

LEG. FINANCE - BILLS 1977 - 1978 895

SB 103 cont., thru SB 105

results. Can anyone really argue with the fact <sup>that</sup> payment of the severance taxes on production or property taxes on equipment are expenses to be reckoned with in determining the economic limits?

Without changes to the method of determining economic limits to accord with reality, the method is of little value to give meaning to the concept. If a taxpayer is to have a fair and adequate hearing on a matter as important as the economic limit is to the formula and the tax payables, then the rules should be spelled out clearly to avoid endless argument.

The 6.4¢ per MCF floor price on gas will obviously raise Union's effective rate of tax far above the 10% of value stated in the bill. For example, for gas sold at about 42 cents, the effective rate would be over 15% and it does not appear that the economic limit factor would assist much in lowering this.

We believe it is not warranted to accelerate the payment date to the 20th of the month. It is already a strain on the producers to get returns filed by the end of the month, where the data has to be processed out of the state. Only ten days is gained from this, and we see no need for compounding an already existing administrative problem.

In summary, we believe a lot more thought has got to go into this bill. Union engineers, while not having time to run detailed calculations, have determined preliminarily that even

when the economic limit approaches as much as three-fourths of the total production (for example, ~~1,200~~, total production of 1,200 and an economic limit of, say, 800 or 900) the effective rate could still be over ten percent for the producer. Again, we were not totally sure of the meanings of all the formula terms, but the overall effect of the formula seems to keep the effective rate high, even when the economic limit is high in relation to production. Obviously, more time has got to be spent in determining this with more certainty.

# STATE OF ALASKA

## DEPARTMENT OF REVENUE

OFFICE OF THE COMMISSIONER

POUCH 5 - BUREAU 99811

JAY S. HAMMOND, GOVERNOR

April 21, 1977

The Honorable John Sackett  
 Chairman  
 Senate Finance Committee  
 Alaska State Legislature  
 Juneau, AK 99811

Dear Senator Sackett:

We recommend the following changes in CSSB 103:

- A. p. 1, l. 24 - Replace "\$.65" with "\$.9375", which is 12.5% of \$7.50.
- B. p. 2, l. 7 - Insert a subsection (a) to read as follows:

"(a) The amounts set out in sec. 11(c) and sec. 16(c) of this chapter shall be increased or decreased by a percentage equal to the percentage of change in the Gross National Product Deflator published by Bureau of Economic Analysis of the United States Department of Commerce. Changes in tax rates will be computed based on changes in the Gross National Product Deflator from that of the First Quarter 1977 Gross National Product Deflator. The department shall post the changes in the tax rates periodically and shall notify every person producing oil within the state of the changes."

Present language would be retained as subsection (b).

- C. p. 2, l. 8 - Insert "as adjusted by (a) of this section" between "chapter" and "applies".
- D. p. 3, l. 3 - Put a "." after paid, deleting the remainder of that sentence and replacing it with the following sentences:

"The taxpayer may rebut this presumption at a formal hearing under AS 43.05.420 by providing clear and convincing evidence of a different monthly production rate at the economic limit for the lease or property. The hearing shall be held before February 15 of the year or within six months after commencement of oil production for a lease or property."

E. p. 3, l. 10 - Delete the "." after 'section' and add the following:

"and shall be used for purposes of this section for all oil production during that calendar year from the lease or property."

F. p. 3, l. 14 - Amend the line to read as follows:

"direct operating costs include production supplies, purchased fuel, routine mainte-"

G. p. 3, l. 24 - Amend subsection (e) to read as follows:

"For purposes of this section, oil production shall be valued on the basis of the prevailing acquisition cost C.I.F. at West Coast refineries for imported oil or like quality, minus the reasonable cost of transportation between the point of production of the oil from the lease or property and those West Coast refineries."

H. p. 3, l. 28 - Insert the word "gas" between 'of' and "production".

I. p. 4, l. 25 - Between "field" and "." insert "or some other field within 100 miles in the state".

J. p. 7, l. 6 - Replace "." with ":" after month and add the following:

(13) "gross value at the point of production" means:  
(A) for oil, the value of the oil at the point where it is metered or measured (by automatic custody transfer meter, tank gauge, or other method approved by the commissioner) in a condition of pipeline quality on the premises of the lease or property from which it is recovered; however, if the oil is not of pipeline quality when it is removed from the premises of the lease or property from which it is recovered, or if the oil recovered from a lease or property is not metered or measured (by automatic custody transfer meter, tank gauge, or other method approved by the commissioner) on the premises of the lease or property from which it is recovered, then the gross value at the point of production is the value of that oil at the off-premises location where the oil is first metered or measured (by automatic custody transfer meter, tank gauge, or other method approved by the commissioner) in a condition of pipeline quality;

# **CORRECTION**

**THIS DOCUMENT  
HAS BEEN REPHOTOGRAPHED  
TO ASSURE LEGIBILITY**

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(B) for gas recovered from or in association with oil, the value of the gas at the point where it is accurately metered or measured after separation from the oil; for gas run through a gas processing plant, the gross value at the point of production is the full consideration received by the producer for the gas if sold in an arm's length transaction or, in the absence of an arm's length transaction, is the sum of the value of the liquids extracted from the gas at the plant and the value of the residue gas, less a reasonable allowance for processing the gas at the plant and for transporting the gas to the plant from the premises upon which the oil production operation is conducted; and

(C) for gas not recovered from or in association with oil, the value of the gas at the point where it is accurately metered or measured or the value of the gas at the point of sale, if any, on the premises of the lease or property from which the gas is recovered, whichever is the higher value; for gas run through a gas processing plant, the gross value at the point of production is the full consideration received by the producer for the gas if sold in an arm's length transaction or, in the absence of an arm's length transaction, is the sum of the value of the liquids extracted from the gas at the plant and the value of the residue gas, less a reasonable allowance for processing the gas at the plant and for transporting the gas to the plant from the point where it was accurately metered or measured;

(14) "oil production operation" means the operation by which oil is recovered from a lease or property and rendered into oil of pipeline quality, and includes any gathering done before the oil is finally tendered into oil or pipeline quality;

(15) "pipeline quality" means good and merchantable condition.

A section should be added to CSSB 103 between the present sections 2 and 3 to make the following technical amendment:

\*Sec. 3. AS 43.55.020(e) is amended to read:

(e) Gas produced and used, except gas used in the operation of a lease or property in drilling for or producing oil or gas, or for repressuring, is considered, for the purpose of this chapter and in the amount used, as gas produced [REMOVED OR SOLD] from a lease or property.

We suggest adding to that section further language to restore the gas flaring tax:

"Gas flared under a permit granted by the Department of Natural Resources under AS 31.05.170(11)(H) is considered as gas produced, except that it is subject to a tax equal to twice the tax computed under sec. 16 of this chapter as adjusted by sec. 12 of this chapter per thousand cubic feet of gas for the month in which the gas was flared.

Very truly yours,



John R. Messenger  
Deputy Commissioner

EXISTING STATUTE  
(Millions)

1978	103.3
1979	153.9
1980	192.6
1981	296.3
1982	471.2
1983	593.3
1984	677.7
1985	740.3

SB 238  
(Millions)

1978	128.1
1979	189.1
1980	231.5
1981	486.8
1982	544.9
1983	689.5
1984	762.3
1985	777.8

CS SB 103  
(Millions)

1978	155.2
1979	231.1
1980	394.7
1981	654.1
1982	753.5
1983	958.7
1984	1088.6
1985	1174.7

TABLE 1. COOK INLET NATURAL GAS  
SEVERANCE TAX PROJECTIONS  
BY FISCAL YEAR AND TAX SCENARIO

Fiscal Year	Sales (Bcf/Y)	Average Price (\$/Mcf)	PRODUCTION TAXES			
			Existing		Proposed	
			(\$/MM)	(Rate)	(\$/MM)	(Rate)
1977	147.6	\$.400	2.08	4%	2.08	4.0%
1978	166.4	\$.400	2.33	4%	9.32	15.3%
1979	198.5	\$.400	2.78	4%	11.78	17.0%
1980	257.5	\$.419	3.78	4%	16.20	18.0%
1981	312.0	\$.444	4.85	4%	20.81	19.1%
1982	333.3	\$.464	5.41	4%	23.56	20.2%
1983	338.9	\$.474	5.62	4%	25.40	21.4%
1984	344.9	\$.485	5.85	4%	27.41	22.7%
1985	351.3	\$.494	6.08	4%	29.58	24.1%

TABLE 2. PRUDHOE BAY NATURAL GAS  
SEVERANCE TAX PROJECTIONS  
BY FISCAL YEAR AND TAX SCENARIO

Fiscal Year	Sales (Bcf/Y)	Average Price (\$/Mcf)	PRODUCTION TAXES			
			Existing		Proposed	
			(\$/MM)	(Rate)	(\$/MM)	(Rate)
1977	2.78	\$.30	.029	4%	.029	4.0%
1978	3.92	\$.30	.039	4%	.219	21.3%
1979	5.13	\$.30	.053	4%	.305	22.6%
1980	5.87	\$.30	.063	4%	.369	23.9%
1981	28.03	\$.424	.416	4%	1.870	18.0%
1982	42.96	\$.495	.744	4%	3.037	16.3%
1983	777.42	\$.731	19.879	4%	59.263	11.7%
1984	828.58	\$.833	24.145	4%	65.823	10.9%
1985	868.70	\$.883	26.847	4%	73.123	10.9%

TABLE 2A. PRUDHOE BAY NATURAL GAS  
SEVERANCE TAX PROJECTIONS  
BY FISCAL YEAR AND TAX SCENARIO

Fiscal Year	Sales (\$/Mcf)	Average Price (\$/Mcf)	PRODUCTION TAXES			
			Existing		Proposed	
			(\$MM)	(Eff.Rate)	(\$MM)	(Eff.Rate)
1977	2.78	\$.30	.029	4%	.029	4.0%
1978	3.92	\$.64	.088	4%	.233	10.6%
1979	5.13	\$.68	.122	4%	.305	10.0%
1980	5.87	\$.72	.148	4%	.370	10.0%
1981	28.03	\$.76	.746	4%	1.864	10.0%
1982	42.96	\$.81	1.218	4%	3.045	10.0%
1983	777.42	\$.85	23.128	4%	58.263	10.1%
1984	828.58	\$.90	26.100	4%	65.823	10.1%
1985	868.70	\$.96	29.188	4%	73.146	10.0%

Table 3

COOK INLET BASIN  
Residential, Power Plant, and Commercial  
Natural Gas Demand Projections  
by end use and by year, 1977-1985  
(in Bcf/Year)

Current Year	Chugach Electric Beluga Plant	City of Kenai	ALASKA PIPELINE COMPANY				General Service Small	Large	Total Demand
			Electric Power	Military	Residential				
1977	11.28(a)	.40	11.16(b)	5.89(b)	6.51(b)	3.10(b)	4.34(b)	42.68	
1978	12.86	.42	11.59	5.89	7.03	3.35	4.69	45.83	
1979	13.37	.44	12.02	5.89	7.59	3.62	5.06	47.95	
1980	14.85	.46	12.42	5.89	8.20	3.91	5.47	51.20	
1981	16.45	.48	12.81	5.89	8.86	4.22	5.90	54.61	
1982	18.26	.50	13.16	5.89	9.57	4.56	6.38	58.29	
1983	19.57	.53	13.51	5.89	10.33	4.92	6.89	61.64	
1984	19.77	.56	13.81	5.89	11.16	5.32	7.44	63.95	
1985	19.77	.59	14.09	5.89	12.05	5.74	8.03	66.16	

- a. Power System Study, 1976 by Tippet and Gee, Consulting Engineers for Chugach Electric Association forecasts demand for the Beluga plant for the years 1977-1984.
- b. Data supplied by Alaska Pipeline Company projects 1977 APC system demand at 31.0 Bcf: 36% used in Chugach and Anchorage Municipal electric power plants, 19% supplied to the military, 21% sold to residential consumers, 10% delivered to small commercial users, 14% sold to large (1200 Mcf per year) commercial users. Total system demand for APC 1977-1982 is expected to grow at 5% per year with nonpower usage increasing at a rate of 8% per annum.

Table 4

ESTIMATED TOTAL COOK INLET NATURAL GAS PRODUCTION AND  
RESIDENTIAL DEMAND BY UTILITY AND BY YEAR, 1977-1985  
(in Bcf/Year and Percentage)

Calendar Year	Total Cook Inlet Sales	Volumes (%) Sold to or for Residential End Users			
		Alaska Pipeline Company	Chugach Electric Association	Anchorage MPL	City of Kenai
1977	157.0 (100%)	6.5 (4%)	6.8 (4%)	3.4 (2%)	.4 (.3%)
1978	172.5 (100%)	7.0 (4%)	7.7 (4%)	3.5 (2%)	.4 (.2%)
1979	228.0 (100%)	7.6 (3%)	8.0 (4%)	3.6 (2%)	.4 (.2%)
1980	284.8 (100%)	8.2 (3%)	8.9 (3%)	3.8 (2%)	.5 (.2%)
1981	322.7 (100%)	8.9 (3%)	9.9 (3%)	3.8 (1%)	.5 (.2%)
1982	335.0 (100%)	9.6 (3%)	11.0 (3%)	3.9 (1%)	.5 (.1%)
1983	342.0 (100%)	10.3 (3%)	11.7 (3%)	4.0 (1%)	.5 (.1%)
1984	348.0 (100%)	11.2 (3%)	11.9 (3%)	4.1 (1%)	.6 (.2%)
1985	355.0 (100%)	12.1 (3%)	11.9 (3%)	4.2 (1%)	.6 (.2%)

Assumptions:

1. 60% of volumes sold to Alaska Pipeline Company are in turn sold to residential consumers.
2. 60% of volumes sold to Chugach Electric Association are in turn used to supply power to residential consumers.
3. 30% of volumes sold to Anchorage Municipal Power and Light are in turn used to supply power to residential consumers.
4. 100% of volumes sold to City of Kenai are used to supply power to residential consumers.

Table 5

**ESTIMATED DIRECT ECONOMIC IMPACT OF  
NATURAL GAS SEVERANCE TAXES ON  
AN AVERAGE ANCHORAGE RESIDENCE  
(\$ per residence per year)**

Calendar Year	Anchorage Natural Gas 1			Chugach Electric Association 2		
	Residential Customers	Existing Taxes	Proposed Taxes	Residential Customers	Existing Taxes	Proposed Taxes
1976	29,200	-	-	31,000	-	-
1977	31,500	\$2.89	\$ 7.49	33,200	\$2.87	\$ 7.44
1978	34,000	\$3.04	\$12.59	35,500	\$3.21	\$13.27
1979	36,800	\$2.97	\$13.34	38,000	\$2.88	\$12.92
1980	39,700	\$3.13	\$13.42	40,600	\$3.32	\$14.24
1981	42,900	\$3.30	\$14.26	43,500	\$3.62	\$15.65
1982	46,300	\$3.41	\$15.15	46,500	\$3.89	\$17.29
1983	50,000	\$3.43	\$15.90	49,800	\$3.92	\$18.14
1984	51,000	\$3.52	\$17.99	53,300	\$3.79	\$18.28

1. The average Anchorage Natural Gas residential billing for calendar year 1976 was \$377.42 (226 Mcf @ \$1.67 per MMBtu). Thus, existing and proposed severance taxes have a direct impact to the residential consumer of 1% and 2% respectively.
2. The average Chugach Electric Association residential customer paid \$310.96 during calendar year 1976 (11,960 Kwh @ .026 per Kwh). Thus, existing and proposed severance taxes have a direct impact to the residential consumer of 1% and 2% respectively. At present Chugach Electric Association has a pending 15% rate increase which is being heard by the Alaska Public Utilities Commission. This rate increase dwarfs the effect of severance taxes.

## MEMORANDUM

State of Alaska

TO: R. D. Stevenson  
Special Assistant  
Department of Revenue

FROM: Thomas K. Williams *TKW*  
Director  
Petroleum Revenue Division  
Department of Revenue

DATE: February 18, 1977

FILE NO

TELEPHONE NO

SUBJECT: SB 103 and HB 144  
(Identical Bills)

At the outset I would note that the Department of Revenue has recently released its review of Alaska's present taxation methods as they apply to the oil and gas industry. Within that review is the production tax, and recommendations regarding this tax have been made by the Department. This will shortly be followed up with specific bills.

SB 103 and HB 144 are identical. They incorporate a number of suggestions made last Session by the Administration to improve the production tax; however, these Bills do not reflect the latest recommendations in the Department's tax study. The most notable difference is that these Bills retain the basic "stair step" approach based on productivity, while the Department proposes a "curve" (instead of "steps") based on the actual economic condition of a property. The Department's recommendation recognizes and adapts itself to the fact that different areas of the State have different scales of economic production (i.e., in some places a far greater amount of production is needed to break even than is needed in others).

No simple set of "steps" can be structured for statewide application that will reduce the economic effect of the tax as the production of a property declines toward the minimum needed to break even. Either the tax will accommodate Cook Inlet operations and be too insensitive for non-coastal Native lands (whose break-even rates of production will more closely resemble the break-even rates for Prudhoe Bay than those for the Inlet), or else they will reflect the economic scale of operations for Native lands and Prudhoe Bay and give too much away to the Inlet operations.

If the "stair step" approach is to be retained despite its defects, the change to average well productivity as the basis for the "steps" is an improvement over the present tax. Both Bills make this change. However, they seem to give a bit too much away in their present definition of average daily per well production." A well operated only one day in the month would count the same as one operated every day of the month. To prevent the "one-day well" tax dodge, it is suggested that something along the lines of the following be used:

R. D. Stevenson  
February 18, 1977  
Page Two

(15) "average daily per well production" means the amount calculated by dividing the total number of barrels of oil produced from a lease or property during the calendar month by the well-days for that lease or property for the calendar month.

(16) "well-days" means the total obtained by determining the number of days each well of a lease or property was operated during the calendar month and then adding those numbers together for all the wells of that lease or property.

Again, this suggestion is made only if "stair steps" are to be retained: it would be unnecessary if the Department's proposed Economic Limit Factor (ELF) is adopted instead.

Despite the difference between "stair steps" and the ELF, these Bills do contain a number of the Administration's recommendations last Session that would still be beneficial.

Most important of these is the specification of the point at which the production is to be valued. There was litigation over this question for Cook Inlet production, and only the fact that the tax is being paid on the cents-per-barrel basis keeps the controversy from boiling up anew. A similar situation could develop at Prudhoe Bay. Specifying the valuation point corrects this and prevents a problem from arising.

Another good feature of the Bills is their proposal to extend the tax to flared gas and to tax that gas at a higher rate. Without a cents-per-Mcf tax, however, the percent-of-value tax could have little if any effect. A producer presumably would argue (before the courts?) that its flared gas has zero value or else why would it be flared.

Neither Bill would change the ordinary gas production tax rate to achieve rate parity with oil. This flaw in the existing tax structure was pointed out in the Department's tax study.

TKM/fm

cc: Sterling Gallagher  
Commissioner of Revenue

John R. Messenger  
Deputy Commissioner of Revenue

## MEMORANDUM

State of Alaska

TO R. D. Stevenson  
Special Assistant  
Department of Revenue

DATE February 18, 1977

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TELEPHONE NO

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Director  
Petroleum Revenue Division  
Department of Revenue

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R. D. Stevenson  
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Again, this suggestion is made only if "stair steps" are to be retained: it would be unnecessary if the Department's proposed Economic Limit Factor (ELF) is adopted instead.

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Neither Bill would change the ordinary gas production tax rate to achieve rate parity with oil. This flaw in the existing tax structure was pointed out in the Department's tax study.

TDS/m

cc: Sterling Callagher  
Commissioner of Revenue

John H. Messenger  
Deputy Commissioner of Revenue



THE LEGISLATURE OF THE STATE OF ALASKA  
TENTH LEGISLATURE

FISCAL NOTE

I. REQUEST  
 Bill/Resolution No. SB 103  
 Title Act concerning the oil and gas properties production tax  
 Requested by \_\_\_\_\_ Date \_\_\_\_\_

II. FISCAL DETAIL  
 Agency Affected Revenue  
 Program Category Affected General Government - Fiscal Services  
 Budget Request Unit(s) Affected Petroleum Revenue

EXPENDITURES (Thousands of Dollars)

	FY 77	FY 78	FY 79	FY 80	FY 81	FY 82
100 PERSONAL SERVICES						
200 TRAVEL						
300 CONTRACTUAL						
400 COMMODITIES						
500 EQUIPMENT						
600 LAND & STRUCTURES						
700 GRANTS, CLAIMS, ETC.						
<b>TOTAL</b>	None	None	None	None	None	None

FUNDING (Thousands of Dollars)

GENERAL FUND	-0-	-0-	-0-	-0-	-0-	-0-
FEDERAL FUNDS						
OTHER (Specify)						

POSITIONS

FULL TIME	None	None	None	None	None	None
PART TIME						
TEMPORARY						

III. ANALYSIS (See Fiscal Note Preparation Instructions, Section III)

This Bill would facilitate the administration of the present production tax, making it fully auditable for the first time since "stair steps" were introduced into the statute in 1970. No additional staff or other costs are anticipated to administer this Bill. Assuming a full and fair market price for Prudhoe Bay oil, estimated receipts under the Bill for production from the main reservoir of that field would be \$131.3 million in FY 78, \$205.6 million in FY 79, \$362.4 million in FY 80, \$585.9 million in FY 81 and \$636.3 million in FY 82. Further comments (which are hereby incorporated into and made part of this Analysis) on the Bill appear in the attached memorandum from Thomas Williams to R. D. Stevenson.

IV. DATE February 18, 1977 PREPARED BY Thomas L. Williams  
 AGENCY Revenue  
 PHONE (907) 276-1363  
 Original Legislative Finance  
 cc Budget and Management  
Prime Sponsor (First Legislator Named)

Introduced: 3/11/77  
Referred: Resources and Finance

IN THE SENATE

BY THE RULES COMMITTEE BY  
REQUEST OF THE GOVERNOR

SENATE BILL NO. 238

IN THE LEGISLATURE OF THE STATE OF ALASKA  
TENTH LEGISLATURE - FIRST SESSION

A BILL

For an Act entitled: "An Act relating to the oil and gas properties production tax; and providing for an effective date."

BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF ALASKA:

Section 1. AS 43.55 is amended by adding new sections to read:

Sec. 43.55.011. OIL PRODUCTION TAX. (a) There is levied upon the producer of oil a tax for all oil produced from each lease or property in the state, less any oil the ownership or right to which is exempt from taxation. The tax is equal to either the percentage-of-value amount calculated under (b) of this section or the cents-per-barrel amount calculated under (c) of this section, whichever is greater, multiplied by the economic limit factor determined for the oil production of the lease or property under sec. 13 of this chapter. If the amounts calculated under (b) and (c) of this section are equal, the amount calculated under (b) of this section shall be treated as if it were the greater for purposes of this section.

(b) The percentage-of-value amount equals 10 per cent of the gross value at the point of production of taxable oil produced from the lease or property.

(c) The cents-per-barrel amount equals \$ 75 per barrel of taxable oil produced from the lease or property, as adjusted by sec. 12 of this chapter.

(d) When the cents-per-barrel amount calculated under (c) of this section is greater than the percentage-of-value amount calculated under (b) of this section, an amount not less than \$ .05 for each

barrel of taxable oil produced shall be paid by the state out of its royalties from the oil whenever payment by the state is required under the revenue sharing provisions of sec. 9 of the Alaska Native Claims Settlement Act (P.L. 92-203, 85 Stat. 688, 43 U.S.C. 1601 et seq.) into the Alaska Native Fund, until all amounts paid in the fund equal \$500,000,000.

Sec. 43.55.012. ADJUSTMENTS IN TAX RATES. (a) The amounts set out in sec. 11(c) and sec. 16(c) of this chapter shall be increased or decreased by a percentage equal to the percentage of change in the Gross National Product Deflator published by Bureau of Economic Analysis of the United States Department of Commerce. Changes in tax rates will be computed based on changes in the Gross National Product Deflator from that of the First Quarter 1977 Gross National Product Deflator. The department shall post the changes in the tax rates periodically and shall notify every person producing oil within the state of the changes.

(b) The cents-per-barrel amount set out in sec. 11(c) of this chapter as adjusted by (a) of this section applies to oil of 27 degrees API gravity. For each degree of API gravity less than 27 degrees the cents-per-barrel amount shall be reduced by \$ .005 and for each degree of API gravity greater than 27 degrees the cents-per-barrel amount shall be increased by \$ .005 except that oil above 40 degrees API gravity shall be taxed as 40 degree oil. In applying the gravity adjustment under this subsection, fractional degrees of API gravity shall be disregarded.

Sec. 43.55.013. ECONOMIC LIMIT FACTOR. (a) The economic limit factor for oil production of a lease or property equals one minus the ratio of the monthly production rate at the economic limit to the production during the month for which the tax is to be paid.

1 (b) Before February 15 of each year or within six months after  
2 commencement of production for a lease or property, the department  
3 shall notify the taxpayer of the monthly production rate at the  
4 economic limit for each lease or property within the state for that  
5 year. The monthly production rate at the economic limit for a lease  
6 or property is presumed to be 100 barrels times the number of well-  
7 days for the lease or property during December of the preceding year,  
8 unless the taxpayer at a formal hearing under AS 43.05.240 provides  
9 clear and convincing evidence of a different monthly production rate  
10 at the economic limit for the lease or property. The monthly produc-  
11 tion rate at the economic limit for the lease or property based upon  
12 the clear and convincing evidence of the taxpayer shall be calculated  
13 by dividing the value determined under (d) of this section into the  
14 average monthly direct operating cost determined under (c) of this  
15 section.

16 (c) The average monthly direct operating cost for oil production  
17 operations of the lease or property shall be determined based on a  
18 period of not less than four consecutive months. The direct operating  
19 costs include drilling supplies, fuel, routine maintenance, and wages  
20 and benefits of employees working on the production operations. The  
21 direct operating costs do not include capital expenditures, tangible  
22 or intangible drilling expenses, costs of well workovers, costs for  
23 replacement or repair (other than routine maintenance), depreciation  
24 or amortization, taxes, insurance, overhead, money paid or set aside  
25 (or booked as being paid or set aside) to cover the cost of terminating  
26 the oil production operations of the lease or property, or any other  
27 cost not directly related to the oil production operations of the  
28 lease or property.

29 (d) The value at the point of production of oil produced from

the lease or property shall be determined on the basis of the acquisition cost C.I.F. at West Coast refineries for imported oil of like quality, minus the reasonable cost of transportation between the point of production of the oil from the lease or property and those West Coast refineries.

(e) Before February 15 of each year or within six months after commencement of production for a lease or property the department shall notify the producer of gas of the monthly production rate at the economic limit for each lease or property within the state for that year. The monthly production rate at the economic limit for a lease or property shall be determined at a formal hearing under AS 43.05.240 and must be established by clear and convincing evidence presented by the taxpayer at that hearing. The monthly production rate at the economic limit for the lease or property based upon the clear and convincing evidence of the taxpayer shall be calculated by dividing the value determined under (g) of this section into the average monthly direct operating cost determined under (f) of this section.

(f) The average monthly direct operating cost for gas production operations of the lease or property shall be determined based on a period of not less than four consecutive months. The direct operating costs include drilling supplies, fuel, routine maintenance, and wages and benefits of employees working on the production operations. The direct operating costs do not include capital expenditures, tangible or intangible drilling expenses, costs of well workovers, costs for replacement or repairs (other than routine maintenance), depreciation or amortization, taxes, insurance, overhead, monies paid or set aside (or billed as being paid or set aside) to cover the cost of terminating the gas production operations of the lease or property, or any other cost not directly related to the gas production operations of the

lease or property.

(g) The value at the point of production of gas produced from the lease or property shall be determined on the basis of the highest price paid for gas of like quality and pressure in the same field or some other field within 100 miles in the state.

(h) The department may aggregate two or more leases or properties (or portions of them), for purposes of determining economic limit factors under this section and applying them to sec. 11 of this chapter, when economically interdependent oil or gas production operations are not confined to a single lease or property. The department may also segregate a lease or property into two or more parts, for purposes of determining economic limit factors under this section and applying them under sec. 11 of this chapter, when two or more economically independent oil or gas production operations are being conducted on it.

(i) A determination of the monthly production rate at the economic limit for a lease or property is retroactive to January 1 of the current year. For production of a lease or property commencing after January 1, the determination of the monthly production rate at the economic limit for that lease or property made within six months after the commencement of production is retroactive to the commencement of production.

Sec. 43 95.016 GAS PRODUCTION TAX (a) There is levied upon the producer of gas a tax for all gas produced from each lease or property in the state, less any gas the ownership or right to which is exempt from taxation. The tax is equal to either the percentage-of-value amount calculated under (b) of this section or the cents-per-Mcf amount calculated under (c) of this section, whichever is greater, multiplied by the economic limit factor determined for gas production

of the lease or property under sec. 13 of this chapter. If the amounts calculated under (b) and (c) of this section are equal, the amount calculated under (b) of this section shall be treated as if it were the greater for purposes of this section.

(b) The percentage-of-value amount equals 10 per cent of the gross value at the point of production of the taxable gas produced from the lease or property.

(c) The cents-per-Mcf amount equals \$.064 per thousand cubic feet of taxable gas produced from the lease or property as adjusted by sec. 12 of this chapter.

Sec. 43.55.017. RELATION TO OTHER TAXES. (a) Except as provided in this chapter and in ch. 58 of this title, the taxes imposed by this chapter are in place of all taxes now imposed by the state or any of its municipalities, and neither the state nor a municipality may impose a tax upon

- (1) producing oil or gas leases,
- (2) oil or gas produced or extracted in the state,
- (3) the value of intangible drilling and exploration expenses.

(b) The taxes imposed by this chapter are in place of all taxes imposed by a municipality upon oil or gas in place or nonproducing oil or gas leases or properties.

(c) The taxes imposed by this chapter are not in place of the tax imposed by ch. 57 of this title or income taxes, franchise taxes or taxes upon the retail sale of oil or gas products.

\* Sec. 2. AS 43.55.020(a) is amended to read

(a) The gross production tax on oil or gas shall be paid monthly. The tax is due on the 20th [LAST] day of each calendar month on oil or gas produced [REMOVED OR SOLD] from each lease or property during the preceding month. If the tax is not paid before the end of the month

in which it becomes due, the tax becomes delinquent.

\* Sec. 3. AS 43.55.020(e) is amended to read:

(e) Gas produced and used, except gas used in the operation of a lease or property in drilling for or producing oil or gas, or for repressuring, is considered, for the purpose of this chapter and in the amount used, as gas produced [REMOVED OR SOLD] from a lease or property. Gas flared under a permit granted by the Department of Natural Resources under AS 31.05.170(11)(H) is considered as gas produced, except that it is subject to a tax equal to twice the tax computed under sec. 16 of this chapter as adjusted by sec. 12 of this chapter per thousand cubic feet of gas for the month in which the gas was flared.

\* Sec. 4. AS 43.55.030(a)(1) is amended to read:

(1) a description of the lease or property from which the oil or gas was produced [REMOVED OR SOLD], by name, legal description, lease number or by accounting code numbers assigned to the department;

Sec. 5. AS 43.55.030(a)(3) is amended to read:

(3) the gross amount of oil or gas produced [REMOVED OR SOLD] from the lease or property, and the percentage of the gross amount owned by each producer for whom the tax is paid.

Sec. 6. AS 43.55.030(a)(4) is amended to read:

(4) the total value of the oil or gas produced [REMOVED OR SOLD] from the lease or property owned by each producer for whom the tax is paid, and

Sec. 7. AS 43.55.140 is amended by adding new paragraphs to read:

(12) "gross value at the point of production" means:

(A) for oil, the value of the oil at the point where it is metered or measured (by automatic custody transfer meter, tank gauge, or other method approved by the commissioner) in a condition

1 of pipeline quality on the premises of the lease or property from  
2 which it is recovered; however, if the oil is not of pipeline  
3 quality when it is removed from the premises of the lease or  
4 property from which it is recovered, or if the oil recovered from  
5 a lease or property is not metered or measured (by automatic  
6 custody transfer meter, tank gauge, or other method approved by  
7 the commissioner) on the premises of the lease or property from  
8 which it is recovered, then the gross value at the point of  
9 production is the value of that oil at the off-premises location  
10 where the oil is first metered or measured (by automatic custody  
11 transfer meter, tank gauge, or other method approved by the  
12 commissioner) in a condition of pipeline quality;

13 (B) for gas recovered from or in association with oil,  
14 the value of the gas at the point where it is accurately metered  
15 or measured after separation from the oil; for gas run through a  
16 gas processing plant, the gross value at the point of production  
17 is the full consideration received by the producer for the gas if  
18 sold in an arm's length transaction or, in the absence of an  
19 arm's length transaction, is the sum of the value of the liquids  
20 extracted from the gas at the plant and the value of the residue  
21 gas, less a reasonable allowance for processing the gas at the  
22 plant and for transporting the gas to the plant from the premises  
23 upon which the oil production operation is conducted; and

24 (C) for gas not recovered from or in association with  
25 oil, the value of the gas at the point where it is accurately  
26 metered or measured or the value of the gas at the point of sale,  
27 if any, on the premises of the lease or property from which the  
28 gas is recovered, whichever is the higher value, for gas run  
29 through a gas processing plant, the gross value at the point of

1 production is the full consideration received by the producer for  
2 the gas if sold in an arm's length transaction or, in the absence  
3 of an arm's length transaction, is the sum of the value of the  
4 liquids extracted from the gas at the plant and the value of the  
5 residue gas, less a reasonable allowance for processing the gas  
6 at the plant and for transporting the gas to the plant from the  
7 point where it was accurately metered or measured;

8 (13) "oil production operation" means the operation by  
9 which oil is recovered from a lease or property and rendered into oil  
10 of pipeline quality, and includes any gathering done before the oil is  
11 finally rendered into oil or pipeline quality;

12 (14) "pipeline quality" means good and merchantable condition

13 (15) "well days" means the number of days in which a well  
14 is operating during a month.

15 \* Sec. 8. AS 43.55.010, 43.55.015 and 43.55.140(10), and (11.) are  
16 repealed.

17 \* Sec. 9. This Act takes effect July 1, 1977 and applies to production  
18 during the month of July 1977 and succeeding months.  
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BY THE RULES COMMITTEE BY  
REQUEST OF THE LEGISLATIVE  
COUNCIL (for the Subcommittee  
on Oil and Gas Leasing and  
Taxing Policies)

1 IN THE SENATE

2 SENATE BILL NO. 103

3 IN THE LEGISLATURE OF THE STATE OF ALASKA

4 TENTH LEGISLATURE - FIRST SESSION

5 A BILL

6 For an Act entitled: "An Act concerning the oil and gas properties pro-  
7 duction tax; and providing for an effective date."

8 BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF ALASKA:

9 \* Section 1. AS 43.55.010(a) is amended to read:

10 (a) There is levied upon the producer of oil or gas a tax based  
11 upon a per cent of the gross value at the point of production [AT THE  
12 WELL] of all oil or gas produced [REMOVED OR SOLD] from each lease or  
13 property in the state, less the value of any part the ownership or right  
14 to which is exempt from taxation. The tax is determined according to  
15 the following schedules, and any part which is exempt from taxation is  
16 deducted from the tax levied on a pro rata basis as to each production  
17 level tax bracket:

18 (1) oil: based upon the total production from each lease or  
19 property [AVERAGE DAILY PRODUCTION FOR EACH WELL] for the calendar month  
20 in barrels, the tax is

21 (A) zero [FIVE] per cent on the first 100 [300] barrels  
22 of average daily per well production;

23 (B) four [SIX] per cent on the next 200 [700] barrels of  
24 average daily per well production;

25 (C) six [EIGHT] per cent on the next 700 [ALL PRODUCTION  
26 IN EXCESS OF 1,000] barrels of average daily per well production;

27 (D) nine per cent on the next 500 barrels of average  
28 daily per well production;

29 (E) eleven per cent on the next 2,000 barrels of average

1 daily per well production;

2 (F) fourteen per cent on all production in excess of  
3 3,500 barrels of average daily per well production;

4 (2) gas: the tax is four per cent of the gross value at the  
5 point of production of the gas and liquid products produced each month.

6 \* Sec. 2. AS 43.55.015(a) is amended to read:

7 (a) There is levied upon the producer of oil a tax on each barrel  
8 of oil produced [REMOVED OR SOLD] from each lease or property in the  
9 state less any part the ownership or right to which is exempt from  
10 taxation. The tax is based upon the total production from each lease or  
11 property [AVERAGE DAILY PRODUCTION FOR EACH WELL] for the calendar month  
12 in barrels determined according to the following schedule and any part  
13 which is exempt from taxation is deducted from the tax levied on a pro  
14 rata basis as to each production level bracket:

15 (1) \$ .0000 [\$ .16875] on each of the first 100 [300] barrels  
16 of average daily per well production;

17 (2) \$ .1350 [\$ .2025] on each of the next 200 [700] barrels of  
18 average daily per well production;

19 (3) \$ .2025 [\$ .2700] on each of the next 700 [BARREL OF PRO-  
20 DUCTION IN EXCESS OF 1,000] barrels of average daily per well production;

21 (4) \$ .3038 on each of the next 500 barrels of average  
22 daily per well production;

23 (5) \$ .3713 on each of the next 2,000 barrels of average daily  
24 per well production;

25 (6) \$ .4725 on each barrel of production in excess of 1,500  
26 barrels of average daily per well production.

27 \* Sec. 3. AS 43.55.015(c) is amended to read:

28 (c) The tax rates set out in this section will be increased or  
29 decreased by a percentage equal to the percentage of change in the  
30

1 Wholesale Price Index for crude petroleum published by the Bureau of  
2 Labor Statistics, of the United States Department of Labor. The year  
3 1967 is the base year of 100 for computing the tax rates. Changes in  
4 tax rates will be computed based on changes from the December, 1973  
5 Wholesale Price Index published in January, 1974 [IN THE WHOLESALE PRICE  
6 INDEX OCCURRING AFTER JANUARY 1, 1974 AND WILL NOT INCLUDE CHANGES IN  
7 THE WHOLESALE PRICE INDEX PRIOR TO JANUARY 1, 1974]. The department  
8 shall post the changes in the tax rates at least semi-annually and shall  
9 notify every person producing oil within the state of the changes.

10 \* Sec. 4. AS 43.55.020(a) is amended to read:

11 (a) The gross production tax on oil or gas shall be paid monthly.  
12 The tax is due on the 20th day [LAST DAY] of each calendar month on oil  
13 or gas produced [REMOVED OR SOLD] from each lease or property during the  
14 preceding month. If the tax is not paid before the end of the month in  
15 which it becomes due, the tax becomes delinquent.

16 \* Sec. 5. AS 43.55.020(e) is repealed and re-enacted to read:

17 (e) Gas produced, except gas used in the operation of a lease or  
18 property in drilling for or producing oil or gas, or for repressuring,  
19 is considered, for the purpose of this chapter, as gas produced from a  
20 lease or property. Gas flared under a permit granted by the Department  
21 of Natural Resources under AS 31.05.170(11)(H) shall be considered as  
22 gas produced, except that it shall pay a severance tax equal to five  
23 times the severance tax in effect for that period in which the gas was  
24 flared.

25 \* Sec. 6. AS 43.55.030(a)(1) is amended to read:

26 (1) a description of the lease or property from which the oil  
27 or gas was produced [REMOVED OR SOLD], by name, legal description,  
28 lease number or by accounting code numbers assigned by the department;

29 \* Sec. 7. AS 43.55.030(a)(3) is amended to read:

1 (3) the gross amount of oil or gas produced [REMOVED OR SOLD]  
2 from the lease or property, and the percentage of the gross amount owned  
3 by each producer for whom the tax is paid;

4 \* Sec. 8. AS 43.55.030(a)(4) is amended to read:

5 (4) the total value of the oil or gas produced [REMOVED OR  
6 SOLD] from the lease or property owned by each producer for whom the tax  
7 is paid; and

8 \* Sec. 9. AS 43.55.140 is amended by adding new paragraphs to read:

9 (12) "gross value at the point of production" means:

10 (A) for oil, the value of the oil at the point where it  
11 is metered or measured (by automatic custody transfer meter, tank  
12 gauge, or other method approved by the commissioner) in a condition  
13 of pipeline quality on the premises of the lease or property from  
14 which it is recovered, however, if the oil is not of pipeline  
15 quality when it is removed from the premises of the lease or  
16 property from which it is recovered, or if the oil recovered from a  
17 lease or property is not metered or measured (by automatic custody  
18 transfer meter, tank gauge, or other method approved by the com-  
19 missioner) on the premises of the lease or property from which it  
20 is recovered, then the gross value at the point of production is  
21 the value of that oil at the off-premises location where the oil is  
22 first metered or measured (by automatic custody transfer meter,  
23 tank gauge, or other method approved by the commissioner) in a  
24 condition of pipeline quality;

25 (B) for gas recovered from or in association with oil,  
26 the value of the gas at the point where it is accurately metered or  
27 measured after separation from the oil; for gas run through a  
28 gas processing plant, the gross value at the point of production is  
29 the full consideration received by the producer for the gas if sold

1           In an arm's length transaction or, in the absence of an arm's  
2           length transaction, is the sum of the value of the liquids ex-  
3           tracted from the gas at the plant and the value of the residue gas,  
4           less a reasonable allowance for processing the gas at the plant and  
5           for transporting the gas to the plant from the premises upon which  
6           the oil production operation is conducted; and

7           (C) for gas not recovered from or in association with  
8           oil, the value of the gas at the point where it is accurately  
9           metered or measured or the value of the gas at the point of sale,  
10          if any, on the premises of the lease or property from which the gas  
11          is recovered, whichever is the higher value; for gas run through a  
12          gas processing plant, the gross value at the point of production is  
13          the full consideration received by the producer for the gas if sold  
14          in an arm's length transaction or, in the absence of an arm's  
15          length transaction, is the sum of the value of the liquids ex-  
16          tracted from the gas at the plant and the value of the residue gas,  
17          less a reasonable allowance for processing the gas at the plant and  
18          for transporting the gas to the plant from the point where it was  
19          accurately metered or measured;

20          (13) "oil production operation" means the operation by which  
21          oil is recovered from a lease or property and rendered into oil of  
22          pipeline quality, and includes any gathering done before the oil is  
23          finally rendered into oil of pipeline quality.

24          (14) "pipeline quality" means good and marketable condition.

25          (15) "average daily per well production" means the amount  
26          calculated by dividing the total number of barrels of oil produced from  
27          each lease or property during the calendar month by the total number of  
28          wells produced on the lease or property any time during the calendar  
29          month and dividing that amount by the total number of days in the  
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1       calendar month.

2       \* Sec. 10. AS 43.55.140(10) and (11) are repealed.

3       \* Sec. 11. This Act takes effect July 1, 1977.

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1 daily per well production;

2 (F) fourteen per cent on all production in excess of  
3 3,500 barrels of average daily per well production;

4 (2) gas: the tax is four per cent of the gross value at the  
5 point of production of the gas and liquid products produced each month.

6 \* Sec. 2. AS 43.55.015(a) is amended to read:

7 (a) There is levied upon the producer of oil a tax on each barrel  
8 of oil produced [REMOVED OR SOLD] from each lease or property in the  
9 state less any part the ownership or right to which is exempt from  
10 taxation. The tax is based upon the total production from each lease or  
11 property [AVERAGE DAILY PRODUCTION FOR EACH WELL.] for the calendar month  
12 in barrels determined according to the following schedule and any part  
13 which is exempt from taxation is deducted from the tax levied on a pro  
14 rata basis as to each production level bracket:

15 (1) \$ 0.0000 [\$ 1.6875] on each of the first 100 [300] barrels  
16 of average daily per well production;

17 (2) \$ 1.1350 [\$ 2.025] on each of the next 200 [700] barrels of  
18 average daily per well production;

19 (3) \$ 2.025 [\$ 2.700] on each of the next 700 [BARREL OF PRO-  
20 DUCTION IN EXCESS OF 1,000] barrels of average daily per well production;

21 (4) \$ 3.3018 on each of the next 500 barrels of average  
22 daily per well production;

23 (5) \$ 3.713 on each of the next 2,000 barrels of average daily  
24 per well production;

25 (6) \$ 4.725 on each barrel of production in excess of 1,500  
26 barrels of average daily per well production.

27 \* Sec. 3. AS 43.55.015(c) is amended to read:

28 (c) The tax rates set out in this section will be increased or  
29 decreased by a percentage equal to the percentage of change in the

Introduced: 1/28/77  
Referred: Resources and Finance

BY THE RULES COMMITTEE BY  
REQUEST OF THE LEGISLATIVE  
COUNCIL. (for the Subcommittee  
on Oil and Gas Leasing and  
Taxing Policies)

1 IN THE SENATE

2 SENATE BILL NO. 103

3 IN THE LEGISLATURE OF THE STATE OF ALASKA

4 TENTH LEGISLATURE - FIRST SESSION

5 A BILL

6 For an Act entitled: "An Act concerning the oil and gas production pro-  
7 duction tax; and providing for an effective date."

8 BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF ALASKA:

9 \* Section 1. AS 43.55.010(a) is amended to read:

10 (a) There is levied upon the producer of oil or gas a tax based  
11 upon a per cent of the gross value at the point of production (AT THE  
12 WELL) of all oil or gas produced (REMOVED OR SOLD) from each lease or  
13 property in the state, less the value of any part the ownership or right  
14 to which is exempt from taxation. The tax is determined according to  
15 the following schedules, and any part which is exempt from taxation is  
16 deducted from the tax levied on a pro rata basis as to each production  
17 level tax bracket:

18 (1) oil: based upon the total production from each lease or  
19 property (AVERAGE DAILY PRODUCTION FOR EACH WELL) for the calendar month  
20 in barrels, the tax is

21 (A) zero (FIVE) per cent on the first 100 (300) barrels  
22 of average daily per well production;

23 (B) four (SIX) per cent on the next 220 (700) barrels of  
24 average daily per well production.

25 (C) six (EIGHT) per cent on the next 700 (ALL PRODUCTION  
26 IN EXCESS OF 1,000) barrels of average daily per well production.

27 (D) nine per cent on the next 500 barrels of average  
28 daily per well production;

29 (E) eleven per cent on the next 7,000 barrels of average

1 (3) the gross amount of oil or gas produced [REMOVED OR SOLD]  
2 from the lease or property, and the percentage of the gross amount owned  
3 by each producer for whom the tax is paid;

4 \* Sec. 8. AS 43.55.030(a)(4) is amended to read:

5 (4) the total value of the oil or gas produced [REMOVED OR  
6 SOLD] from the lease or property owned by each producer for whom the tax  
7 is paid; and

8 \* Sec. 9. AS 43.55.140 is amended by adding new paragraphs to read:

9 (12) "gross value at the point of production" means:

10 (A) for oil, the value of the oil at the point where it  
11 is metered or measured (by automatic custody transfer meter, tank  
12 gauge, or other method approved by the commissioner) in a condition  
13 of pipeline quality on the premises of the lease or property from  
14 which it is recovered, however, if the oil is not of pipeline  
15 quality when it is removed from the premises of the lease or  
16 property from which it is recovered, or if the oil recovered from a  
17 lease or property is not metered or measured (by automatic custody  
18 transfer meter, tank gauge, or other method approved by the com-  
19 missioner) on the premises of the lease or property from which it  
20 is recovered, then the gross value at the point of production is  
21 the value of that oil at the off-premises location where the oil is  
22 first metered or measured (by automatic custody transfer meter,  
23 tank gauge, or other method approved by the commissioner) in a  
24 condition of pipeline quality.

25 (B) for gas recovered from or in association with oil,  
26 the value of the gas at the point where it is accurately metered or  
27 measured after separation from the oil; for gas run through a  
28 gas processing plant, the gross value at the point of production is  
29 the full consideration received by the producer for the gas if sold

1 Wholesale Price Index for crude petroleum published by the Bureau of  
2 Labor Statistics, of the United States Department of Labor. The year  
3 1967 is the base year of 100 for computing the tax rates. Changes in  
4 tax rates will be computed based on changes from the December, 1973  
5 Wholesale Price Index published in January, 1974 [IN THE WHOLESAL PRICE  
6 INDEX OCCURRING AFTER JANUARY 1, 1974 AND WILL NOT INCLUDE CHANGES IN  
7 THE WHOLESAL PRICE INDEX PRIOR TO JANUARY 1, 1974]. The department  
8 shall post the changes in the tax rates at least semi-annually and shall  
9 notify every person producing oil within the state of the changes.

10 \* Sec. 4. AS 43.55.020(a) is amended to read:

11 (a) The gross production tax on oil or gas shall be paid monthly.  
12 The tax is due on the 20th day [LAST DAY] of each calendar month on oil  
13 or gas produced [REMOVED OR SOLD] from each lease or property during the  
14 preceding month. If the tax is not paid before the end of the month in  
15 which it becomes due, the tax becomes delinquent.

16 \* Sec. 5. AS 43.55.020(e) is repealed and re-enacted to read:

17 (e) Gas produced, except gas used in the operation of a lease or  
18 property in drilling for or producing oil or gas, or for repressuring,  
19 is considered, for the purpose of this chapter, as gas produced from a  
20 lease or property. Gas flared under a permit granted by the Department  
21 of Natural Resources under AS 31.05.170(11)(II) shall be considered as  
22 gas produced, except that it shall pay a severance tax equal to five  
23 times the severance tax in effect for that period in which the gas was  
24 flared.

25 \* Sec. 6. AS 43.55.030(a)(1) is amended to read:

26 (1) A description of the lease or property from which the oil  
27 or gas was produced [REMOVED OR SOLD], by name, legal description,  
28 lease number or by accounting code number assigned by the department.

29 \* Sec. 7. AS 43.55.030(a)(3) is amended to read:

1 in an arm's length transaction or, in the absence of an arm's  
2 length transaction, is the sum of the value of the liquids ex-  
3 tracted from the gas at the plant and the value of the residue gas,  
4 less a reasonable allowance for processing the gas at the plant and  
5 for transporting the gas to the plant from the premises upon which  
6 the oil production operation is conducted; and

7 (C) for gas not recovered from or in association with  
8 oil, the value of the gas at the point where it is accurately  
9 metered or measured or the value of the gas at the point of sale,  
10 if any, on the premises of the lease or property from which the gas  
11 is recovered, whichever is the higher value; for gas run through a  
12 gas processing plant, the gross value at the point of production is  
13 the full consideration received by the producer for the gas if sold  
14 in an arm's length transaction or, in the absence of an arm's  
15 length transaction, is the sum of the value of the liquids ex-  
16 tracted from the gas at the plant and the value of the residue gas,  
17 less a reasonable allowance for processing the gas at the plant and  
18 for transporting the gas to the plant from the point where it was  
19 accurately metered or measured.

20 (13) "oil production operation" means the operation by which  
21 oil is recovered from a lease or property and rendered into oil of  
22 pipeline quality, and includes any gathering done before the oil is  
23 finally rendered into oil of pipeline quality;

24 (14) "pipeline quality" means good and marketable condition;

25 (15) "average daily per well production" means the amount  
26 calculated by dividing the total number of barrels of oil produced from  
27 each lease or property during the calendar month by the total number of  
28 wells produced on the lease or property any time during the calendar  
29 month and dividing that amount by the total number of days in the  
30

calendar month.

\* Sec. 10. AS 43.55.140(10) and (11) are repealed.

\* Sec. 11. This Act takes effect July 1, 1977.

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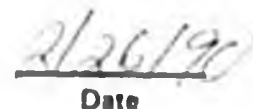


# RECORDS CERTIFICATION



I, the undersigned, an employee of the State of Alaska, do hereby certify that the microfilm images on this microform are accurate reproductions of the original records of the State of Alaska as accumulated during the regular course of business, and that it is the established policy and practice of this State to microfilm its records and to dispose of the original records after microfilm reproductions have been made.

  
\_\_\_\_\_  
Signature of Camera Operator

  
\_\_\_\_\_  
Date

THE LEGISLATURE OF THE STATE OF ALASKA  
TENTH LEGISLATURE

FISCAL NOTE

I. REQUEST  
 Bill/Resolution No. SCS CS HB 322 SB 105  
 Title \_\_\_\_\_  
 Requested by Senate Finance Committee Date \_\_\_\_\_

II. FISCAL DETAIL  
 Agency Affected \_\_\_\_\_ Revenue \_\_\_\_\_  
 Program Category Affected \_\_\_\_\_  
 Budget Request Unit(s) Affected \_\_\_\_\_

EXPENDITURES (Thousands of Dollars)

	FY 78	FY 79	FY 80	FY 81	FY 82	FY 83
100 PERSONAL SERVICES		420.5	420.5	420.5	420.5	420.5
200 TRAVEL		44.0	44.0	44.0	44.0	44.0
300 CONTRACTUAL		200.6	155.6	155.6	155.6	155.6
400 COMMODITIES		5.0	5.0	5.0	5.0	5.0
500 EQUIPMENT		9.6	5	5	5	5
600 LAND & STRUCTURES						
700 GRANTS, CLAIMS, ETC.						
TOTAL		679.7	625.6	625.6	625.6	625.6

FUNDING (Thousands of Dollars)

GENERAL FUND		679.7	625.6	625.6	625.6	625.6
FEDERAL FUNDS						
OTHER(S) (BY)						

POSITIONS

FULL TIME		12	12	12	12	12
PART TIME						
TEMPORARY						

III. ANALYSIS (See Fiscal Note Preparation Instructions, Section III)

The Staffing requested includes seven auditor positions, a Hearing Officer, a Secretary, a Research Analyst, and two clerical support positions. The audit positions requested will include one Revenue Field Auditor III, who will be in charge of the unit, and six auditors at various levels to perform the very complex audits that are going to be necessary under this law. The Hearing Officer is requested primarily because we expect a substantial number of the audits that are performed to be contested, at least through the formal hearing stage, by the taxpayers. The current Hearing Officer position cannot assume this workload since he is currently running a backlog of cases and is expected to for the foreseeable future. Initially, however, the position requested will be involved heavily in the compilation and final preparation of the regulations which will be required by this bill. The requested Secretary position will be

(Con't. attached page)

IV. DATE June 1, 1978 PREPARED BY [Signature]  
 AGENCY Department of Revenue  
 Original: Legislative Finance PHONE 465-2302  
 cc. Budget and Management  
 Prime Sponsor (First Legislator Named)

required by this bill. The requested Secretary position will be very necessary to provide the proper quality of support to the Hearing Officer position. The Research Analyst position is required because of the extensive data that must be gathered and analyzed to form the basis of determining the value of a barrel of oil for each field in the state. The clerical support staff will be necessary to handle the processing of the returns, as well as the necessary typing support for the field audit staff.

Included in contracted services is \$75,000 for (1) a reimbursible services agreement with the Department of Law for one additional attorney to handle any litigation resulting from this bill and (2) for professional services from an oil and gas consulting firm to provide us the necessary assistance in establishing the value of the oil extracted in Alaska, as well as determining what expenses will specifically be allowable under the provisions of the Act. Also included is \$75,000 for the systems analysis and programming of the support system which must be established to accomplish this legislation. It is only through proper computer applications that we can properly meet the requirements of the statute to issue billings to all affected taxpayers by August 15.

Original sponsor: Rules Committee by request  
of the Legislative Council (for the Subcommittee  
on Oil and Gas Leasing and Taxing Policies)

IN THE SENATE

BY THE FINANCE COMMITTEE

CS FOR SENATE BILL NO. 105 (Finance)

IN THE LEGISLATURE OF THE STATE OF ALASKA

TENTH LEGISLATURE - SECOND SESSION

A BILL

For an Act entitled: "An Act establishing an oil and gas corporate income tax; and providing for an effective date."

BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF ALASKA:

\* Section 1. LEGISLATIVE FINDINGS AND INTENT. The legislature finds and declares that the method of apportioning income for tax purposes under the "Uniform Division of Income for Tax Purposes" formula embodied in the Multistate Tax Compact (AS 43.19) and AS 43.20.065 does not fairly represent the extent of the business activities in this state of multistate corporations engaged in the production and pipeline transportation of crude oil and natural gas in Alaska. The legislature therefore intends that, in accordance with the provisions of art. 18 of the Multistate Tax Compact (AS 43.19), the income tax of all corporations engaged in the production or pipeline transportation of oil or natural gas in or directly associated with this state shall be assessed by the tax administrator under this Act. The legislature further intends that the assessment of income tax against a multistate corporation engaged in the production or pipeline transportation of oil or natural gas shall be commensurate with the tax that would be assessed against a corporation owning and operating only those assets of the multistate corporation which are in or directly associated with this state.

\* Sec. 2. AS 43.20.011(e) is amended to read:

(e) There is imposed for each taxable year upon the entire taxable income of every corporation derived from sources within the state a tax consisting of a normal tax equal to 5.4 per cent of taxable income, and a surtax which is equal to 4.0 per cent of taxable income. For purposes

of this chapter the surtax exemption for a taxable year follows secs. 1561 and 1563 of the Internal Revenue Code. The tax of a corporation engaged in the production or transportation of crude oil or natural gas shall be determined and paid in accordance with ch. 21 of this title.

\* Sec. 3. AS 43 is amended by adding a new chapter to read:

CHAPTER 21. OIL AND GAS CORPORATE

INCOME TAX.

Sec. 43.21.010. APPLICATION. This chapter applies to every corporation doing business in the state which derives income from the production of oil or gas from a lease or property in or directly associated with the state, or from the pipeline transportation of oil or gas in the state. The tax calculated under this chapter is measured by the total taxable income of the corporation as defined in secs. 20 - 40 of this chapter and is determined at the rates established under AS 43.20.-011(e).

Sec. 43.21.020. DETERMINATION OF TAXABLE INCOME FROM OIL AND GAS PRODUCTION. (a) The taxable income of a corporation from the production of oil and gas from a lease or property in the state shall be the corporation's net income as calculated by the department in accordance with this section.

(b) Gross income of a corporation from oil and gas production shall be the gross value at the point of production of oil or gas produced from a lease or property in the state. The department shall by regulation determine a uniform method of establishing the gross value at the point of production. In making its determination the department may use the actual prices or values received for the oil or gas, the posted prices for the oil or gas in the same field, or the prevailing prices or values of oil or gas in the same field. In addition, in its determination of gross value at the point of production of oil or gas produced

*New*  
from a lease or property, the department shall determine the reasonable costs of transportation from the point of sale to the point of production of the oil or gas. Transportation costs set by a tariff properly on file with the Alaska Pipeline Commission or other regulatory agency shall be considered prima facie reasonable, but if a tariff properly on file with a regulatory agency is subsequently amended, changed, or overturned retroactively, the reasonable costs of transportation shall be recomputed for that period using the newly determined tariff.

(c) Net income from oil and gas production shall be determined by the department by deducting from gross income the following:

- New* ————
- (1) royalties paid in kind or in value;
  - (2) taxes imposed under AS 43.55 and AS 43.57 which are actually paid by the corporation on the production from a lease or property in the state;
  - (3) taxes imposed under AS 43.56 and AS 29.53 which are actually paid by the corporation on property used directly in the production of oil or gas from a lease or property in the state, including property used in production, gathering, treatment or preparation of the oil or gas for pipeline transportation, but only if those property tax payments were due and payable only after the date of commercial production from the lease or property with which the property was associated;
  - (4) the direct costs incurred by or for the corporation in operating the lease or property, including the direct costs of producing, gathering, treating or preparing the oil or gas for pipeline transportation, but net of any payments received for those activities and not including any indirect cost or overhead expense;
  - (5) depreciation (using the unit of production method or such other reasonable methods as the department may by regulation establish) on property used directly in the production, gathering, treatment or

preparation of the oil or gas for pipeline transportation including amortization of capitalized interest for investments in this property at a rate not to exceed the average cost of borrowed capital to the taxpayer during the year in which it is capitalized;

(6) the amortization of lease acquisition payments and taxes paid under AS 43.56 and AS 29.53 (including capitalized interest on both) for or on producing properties before the commencement of commercial production from the lease or property for which the property is being used;

(7) interest expense not capitalized of the corporation, to the extent that it does not exceed that portion of the total interest paid by the consolidated business of which the corporation is a part, determined by multiplying the total interest (reduced by intercompany transactions within the consolidated business) by a fraction, the numerator of which is the value of the corporation's real and tangible personal property used directly in the production of oil or gas from a lease or property in the state and the denominator of which is the value of all real and tangible personal property of the consolidated business;

(8) expenses incurred by the corporation after December 31, 1977 of unsuccessful exploration of oil or gas in the state including the acquisition costs of abandoned properties, dry hole costs and the costs of geologic and geophysical exploration related to those abandoned properties;

(9) general overhead or administrative expense incurred by the corporation attributable to the production of oil or gas from a lease or property in the state to the extent that it does not exceed the lesser of

(A) that portion of the total general overhead or administrative expense incurred by the consolidated business of which

the corporation is a part, determined by multiplying the total general overhead or administrative expense by a fraction, the numerator of which is the value of the corporation's real and tangible personal property used directly in the production of oil or gas from a lease or property in the state and the denominator of which is the value of all real and tangible personal property of the consolidated business, or

(3) the sum of \$0.12 for each barrel of oil and \$0.02 for each thousand cubic feet of gas produced from a lease or property in the state.

(d) Deductions from gross income under this section shall not include expenses previously deducted on a return filed under AS 43.20.

(e) Where a corporation subject to this chapter shares the production or proceeds of the production from a lease or property through a working interest, royalty interest, overriding royalty interest, production payment, net profit interest, joint venture or other agreement, the department shall allocate the deductions from gross income between the corporation and the persons with whom it has such an agreement in accordance with the terms of the agreement.

Sec. 43.21.030. DETERMINATION OF INCOME FROM OIL AND GAS PIPELINE TRANSPORTATION. (a) Except as provided in (c) of this section, taxable income attributable to the transportation of oil in a pipeline engaged in interstate commerce in Alaska shall be determined by the department and shall be the amount reported or that would be required to be reported to the Federal Energy Regulatory Commission or its successors as net operating income, less those portions of interest and general administrative expense attributable to the pipeline transportation of oil in the state, except that taxable income shall also include taxes on or imposed by income. The department shall establish regulations govern-

ing the determination of interest and general administrative expense attributable to pipeline transportation of oil in the state.

(b) Except as provided in (c) of this section, taxable income attributable to the transportation of natural gas in a pipeline engaged in interstate commerce in Alaska shall be determined by the department and shall be the amount reported or that would be required to be reported to the Federal Energy Regulatory Administration as net operating income less that portion of interest and general administrative expense attributable to pipeline transportation in the state, except that the taxable income shall also include taxes on or measured by income. The department shall establish regulations governing the determination of interest and general administrative expense attributable to pipeline transportation of natural gas in the state.

(c) Taxable income attributable to the transportation of oil or natural gas in Alaska of any corporation not under the Federal Energy Regulatory Commission jurisdiction, or of a corporation under the jurisdiction of the Federal Energy Regulatory Commission but not reporting the operation of pipelines in Alaska separately from the operation of pipelines elsewhere, shall be determined by the department and shall be based upon an amount equal to that which would have been reported to the Federal Energy Regulatory Commission under (a) of this section in the case of oil pipelines, or (b) of this section in the case of natural gas pipelines, had the corporation been, in fact, under Federal Energy Regulatory Commission jurisdiction for the taxable year and required to report on the operation of Alaska pipelines separately from the operation of pipelines elsewhere.

Sec. 43.21.040. DETERMINATION OF INCOME FROM ACTIVITIES OTHER THAN OIL AND GAS PRODUCTION OR PIPELINE TRANSPORTATION. (a) Taxable income of a corporation subject to this chapter from activities in this state

other than the production of oil or gas from a lease or property in the state or the pipeline transportation of oil or gas in the state shall be determined in accordance with the method established in art. IV of AS 43.19.010 and in AS 43.20.071, as modified by (b) - (e) of this section.

(b) The total taxable income of the consolidated business shall be the net income determined and certified by an independent certified public accountant for the purposes of a report to shareholders covering its earnings and profits for the taxable year (calculated without regard to any taxes on or measured by net income), less the taxable income of the corporation as determined under secs. 20 and 30 of this chapter.

(c) The numerator and denominator of the property factor, of the payroll factor and of the sales factor shall be calculated without reference to that portion of property, payroll or sales directly related to the production of oil or gas from a lease of property in the state or the pipeline transportation of oil or gas in the state.

(d) Compensation earned by employees of the consolidated business who are employed in the United States but not in any state shall be included in the numerator of the payroll factor if the employees are directly supplied from a base of operations maintained in this state.

(e) The value of oil or gas production facilities or other properties of the consolidated business which are located in the United States but not in any state shall be included in the numerator of the property factor if the property is serviced or supplied from a base of operations maintained in the state or if that property relies on onshore facilities in this state for storage of the oil or gas produced.

Sec. 43.21.050. ASSESSMENT OF INCOME AND TAX. (a) The department shall assess taxable income and the amount of tax payable on that taxable income.

(b) On or before August 15 of each year the department shall send

to every corporation taxable under this chapter a notice of assessment showing the amount of income taxable under this chapter for the previous year and the amount of tax payable on that taxable income.

(c) For purposes of this chapter the department may combine taxable incomes of corporations subject to tax under this chapter who are part of the same consolidated business.

Sec. 43.21.060. RETURNS. On or before April 15 of each year, a corporation subject to tax under this chapter shall submit a return in a form prescribed by the department setting out information required by the department to determine taxable income. For purposes of this chapter, the department may require corporations subject to tax under this chapter who are part of the same consolidated business to file a single return.

Sec. 43.21.070. PAYMENT OF TAX. The tax levied under this chapter is payable to the department on or before September 30 of each year or in installments at the times and under the conditions the department may by regulation require. This tax is payable on the due date set out in this section even though the assessment is under appeal or the validity, enforceability or application of this chapter or any provision of this chapter is challenged before the department or in the courts.

Sec. 43.21.080. TRANSITIONAL RULES. The department shall provide by regulation transition rules for corporations subject to tax under AS 43.20 before the effective date of this Act to avoid double taxation of the same income or double deduction of the same expense of those corporations as a result of becoming subject to tax under this chapter.

Sec. 43.21.090. REGULATIONS. The department may adopt regulations in accordance with the Administrative Procedure Act (AS 44.69) as appropriate to administer and enforce this chapter.

Sec. 43.21.100. PENALTIES. The penalties established in ch. 20 of

this title apply to this chapter.

Sec. 43.21.110. PUBLIC REPORTING. (a) The commissioner of revenue shall compile and transmit to the legislature an annual consolidated report of state revenues and taxation policies under this chapter. This report shall include total aggregate income tax paid by corporations covered under this chapter and aggregate income and deductions by category, so classified as to prevent the identification of particular returns or reports.

(b) The legislative auditor shall transmit to the legislature an annual report reviewing the actions of the department in administering this chapter.

Sec. 43.21.120. DEFINITIONS. Unless the context requires otherwise the definitions contained in AS 43.55.140 are applicable to this chapter. In addition, in this chapter

(1) "base of operations" means the closest point on land to the offshore oil or gas production operations from which goods, services and supplies flow to those offshore oil or gas production operations;

(2) "consolidated business" means a corporation or group of corporations having at least 50 per cent common ownership, direct or indirect, or a group of corporations in which there is common control either direct or indirect as evidenced by any arrangement, contract or agreement.

\* Sec. 4. This Act applies to taxable income earned or received after December 31, 1977.

\* Sec. 5. The Act takes effect immediately in accordance with AS 01.10.-070(c).

Original sponsor: Rules Committee  
by request of the Governor

Offered: 5/19/77  
Referred: Finance

1 IN THE HOUSE

BY THE RESOURCES COMMITTEE

2 SENATE CS FOR CS FOR HOUSE BILL NO. 322  
3 IN THE LEGISLATURE OF THE STATE OF ALASKA  
4 TENTH LEGISLATURE - FIRST SESSION

5 A BILL

6 For an Act entitled: "An Act relating to the Alaska net income tax; and  
7 providing for an effective date."

8 BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF ALASKA:

9 \*Section 1. LEGISLATIVE FINDINGS AND INTENT. The legislature finds and  
10 declares that the method of apportioning income for tax purposes under the  
11 "Uniform Division of Income for Tax Purposes" formula embodied in the Multi-  
12 State Tax Compact (AS 43.19) and AS 43.20.065 does not fairly represent the  
13 extent of the business activities in this state of multi-state corporations  
14 engaged in the production and pipeline transportation of crude oil and  
15 natural gas in Alaska. The legislature therefore intends that the provisions  
16 of section 18 of article IV of the Multi-State Tax Compact (AS 43.19) which  
17 allow separate accounting of income shall be adopted for the determination of  
18 corporate income tax liability on income derived from the production and  
19 pipeline transportation of oil and gas and related activities. The legisla-  
20 tu further intends that separate accounting shall result in the assessment  
21 of tax against multi-state corporations so that the tax paid by these cor-  
22 porations will be commensurate with the tax that would be paid by corpora-  
23 tions owning and operating only the Alaskan assets of these multi-state  
24 corporations.

25 \* Sec. 2. AS 43.20.011 is amended by adding a new subsection to read:

26 (f) For purposes of determining taxable income under (e) of this  
27 section that part of income of any corporation derived in Alaska from  
28 oil or natural gas production or the transportation of crude oil or  
29 natural gas by pipeline, including income from royalties on oil and gas

1 (5) depreciation on investments which are associated with the  
2 production, gathering, treating and preparing for shipment of the oil or  
3 gas, and which are located in or adjacent to the site of production,  
4 including depreciation on interest capitalized at a rate not to exceed  
5 the average cost of borrowed capital to the corporation taxpayer during  
6 the year in which it is capitalized and also including the amortization  
7 of lease acquisition payments and property taxes paid for or on pro-  
8 ducing properties before the commencement of production on the lease-  
9 hold, facilities or investment associated with it;

10 (6) interest expense not capitalized, to the extent that it  
11 does not exceed a portion of total interest paid by the corporation, its  
12 subsidiaries and affiliates, determined by multiplying total interest  
13 paid by a fraction, the numerator of which is the book value of the  
14 corporation's fixed assets in and associated with the producing proper-  
15 ties in Alaska and the denominator of which is the book value of all  
16 fixed assets held by the corporation, its subsidiaries and affiliates;

17 (7) expenses incurred after December 31, 1976 of unsuccessful  
18 exploration efforts for oil and gas in Alaska, including the acquisition  
19 costs of properties abandoned, dry hole costs, and the costs of geologic  
20 and geophysical exploration on or related to those properties.

21 (d) The department shall establish regulations covering the calcu-  
22 lation of depreciation costs, the allocation of interest costs, the  
23 definition of facilities associated with the production, gathering,  
24 treating and preparing for shipment of oil and gas, and other matters  
25 necessary to implement this section.

26 (e) Deductions from gross income under this section shall not  
27 include expenses previously deducted on a return filed under this  
28 chapter.

29 Sec. 43.20.068. DETERMINATION OF CRUDE OIL AND NATURAL GAS

1 Commission, then a statement to that effect, identifying the deficiencies  
2 of the report and, if possible, providing a reporting of the true and  
3 correct income.

4 (c) Taxable income attributable to the transportation of crude oil  
5 in Alaska of any corporation not under Interstate Commerce Commission  
6 jurisdiction, or of a corporation under the Interstate Commerce Commis-  
7 sion but not reporting the operation of pipelines in Alaska separately  
8 from the operation of pipelines elsewhere, shall be an amount equal to  
9 that which would have been reported to the Interstate Commerce Commission  
10 under (a) of this section had the corporation been, in fact, under  
11 Interstate Commerce Commission jurisdiction for the taxable year and  
12 required to report on the operation of Alaska pipelines separately from  
13 the operation of pipelines elsewhere. A tax return reporting that  
14 income shall be accompanied by a certification from the Alaska Pipeline  
15 Commission to the effect that to the best of the commission's knowledge  
16 and belief the income calculation has been made in accordance with the  
17 principles established by the Interstate Commerce Commission, or, if in  
18 the opinion of the commission, the income is not reported in accordance  
19 with the regulations of the Interstate Commerce Commission, then a  
20 statement to that effect, identifying the deficiencies of the report  
21 and, if possible, providing a reporting of the true and correct income.

22 (d) Taxable income attributable to the transportation of natural  
23 gas in Alaska by any corporation not under the jurisdiction of the  
24 Federal Power Commission, or of a corporation under Federal Power Commis-  
25 sion jurisdiction but not reporting the operation of Alaska pipelines  
26 separately from the operation of pipelines elsewhere, shall be an amount  
27 equal to that which would have been reported to the Federal Power Commis-  
28 sion under (b) of this section had the corporation been, in fact, under  
29 Federal Power Commission jurisdiction for the taxable year and required

# **CORRECTION**

**THIS DOCUMENT  
HAS BEEN REPHOTOGRAPHED  
TO ASSURE LEGIBILITY**

Original sponsor: Rules Committee  
by request of the Governor

Offered: 5/19/77  
Referred: Finance

1 IN THE HOUSE

BY THE RESOURCES COMMITTEE

2 SENATE CS FOR CS FOR HOUSE BILL NO. 322

3 IN THE LEGISLATURE OF THE STATE OF ALASKA

4 TENTH LEGISLATURE - FIRST SESSION

5 A BILL

6 For an Act entitled: "An Act relating to the Alaska net income tax; and  
7 providing for an effective date."

8 BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF ALASKA:

9 \* Section 1. LEGISLATIVE FINDINGS AND INTENT. The legislature finds and  
10 declares that the method of apportioning income for tax purposes under the  
11 "Uniform Division of Income for Tax Purposes" formula embodied in the Multi-  
12 State Tax Compact (AS 43.19) and AS 43.20.065 does not fairly represent the  
13 extent of the business activities in this state of multi-state corporations  
14 engaged in the production and pipeline transportation of crude oil and  
15 natural gas in Alaska. The legislature therefore intends that the provisions  
16 of section 18 of article IV of the Multi-State Tax Compact (AS 43.19) which  
17 allow separate accounting of income shall be adopted for the determination of  
18 corporate income tax liability on income derived from the production and  
19 pipeline transportation of oil and gas and related activities. The legisla-  
20 ture further intends that separate accounting shall result in the assessment  
21 of tax against multi-state corporations so that the tax paid by these cor-  
22 porations will be commensurate with the tax that would be paid by corpora-  
23 tions owning and operating only the Alaskan assets of these multi-state  
24 corporations.

25 \* Sec. 2. AS 43.20.011 is amended by adding a new subsection to read:

26 (f) For purposes of determining taxable income under (e) of this  
27 section that part of income of any corporation derived in Alaska from  
28 oil or natural gas production or the transportation of crude oil or  
29 natural gas by pipeline, including income from royalties on oil and gas  
30

1 production, shall, notwithstanding sec. 65 of this chapter, be deter-  
2 mined by separate accounting under the authority of section 18 of  
3 article IV of the Multi-State Compact (AS 43.19.010) and in accordance  
4 with secs. 67 - 69 of this chapter.

5 \* Sec. 3. AS 43.20 is amended by adding new sections to read:

6 Sec. 43.20.067. DETERMINATION OF OIL AND NATURAL GAS PRODUCTION  
7 INCOME. (a) The determination of taxable income attributable to oil  
8 and natural gas production in Alaska, as required under sec. 11(f) of  
9 this chapter, shall be calculated using gross income and deductions from  
10 gross income as defined in this section.

11 (b) Gross income from oil and gas production in Alaska shall be  
12 the value of oil and gas produced as established for purposes of the oil  
13 and gas properties production tax, in accordance with the provisions of  
14 ch. 55 of this title.

15 (c) Deductions from gross income for the purposes of determining  
16 taxable production income shall include:

17 (1) royalties actually paid whether in kind or in value;

18 (2) severance taxes actually paid for which no prior deduc-  
19 tion has been claimed for income tax purposes;

20 (3) property taxes actually paid by the corporation taxpayer  
21 on producing property and facilities directly associated with producing  
22 property, including facilities for the gathering, treating and preparing  
23 of the oil or gas for shipment, provided the payments are made after the  
24 date of initial production of the property with which they are associated;

25 (4) the direct costs incurred by the corporation taxpayer in  
26 operating oil or gas fields, including the costs of gathering, treating  
27 and preparing oil or gas for shipment, but not of any payments received  
28 for those services and not including indirect costs and overhead except  
29 as provided in (6) of this subsection;

1 (5) depreciation on investments which are associated with the  
2 production, gathering, treating and preparing for shipment of the oil or  
3 gas, and which are located in or adjacent to the site of production,  
4 including depreciation on interest capitalized at a rate not to exceed  
5 the average cost of borrowed capital to the corporation taxpayer during  
6 the year in which it is capitalized and also including the amortization  
7 of lease acquisition payments and property taxes paid for or on pro-  
8 ducing properties before the commencement of production on the lease-  
9 hold, facilities or investment associated with it;

10 (6) interest expense not capitalized, to the extent that it  
11 does not exceed a portion of total interest paid by the corporation, its  
12 subsidiaries and affiliates, determined by multiplying total interest  
13 paid by a fraction, the numerator of which is the book value of the  
14 corporation's fixed assets in and associated with the producing proper-  
15 ties in Alaska and the denominator of which is the book value of all  
16 fixed assets held by the corporation, its subsidiaries and affiliates;

17 (7) expenses incurred after December 31, 1976 of unsuccessful  
18 exploration efforts for oil and gas in Alaska, including the acquisition  
19 costs of properties abandoned, dry hole costs, and the costs of geologic  
20 and geophysical exploration on or related to those properties.

21 (d) The department shall establish regulations covering the calcu-  
22 lation of depreciation costs, the allocation of interest costs, the  
23 definition of facilities associated with the production, gathering,  
24 treating and preparing for shipment of oil and gas, and other matters  
25 necessary to implement this section.

26 (e) Deductions from gross income under this section shall not  
27 include expenses previously deducted on a return filed under this  
28 chapter.

29 Sec. 43.20.068. DETERMINATION OF CRUDE OIL AND NATURAL GAS

1 PIPELINE TRANSPORTATION INCOME. (a) Taxable income attributable to the  
2 transportation of crude oil in interstate commerce in Alaska shall be  
3 the sum of the amount reported to the Interstate Commerce Commission  
4 under the category "net balance transferred from income" as specified as  
5 of January 1, 1977 in 49 CFR 10 Part 1204, account 700 and of federal  
6 income taxes paid as specified as of January 1, 1977 in 49 CFR 10 Part  
7 1204, accounts 670 and 695, and of taxes actually paid under sec. 11(e)  
8 of this chapter. A tax return reporting that income shall be accompanied  
9 by a certification from the Alaska Pipeline Commission to the effect  
10 that to the best of the commission's knowledge and belief the income  
11 calculation has been made in accordance with the principles established  
12 by the Interstate Commerce Commission, or, if in the opinion of the  
13 commission, the income is not reported in accordance with the regulations  
14 of the Interstate Commerce Commission, then a statement to that effect,  
15 identifying the deficiencies of the report and, if possible, providing a  
16 reporting of the true and correct income.

17 (b) Taxable income attributable to the transportation of natural  
18 gas in interstate commerce in Alaska shall be the sum of the amount  
19 reported to the Federal Power Commission under the category "balance  
20 transferred from income" as specified in 18 CFR 1, Part 201, account  
21 433 and of federal income taxes paid as specified as of January 1, 1977  
22 in 18 CFR 1, Part 201, accounts 409, 409.1, 409.2 and 409.3, and of  
23 taxes actually paid under sec. 11(e) of this chapter. A tax return  
24 reporting that income shall be accompanied by a certification from the  
25 Alaska Public Utilities Commission to the effect that to the best of the  
26 commission's knowledge and belief the income calculation has been made  
27 in accordance with the principles established by the Federal Power  
28 Commission, or, if in the opinion of the commission, the income is not  
29 reported in accordance with the regulations of the Federal Power  
30

1 Commission, then a statement to that effect, identifying the deficiencies  
2 of the report and, if possible, providing a reporting of the true and  
3 correct income.

4 (c) Taxable income attributable to the transportation of crude oil  
5 in Alaska of any corporation not under Interstate Commerce Commission  
6 jurisdiction, or of a corporation under the Interstate Commerce Commis-  
7 sion but not reporting the operation of pipelines in Alaska separately  
8 from the operation of pipelines elsewhere, shall be an amount equal to  
9 that which would have been reported to the Interstate Commerce Commission  
10 under (a) of this section had the corporation been, in fact, under  
11 Interstate Commerce Commission jurisdiction for the taxable year and  
12 required to report on the operation of Alaska pipelines separately from  
13 the operation of pipelines elsewhere. A tax return reporting that  
14 income shall be accompanied by a certification from the Alaska Pipeline  
15 Commission to the effect that to the best of the commission's knowledge  
16 and belief the income calculation has been made in accordance with the  
17 principles established by the Interstate Commerce Commission, or, if in  
18 the opinion of the commission, the income is not reported in accordance  
19 with the regulations of the Interstate Commerce Commission, then a  
20 statement to that effect, identifying the deficiencies of the report  
21 and, if possible, providing a reporting of the true and correct income.

22 (d) Taxable income attributable to the transportation of natural  
23 gas in Alaska by any corporation not under the jurisdiction of the  
24 Federal Power Commission, or of a corporation under Federal Power Commis-  
25 sion jurisdiction but not reporting the operation of Alaska pipelines  
26 separately from the operation of pipelines elsewhere, shall be an amount  
27 equal to that which would have been reported to the Federal Power Commis-  
28 sion under (b) of this section had the corporation been, in fact, under  
29 Federal Power Commission jurisdiction for the taxable year and required

1 to report on the operation of Alaska pipelines separately from the opera-  
2 tion of pipelines elsewhere. A tax return reporting that income shall  
3 be accompanied by a certification from the Alaska Public Utility Commis-  
4 sion to the effect that to the best of the commission's knowledge and  
5 belief the income calculation has been made in accordance with the  
6 principles established by the Federal Power Commission, or, if in the  
7 opinion of the commission, the income is not reported in accordance with  
8 the regulations of the Federal Power Commission, then a statement to  
9 that effect, identifying the deficiencies of the report and, if possible,  
10 providing a reporting of the true and correct income.

11 (e) The certifications of the Alaska Pipeline Commission and the  
12 Alaska Public Utilities Commission submitted in accordance with this  
13 section do not prejudice any future action by the respective commission  
14 nor prevent the respective commission from submitting a revised certi-  
15 fication within three years of the due date of the tax return in support  
16 of which it was originally filed.

17 (f) Nothing in this section or in sec. 67 of this chapter limits a  
18 corporate taxpayer's right to appeal or the taxpayer remedies provided  
19 under ch. 5 of this title.

20 Sec. 43.20.069. DETERMINATION OF INCOME FROM OTHER ACTIVITIES OF  
21 CORPORATIONS ENGAGED IN OIL OR NATURAL GAS PRODUCTION OR TRANSPORTATION.  
22 Taxable income from activities other than oil or natural gas production  
23 or pipeline transportation shall be determined by subtracting the income  
24 as determined under secs. 67 and 68 of this chapter from the corpora-  
25 tion's combined net income and applying the apportionment formula  
26 required under the provisions of sec. 65 of this chapter, except that  
27 both the numerator and the denominator of the property factor and the  
28 payroll factor shall be calculated without reference to payroll or  
29 property related to crude oil or natural gas production or pipeline

1 transportation activity in Alaska, and the sales factor shall not be  
2 used in the calculation.

3 Sec. 43.20.070. PUBLIC REPORTING. Notwithstanding the provisions  
4 of AS 43.05.230, the commissioner of revenue shall compile and transmit  
5 to the legislature an annual consolidated report of state revenues and  
6 taxation policies under this chapter. This report shall include total  
7 Alaska income tax paid by firms and individuals covered under this  
8 chapter and itemized deductions by category.

9 \* Sec. 4. AS 43.20 is amended by adding a new section to read:

10 Sec. 43.20.075. BOOKS AND RECORDS. The department may provide by  
11 regulation the manner in which books and records must be kept and main-  
12 tained for purposes of determining gross income and deductions from  
13 gross income under secs. 67 - 69 of this chapter.

14 \* Sec. 5. AS 43.20.335 is amended by adding new subsections to read:

15 (k) Any person who improperly influences, or attempts to improper-  
16 ly influence, by means of payment or offer of payment or other valuable  
17 consideration, any state official in his determination of values and  
18 apportionments under this chapter is guilty of bribery and punishable  
19 under AS 11.30.040.

20 (l) Any person who knowingly and wilfully makes false statements  
21 or representations, or who knowingly allows false statements or repre-  
22 sentations to be made on his behalf in the case of corporations, with a  
23 purpose of avoiding the corporate tax imposed under this chapter is  
24 guilty of wilful tax avoidance and is punishable upon conviction by a  
25 fine of three times the amount of the tax that would have been unpaid  
26 had the false statement been undetected, and by imprisonment for not  
27 less than 10 days nor more than one year.

28 \* Sec. 6. AS 42.06.140 is amended by adding a new paragraph to read:

29 (11) shall provide all reasonable assistance to the  
30

Department of Revenue in determining the net income from oil pipeline facilities.

- \* Sec. 7. AS 42.06 is amended by adding a new section to read:

Sec. 42.06.041. CERTIFICATION OF INCOME TO DEPARTMENT OF REVENUE.

(a) Upon request of a pipeline carrier the commission shall review the accounts of that carrier and provide a certification to the Department of Revenue either stating that to the best of the commission's knowledge and belief the report of net pipeline income submitted by the carrier under AS 43.20.069 is in accordance with the commission's regulations governing the accounting of income, or that it is not so in accordance, in which case the commission shall identify the deficiencies in the report and, if possible, provide a reporting of the true and correct income.

(b) The commission shall provide the certification of compliance or deficiency in reporting within 45 days of the date on which the pipeline carrier requests it, but all certifications remain subject to amendment by the commission for a period of three years after the due date of the tax return which they accompany.

(c) The commission may by regulation establish accounting procedures and definitions as may be necessary to define net income for tax purposes, but net income so defined shall coincide as nearly as possible with the net income definition used by the commission in establishing rates and measuring rate of return, and shall be derived before any deductions for income taxes accrued or paid.

- \* Sec. 8. AS 42.05.141 is amended to read:

Sec. 42.05.141. GENERAL POWERS AND DUTIES OF THE COMMISSION. The Alaska Public Utilities Commission [PAC]

(1) may regulate every public utility engaged or proposing to engage in such a business inside the state, except to the extent

exempted by sec. 711 of this chapter and the powers of the commission shall be liberally construed to accomplish its stated purposes:

(2) may investigate, upon complaint or upon its own motion, the rates, classification, rules, regulations, practices, services and facilities of a public utility and hold hearings on them.

(3) may make or require just, fair and reasonable rates, classifications, regulations, practices, services and facilities for a public utility;

(4) may prescribe the system of accounts and regulate the service and safety of operations of a public utility.

(5) may require a public utility to file reports and other information and data.

(6) may appear personally or by counsel and represent the interests and welfare of the state in all matters and proceedings involving a public utility pending before an officer, department, board, commission or court of the state or of another state or the United States and to intervene in, protest, resist, or advocate the granting, denial or modification of any petition, application, complaint or other proceeding.

(7) may examine witnesses and offer evidence in any proceeding affecting the state and initiate or participate in judicial proceedings to the extent necessary to protect and promote the interests of the state.

(8) shall provide all reasonable assistance to the Department of Revenue in determining the net income from natural gas pipeline facilities

\* Sec. 9. AS 42.05 is amended by adding a new section to read

Sec. 42.05 302. CERTIFICATION OF INCOME TO DEPARTMENT OF REVENUE.

(a) Upon request of a pipeline carrier the commission shall review the

1 accounts of that carrier and provide a certification to the Department  
2 of Revenue either stating that to the best of the commission's knowledge  
3 and belief the report of net pipeline income submitted by the carrier  
4 under AS 43.20.069 is in accordance with the commission's regulations  
5 governing the accounting of income, or that it is not so in accordance,  
6 in which case the commission shall identify the deficiencies in the  
7 report and, if possible, provide a reporting of the true and correct  
8 income.

9 (b) The commission shall provide the certification of compliance  
10 or deficiency in reporting within 45 days of the date on which the pipe-  
11 line carrier requests it, but all certifications remain subject to  
12 amendment by the commission for a period of three years after the due  
13 date of the tax return which they accompany.

14 (c) The commission may by regulation establish accounting proce-  
15 dures and definitions as may be necessary to define net income for tax  
16 purposes, but net income so defined shall coincide as nearly as possible  
17 with the net income definition used by the commission in establishing  
18 rates and measuring rate of return, and shall be derived before any  
19 deductions for income taxes accrued or paid.

20 \* Sec. 10. This Act relates only to income earned or received after  
21 December 31, 1976.

22 \* Sec. 11. This Act takes effect January 1, 1978.  
23  
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26  
27  
28

Original sponsor: Rules Committee  
by request of the Legislative Council  
(for the Subcommittee on Oil and Gas  
Leasing and Taxing Policies)

Offered: 4/27/77  
Referred: Finance

1 IN THE SENATE

BY THE RESOURCES COMMITTEE

2 CS FOR SENATE BILL NO. 105

3 IN THE LEGISLATURE OF THE STATE OF ALASKA

4 TENTH LEGISLATURE - FIRST SESSION

5 A BILL

6 For an Act entitled: "An Act relating to the Alaska net income tax; and  
7 providing for an effective date."

8 BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF ALASKA:

9 \* Section 1. LEGISLATIVE FINDINGS AND INTENT. The legislature finds and  
10 declares that the method of apportioning income for tax purposes under the  
11 "Uniform Division of Income for Tax Purposes" formula embodied in the Multi-  
12 State Tax Compact (AS 43.19) and AS 43.20.065 does not fairly represent the  
13 extent of the business activities in this state of multi-state corporations  
14 engaged in the production and pipeline transportation of crude oil and  
15 natural gas in Alaska. The legislature therefore intends that the provisions  
16 of section 10 of article IV of the Multi-State Tax Compact (AS 43.19) which  
17 allow separate accounting of income shall be adopted for the determination of  
18 corporate income tax liability on income derived from the production and  
19 pipeline transportation of oil and gas and related activities. The legisla-  
20 ture further intends that separate accounting shall result in the assessment  
21 of tax against multi-state corporations so that the tax paid by these cor-  
22 porations will be commensurate with the tax that would be paid by corpora-  
23 tions owning and operating only the Alaskan assets of those multi-state  
24 corporations.

25 \* Sec. 2. AS 43.20.011 is amended by adding a new subsection to read:

26 (f) For purposes of determining taxable income under (e) of this  
27 section that part of income of any corporation derived in Alaska from  
28 oil or natural gas production or the transportation of crude oil or  
29 natural gas by pipeline, including income from royalties on oil and gas

COMMITTEE COPY

1 production, shall, notwithstanding sec. 65 of this chapter, be deter-  
2 mined by separate accounting under the authority of section 18 of  
3 article IV of the Multi-State Compact (AS 43.19.010) and in accordance  
4 with secn. 67 - 69 of this chapter.

5 \* Sec. 3. AS 43.20 is amended by adding new sections to read:

6 Sec. 43.20.067. DETERMINATION OF OIL AND NATURAL GAS PRODUCTION  
7 INCOME. (a) The determination of taxable income attributable to oil  
8 and natural gas production in Alaska, as required under sec. 11(f) of  
9 this chapter, shall be calculated using gross income and deductions from  
10 gross income as defined in this section.

11 (b) Gross income from oil and gas production in Alaska shall be  
12 the value of oil and gas produced as established for purposes of the oil  
13 and gas properties production tax, in accordance with the provisions of  
14 ch. 55 of this title.

15 (c) Deductions from gross income for the purposes of determining  
16 taxable production income shall include:

17 (1) royalties actually paid whether in kind or in value;

18 (2) severance taxes actually paid for which no prior deduc-  
19 tion has been claimed for income tax purposes;

20 (3) property taxes actually paid by the corporation taxpayer  
21 on producing property and facilities directly associated with producing  
22 property, including facilities for the gathering, treating and preparing  
23 of the oil or gas for shipment, provided the payments are made after the  
24 date of initial production of the property with which they are associated;

25 (4) the direct costs incurred by the corporation taxpayer in  
26 operating oil or gas fields, including the costs of gathering, treating  
27 and preparing oil or gas for shipment, but net of any payments received  
28 for those services and not including indirect costs and overhead except  
29 as provided in (6) of this subsection;

1 (5) depreciation on investments which are associated with the  
2 production, gathering, treating, and preparing for shipment of the oil or  
3 gas, and which are located in or adjacent to the site of production,  
4 including depreciation on interest capitalized at a rate not to exceed  
5 the average cost of borrowed capital to the corporation taxpayer during  
6 the year in which it is capitalized and also including the amortization  
7 of lease acquisition payments and property taxes paid for or on pro-  
8 ducing properties before the commencement of production on the lease-  
9 hold, facilities or investment associated with it;

10 (6) interest expense not capitalized, to the extent that it  
11 does not exceed a portion of total interest paid by the corporation, its  
12 subsidiaries and affiliates, determined by multiplying total interest  
13 paid by a fraction, the numerator of which is the book value of the  
14 corporation's fixed assets in and associated with the producing proper-  
15 ties in Alaska and the denominator of which is the book value of all  
16 fixed assets held by the corporation, its subsidiaries and affiliates;

17 (7) expenses incurred after December 31, 1976 of unsuccessful  
18 exploration efforts for oil and gas in Alaska, including the acquisition  
19 costs of properties abandoned, dry hole costs, and the costs of geologic  
20 and geophysical exploration on or related to those properties.

21 (d) The department shall establish regulations covering the calcu-  
22 lation of depreciation costs, the allocation of interest costs, the  
23 definition of facilities associated with the production, gathering,  
24 treating and preparing for shipment of oil and gas, and other matters  
25 necessary to implement this section.

26 (e) Deductions from gross income under this section shall not  
27 include expenses previously deducted on a return filed under this  
28 chapter.

29 Sec. 43.20.063. DETERMINATION OF CRUDE OIL AND NATURAL GAS

1 PIPELINE TRANSPORTATION INCOME. (a) Taxable income attributable to the  
2 transportation of crude oil in interstate commerce in Alaska shall be  
3 the sum of the amount reported to the Interstate Commerce Commission  
4 under the category "net balance transferred from income" as specified as  
5 of January 1, 1977 in 49 CFR 10 Part 1204, account 700 and of federal  
6 income taxes paid as specified as of January 1, 1977 in 49 CFR 10 Part  
7 1204, accounts 670 and 695, and of taxes actually paid under sec. 11(e)  
8 of this chapter. A tax return reporting that income shall be accompanied  
9 by a certification from the Alaska Pipeline Commission to the effect  
10 that to the best of the commission's knowledge and belief the income  
11 calculation has been made in accordance with the principles established  
12 by the Interstate Commerce Commission, or, if in the opinion of the  
13 commission, the income is not reported in accordance with the regulations  
14 of the Interstate Commerce Commission, then a statement to that effect,  
15 identifying the deficiencies of the report and, if possible, providing a  
16 reporting of the true and correct income.

17 (b) Taxable income attributable to the transportation of natural  
18 gas in interstate commerce in Alaska shall be the sum of the amount  
19 reported to the Federal Power Commission under the category "balance  
20 transferred from income" as specified in 18 CFR 1, Part 201, account  
21 433 and of federal income taxes paid as specified as of January 1, 1977  
22 in 18 CFR 1, Part 201, accounts 409, 409.1, 409.2 and 409.3, and of  
23 taxes actually paid under sec. 11(e) of this chapter. A tax return  
24 reporting that income shall be accompanied by a certification from the  
25 Alaska Public Utilities Commission to the effect that to the best of the  
26 commission's knowledge and belief the income calculation has been made  
27 in accordance with the principles established by the Federal Power  
28 Commission, or, if in the opinion of the commission, the income is not  
29 reported in accordance with the regulations of the Federal Power

1 Commission, then a statement to that effect, identifying the deficiencies  
2 of the report and, if possible, providing a reporting of the true and  
3 correct income.

4 (c) Taxable income attributable to the transportation of crude oil  
5 in Alaska of any corporation not under Interstate Commerce Commission  
6 jurisdiction, or of a corporation under the Interstate Commerce Commis-  
7 sion but not reporting the operation of pipelines in Alaska separately  
8 from the operation of pipelines elsewhere, shall be an amount equal to  
9 that which would have been reported to the Interstate Commerce Commission  
10 under (a) of this section had the corporation been, in fact, under  
11 Interstate Commerce Commission jurisdiction for the taxable year and  
12 required to report on the operation of Alaska pipelines separately from  
13 the operation of pipelines elsewhere. A tax return reporting that  
14 income shall be accompanied by a certification from the Alaska Pipeline  
15 Commission to the effect that to the best of the commission's knowledge  
16 and belief the income calculation has been made in accordance with the  
17 principles established by the Interstate Commerce Commission, or, if in  
18 the opinion of the commission, the income is not reported in accordance  
19 with the regulations of the Interstate Commerce Commission, then a  
20 statement to that effect, identifying the deficiencies of the report  
21 and, if possible, providing a reporting of the true and correct income.

22 (d) Taxable income attributable to the transportation of natural  
23 gas in Alaska by any corporation not under the jurisdiction of the  
24 Federal Power Commission, or of a corporation under Federal Power Commis-  
25 sion jurisdiction but not reporting the operation of Alaska pipelines  
26 separately from the operation of pipelines elsewhere, shall be an amount  
27 equal to that which would have been reported to the Federal Power Commis-  
28 sion under (b) of this section had the corporation been, in fact, under  
29 Federal Power Commission jurisdiction for the taxable year and required

1 to report on the operation of Alaska pipelines separately from the opera-  
2 tion of pipelines elsewhere. A tax return reporting that income shall  
3 be accompanied by a certification from the Alaska Public Utility Commis-  
4 sion to the effect that to the best of the commission's knowledge and  
5 belief the income calculation has been made in accordance with the  
6 principles established by the Federal Power Commission, or, if in the  
7 opinion of the commission, the income is not reported in accordance with  
8 the regulations of the Federal Power Commission, then a statement to  
9 that effect, identifying the deficiencies of the report and, if possible,  
10 providing a reporting of the true and correct income.

11 (e) The certifications of the Alaska Pipeline Commission and the  
12 Alaska Public Utilities Commission submitted in accordance with this  
13 section do not prejudice any future action by the respective commission  
14 nor prevent the respective commission from submitting a revised certi-  
15 fication within three years of the due date of the tax return in support  
16 of which it was originally filed.

17 (f) Nothing in this section or in sec. 67 of this chapter limits a  
18 corporate taxpayer's right to appeal or the taxpayer remedies provided  
19 under ch. 5 of this title.

20 Sec. 43.20.069. DETERMINATION OF INCOME FROM OTHER ACTIVITIES OF  
21 CORPORATIONS ENGAGED IN OIL OR NATURAL GAS PRODUCTION OR TRANSPORTATION.  
22 Taxable income from activities other than oil or natural gas production  
23 or pipeline transportation shall be determined by subtracting the income  
24 as determined under secs. 67 and 68 of this chapter from the corpora-  
25 tion's combined net income and applying the apportionment formula  
26 required under the provisions of sec. 65 of this chapter, except that  
27 both the numerator and the denominator of the property factor and the  
28 payroll factor shall be calculated without reference to payroll or  
29 property related to crude oil or natural gas production or pipeline

1 transportation activity in Alaska, and the sales factor shall not be  
2 used in the calculation.

3 Sec. 43.20.070. PUBLIC REPORTING. Notwithstanding the provisions  
4 of AS 43.05.230, the commissioner of revenue shall compile and transmit  
5 to the legislature an annual consolidated report of state revenues and  
6 taxation policies under this chapter. This report shall include total  
7 Alaska income tax paid by firms and individuals covered under this  
8 chapter and itemized deductions by category.

9 \* Sec. 4. AS 43.20 is amended by adding a new section to read:

10 Sec. 43.20.075. BOOKS AND RECORDS. The department may provide by  
11 regulation the manner in which books and records must be kept and main-  
12 tained for purposes of determining gross income and deductions from  
13 gross income under secs. 67 - 69 of this chapter.

14 \* Sec. 5. AS 43.20.335 is amended by adding new subsections to read:

15 (k) Any person who improperly influences, or attempts to improper-  
16 ly influence, by means of payment or offer of payment or other valuable  
17 consideration, any state official in his determination of values and  
18 apportionments under this chapter is guilty of bribery and punishable  
19 under AS 11.30.040.

20 (l) Any person who knowingly and wilfully makes false statements  
21 or representations, or who knowingly allows false statements or repre-  
22 sentations to be made on his behalf in the case of corporations, with a  
23 purpose of avoiding the corporate tax imposed under this chapter is  
24 guilty of wilful tax avoidance and is punishable upon conviction by a  
25 fine of three times the amount of the tax that would have been unpaid  
26 had the false statement been undetected, and by imprisonment for not  
27 less than 10 days nor more than one year.

28 \* Sec. 6. AS 42.06.140 is amended by adding a new paragraph to read:

29 (11) shall provide all reasonable assistance to the

1 Department of Revenue in determining the net income from oil pipeline  
2 facilities.

3 \* Sec. 7. AS 42.06 is amended by adding a new section to read:

4 Sec. 42.06.041. CERTIFICATION OF INCOME TO DEPARTMENT OF REVENUE.

5 (a) Upon request of a pipeline carrier the commission shall review the  
6 accounts of that carrier and provide a certification to the Department  
7 of Revenue either stating that to the best of the commission's knowledge  
8 and belief the report of net pipeline income submitted by the carrier  
9 under AS 43.20.069 is in accordance with the commission's regulations  
10 governing the accounting of income, or that it is not so in accordance,  
11 in which case the commission shall identify the deficiencies in the  
12 report and, if possible, provide a reporting of the true and correct in-  
13 come.

14 (b) The commission shall provide the certification of compliance  
15 or deficiency in reporting within 45 days of the date on which the pipe-  
16 line carrier requests it, but all certifications remain subject to  
17 amendment by the commission for a period of three years after the due  
18 date of the tax return which they accompany.

19 (c) The commission may by regulation establish accounting pro-  
20 cedures and definitions as may be necessary to define net income for tax  
21 purposes, but net income so defined shall coincide as nearly as possible  
22 with the net income definition used by the commission in establishing  
23 rates and measuring rate of return, and shall be derived before any  
24 deductions for income taxes accrued or paid.

25 \* Sec. 8. AS 42.05.141 is amended to read:

26 Sec. 42.05.141. GENERAL POWERS AND DUTIES OF THE COMMISSION. The  
27 Alaska Public Utilities Commission [MAY]

28 (1) may regulate every public utility engaged or proposing to  
29 engage in such a business inside the state, except to the extent

1 exempted by sec. 711 of this chapter and the powers of the commission  
2 shall be liberally construed to accomplish its stated purposes;

3 (2) may investigate, upon complaint or upon its own motion,  
4 the rates, classifications, rules, regulations, practices, services and  
5 facilities of a public utility and hold hearings on them;

6 (3) may make or require just, fair and reasonable rates,  
7 classifications, regulations, practices, services and facilities for a  
8 public utility;

9 (4) may prescribe the system of accounts and regulate the  
10 service and safety of operations of a public utility;

11 (5) may require a public utility to file reports and other  
12 information and data;

13 (6) may appear personally or by counsel and represent the  
14 interests and welfare of the state in all matters and proceedings in-  
15 volving a public utility pending before an officer, department, board,  
16 commission or court of the state or of another state or the United  
17 States and to intervene in, protest, resist, or advocate the granting,  
18 denial or modification of any petition, application, complaint or other  
19 proceeding;

20 (7) may examine witnesses and offer evidence in any proceed-  
21 ing affecting the state and initiate or participate in judicial pro-  
22 ceedings to the extent necessary to protect and promote the interests of  
23 the state;

24 (8) shall provide all reasonable assistance to the Department  
25 of Revenue in determining the net income from natural gas pipeline  
26 facilities.

27 \* Sec. 9. AS 42.05 is amended by adding a new section to read:

28 Sec. 42.05.502. CERTIFICATION OF INCOME TO DEPARTMENT OF REVENUE.

29 (a) Upon request of a pipeline carrier the commission shall review the

1 accounts of that carrier and provide a certification to the Department  
2 of Revenue either stating that to the best of the commission's knowledge  
3 and belief the report of net pipeline income submitted by the carrier  
4 under AS 43.20.069 is in accordance with the commission's regulations  
5 governing the accounting of income, or that it is not so in accordance,  
6 in which case the commission shall identify the deficiencies in the  
7 report and, if possible, provide a reporting of the true and correct  
8 income.

9 (b) The commission shall provide the certification of compliance  
10 or deficiency in reporting within 45 days of the date on which the pipe-  
11 line carrier requests it, but all certifications remain subject to  
12 amendment by the commission for a period of three years after the due  
13 date of the tax return which they accompany.

14 (c) The commission may by regulation establish accounting procu-  
15 dures and definitions as may be necessary to define net income for tax  
16 purposes, but net income so defined shall coincide as nearly as possible  
17 with the net income definition used by the commission in establishing  
18 rates and measuring rate of return, and shall be derived before any  
19 deductions for income taxes accrued or paid.

20 \* Sec. 10. This Act relates only to income earned or received after  
21 December 31, 1976.

22 \* Sec. 11. This Act takes effect January 1, 1978.  
23  
24  
25  
26  
27

THIS  BILL [ ] RESOLUTION

has been prepared by the staff of the Legislative Affairs Agency in response to the request and at the direction of the sponsoring member or committee. The staff has attempted to place the document in proper legal and clerical form, subject to any special limitations or instructions of the requestor.

Any staff questions or comments as to legality, constitutionality, and form have been included in the memorandum addressed to the requestor and kept in the work file. If we may be of further assistance in this matter, please contact the Director of Legal Services or the Director of Research Services, as appropriate.

Delivered to requestor 2-5-78

Original sponsor: Rules Committee by request  
of the Legislative Council (for the Subcommittee  
on Oil and Gas Leasing and Taxing Policies)

1 IN THE SENATE

BY THE FINANCE COMMITTEE

2 CS FOR SENATE BILL NO. 105 (Finance)

3 IN THE LEGISLATURE OF THE STATE OF ALASKA

4 TENTH LEGISLATURE - SECOND SESSION

5 A BILL

6 For an Act entitled: "An Act establishing an oil and gas corporate income  
7 tax; and providing for an effective date."

8 BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF ALASKA:

9 \* Section 1. LEGISLATIVE FINDINGS AND INTENT. The legislature finds and  
10 declares that the method of apportioning income for tax purposes under the  
11 "Uniform Division of Income for Tax Purposes" formula embodied in the Multi-  
12 state Tax Compact (AS 43.19) and AS 43.20.065 does not fairly represent the  
13 extent of the business activities in this state of multistate corporations  
14 engaged in the production and pipeline transportation of crude oil and  
15 natural gas in Alaska. The legislature therefore intends that, in accordance  
16 with the provisions of art. 18 of the Multistate Tax Compact (AS 43.19), the  
17 income tax of all corporations engaged in the production or pipeline trans-  
18 portation of oil or natural gas in or directly associated with this state  
19 shall be assessed by the tax administrator under this Act. The legislature  
20 further intends that the assessment of income tax against a multistate cor-  
21 poration engaged in the production or pipeline transportation of oil or  
22 natural gas shall be commensurate with the tax that would be assessed against  
23 a corporation owning and operating only those assets of the multistate cor-  
24 poration which are in or directly associated with this state.

25 \* Sec. 2. AS 43.20.011(e) is amended to read:

26 (e) There is imposed for each taxable year upon the entire taxable  
27 income of every corporation derived from sources within the state a tax  
28 consisting of a normal tax equal to 5.4 per cent of taxable income, and  
29 a surtax which is equal to 4.0 per cent of taxable income. For purposes  
30

1 of this chapter the surtax exemption for a taxable year follows secs.  
2 1561 and 1563 of the Internal Revenue Code. The tax of a corporation  
3 engaged in the production or transportation of crude oil or natural gas  
4 shall be determined and paid in accordance with ch. 21 of this title.

5 \* Sec. 3. AS 43 is amended by adding a new chapter to read:

6 CHAPTER 21. OIL AND GAS CORPORATE

7 INCOME TAX.

8 Sec. 43.21.010. APPLICATION. This chapter applies to every cor-  
9 poration doing business in the state which derives income from the  
10 production of oil or gas from a lease or property in or directly asso-  
11 ciated with the state, or from the pipeline transportation of oil or gas  
12 in the state. The tax calculated under this chapter is measured by the  
13 total taxable income of the corporation as defined in secs. 20 - 40 of  
14 this chapter and is determined at the rates established under AS 43.20.-  
15 011(c).

16 Sec. 43.21.020. DETERMINATION OF TAXABLE INCOME FROM OIL AND GAS  
17 PRODUCTION. (a) The taxable income of a corporation from the produc-  
18 tion of oil and gas from a lease or property in the state shall be the  
19 corporation's net income as calculated by the department in accordance  
20 with this section.

21 (b) Gross income of a corporation from oil and gas production  
22 shall be the gross value at the point of production of oil or gas pro-  
23 duced from a lease or property in the state. The department shall by  
24 regulation determine a uniform method of establishing the gross value at  
25 the point of production. In making its determination the department may  
26 use the actual prices or values received for the oil or gas, the posted  
27 prices for the oil or gas in the same field, or the prevailing prices or  
28 values of oil or gas in the same field. In addition, in its determina-  
29 tion of gross value at the point of production of oil or gas produced