.

Statutory Authority: AS 43.75.140(7)
Regulatory Authority: 15 AAC 75.300(3) and (6)

VII. WHO IS LIABLE TO REPORT AND PAY THE ALASKA FISHERIES BUSINESS TAX?

Any person, partnership, corporation or joint venture who obtained an Alaska Fisheries Business License must file the Alaska Fisheries Business Return indicating their activities for the previous calendar year. If you did not obtain an Alaska Fisheries Business License but operated as a fisheries business, you still must file the return. Examples of those required to file a return include but are not limited to:

1. Canneries;
2. Cold Storages;
3. Commercial fishermen who process their catch;
4. Custom Processors;
5. Fish buyers, processors, or fishermen who transport unprocessed products out of the taxing jurisdiction of Alaska;
6. Freezerships;
7. Processing Plants; or
8. Restaurants, supermarkets and meat markets that buy unprocessed resources directly from fishermen and process them for sale to the public.

Statutory Authority: AS 43.75.015, 030, 100 and 110

VIII. WHAT INFORMATION IS REQUIRED TO BE REPORTED ON THE ALASKA FISHERIES BUSINESS RETURN?

1. Name of the taxpayer;
2. Mailing address;
3. Federal employer identification number (EIN), or social security number (SSN);
4. Fisheries business license number;
5. Year for which tax return is reporting;
6. Location of operation;
7. Value of fisheries resources processed during the license year, by category of fisheries business, pounds, price per pound, and by species;
8. Names of developing commercial fisheries processed during the year;
9. Name of fisheries business which first actually and physically processed the fisheries resources or which sold or processed the fisheries recources outside the taxing jurisdiction of Alaska;
10. For a fisheries business which operates a floating vessel, the name of the vessel, the date of arrival of the vessel in Alaska, subsequent movement of the vessel from one location to another, the reason for the movement of the vessel, and the date of departure of the vessel from Alaska for any reason;
11. Tax computation.

Statutory Authority: AS 43.75.030 and 110
Regulatory Authority: 15 AAC 75.010

IX. WHEN IS THE ALASKA FISHERIES BUSINESS TAX RETURN AND PAYMENT OF TAX DUE?

The return and payment are due on or before March 31 of the year following the previous calendar year activities.

Statutory Authority: AS 43.75.030(b) and (d)
Regulatory Authority: 15 AAC 75.010

X. HOW IS THE TAX DETERMINED WHEN A FISHERIES RESOURCE IS TRANSPORTED UNPROCESSED OUT OF ALASKA'S TAXING JURISDICTION BY AN ALASKAN FISHERIES BUSINESS?

Alaska Statute 43.75.100 states that the fisheries business which transports an unprocessed fisheries resource out of Alaska's taxing jurisdiction must pay the Fisheries Business Tax. The tax is based on the floating fisheries business tax rates unless the fisheries business transporting the resource out of Alaska's taxing jurisdiction can substantiate that the resource was processed or sold at a shore-based facility located out of Alaska's taxing jurisdiction.

The purpose of this law is to ensure that the unprocessed fisheries resource is properly taxed by the State of Alaska. The tax is charged to the person, corporation, partnership or joint venture who legally owns the resource when it leaves Alaska's taxing jurisdiction.

Statutory Authority: AS 43.75.100
Regulatory Authority: 15 AAC 75.100

XI. WHEN IS THE PROCESSING OF ROE AND OTHER FISHERIES BY-PRODUCTS SEPARATELY TAXABLE FROM THE FISH CARCASS?

If roe and other fish by-products are processed by the same fisheries business which purchases the resource in the round and also processes the carcass, the processing of the roe and by-products are not separately taxed. If the roe and fish by-products are separated from the carcass and transferred or sold to another person who subsequently processes the roe and by-products, then the roe and by-products are taxed. It is the transfer of the roe or other fishery by-products to another fisheries business which creates separate taxation of the roe and other fish by-products.

Statutory Authority: AS 43.75.015 and 140(4)
Regulatory Authority: 15 AAC 75.030 and 300(2)

XII. WHEN IS A CUSTOM PROCESSOR SUBJECT TO THE FISHERIES BUSINESS TAX?

A custom processor is liable for the tax unless he custom processes a fisheries resource for someone who has been licensed under AS 43.75 as a fisheries business.

Statutory Authority: AS 43.75.015(c)
Regulatory Authority: 15 AAC 75.030, 040 and 050

XIII. ARE ADDITIONAL PAYMENTS TO FISHERMEN TAXABLE UNDER THE FISHERIES BUSINESS TAX?

Tax on additional payments made to fishermen for fisheries resources purchased in the previous year are taxable under AS 43.75. If your company makes additional payments to fishermen after you have filed your fisheries business return, then you must complete and submit form 04-585, Fisheries Business Tax Report of Bonus or Additional Payments. The report and payment of tax are due no later than the last day of the month following the month the payments were made. If you make additional payments to fishermen before filing your Fisheries Business Return, then you should include those payments as part of the values reported on your return.

Statutory Authority: AS 43.75.015, 030 and 140(7)
Regulatory Authority: 15 AAC 75.010(7) and 15 AAC 75.300(6)

XIV. HOW DO YOU OBTAIN AN EXTENSION OF TIME TO FILE THE FISHERIES BUSINESS TAX RETURN?

An Application for Extension of Time to File (form 04-576) must be completed and submitted to the Department of Revenue by March 16. Since an extension of time to file does not grant an extension of time to pay, the applicant must pay the estimated tax amount with the extension application form. A period of 30 to 180 days may be granted for filing the Fisheries Business Tax Return.

Statutory Authority: AS 43.75.030(c)
Regulatory Authority: 15 AAC 75.020

XV. WHO DO I CONTACT FOR FURTHER INFORMATION REGARDING THIS GUIDE?

The following is a list of State agencies which you may wish to contact:

Mel Hondolero
Department of Revenue
Fisheries & Mining Tax Unit
Pouch SA
Juneau, Alaska 99811
(907) 465-2371

Dan Anderson
Department of Revenue
Tax Security & Business License Unit
Pouch SA
Juneau, Alaska 99811
(907) 465-2329

Eric Anderson
Department of Fish & Game
Computer Services
Box 3-2000
Juneau, Alaska 99811
(907) 465-4150

James O'Conner
Department of Labor
Wage & Hour Division
Box 630
Juneau, Alaska 99811
(907) 465-4839

ALASKA TAXATION - POLICY AND STRUCTURE SEMINAR

TOPICS: Fuel Tax: Aviation, Highway, Marine

PRESENTER: Tim Cottongim
Corporate Income Tax
Return Examination Unit
Division of Audit

I) Pertinent statutes and regulations:

AS 43.40.010 - 43.40.100
15 AAC 40.010 - 40.900

II) Use tax:

The motor fuel tax is a use tax. The actual tax, or lack of, is determined once the final purpose or use has been established.

III) Tax rates:

A) Gasoline used in aircraft - 4¢ per gallon

B) Other fuel used in aircraft- 2.5¢ per gallon

C) Fuel used in or on watercraft - 5¢ per gallon

E) Fuel used in an internal combustion engine, other than marine and aviation engines - 8¢ per gallon

IV) Who pays the tax to the State?

Final users that have used fuel in the State in which the taxes were not previously paid, and Qualified Dealers.

V) Qualified Dealers:

A qualified dealer is an entity that has met the requirements established under 15 AAC 40.040 - 40.050, whose application has been approved by the Department, and who has been issued a Qualified Dealers license.

VI) When and how taxes are paid:

A) Taxes are to be paid to the State (monthly) by the last day of the month following the month the motor fuel was sold, transferred or used.

B) A tax return with supporting schedule(s) must also be filed along with the tax remittance. Users must only file for the month(s) they actually use the fuel. Qualified Dealers must file each and every month, regardless of whether any sales were made or not, taxable or non-taxable.

VII) Non-taxable or exempt sales:

A) Fuel that is tax exempt is listed under AS 43.40.100 and 15 AAC 40.020.

B) All tax exempt sales except those listed under 15 AAC 40.020(b)(4), (6), (13), (15) and (16) must be supported by a Certificate of Use form. The Certificate of Use is required annually, and should be filled out at the first sale of each calendar year.

VIII) Refunds:

A) Final User:

1) Anyone using fuel in a tax-exempt manner, in which the tax was charged, is entitled to a refund of the tax [see AS 43.40.100(2)(A)-(L) and 15 AAC 40.020(b)(1)-(18)].

2) If a user is charged an 8¢ tax, uses the fuel in an internal combustion engine, and the internal combustion engine is unlicensed and not used in or on watercraft, the user is entitled to a 6¢ refund.

3) A claim for refund by a final user must be filed within one year of the date of purchase, as indicated on the invoice, and must be filed on forms prescribed by the Department.

B) Reseller:

1) Anyone who resells fuel on which the tax was previously paid, is entitled to a refund, if they resell the fuel at a lesser tax.

2) A claim for refund by a reseller must be filed within one year of the date of the sale as indicated on the invoice issued by the claimant. The claim must be filed on forms prescribed by the Department.

IX) Where the taxes go:

A) Aviation Fuel:

1) Revenue Sharing: 60% of the aviation fuel taxes collected are to be shared on a semi-annual basis to municipalities that either own and operate or lease and operate an airport facility. The amount of revenue shared shall be in proportion to that which was earned at the municipal airport. 60% of the amounts derived from information returns received are shared in January and July of each year. Returns received from July through December are the basis for January's sharing, and returns received from January through June are the basis for July's sharing.

2) Proceeds: All other proceeds are paid into the aviation fuel tax account in the general fund.

B) Marine Fuel:

1) Proceeds: the marine fuel taxes collected are deposited in the watercraft fuel tax account in the general fund.

C) Highway Fuel:

1) Proceeds: the highway fuel taxes collected are deposited into the highway fuel tax account in the general fund.

D) Refunds:

1) All refund claims on the motor fuel taxes are paid from the highway fuel tax account in the general fund.

ALASKA TAXATION - POLICY AND STRUCTURE SEMINAR

TOPICS: Alcoholic Beverage
Tobacco
Estate

PRESENTER: Sylvia Vining
Anchorage Audit Group
Division of Audit

Alaska Statute 43.60 Effective July 9, 1983

Excise Tax on Alcoholic Beverages

I. Alcoholic Beverages

A. Liquor tax is levied on every person who sells or consigns liquor shipments into the state.

B. The tax on malt beverages is 35¢ per gallon or each fraction of a gallon.

C. For wine and other beverages with an alcoholic content of 21% or less by volume, the tax is 85¢ per gallon or fraction of a gallon.

D. When the alcoholic content of a beverage exceeds 21% by volume, the tax is $5.60 per gallon.

II. Monthly Statements and Payments

A. Monthly statements and payments are required of every brewer, distiller, bottler, jobber, wholesaler, manufacturer, or other consignor.

B. They are due on or before the last day of each calendar month for the month preceding; i.e. October's report is due in Juneau by November 30.

C. Report includes total gallons sold and total by kind and the name and Alaska address of each buyer.

D. Penalties for delinquincies are imposed per Alaska Statute 43.05.

FY83
#13M

III. Administration and Enforcement of the Tax

A. Persons primarily responsible for payment of the tax are brewers, distillers, bottlers, jobbers, wholesalers, or manufacturers.

B. They must post a $25,000 surety bond with the Department of Revenue.

C. The Department then issues them a license.

D. Failure to pay the tax results in forfeiture of the bond and revocation of the license.

E. The retailer or buyer is secondarily liable for the tax and if that tax has not been paid, his liquor may be seized and sold in payment of the tax.

IV. Revenue and Contacts

A. For the twelve month period ending June 30, 1984, the net revenue collected from alcoholic beverages excise tax was $12,984,482.

B. Additional information may be obtained by contacting

Eloise Herrick
Pouch SA
Juneau, Alaska 99811
(907) 465-2322

Alaska Statute 43.50

Tobacco Tax

. Tax is composed of two parts, which will be discussed separately.

Cigarette Tax

I. Licenses are required of any person who sells, purchases, possesses or acquires cigarettes as a

A. Manufacturer: a person who makes, fashions, or produces cigarettes for sale to distributors or other persons; his cost is $5.00.

B. Distributor: a person who brings in or has brought in cigarettes to the state and who sells or distributes at least 75% of those to others for resale in the state; his cost is $50.00.

C. Direct-buying retailer: a person who is engaged in the sale of cigarettes at retail in the state and brings in or has brought in those cigarettes; his cost is $25.00.

D. Vending-machine operator: his cost is $25.00.

E. Buyer: a person who imports or acquires cigarettes for his own consumption from any source other than a manufacturer, distributor, direct-buying retailer, or retailer; his cost is $25.00.

G. A separate license is required for each activity and each separate place of business, except that a person operating vending machines is considered to have only one place of business.

H. Licenses run from July 1 to June 30 of each year and must be renewed annually.

I. Additionally, a person applying for a distributor license must also provide a surety bond in the amount of $5000 or an amount estimated to be twice the amount of the monthly tax, whichever is greater.

J. License fees are non-refundable and are subject to revocation. Bonds are forfeited for failure to pay the tax due.

K. Licenses are reissued for change of address for the same operator but are not transferable.

II. Returns are due on or before the last day of each month for the previous calendar month.

A. Separate report is required for each place of business.

B. Report must include the number of cigarettes manufactured, imported, or acquired in the previous month and any other information required by the Department.

C. Additionally, wholesale distributors report the number of cigarettes sold and the number exempt from tax. – Sold to Military

D. Purchase invoices and exempt certificates must be attached to the report.

E. Tax is due with the report.

III. Tax Imposed

A. The tax imposed is 2½ mills per cigarette (5¢ a pack). – School Fund

B. The licensee is allowed to reduce his tax by 1% to cover the cost of accounting and filing returns.

C. The intent is to tax the person who first acquires the cigarettes in the state; once the tax is imposed, the cigarettes are not again subject to the tax.

D. The tax is not imposed on the military services.

E. Civil penalties under Alaska Statute 43.05 and other penalties are available for violations.

F. The tax imposed under this section goes to the School Fund; $3,391,142 was collected for the twelve months ending June 30, 1984.

Additional Tax

I. ~~Currently an additional tax of 1½ mills per cigarette or 3¢ a pack is imposed~~. This goes to ~~4~~ 5½ mills (~~8¢~~ 11¢ a pack) effective October 1, 1985.

II. Money is deposited to General Fund; $2,034,685 was collected for the twelve months ending June 30, 1984. If the tax at that time had been 4 mills, the revenue collected would have been $5,425,826.

total 7.460 portion or 11m total tax

total 16¢/pack

Alaska Statute 43.31

Alaska Estate Tax

I. Tax upon Estates

A. **The tax on estates of resident decedents is based on the credit allowed under the applicable federal revenue act for taxes actually paid to other states.**

i. **The credit is reduced by the smaller of the amount actually paid to the other states or**

ii. **The proportion of credit based on the location of the property.**

$700,000 Cost F1

B. Non-resident and alien estates are taxed based on the value of real, tangible personal, and certain intangible properties located in Alaska in proportion to the value of the entire estate taxable to the United States wherever situated.

II. Procedures

• Fed Tax Rate Reduced Recently

A. The Department of Revenue is charged with administering and enforcing the tax.

i. It may examine books and records to ascertain accuracy.

ii. It will make out a return if none has been made.

B. The executor of the estate is to notify the Department within two months of the death; this action serves as a preliminary report.

i. Within fifteen months of the death, the executor shall file a copy of the federal estate tax return and supplemental data to compute the Alaska estate tax.

ii. A federal extension to file also grants state extension to file, but not to pay tax.

iii. State may grant extension for payment if hardship is demonstrated; interest will be assessed.

C. If the federal government determines a deficiency in the estate tax, the executor must notify the State within 60 days.

i. **The additional tax is subject to 7% interest.**

ii. If the executor fails to notify the State, the State may begin collection proceedings without prior assessment.

D. Receipt for Taxes

i. The executor may file a return and request the State determine the tax and discharge him from the liability.

ii. The State must do so within a year.

iii. This discharge does not relieve the estate in case additional tax is later assessed unless, at that time, the estate has been sold to a bona fide purchaser.

E. The State may use the remedy of distraint on real and personal property in case of failure to pay the tax.

F. Refunds will be given if excess payment is proven.

i. Refunds will not be made after two years from date of payment unless

ii. A federal adjustment has been made.

III. Revenue and Contacts

A. Revenue from the estate tax for the twelve months ending June 30, 1984, totalled $691,527 and were deposited to the General Fund.

B. Additional information may be obtained by contacting

Eloise Herrick
Pouch SA
Juneau, Alaska 99811
(907) 465-2322

ALASKA TAXATION - POLICY AND STRUCTURE SEMINAR

TOPICS: Oil & Gas Exploration, Production & Pipeline Transportation Property Taxes

PRESENTER: Donald Bullock Jr. (J.D.)
Revenue Hearing Examiner
Commissioner's Office

Statutes: AS 43.56.010 - 43.56.210
Regulations: 15 AAC 56.005 - 15 AAC 56.130

I. Introduction

A. AS 43.56 is the only statewide property tax.

B. Tax is imposed on real and personal property used or committed for use in the exploration for, production of or pipeline transportation of natural gas or unrefined oil.

C. Tax rate is 20 mills and is imposed on the full and true value of the property.

D. Municipalities may also tax the same or a portion of the same property using one of two methods set out in AS 29.

E. Estimated Revenues for the AS 43.56 Tax:

$126.4 million for FY 85

$123 million for FY 86

$126.2 million for FY 87

II. State Assessment of the AS 43.56 Property Tax.

A. AS 43.56 property is assessed by the Petroleum Property Assessor in the Department of Revenue.

B. Important dates in property tax assessment:

January 1:	Date of valuation for property
March 1:	Last day for mailing assessment notices
June 1:	Last day for certifying assessment roll and mailing of tax bills
June 30:	Last day for paying property tax bills

Kenai Refineries
Not subject
but, drilling Rigs are

Oct '73 special session
Enacted

C. Full and true value has different meanings for exploration, production and pipeline property.

   i. Full and true value for exploration property is the estimated price which the property would bring in an open market in a sale between a willing seller and a willing buyer.

   ii. Full and true value for production and pipeline property takes into consideration the economic life of the proven reserves and the quantity of resource which may be produced.

D. Property is physically inspected and assessments are made using industry-wide standards.

E. A taxpayer or a municipality may appeal assessments to the Department within 20 days of the notice of assessment. Subsequent appeals are to the State Assessment Review Board and superior court.

F. Unpaid property taxes are subject to a 10% penalty and 8% interest and create a lien against the property.

III. Municipal Taxation of AS 43.56 Property.

A. Municipalities can tax AS 43.56 property assessed by the State only by using one of the two methods found in AS 29.53.045 (AS 29.45.080, Eff. 1/1/86).

   i. The first method allows the municipality to tax the full amount of the oil and gas property but limits revenues other than for paying bonds to $1,500 per person residing in the municipality.

   ii. The second method does not contain the $1,500 per person limitation but limits the amount of property taxable under a formula which includes the number of residents in the municipality and the average per capita assessed full and true value of property in the State.

Formula: POP, AV assessed value, X 2.25 = Amount of Property taxable

B. Municipal levies are limited to 30 mill for operating revenues, but there is no limit for paying bonds.

C. The rate of tax imposed by a municipality on AS 43.56 property must be the same as on locally assessed property.

16% N Slope boro Property 15% Pipeline 17% N Star Boro Note: Interesting TAPS Tariff case opposite states!

D. Oil and gas property owners enjoy a credit for municipal taxes paid on AS 43.56 property.

E. Increasing credits local taxes and the corresponding credits have reduced the State's share of the property tax from approximately 72% in 1979, to approximately 33% in 1985 as shown below:

Seven Year State Property Tax History

Year	State Assessed Value	Percent Increase	Gross Revenue	Local Credit	Net to State	Percent Increase to State	Percent of Gross to State
1979	11,946,447,380	7.85	238,928,947	66,609,309	172,319,637	(0.69)	72.1
1980	12,165,633,950	1.83	243,312,679	72,900,166	170,412,512	(1.11)	70.0
1981	13,170,633,280	8.26	263,412,665	121,116,160	142,296,505	(16.50)	54.0
1982	14,410,448,680	9.41	288,208,973	144,171,544	144,037,429	1.22	50.0
1983	16,059,836,120	11.45	321,196,722	170,818,425	150,378,297	4.40	46.8
1984	18,593,314,880	15.78	371,866,297	242,038,930	129,827,367	(13.67)	34.9
1985*	19,030,331,350	2.35	380,606,627	254,194,452	126,412,175	(2.63)	33.21

*Estimated

N. slope 18.5 mills

ALASKA TAXATION - POLICY AND STRUCTURE SEMINAR

TOPICS: Oil and Gas Production & Regulation and Conservation Taxes

PRESENTER: Gay Bailey Vann, CPA
Review Staff
Division of Audit

Alaska Statute 43.57 Enacted in 1973

Tax is imposed on oil production and equals one-eighth of a cent per barrel (royalty oil exempted).

Alaska Statute 43.55 Enacted in 1955

I. Original Law.

A. Tax equals 1% gross value at the well.

B. Tax paid by purchaser.

C. Quarterly filing.

43.55.020(f)

D. If oil or gas sold under circumstances where the sales price does not represent the cash price prevailing, the department may require the cash price prevailing to be used for AS 43.55 purposes.

II. After numerous amendments, clarifying definitions, etc. - current law provides:

A. Tax equals greater of cents-per-barrel (mcf) or percentage-of-value multiplied by the Economic Limit Factor (ELF).

"Prevailing Value"

B. Tax paid by or on behalf of producer.
Royalty oil exempt from taxation.

C. Monthly filing.

D. If oil or gas sold under circumstances where sales price does not represent the prevailing value for oil or gas of like kind, character or quality in the field or area from which the product is produced, the department may require that tax to be paid upon the basis of the value of oil or gas of the same kind, quality and character prevailing during the calendar month of production for that field or area.

<u>Definitions and Specifics</u>
(Restricted to oil due to time constraints)

III. Tax - 12.25% or 15% of Gross Value at the Point of Production - (cents-per-barrel = $5.33 per barrel floor) - multiplied by the ELF.

Prudhoe Bay 15%
Kuparuk 12.5%

ELF - reduces the effective production tax rate as the amount of production from a lease declines.

A. Monthly production rate at economic limit presumed to be 300 barrels per well day.

Now in Administrative hearings to increase 300 bbl PEL

B. If ELF is greater than 0.7, ELF = 1.0;
If ELF is 0.7 or less, that is the ELF.

IV. Point of Production.

A. Where oil is first metered or measured in a condition of pipeline quality.

B. For Prudhoe Bay oil, point of production is Pump Station #1.

V. Gross Value (at point of production).

A. Prudhoe Bay vs. South 48 fields.

1. Postings.

2. Sales at point of production.

B. Netback methodology - Sales price (e.g. at L.A.), less marine transportation (from Valdez), less TAPS tariff equals value at PS #1 (per barrel).

C. TAPS tariffs.

1. Dollars per barrel charge readily available.

2. Need to track over 1.5MM barrels per day.

D. Marine transportation.

1. Statute provides for the use of reasonable costs of transportation.

2. Regulations further define transportation costs.

   a. Voyage and port costs.

   b. Charter fees (for chartered vessels).

   c. Depreciation and IRR (for effectively owned vessels).

3. Calculation of dollar per barrel cost.

   a. Total annual vessel cost/barrel-miles (100 barrels transported 1,000 miles = 100,000 barrel-miles).

   b. Determine miles to each destination port.

   c. Determine per barrel cost for each vessel for each destination.

E. Sales price.

1. Third-party sales for cash.

2. Third-party exchanges.

   a. ANS barrel for barrel (convenience exchanges ignored).

   b. If not ANS, value of oil received (e.g. West Texas Intermediate) plus/minus any differentials.

   c. Sometimes another party receives the oil (e.g. A owes B in an exchange; B owes C in a different exchange; A delivers its ANS to C on behalf of B).

3. Combination of some or all of the above.

4. No third-party sale or exchange (producer refines its own ANS or sells to refining subsidiary).

5. Prevailing value.

a. Issue not restricted to non-third party sales. Due to the complex nature of third-party sales and exchanges, some benchmark is needed to assure that the sales price reported reflects the full cash value of the consideration received.

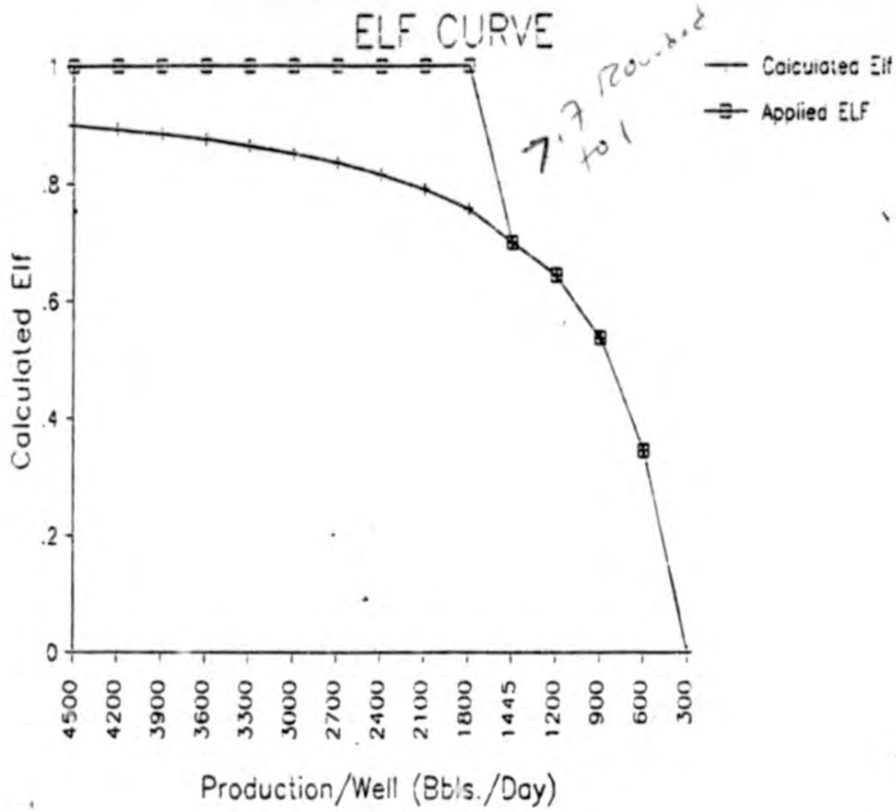
b. 1980 regulations - market basket of foreign crudes (oils that ANS displaced). Determine acquisition cost (official government sales price plus transportation costs to refinery inlet). Netback to PS #1 using actual costs.

c. 1981 regulations - use of third-party sales.

d. Newest proposed regulations - volume weighted average arms-length sales price during the base period, adjusted by the Refiners' Acquisition Cost Index.

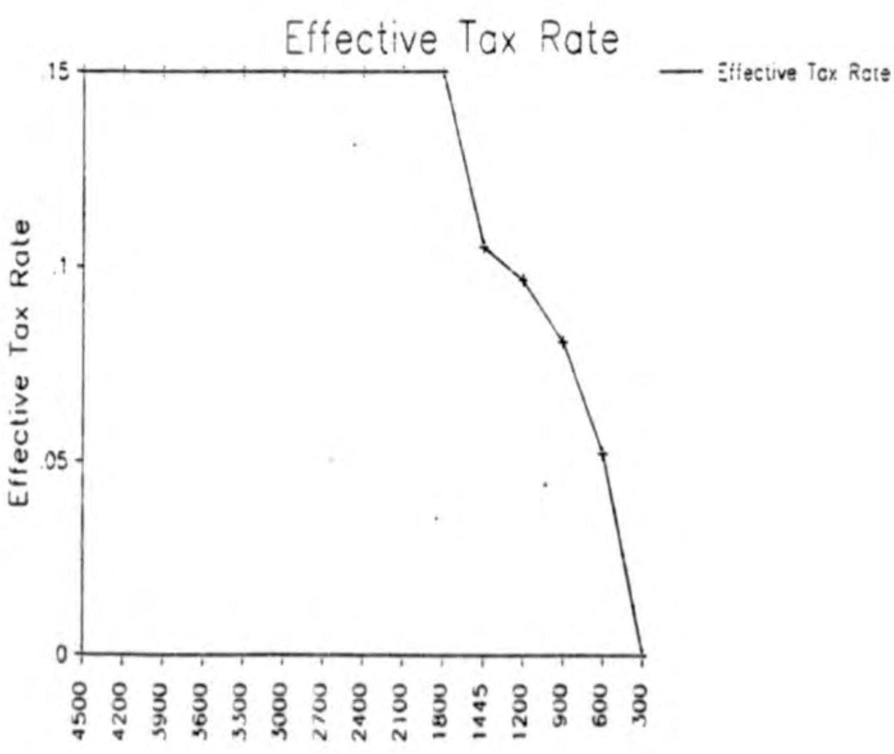
Prevailing value will be used automatically if producers reported price falls outside of set parameters.

Valued @ "Point of Production" i.e. Pump Station 1

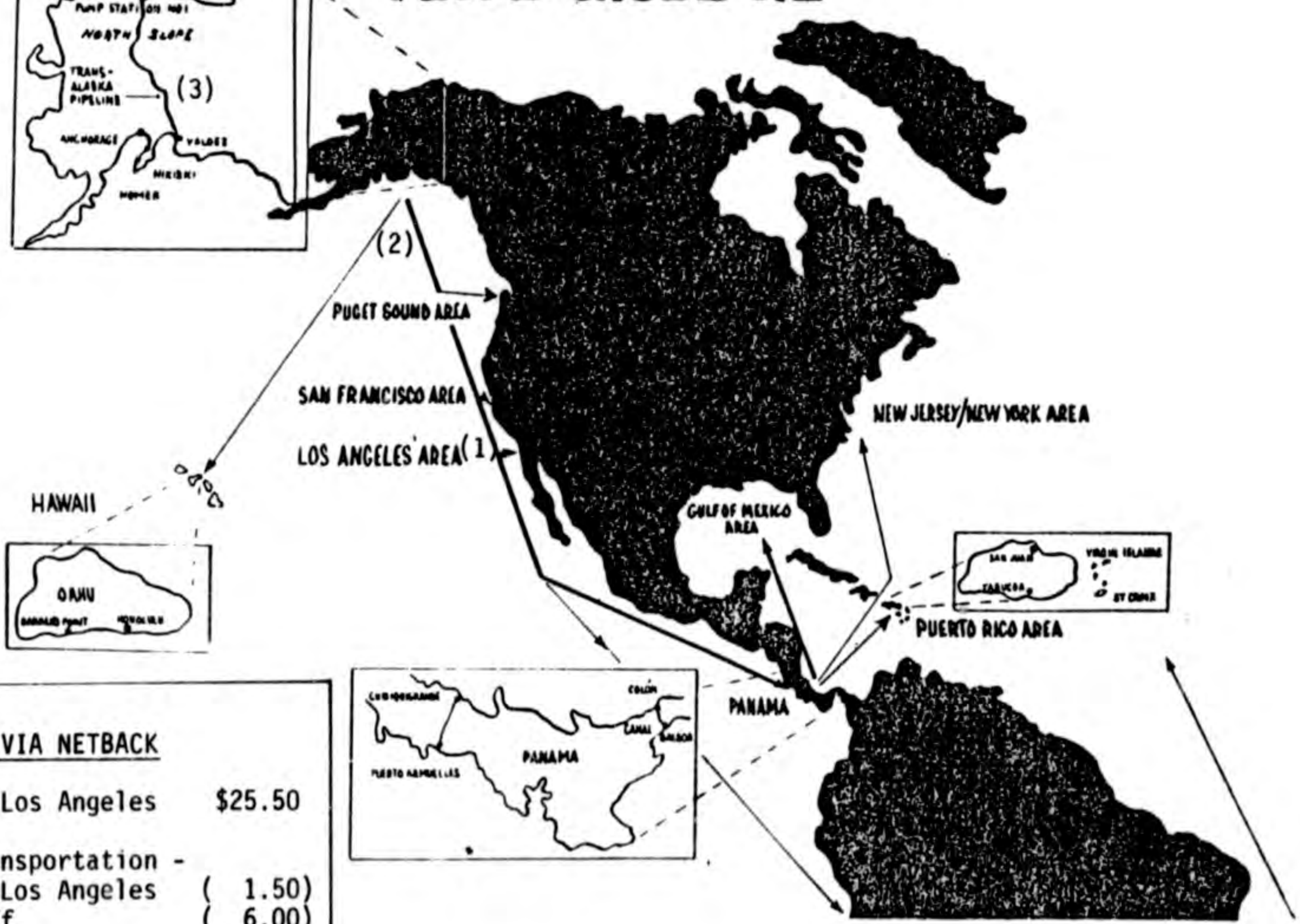


7.7 Rounded to 1

300 bbl/well/day = no tax



ILLUSTRATIONS OF TRANSPORTATION ROUTES FOR SHIPMENTS OF ALASKA NORTH SLOPE CRUDE OIL



VALUATION VIA NETBACK

(1) Sales price @ Los Angeles	$25.50
Less:	
(2) Marine transportation - Valdez to Los Angeles	(1.50)
(3) TAPS tariff	(6.00)
(4) Value @ Pump Station #1	$18.00

ALASKA TAXATION - POLICY AND STRUCTURE SEMINAR

TOPIC: The President's Tax Proposal for Fairness, Simplicity and Growth

PRESENTER: Carl A. Meyer, J.D., LLM
Appeals Coordinator
Division of Audit

I. Introduction

President Reagan on May 29, 1985 submitted a proposal designed to reduce tax rates and complexity while increasing fairness and economic growth.

II. Individuals

A. Tax Rates and Brackets:

Single		Joint
($2,900-18,000)	15%	($4,000-29,000)
(18,000-42,000)	25%	(29,000-70,000)
(42,000-over)	35%	(70,000-over)

House ways + Means Poss 4th Bracket w/ 40% Rate

B. Exemptions:

$2,000 for self, spouse and dependents. (1500 House ways + means)

C. Zero Bracket Amounts:

Singles	$2,900
Joint	4,000
Head of Household	3,600

D. Two Earner Wage Deduction:

Repealed.

E. Mortgage Interest:

1. Fully deductible if incurred:
   a) on principle residence
   b) in business

2. Other interest limited to $5,000 over investment income.

F. State and Local Income Taxes:

Not deductible, except business under presidents plan

Q: How much given up by dropping top Rate from 50% to 35%? - Had to be made up elsewhere, like non-deductibility of state + local.

(Martin)

G. <u>State and Local Property & Sales Taxes</u>:

Not deductible unless incurred in an income producing activity.

H. <u>Charitable Contributions</u>:

Deductible for intemizers only.

I. <u>Medical Expenses</u>:

Deductible above 5% of AGI.

J. <u>Child Care Expenses</u>:

Deduction rather than credit. (House will leave)

K. <u>Fringe Benefits</u>:

1. Health insurance - employer paid medical insurance premiums are taxable to employees on first $10 per month for individual coverage and $25 per month for family coverage.

2. Employer paid death benefits - fully taxable.

3. Group-term life insurance legal services, dependent care and educational assistance - not taxed.

L. <u>Employee Plans</u>:

1. IRA's - $2,000 annual contribution for singles and $4,000 for all marrieds allowed.

2. 401(K) - Salary deferred into plan limited to $8,000 less the IRA contribution.

M. <u>Wage Replacements</u>:

1. Unemployment Compensation - Fully taxable.

2. Work~~man~~er's Compensation - Fully taxable.

N. <u>Unearned Income of Children</u>: all unearned income of children under 14 taxed at the marginal tax rate of the parents.

O. <u>Income shifting</u>:

1. Trusts - Non-grantor inter-vivos trusts treated

as grantor trusts.

2. Estates - The final tax year for a decedent would continue until the end of the taxable year in which death occurs.

P. Income Averaging:

Repealed.

III. Corporations

A. Rates and Brackets:

15%; 18%; 25%; 33% 15%, 18% 30% 35% - House

B. Alternative Minimum Tax (AMT):

Minimum tax repealed and replaced with 20% AMT.

C. Corporate Distributions:

1. Domestic corporations receive 10% dividends paid deduction. Deduction limited to balance in "Qualified Dividend Account".

2. No dividends paid deduction for distributions not taxed as dividends to shareholders.

3. Corporate shareholders required to include in taxable income the portion of dividends for which the payor corporation received the dividends paid deduction.

4. Foreign corporations not eligible for the deduction.

5. A compensatory withholding tax imposed on dividends paid to foreign shareholders who are not entitled to the benefits of a bilateral tax treaty.

IV. Business Income

A. Depreciation - Capital Cost Recovery System (CCRS)

1. Inflation adjustment by means of a basis adjustment. Unrecovered basis adjusted using a government price index.

2. Inflation adjustment in the year of disposition

for purposes of computing gain or loss.

3. Intangible assets indexed but not subject to CCRS.

4. Cost depletion assets indexed but not subject to CCRS.

5. Foreign property costs recovered under earlier Treasury proposal.

6. Election to expense $5,000 in personal property retained. Current law on capitalizing or expensing retained. Safe harbor repair allowance.

7. CCRS effective for property placed in service on or after January 1, 1986.

B. <u>Investment Credit</u>

Repealed. Includes State Repeal

C. <u>Capital Gains</u>

Current law tax rate of 28% retained.

D. <u>Inventories</u>

Allows use of indexed FIFO or LIFO for tax and unindexed FIFO for financial accounting.

E. <u>Deny Rate Reduction to Excess Depreciation</u>

1. Excess of cumulative depreciation over amount using straight line method for earnings and profit purposes between January 1, 1980 and July 1, 1986 included in income over 3 year period.

2. Depreciation deductions of less than $400,000 not subject to recapture.

3. Excess depreciation is reduced by NOL's carried forward from a year before 1986. Reduction does not reduce the loss.

4. Property subject to the rule would include all property placed in service on or after January 1, 1980 and before January 1, 1986.

F. <u>Production Costs</u>

Uniform rules for capitalizing production costs would

Intangible Drilling costs deduction maintained in President's - Reduced in House apply to:

1. manufacture of goods to be held in inventory or for sale to customers

2. production under long-term contracts

3. the construction or production of real or tangible personal property having a useful life beyond the taxable year

4. the growing of timber

G. Installment Obligations

The pledge of an installment obligation as security for a loan would cause a recognition of gain. For amounts borrowed in the ordinary course of business and secured by business generated installment obligations, gain is recognized to the extent the amount borrowed exceeds the basis of the obligation. In all other cases, gain is recognized to the extent of the amount borrowed multiplied by the gross profit ratio.

H. Bad Debt Reserves

Deduction allowed only at time a debt is charged off in whole or in part.

I. Energy Tax Credits

The following credits would be repealed:

1. Energy Investment Tax credits
2. Production Tax credit
3. Alcohol fuels mixtures tax exemption
4. Alcohol fuels tax exemption
5. Alcohol production credit
6. taxicabs refund
7. Conservation credit
8. Renewable energy credit

J. Percentage Depletion

Percentage depletion would be phased out over a five year period beginning on January 1, 1986 by reducing the applicable percentage depletion rates by 20% each year.

K. Windfall Profits Tax

Will phase out in 1991.

L. Intangible Drilling Costs (IDC's)

Election to expense retained but 8% of the IDC's on successful wells would constitute a tax preference for minimum tax purposes.

M. Sale of Timber

Elective sale or exchange treatment for owners of timber or contract rights to cut timber would be repealed effective January 1, 1989. The capital gain treatment would be phased out in the interim with a 30% tax rate in 1986 which would increase by one percentage point in both 1987 and 1988.

N. Merchant Marine Capital Construction Fund

Tax free contributions to capital construction funds could not be made after 1985.

Any withdrawals, except for certain qualified vessels, treated as nonqualified withdrawals (deemed to come first from the ordinary income account, then the capital gain account, and lastly out of the capital account) but no interest charge would apply to the withdrawal. Amounts remaining in fund on January 1, 1996 treated as withdrawn.

O. Entertainment, Business Meals, and Travel Expenses

1. Entertainment - No deduction allowed unless includable in the income of an employee or a person not an employee. Thus, deductions for expenses associated with yachts, lodges or country clubs for the purpose of entertaining clients or customers, as well as costs of tickets to sporting and theatrical events and expenses of skyboxes, lounges, boxes, etc., would no longer be available.

2. Business Meals - Deduction of $25 per person plus one-half the excess over $25. Tips and tax are included. A "clear business setting" required. Food and beverages furnished on the business primarily for employees not subject to the limitation.

3. Travel - No deduction allowed for travel by ocean liner or other water transportation in excess of

the cost of otherwise available business transportation. Deductions for expenses associated with meetings held aboard cruise ships also disallowed.

P. Private Purpose Municipal Bonds

Interest taxable.

Q. Financial Institutions

1. Deduction eliminated for interest to carry tax-exempts

2. Deductions allowed only for actual losses on bad debts.

3. Credit unions taxed as banks if assets exceed $5 million.

CCRS Class	Classification of ACRS Property	Depreciation Rate	Recovery Period
Class 1	3-year property	55%	4
Class 2	Trucks, Buses, and Trailers Office, Computing, and Accounting Equipment	44%	5
Class 3	Construction Machinery, Tractors, Aircraft, Mining and Oil Field Machinery, Service Industry Machinery, and Instruments	33%	6
Class 4	5-year, 10-year, and 15-year public Utility property not assigned to Class 2, 3, or 5 -- E.g., Metal Working Machinery, Furniture and Fixtures, General Industrial Machinery, Other Electrical Equipment, Communications Equipment, Fabricated Metal Products, and Railroad Track and Equipment	22%	7
Class 5	Railroad Structures, Ships and Boats, Engines and Turbines, Plant and Equipment for Generation, Transmission and Distribution of Electricity, Gas and Other Power, and Distribution Plant for Communications Services	17%	10
Class 6	18-year property; 15-year low-income housing	4%	28

ALASKA TAXATION - POLICY AND STRUCTURE SEMINAR

TOPIC: Multistate Income Tax

PRESENTER: Monte Renfro, CPA, PhD
Supervisor
Seattle Audit Group
Division of Audit

WORLDWIDE COMBINATION/WORLDWIDE UNITY

I. Explanation of unitary concept:

A. Objective: to determine how much of a corporation's income should be subject to Alaska's income tax.

B. Illustration of a multijurisdictional business.

C. Alaska's statute which generally controls multijurisdictional apportionment: AS 43.19/Multistate Tax Compact.

D. The unitary method has been validated by several U.S. Supreme Court decisions, such as

1. Mobil and Exxon (1980)

2. Container Corporation (1983)

II. Some advantages of the worldwide-unitary accounting-method:

A. It is a fair method of measuring income.

B. It reduces a taxpayer's ability to improperly manipulate its income tax liability away from Alaska.

C. It allows third-party verification of data by other interested persons and agencies, such as

1. IRS

2. CPAs

3. SEC

D. There usually is greater ease of administration; consequently, the unitary method costs substantially less to administer.

1. One of the primary difficulties inherent in auditing separate accounting is the identification of the proper situs of income and expenses.

2. The proper attribution of income and expenses is likewise one of the most troublesome aspects of determining the appropriateness of §482 adjustments.

3. The worldwide-unitary method eliminates much of the need to localize specific items of income and expense.

III. Some disadvantages of the worldwilde-unitary accouning-method:

A. It often is difficult to obtain necessary information from non-cooperative foreign-based parents.

B. Taxpayers argue that the use of the standard means of apportionment leads to distortion when applied on a worldwide basis. For example,

1. Differences in the costs of doing business may result in distortions in the factors.

2. Net income as calculated for U.S. tax purposes may differ significantly from the way net income is calculated for another country's tax purposes.

3. Certain foreign taxes may be improperly designated "income taxes".

WATER'S-EDGE COMBINATION

I. Background:

A. The use of the worldwide-unitary accounting-method has increased greatly during the past ten years, often because of the states' requirement of its use.

B. Dissatisfaction with the worldwide-unitary accounting-method has caused pressure for its restriction or abolishment to be placed on the federal government and state legislatures by foreign governments, worldwide corporatins, and other special-interest groups.

II. Worldwide Unitary Taxation Working Group:

A. In 1983 President Reagan established the Working Group, which was comprised of representatives from businesses and state governments.

B. The Working Group subsequently created a Task Force.

III. The results of the Working Group/Task Force: Impasse

A. Areas of agreement:

1. Water's-edge unity should be applicable to both U.S. and foreign-based companies.

2. There should be increased federal administrative assistance and cooperation with the states to promote full taxpayer disclosure and accountability.

3. There should be competitive balance for U.S. multinational, foreign multinational, and purely domestic businesses.

B. Areas of disagreement:

1. Taxability of dividends received by U.S. companies from foreign subsidiaries.

2. States' ability to tax U.S. firms with primarily foreign operations (known as "80/20" companies). Current law?

IV. The inability of the Working Group to reach a consensus has led to a renewal of the pressures on the federal government and state legislatures by foreign governments, worldwide corporations, and other special-interest groups.

A. The U.S. Treasurey Department drafted proposed unitary tax legislation which was issued in July 1985.

B. Even without federal legislation, the worldwide-unitary accounting-method has been repealed or restricted by several states.

SEPARATE ACCOUNTING

I. Explanation of separate accounting as it pertains to multistate taxation:

A. Separate accounting is an alternative accounting-method.

B. "Separate accounting versus worldwide unitary" becomes a hotly debated issue only in the context of multijurisdictional corporations.

II. Alaska's practice of separate accounting: Chapter 21.

CONCLUSION

I. One of the objectives of the taxation of net income is to source income to the state in which it was earned.

II. How well does either worldwide combination or separate accounting satisfy this objective?

A. Under certain circumstances, each may be defensible as a reasonable method.

B. Depending upon the circumstances, either may be the preferred method.

ALASKA TAXATION
POLICY AND STRUCTURE SEMINAR
TAX ENFORCEMENT AND COLLECTION

JIM LEET
CHIEF, ENFORCEMENT OPERATIONS
DEPARTMENT OF REVENUE
ENFORCEMENT DIVISION, JUNEAU

I. PROCESSING RECEIVABLES

A. Nature of Billings

1. Unpaid tax returns
2. Unfiled tax returns
3. Deficiency assessments
4. Math Errors
5. Ineligible Permanent Fund Dividend (PFD) recipients

B. Billing Sequence

1. Notice and Demand
    a. Full paid upon assessment notice - 29%
    b. Appealed - 10%
    c. Delinquent accounts to Collections - 59% Time?

Taxation/Revenues Seminar

Enforcement Division Outline

II. COLLECTING DELINQUENT TAX ACCOUNTS

A. Policy: Maintain firm but fair enforcement posture, maintaining the integrity of the tax system, while protecting the revenue and the interests of the people who file and pay their share timely.

B. Sequence: Office Collection Force.

1. OCF Paraprofessionals make phone or letter contact
2. Second chance to pay, set up orderly liquidation of debt based on maximum ability to pay.
3. Ensure compliance with other filing requirements
4. Educate taxpayer to prevent recurrence and outline alternatives
5. Establish deadlines for performance and payment
6. If default or no cooperation, levy on assets
7. After 90 days, transfer to a field collection officer

C. <u>Sequence:</u> Revenue Enforcement Officers.

1. Extended installment agreements based on full financial disclosure and maximum ability to pay
2. Levy or seizure of assets on default or refusal to cooperate
3. Summons records for establishing non-filer liability
4. Transfer liability to corporate officers on trust fund collected taxes
5. Initiate lawsuit on problem cases,such as fraudulent transfer
6. Evaluate fraud potential of non-filers and other lawbreakers
7. If unable to locate taxpayer, or in total inability to pay, defer account as Currently Not Collectible

D. <u>Sequence:</u> Out of State Taxpayers.

1. Consider orderly liquidation by installment agreement
2. Liquidate bond, letter of credit, or other posted security
3. Refer to contracted collection agency in Lower 48
4. Judgement obtained by AG, then executed by collection agency

E. Ultimate Disposition of Account.

1. Currently Not Collectible - review case for renewed collectibility
2. Judgement to extend statute of limitations
3. Statute of limitations expires, debt erased from books

Taxation/Revenues Seminar

Enforcement Division Outline

III. CRIMINAL INVESTIGATIONS

A. Mission: Investigate and develop allegations of fraud against the state revenue systems. Recommend prosecutions on fraud cases. Maintain the integrity of the tax system and help promote voluntary compliance by those who see the result of violating the law.

B. Sources.

1. Fraud tips from toll-free "hotline" (800 426-6011)
2. Referrals from Audit, Collections, and PFD Investigations
3. Project development within unit

C. Nature of Investigations.

1. Permanent Fund Dividend
    a. Inelligible filer
    b. Multiple applications
    c. Falsified documents
    d. Non-existent person, ficticious filing
2. Taxes
    a. Failure to file
    b. Under reporting - ommission of income or taxable transaction
    c. Falsified documents; overstated credits, fraudulent receipts

D. Direction.

1. PFD - current prosecutions cover geographic, occupational, and issue range to achieve broad coverage
2. Tax Fraud - branching out to other tax types where there is non compliance, especially fisheries, motor fuel, and mining
3. Games of Skill and Chance - maintain watch on permit system and abuses by the subcontracted operators

Taxation/Revenues Seminar

Enforcement Division Outline

IV. MODERN COLLECTION TECHNIQUES

A. Nature of Delinquent Tax Clients.

1. Victims of bad business cycle
2. Poor business and personal money managers
3. Credit criminals

B. Employee Training in Updated Techniques.

1. Human interactions and people handling skills
2. Salesmanship
3. Tax issues and legal developments in collections

C. Automated computer assisted information systems

D. Phone Power - maximizing collector time through proper use of call handling techniques

E. Special Techniques and Problems.

1. Bankruptcy & Probate
2. Threat and Assault against employees
3. Delinquency prevention and taxpayer education
4. Hidden or clouded assets

V. OFFER IN COMPROMISE

A. Doubt as to Liability as basis for settlement

1. Gray or unsettled issues, such as application of new law
2. Prevents costly court and attorney fees

B. Doubt as to Collectibility.

1. Based on detailed financial analysis
2. Receipt of at least the taxpayer's total asset equity
3. Future income contingency payments

C. Considerations.

1. Policy - weight of circumstances, rather than expedience
2. Public Impact - adverse effect of accepting injudicious settlement offer
3. Protecting the Revenue - maximizing ultimate receipt of money due the state

Q: Success Rate in collecting Accounts turned over to A.G.?

VI. AMNESTY

A. Reasons For An Amnesty Program

1. Revenue raising
2. Fresh start for people outside the present system
3. Getting taxpayers into compliance and back on tax roles
4. Vehicle for advertising increased enforcement activity

B. Conditions.

1. No criminal or civil penalties if fully paid during period of amnesty
2. Usually granted only on previously unknown liabilities

C. Mechanics.

1. Media campaign blitz to advertise provisions of amnesty and more stringent enforcement posture
2. Adequate period of time for open filing and paying
3. Timing for "slow" period of year to facilitate efficient processing of paperwork
4. Legislative changes creating stiffer penalties and enforcement tools
5. Concurrent increase in visible enforcement efforts

ALASKA DEPARTMENT OF REVENUE
ACCOUNTS RECEIVABLE SUMMARY
As of September 1, 1985 — Get Current info

By Tax Type	Statute	Amount	% of Total
Oil and Gas Corporate Income	AS 43.21	$489,715,231	52.5 ← Q: why? what?
Oil and Gas Production	AS 43.55	310,635,596	33.3 ←
Corporate Income	AS 43.20	82,413,440	8.8
Business License Gross Receipts	AS 43.70	23,639,434	2.5
Individual Income	AS 43.20	11,170,669	1.2
Fisheries	AS 43.75	8,591,397	.9
Motor Fuel	AS 43.40	3,062,977	.3
Individual Withholding	AS 43.20	2,391,416	.3
Oil and Gas Property	AS 43.56	1,119,449	.1
Mining	AS 43.65	802,675	.1
Salmon Enhancement	AS 43.76	475,439	--
Seafood Marketing	AS 16.51	378,401	--
Fiduciary Income	AS 43.20	111,245	--
Estate	AS 43.31	68,251	--
Liquor Excise	AS 43.60	49,649	--
Tobacco (Cigarette)	AS 43.50	31,392	--
Coin Operated Devices	AS 43.35	9,152	--
Wholesale Average Price for Canned Salmon	AS 43.80	2,250	--
Total Account Receivables		$934,668,063	100.0

By Status	Amount	% of Total	% of workable
Notice of Assessment	$ 26,581,832	2.8	
→ Appealed	885,743,136	94.8	
Delinquent and Assigned	21,361,442	2.3	95.6
Currently Not Collectible	981,653	.1	4.4
Total Accounts Receivable	$934,668,063	100.0	100.0

Note: penalties do not accrue
during appeals process
interest @ 12%
(note $800 million oil Taxes!)
JH: Raise Interest Rate!

ALASKA DEPARTMENT OF REVENUE
APPEALED TAX ASSESSMENTS BY TAX TYPE
As of September 18, 1985

Tax Type	Statute	Total	Conference	Hearing	Court
Oil and Gas Corporate Income	AS 43.21	$495,066,343	$417,292,669	$ 77,773,674	$ -0-
Oil and Gas Production	AS 43.55	314,565,881	294,190,624	20,375,257	-0-
Corporate Income	AS 43.20	70,863,310	51,222,018	18,826,832	814,460
Business License Gross Receipts	AS 43.70	23,392,494	22,488,740	527,255	376,499
Individual Income	AS 43.20	3,024,736	3,000,159	24,577	-0-
Fisheries	AS 43.75	1,443,441	672,176	771,265	-0-
Motor Fuel	AS 43.40	1,263,907	780,042	483,865	-0-
Mining	AS 43.65	812,491	812,491	-0-	-0-
Oil and Gas Property	AS 43.56	379,638	9,175	-0-	370,463
Fiducuary Income	AS 43.20	180,480	180,480	-0-	-0-
Salmon Enhancement	AS 43.76	31,147	18,230	12,917	-0-
Estate	AS 43.31	30,352	30,352	-0-	-0-
Seafood Marketing	AS 16.51	7,965	7,965	-0-	-0-
Individual Withholding	AS 43.20	7,590	7,590	-0-	-0-
Tobacco (Cigarette)	AS 43.50	4,985	4,985	-0-	-0-
Wholesale Average Price for Canned Salmon	AS 43.80	2,250	2,250	-0-	-0-
Coin Operated Devices	AS 43.35	-0-	-0-	-0-	-0-
Liquor Excise	AS 43.60	-0-	-0-	-0-	-0-
Total		$911,077,010	$790,719,946	$118,795,642	$ 1,561,422

Arco case left out
Many issues

Break out O&G by year

Issues:
Prevailing values
Transportation costs

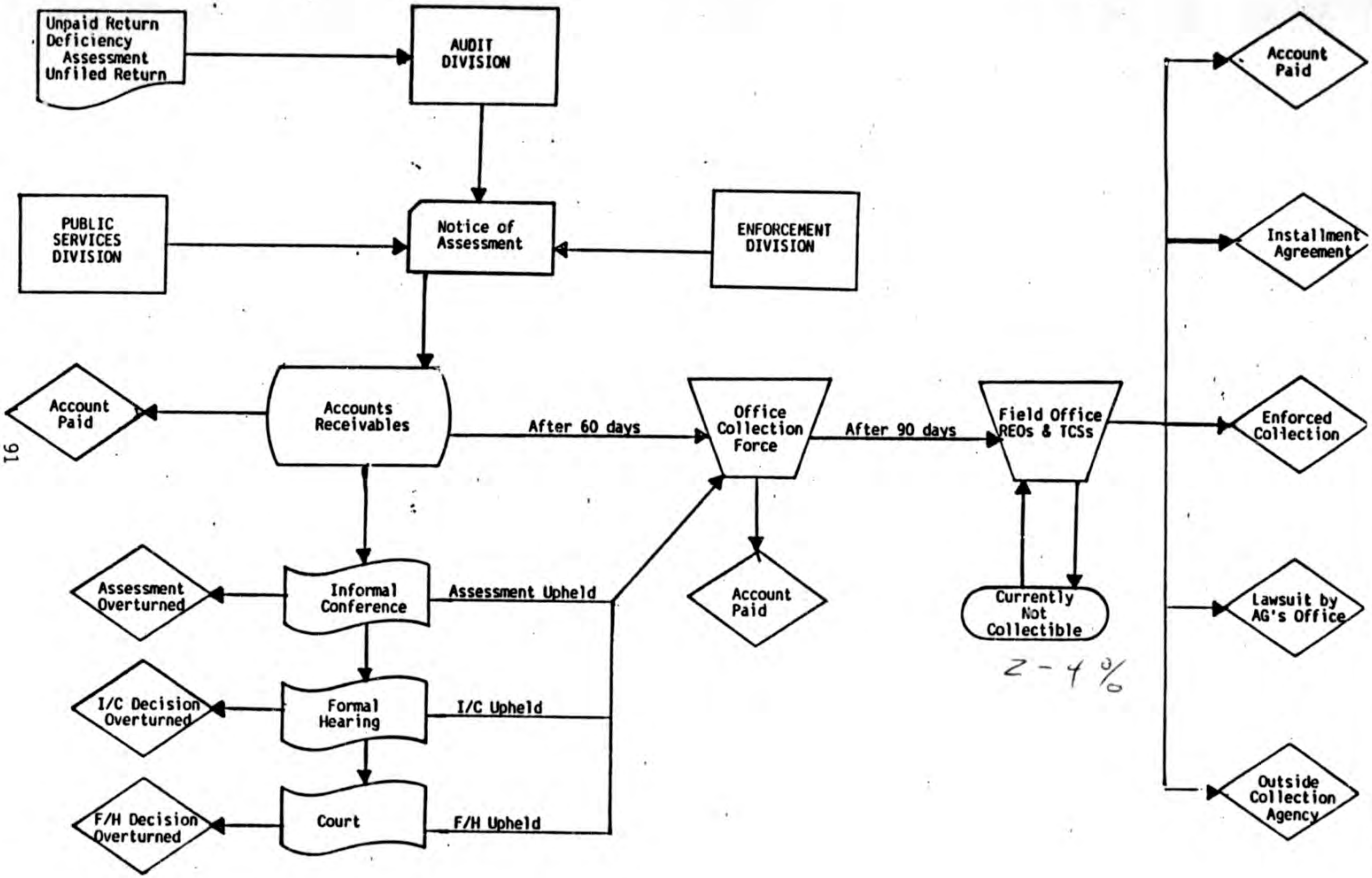
'78 Oil & Gas corp income taxes
held till constitutional
issues settled (7)

AS 43.05.220(a)
on O&G: Action staged
Should see Major Action "in next few years"

Many should go to U.S. Supreme Court

In the next year, Many moving from informal to
Formal hearing

ASSESSMENT AND COLLECTION PROCESS



ALASKA DEPARTMENT OF REVENUE
ENFORCEMENT DIVISION
COLLECTION ACTIVITY
For the Year Ended June 30, 1985

	Year to Date Total	Tax	PFD
Direct Collections			
Delinquent Assessments	$ 4,347,414	$ 4,286,012	$ 61,402
Compliance	445,358	445,358	-0-
Total Direct Collections	4,792,772	4,731,370	61,402
Indirect Collections			
Notices of Assessment	1,638,509	1,592,187	46,322
Appeals			
Informal Conference	33,783,933	33,783,933	-0-
Formal Hearing	452,011	452,011	-0-
Court Decisions	18,003,656	18,003,656	-0-
Offsets	178,758	178,758	-0-
Referred Collections	3,804	3,804	-0-
Total Indirect Collections	54,060,671	54,014,349	46,322
Total Collections	$58,853,443	$58,745,719	$ 107,724

- Now have new contract for FY86 on

Direct Collections as a Percent of FY Budget Plan	77%	
Assessments Made	$ 562,029	$ 562,029
Returns Secured	146	146

ALASKA DEPARTMENT OF REVENUE
ENFORCEMENT DIVISION
COLLECTION ACCOUNT INVENTORY
For the Year Ended June 30, 1985

		Active Inventory			Inactive Inventory		
		IND Control	IND Field	ANC Field		I/C	F/H
	Total	JCO	JFC	AFC	Montord	Appeal	Appeal
NOA's Received (notice of Assessment)	3016						
Delinquent Billings	1776						
Beginning Inventory, 7-1-85	4,608	583	538	1,197	480	1,549	261
Received or Transferred in, Adjusted Receipts	3,158	1,283	156	437	157	1,028	97
Total Accounts Available	7,766	1,866	694	1,634	637	2,577	358
Closed This Period	(1,962)	(536)	(28)	(275)	(204)	(878)	(41)
Currently Not Collectible	(179)	(13)	(11)	(155)	(-0-)	(-0-)	(-0-)
Transferred Out	(786)	(604)	(12)	(28)	(7)	(124)	(11)
Ending Inventory	4,839	713	643	1,176	426	1,575	306
Net Increase (Decrease)	231	130	105	(21)	(54)	26	45

NOTE(S)

ALASKA DEPARTMENT OF REVENUE
ENFORCEMENT DIVISION
COLLECTIONS PER AUTHORIZED POSITION AND BUDGET
For the Fiscal Years 1978 through 1985

(Dollars stated in thousands)

Fiscal Year	Authorized Positions (1)	Authorized Budget	Total Collections (2) (3)	Collections Per Authorized Position	Collections Per Authorized Budget Dollar
1978	35	$ 1,066	$ 3,438	$ 98	$ 3.2
1979	37	1,325	5,636	152	4.3
1980	36	1,332	6,355	177	4.8
1981	36	1,260	11,208	311	8.9
1982	27	1,410	8,178	303	5.8
1983	21	1,202	12,172	580	10.1
1984	21	1,145	34,145	1,737	31.9
1985	21	1,117	57,215	2,725	51.2

Footnote:

(1) Does not include those positions within the BRU assigned to criminal investigations.

(2) Previous years' accounting did not include collections on Notices of Assessment in the collections figures. In order to provide a valid comparasion between years, the 1983 and 1984 collections presented in the table exclude collections on Notices of Assessment.

(3) All years' figures include collections on cases which have gone through the appeals process and referred collections, as well as direct collections of delinquent accounts.

Q: Individual Income tax use more resources for collections?

ALASKA DEPARTMENT OF REVENUE
ENFORCEMENT DIVISION
DIRECT COLLECTIONS AND OFFSETS BY UNIT
For the Fiscal Years 1981 through 1985

Direct Collections	1985	1984	1983	1982	1981
(JCO)	$1,471,679	$1,852,718	$3,897,341	$1,433,614	$3,394,334
(JFC) (1)	1,660,825	858,232	294,084	58,594	61,218
(AFC)	1,785,200	1,089,655	1,306,243	530,003	493,078
(PCU)	53,826	54,059	138,991	383,353	12,194
(SFC) (2,3)	-0-	-0-	526,230	322,270	115,207
(FFC) (4)	-0-	-0-	9,145	37,604	162,595
(KFC) (5)	-0-	-0-	-0-	3,229	10,562
Total Direct Collections	**$4,971,530**	**$3,854,664**	**$6,172,034**	**$2,768,667**	**$4,249,188**

(1) Juneau Field Collections does not include referred collections for all years.

(2) Seattle Field Collections does not include referred collections for all years.

(3) The Seattle Field Collections office was closed in April 1983 (FY '83) and all accounts were transferred to the Juneau Field Collections office.

(4) The Fairbanks Field Collections was closed in September of 1982 (FY '83) and all accounts were transferred to the Anchorage Field Collections office. For the purposes of all other statistical tables, the collections of the Fairbanks Field Collections office are included in the Anchorage Field Collections statistics.

(5) The Ketchikan Field Collections was closed in January of 1982 (FY '82) and all accounts were transferred to the Juneau Field Office.

Legend:

Juneau Central Office (JCO)
Juneau Field Collections (JFC)
Anchorage Field Collections (AFC)
Project Compliance Unit (PCU)
Seattle Field Collections (SFC)
Fairbanks Field Collections (FFC)
Ketchikan Field Collections (KFC)

Toll Free Fraud Hotline (PFDS)

TAXATION/REVENUE SEMINAR

OUTLINE
by Hearing Examiner Section

Terresa Hillhouse

APPEAL PROCESS.

Burden is on Taxpayer
"Clear + convincing Evidence" standard

1. Informal conference.

a. Written appeal from an assessment notice or refund denial.

b. Option to waive informal conference.

c. Scheduling and notice. 60 days from NOA

d. Option for in-person, telephone or correspondence form of appeal.

Taxpayer has Full discovery rights to Dept. documents

2. Formal hearing.

No Trial de Novo

a. Taxpayer appeals by filing a written appeal from an assessment notice or refund denial, or informal conference decision.

b. Scheduling and notice.

c. Option for in-person, telephone or correspondence form of appeal.

d. Pre-hearing conference.

e. Motions and briefs.

f. Discovery requests - summons and subpoenas.

g. _Ex parte_ contacts prohibited.

h. Hearing Format.

1982
55 cases
32% won by Taxpayers
-57% of Money

i. Recorded and transcribed by court reporter.

ii. Alaska Rules of Evidence followed but relaxed. (ex Hearsay)

iii. Examination of witnesses.

iv. Submission of exhibits.

84
Taxpayer won 40% of money
83

v. Presentation of legal arguments.

i. Formal hearing decision issued after record closes.

Have "Psuedonymed" decisions from Statehood

AS 43.5.240

Reconsideration within 10 days

DRR
AG Commercial section

3. Litigation.

a. Taxpayer appeals by filing a written appeal from a formal hearing decision to Alaska Superior Court.

b. Department of Law represents Department of Revenue.

c. Record prepared by the Department of Revenue and case reviewed by court on the record with no right to trial de novo. i.e. judge only reviews records, no witnesses

d. Motions and briefs may be filed, and oral argument may be heard.

e. Superior Court issues a written decision, affirming, overruling or remanding the formal hearing decision.

f. Appeal from a Superior Court decision is to the Alaska Supreme Court.

g. Appeals may be resolved by negotiated settlements. with DRev + DOL concurrence

State wins ~99% of Appeals in court

6 mos to 1 yr to get decision from Superior Court

Arguments made on Agency interpretation of law, or on facts. Courts favor facts cases.

Q: How many?
How much?
Success Rate by # And Amount?
Time in Litigation?

Constitutional
Statutory
Procedural
Challenges

2 1/2 years to Supreme Court decision

Taxpayers decision to pay tax or post bond depends on prevailing interest rates

I. Introductory Remarks

(a) Revenue Forecasts utilized by both Legislative and Executive branches of government for budgetary purposes

(b) Approximately 85% of State's revenue from petroleum (Severance Taxes, Royalties, Corporate Taxes, and Property Taxes)

(c) The reasons for advocating the 30% case or conservative posture for budgetary purposes

what the 30% case means

II. The History of Prices Beginning with Mid East Countries

(a) During 1940's Western companies (British, Dutch, French, and U.S.) controlled the production, transportation, processing, and marketing of petroleum

(b) The attempt by Mid East countries to implement the idea of self control over their own political and economic destiny via control of Mid East oil fields requires time and evolvement.

(1) The 1951-54 Iranian attempt to nationalize oil fields fails. The primary reason for failure due to western companies cutting off Iran and tapping into alternative Mid East oil sources.

(2) The development of the so called 50-50 agreements largely during the 1950's and 1960's. These were royalty and tax concessions to largely Mid East countries. The IRS, in the case of the U.S. companies, allowed concessions as tax credits against foreign income.

(3) The companies allow the price of oil to decline in relation to that of competing fuels, thereby vastly expanding their markets.

(c) OPEC finally becomes effective force. Libya in 1970 and 1971 threatens production curtailments and tax hikes. The other Mid East countries back Libya. The end result was nationalization, expropriation, and participation agreements on the part of all OPEC countries from 1970 through 1974. The Western companies lose control at the production end.

(d) The Yom Kippur War of 1973 provides the organization now known as OPEC to fully exercise its new power. The price of oil increases from $3/B to almost $12/B within just a few months.

(e) Another round of price increases in late 1970's (1979-1980) due to Iranian Revolution and the Iran/Iraq war.

III. The OPEC price increase of earlier years sow the seeds for price declines of last three years. The earlier price increases stimulated the following activities.

(a) Exploration for and production of oil in new areas. (North Sea, North Slope, Mexico, etc.) Hence a greater supply of oil brought on line.

(b) Development of alternative fuel sources (Syn. fuel, coal, hydro, nuclear, tar sands, oil shale, natural gas). Hence, oil markets are confronted by greater competition.

(c) Conservation efforts on the part of both the industrial and private sector

(1) Industry retools to promote energy efficiency

- the automobile sector
- utilities retrofit and adopt new equipment so as to be able to switch from oil to coal to gas and back again
- more energy efficient homes built

(2) Private sector becomes more energy conscious

- thermostats turned down
- more insulation added to existing homes

The aforementioned activities exert the downward pressure on price of oil that we are experiencing today. OPEC no longer dictates what oil markets do, rather oil markets dictate what OPEC does.

IV. The theoretical floor for the price of Alaska's oil

(a) The btu equivalent value of alternative fuels such as coal and natural gas is today $18 to $20 per barrel. The long term equilibrium floor relative to the price of oil is therefore the same. The short term floor price could be even lower.

"Delphi Sessions" 9 members - limited by confidentiality

Forecasts in Nominal Dollars

Fall '85 Forcast:

50% case \$3.- drop

30% case \$4-5.- drop

"optomistic, possibly"

4.3% inflation

10 Different landed prices
transportation charges
"Monte-Carlo" simulation technique

"we don't think the ITC stimulates investment or Economic Activity; Havent seen any increase since passage -
- Vince Wright

March 85 vs Dec 84 464m Drop
since then add'l 70m

Vince Wright's suggestions:
Eliminate Sus. tax
Individual Income 350m
Statewide sales tax 350m / 14
Eliminate Divided
undistributed income tax
→ Raise Floor on Severance Tax From 80¢

("Net decline in Anc Pop in last year")

V. The OPEC current account deficit problem

(a) The economic development programs of OPEC (capital projects)

(1) The burden of operation and maintenance costs to support these programs.

(b) The "poor OPEC countries borrowing from the "rich" OPEC countries and now also Western banks

(c) The permanent funds of the OPEC countries are being depleted.

(d) The potential for some OPEC members to dump even larger quantities of oil on the market in further violation of their quota agreement. The end result would be further deterioration in oil prices.

VI. What does this mean for Alaska

CHARTS

Price Chart

Production Chart

(a) short vs. long run

Revenue Chart

(a) Last 5 years versus next 5 years

VII. The cyclical oil revenue situation is simply a repetition of State history

(a) the gold boom

(b) the fish boom

VIII. The future not as bleak as it might appear if the State adopts a prudent posture

(a) The necessity to protect the principal of the Permanent Fund

(1) The earnings become increasingly important in future (charts)

(b) The curtailment of spending activities

(1) Capital vs. operations budget

(c) The implementation of new revenue raising measures

PETROLEUM
REVENUE, PRODUCTION, AND PRICE PROJECTIONS
(FY 1985-1990)

ALASKA
DEPARTMENT OF REVENUE

FORECAST: JUNE 1985

FIGURE 1
GENERAL FUND UNRESTRICTED REVENUE PROJECTIONS
NOMINAL VS. REAL

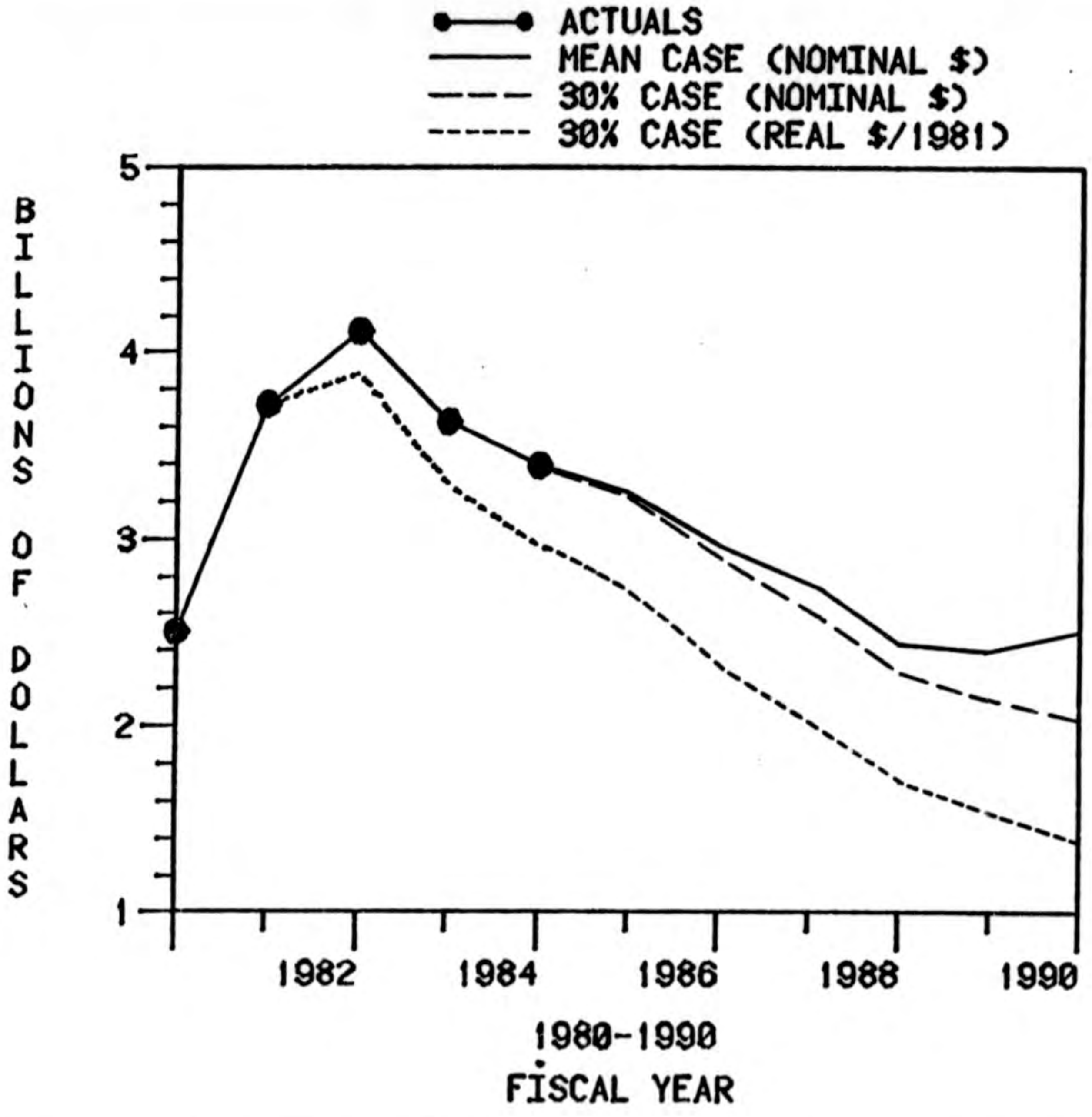


Table 1

General Fund Unrestricted Revenues
(Millions of Dollars)

FY	Actuals	Mean Case (nominal$)	30% Case (nominal$)	30% Case (real $/1981)
80	2,501.2			
81	3,718.2			3,718.2
82	4,108.4			3,890.5
83	3,631.0			3,296.7
84	3,390.1			2,971.0
85		3,237.6	3,237.6	2,735.3
86		2,940.3	2,872.7	2,335.5
87		2,734.0	2,573.5	2,011.6
88		2,443.7	2,267.6	1,691.9
89		2,430.8	2,151.2	1,532.2
90		2,453.3	2,052.4	1,395.4

FIGURE 2
PETROLEUM PRODUCTION PROJECTIONS

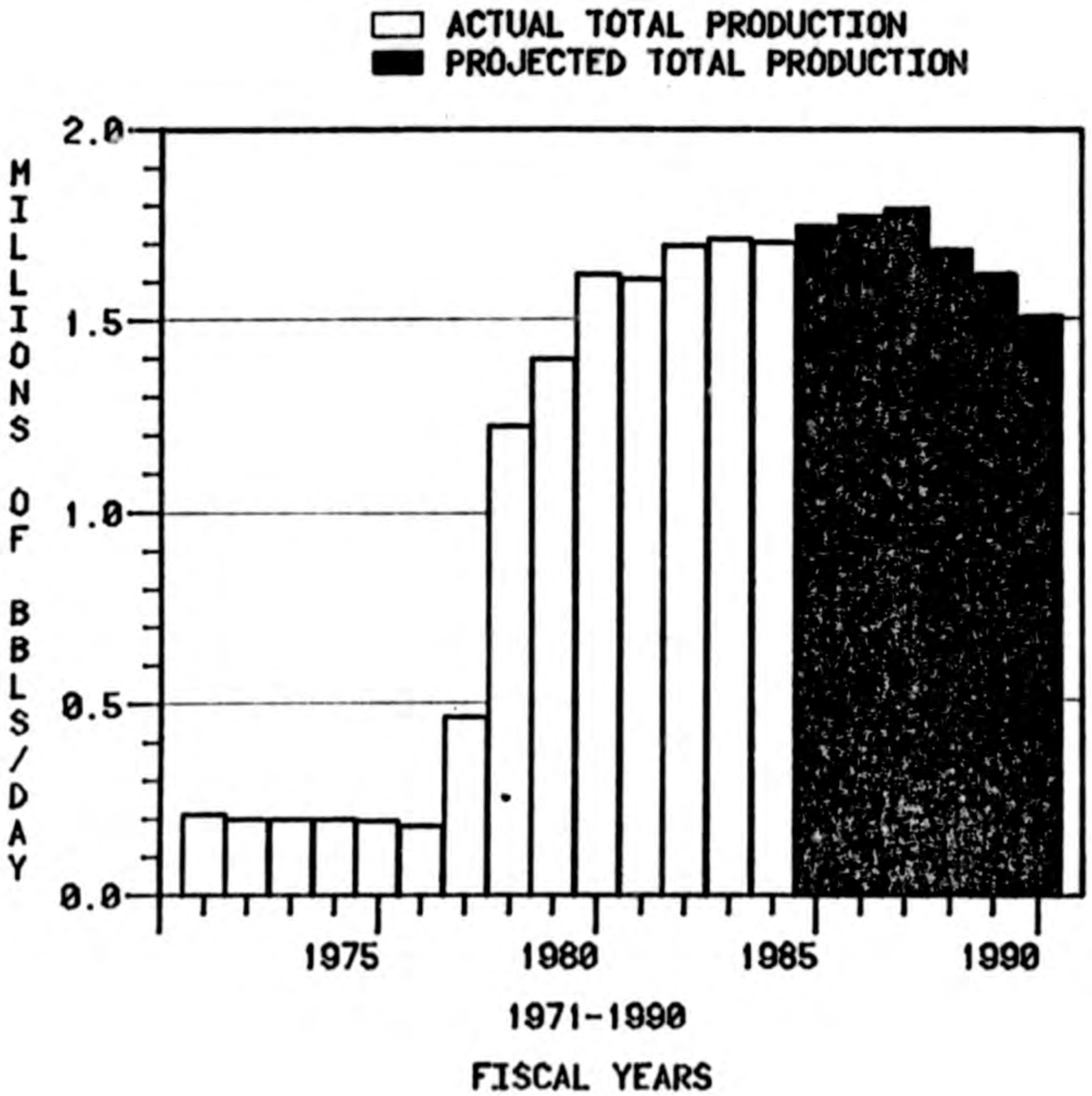


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Table 2

Petroleum Production Projections
(Millions of Barrels/Day)

FY	
71	.215
72	.202
73	.200
74	.198
75	.197
76	.184
77	.469
78	1.227
79	1.401
80	1.621
81	1.609
82	1.696
83	1.714
84	1.704
85	1.750
86	1.767
87	1.789
88	1.698
89	1.619
90	1.511

FIGURE 3
CRUDE OIL PRICES
(30% CASE/NOMINAL $)

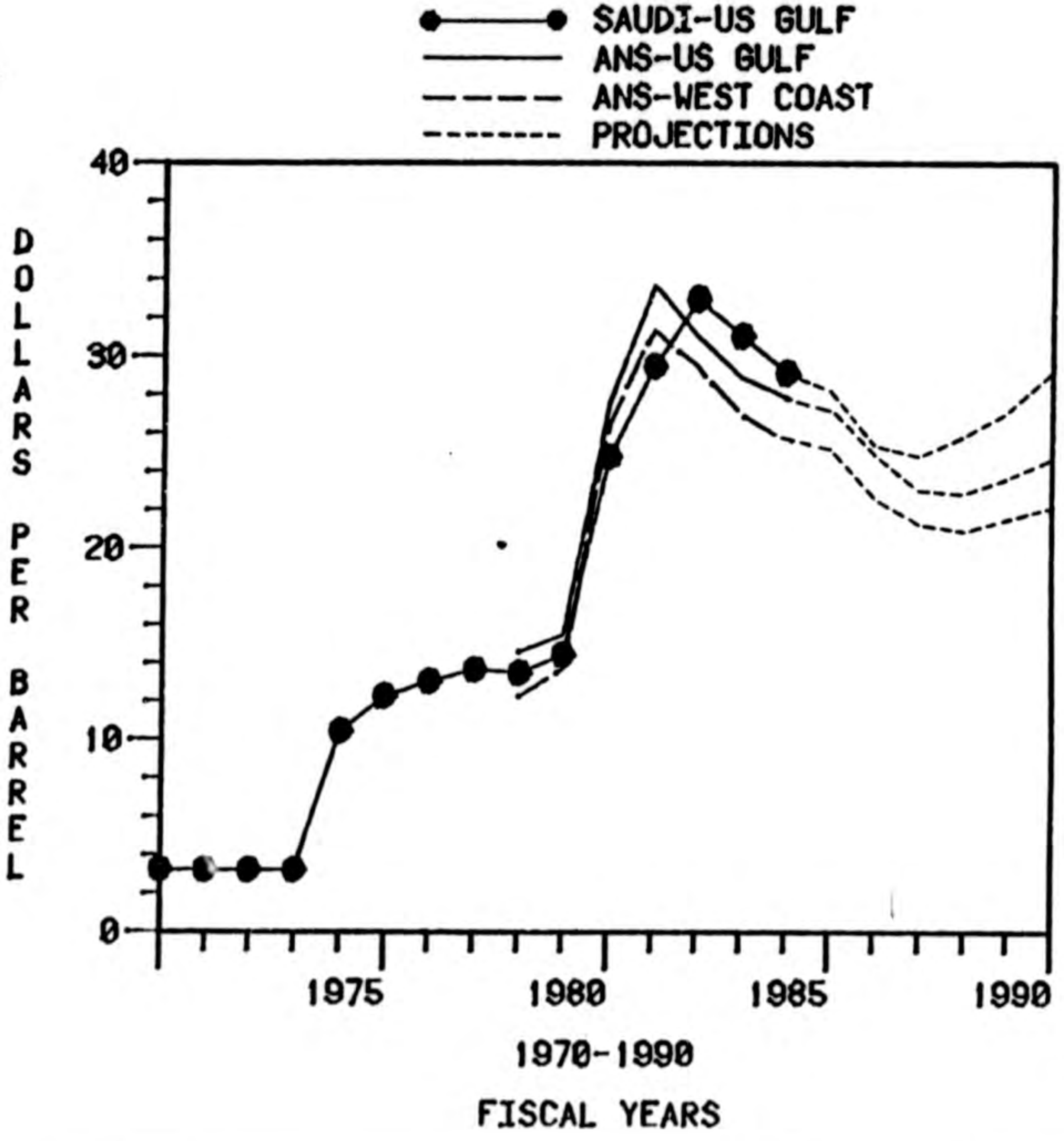

Table 3
Crude Oil Prices
(Dollars Per Barrel)

June '85 DOR Forecast

FY	Saudi-US Gulf*	ANS-US Gulf	ANS-West Coast
70	3.25		
71	3.25		
72	3.25		
73	3.25		
74	10.45		
75	12.30		
76	13.04		
77	13.61		
78	13.46	14.60	12.30
79	14.41	15.50	13.70
80	24.75	27.68	26.50
81	29.45	33.67	31.43
82	32.99	31.07	29.50
83	31.05	28.87	27.00
84	29.10	27.83	25.68
85	28.07	27.29	25.01
86	25.24	24.80	22.78
87	24.77	23.08	21.07
88	25.77	22.87	20.86
89	26.99	23.42	21.34
90	28.92	24.18	22.00

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FIGURE 4
ALASKA PERMANENT FUND
(30% CASE/NOMINAL $)

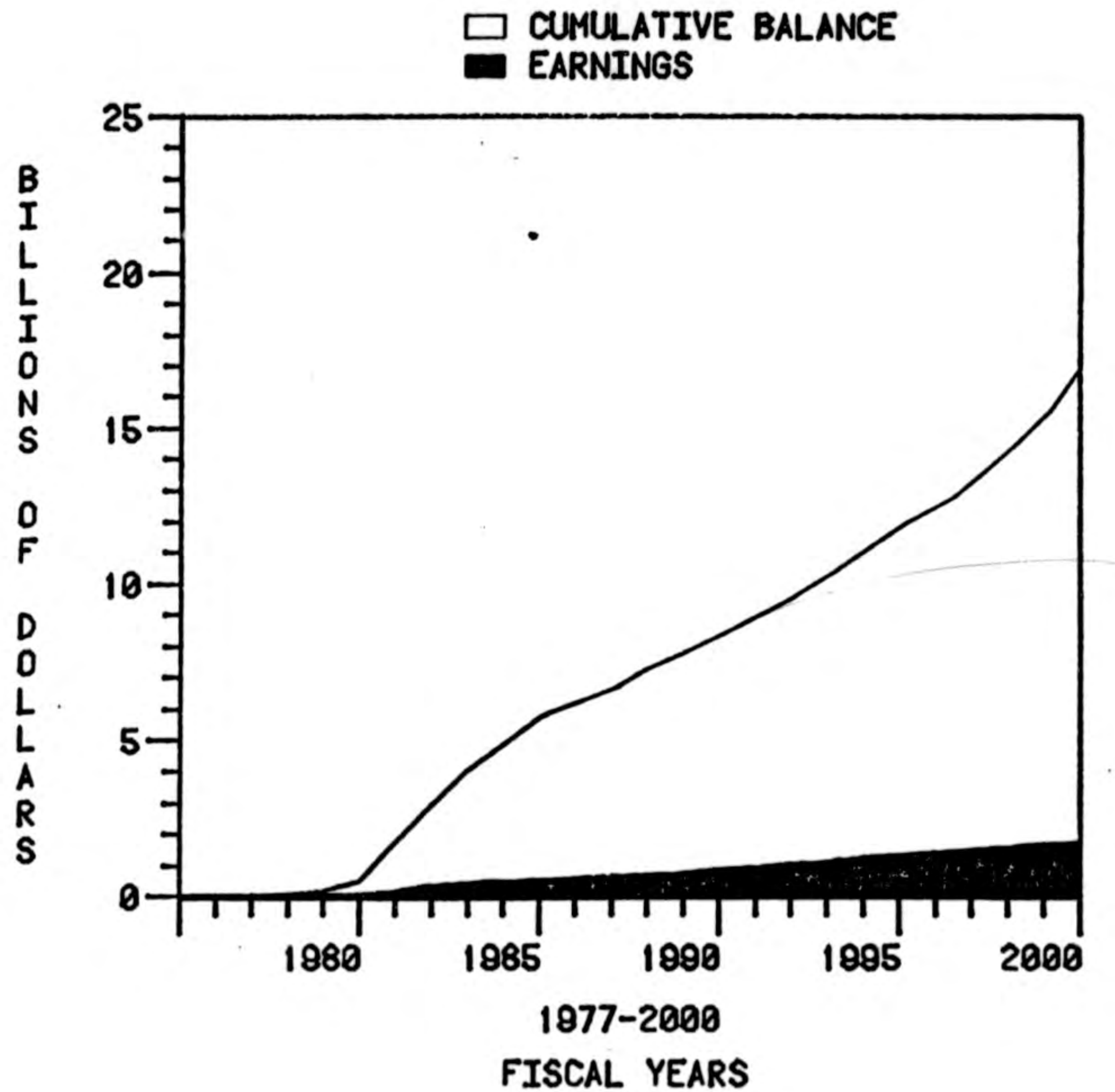

Table 4

Alaska Permanent Fund
(Billions of Dollars)

FY	Permanent Fund Balance	Permanent Fund Earnings
77	.004	-0-
78	.055	.002
79	.138	.008
80	.483	.032
81	1.769	.150
82	2.969	.369
83	4.021	.471
84	4.838	.530
85	5.726	.654
86	6.256	.605
87	6.769	.593
88	7.313	.699
89	7.900	.755
90	8.502	.812
91	9.117	.873
92	9.762	.936
93	10.454	1.049
94	11.190	1.124
95	11.960	1.202
96	12.760	1.283
97	13.628	1.435
98	14.566	1.533
99	15.550	1.634
2000	16.583	1.741

FIGURE 5A
FUTURE TOTAL REVENUES
(30% GASE/NOMINAL $)

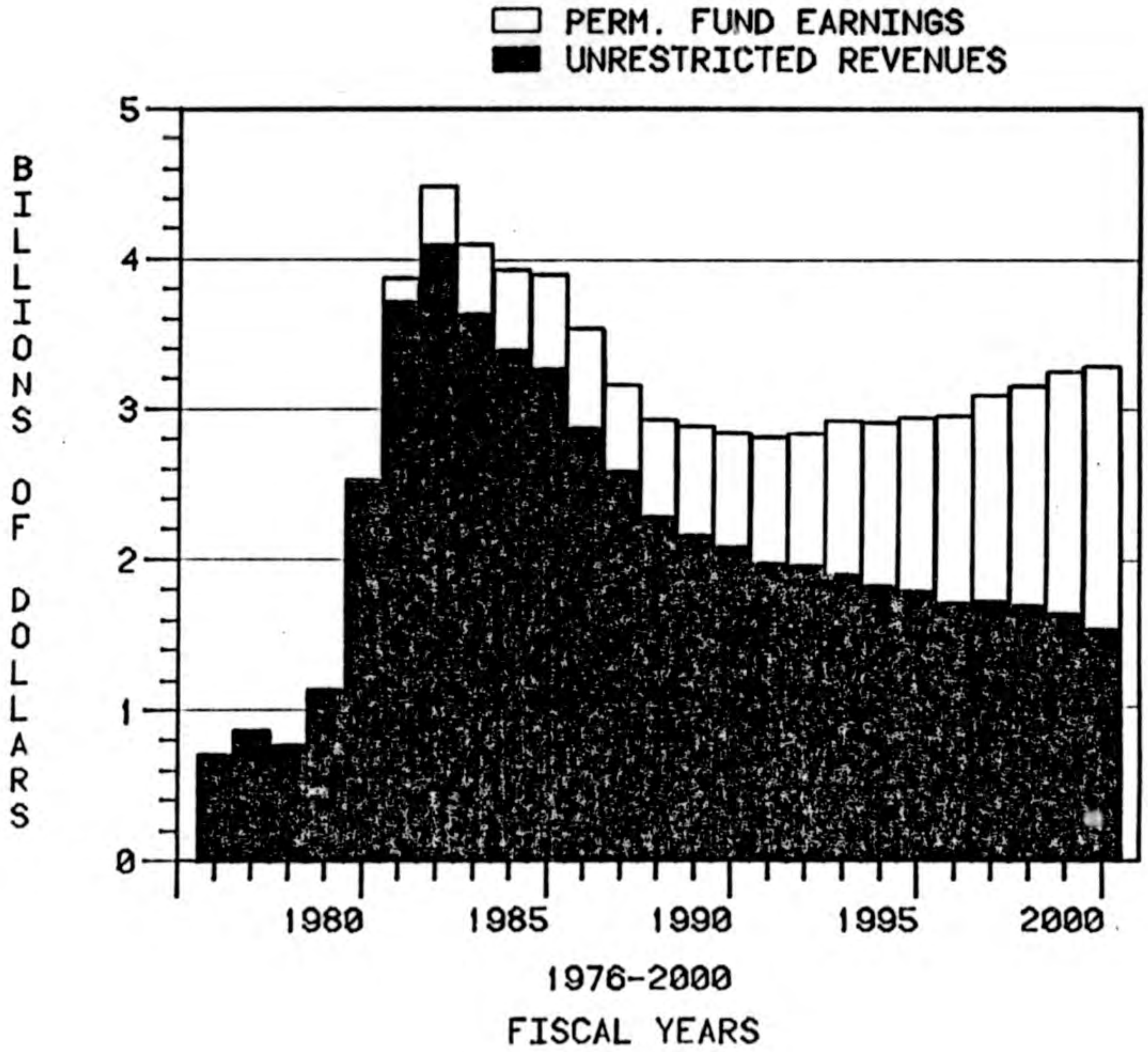

Table 5A

Future Total Revenues
(Billions of Nominal Dollars)

FY	General Fund Unrestricted Revenues	Permanent Fund Earnings	Total Revenues
75	.333	- 0 -	.333
76	.710	- 0 -	.710
77	.874	- 0 -	.874
78	.765	.002	.767
79	1.133	.008	1.141
80	2.501	.032	2.533
81	3.718	.150	3.868
82	4.108	.369	4.477
83	3.631	.471	4.102
84	3.390	.530	3.920
85	3.238	.654	3.892
86	2.873	.605	3.478
87	2.574	.593	3.167
88	2.268	.699	2.967
89	2.151	.755	2.906
90	2.052	.813	2.865
91	1.944	.873	2.817
92	1.932	.936	2.868
93	1.894	1.050	2.944
94	1.806	1.124	2.930
95	1.754	1.202	2.956
96	1.683	1.283	2.966
97	1.692	1.435	3.127
98	1.655	1.533	3.188
99	1.615	1.634	3.249
2000	1.560	1.740	3.300

FIGURE 5B
FUTURE TOTAL REVENUES
(30% CASE/REAL $-1981)

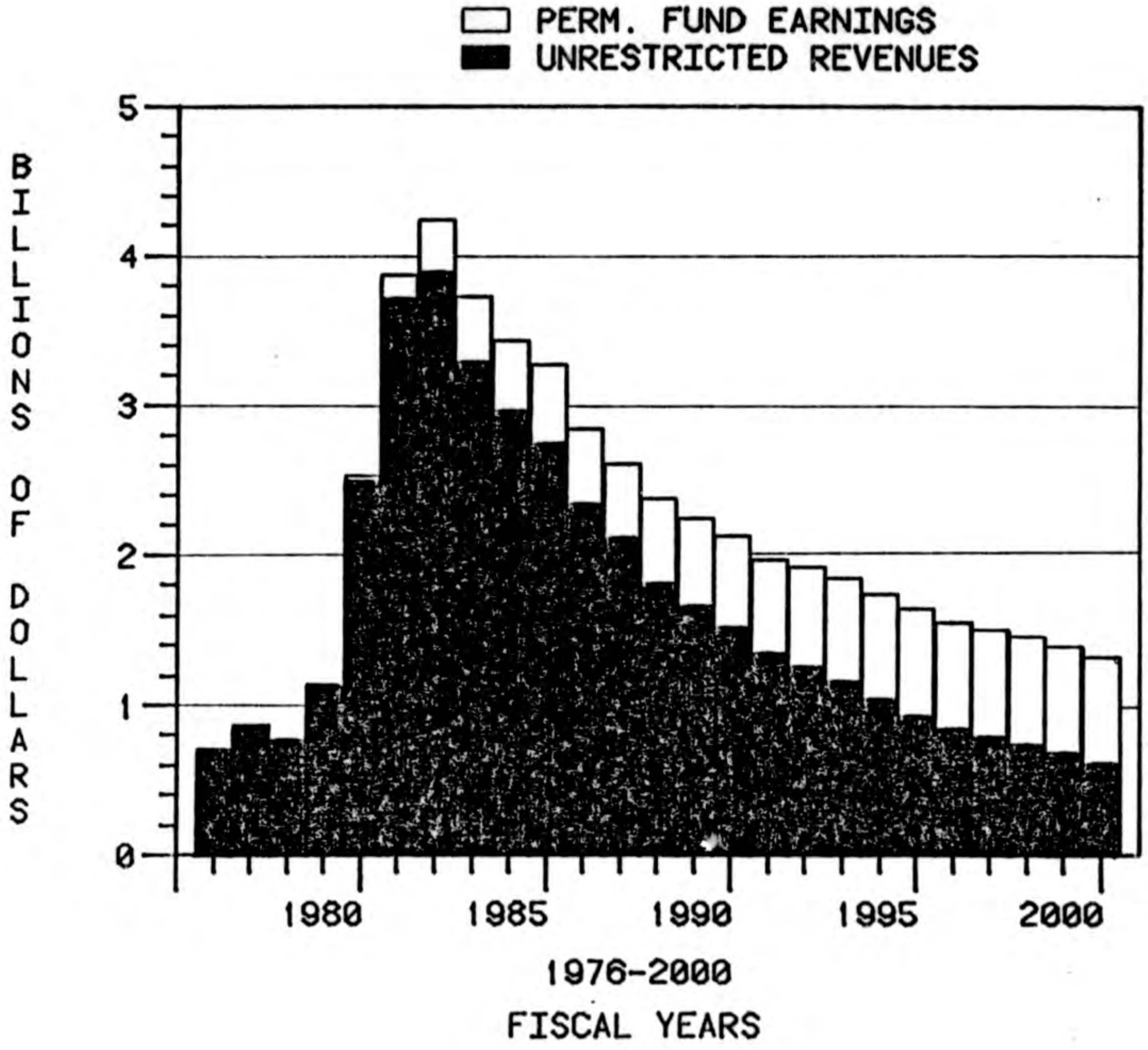

Table 5B

Future Total Revenues
(Billions of Real Dollars)

FY	General Fund Unrestricted Revenues	Permanent Fund Earnings	Total Revenues
75	.333	-0-	.333
76	.710	-0-	.710
77	.874	-0-	.874
78	.765	.002	.767
79	1.133	.008	1.141
80	2.501	.032	2.533
81	3.718	.150	3.868
82	3.890	.349	4.239
83	3.297	.428	3.725
84	2.971	.465	3.436
85	2.735	.553	3.288
86	2.336	.492	2.828
87	2.012	.463	2.475
88	1.692	.521	2.213
89	1.532	.538	2.070
90	1.395	.552	1.947
91	1.262	.566	1.828
92	1.197	.580	1.777
93	1.115	.618	1.733
94	1.011	.630	1.641
95	.934	.640	1.574
96	.852	.649	1.501
97	.811	.688	1.499
98	.751	.695	1.446
99	.694	.702	1.396
2000	.634	.708	1.342

The revenue forecasts utilized by Executive and Legislative branches of Government for Budget Purposes

The 30% verses the mean case

History of OPEC

Alternative Energy Sources, Conservation Measures, New Production Areas

Data Base

(a) Wire Services

(b) Publications

(c) Oil Industry

(d) Consultants

The Models

(a) Severance Tax, Royalties, Conservation Tax

(b) Investment Earnings

(c) Petroleum Corporate Tax

(d) Non-Petroleum Tax Model

(e) Permanent Fund Model

The Delphi Session