SB 105 cont.,
897

TABLE I

Impact of Proposed CS for CS HB 322 (Resources)
On Relative Prudhoe Bay Net Revenue Shares
($ Millions)

	Existing Statute		Proposed Substitute		Net Change	
	Net Revenues	Per Cent Share	Net Revenues	Per Cent Share	Change in Revenue	Per Cent Share in Relative [illegible]
Companies	$19,593	35.2%	$17,570	33.2%	($1,023)	[illegible]
State	$17,233	32.3%	$19,253	35.1%	+$[illegible]	+[illegible]
Federal Government	$17,132	32.5%	$16,212	32.7%	($[illegible])	[illegible]

Note: Based on Arthur Anderson & Co. report of January, 1979. State revenues include all royalties and [illegible]. Federal revenues are assumed to be [illegible]% of pre-tax income after deduction of state income taxes. [illegible] to the companies is assumed to be pre-tax income less state and federal income taxes.

Figures in Table I are for the total impact of all producers in Prudhoe Bay (representing [illegible]) and for the four largest owners of the Trans-Alaska pipeline system (representing about [illegible]).

Prepared by:

Legislative Affairs Agency
[illegible]

TABLE II

[illegible]
[illegible] (\$ Thousands)

	Pre-Tax Net	State Income Tax	Federal Income Tax	Total Income Tax
Current State Income Tax[1]	\$37,2[illegible],000	\$1,539,000	\$17,162,000	\$18,701,000
Effective Rate on Pre-Tax	NA	4.1%	46%	50.1%
Income Tax Under Proposed Substitute[2]	\$37,2[illegible],000	\$3,5[illegible],000	\$16,218,000	\$19,72[illegible],000
Effective Rate on Pre-Tax	NA	9.4%	43.5%	52.9%
Net Change in Liability[3]	NA	+\$1,[illegible]7,000	(\$9[illegible],000)	+\$1,023,000
Net Change in Rate	NA	+5.3%	(2.5%)	+1.8%

1 Pre-tax net income and estimated state income taxes from Prudhoe Bay and the Trans-Alaska Pipeline System are taken from the Arthur D. Little & Co. report of January, 1978. Federal tax liability is assumed to be [illegible] of pre-tax after deduction of state income taxes. Total taxes are the sum of state and federal taxes.

2 Pre-tax net income is taken from the Arthur D. Little & Co. report of January, 1978. State [illegible] are calculated [illegible] pre-tax [illegible]. Federal [illegible] of pre-tax after deduction of state income taxes. Total taxes are the sum of state and federal income taxes.

3 [illegible] tax liability [illegible] (decrease) in [illegible] liability for state, federal and total [illegible] substitute.

CHART I

NET REVENUE SHARES

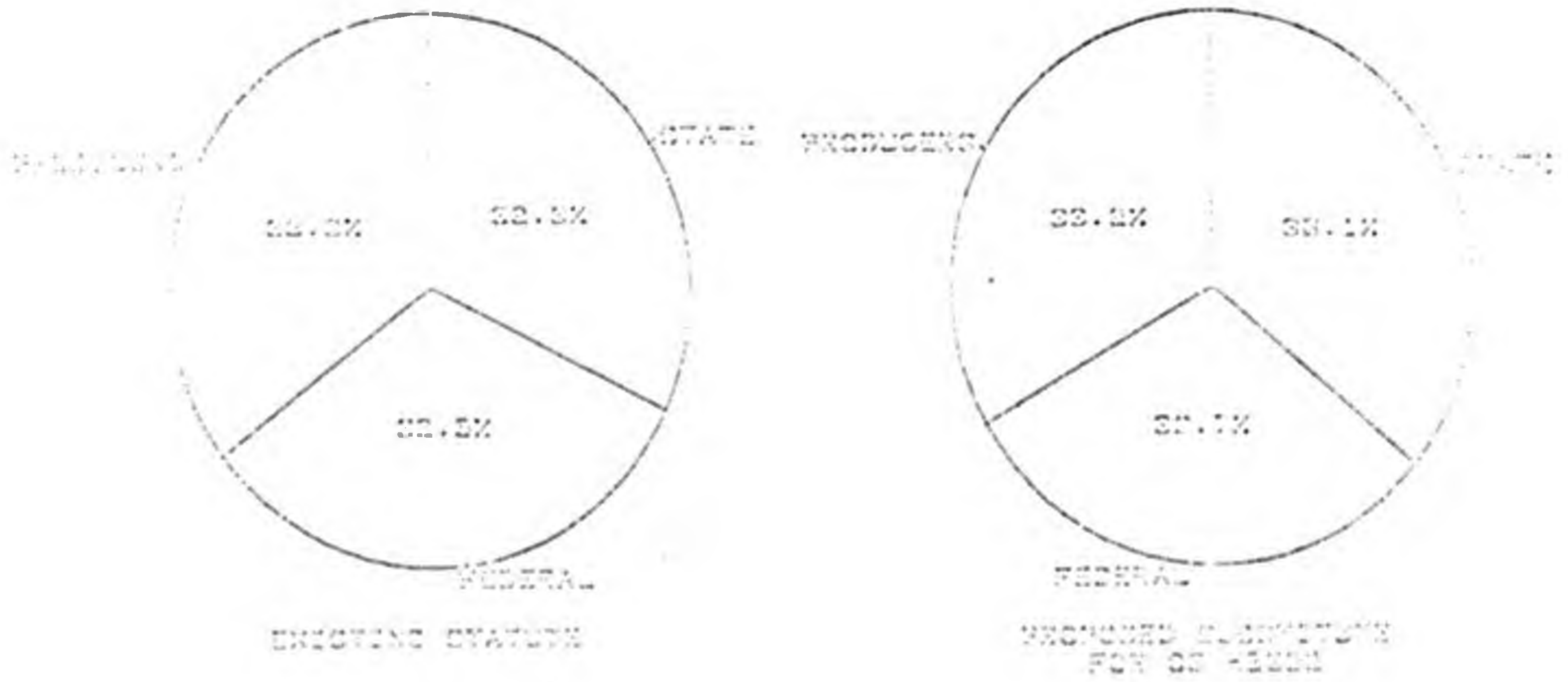
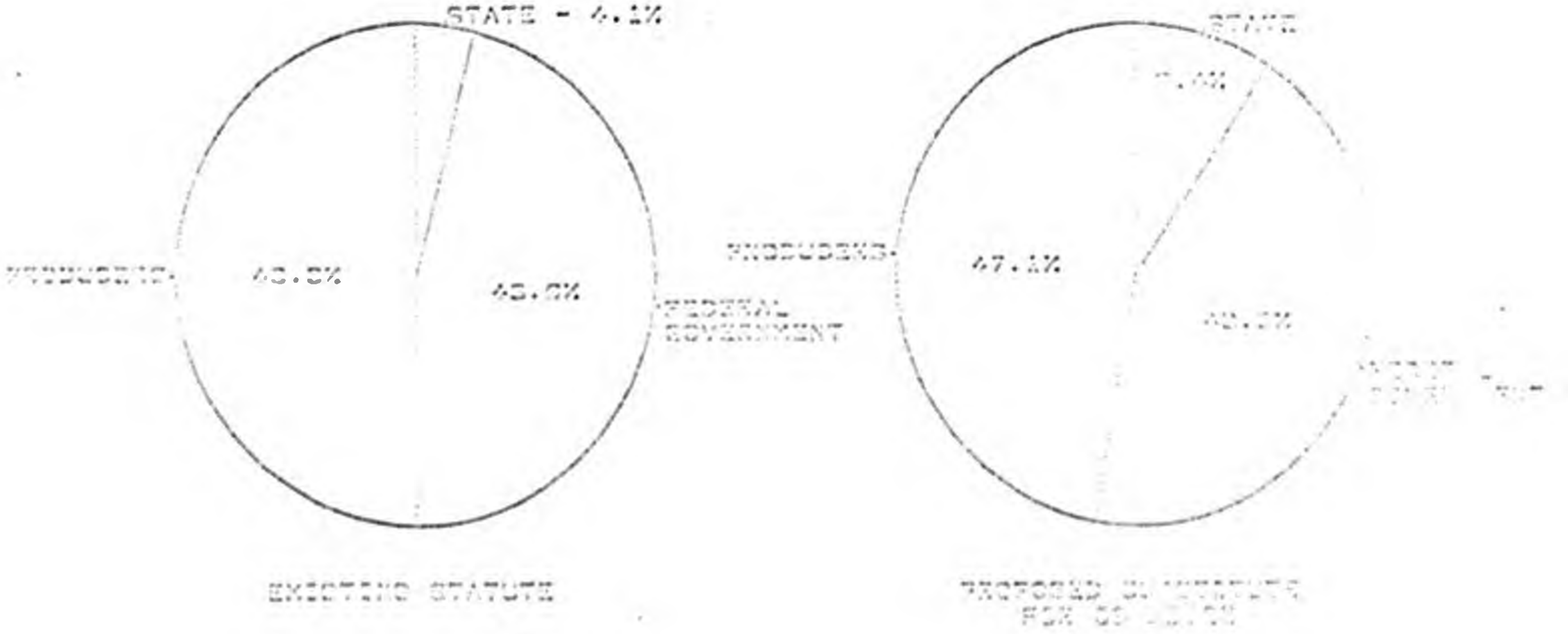


CHART II

COMPARATIVE INCOME TAX BURDEN



STATE OF [illegible]

DEPARTMENT OF REVENUE

Summary of the Proposed Committee
Substitute for House Bill 322

This proposal contains provisions of both the original House Bill 322 as introduced by the Governor and the Senate Committee Substitute for House Bill 322. It represents a compromise between the two versions which retains in large part the concept of separate accounting approach to assessing oil and gas production and pipeline transportation income, but works to avoid the problems of corporate manipulations and profit shifting by providing the state greater control in the determination of that income. It also contains elements of the original House Bill 322 for purposes of determining that portion of the income earned by oil and gas corporations from activities other than production and pipeline transportation.

DETERMINATION OF INCOME

1. Oil and Gas Production

Production income is determined under a separate accounting method. That is, instead of taking world-wide income and apportioning that income to the state based upon a formula, the income in the state is determined directly by looking only at the income and expenses of the production activity in the state. This is done as it is in the bill adopted by the Senate Resources Committee by taking the well head value of total production as gross income and deducting a specified list of expenses to arrive at net income. The same list of deductions is retained except an allowance for general administrative expense or overhead is made.

The major change to the approach however is that the state plays a major role in the determination of the income by assessing the net income and tax due. This direct role by the state in assessing income will hopefully avoid the possibilities for profit shifting and other income manipulations.

2. Pipeline Transportation

Income from pipeline transportation is also determined on a separate accounting basis. As in the Senate Resources Committee Substitute, the income is determined according to amounts reported to the Federal Energy Regulatory Commission.

This income is also assessed by the department.

3. Income from Activities other than Pipeline Transportation and Production

Income from activities other than production and pipeline transportation is determined under a formula approach after subtracting out production and pipeline transportation income.

First the world wide book income of the corporation is determined. From this amount is subtracted the income determined separately for production and pipeline transportation activities. The remaining net income is then apportioned using the present uniform formula of property, payroll and sales. Since production and pipeline transportation income are determined separately that portion of property, payroll and sales attributable to these activities in Alaska are subtracted from the numerators and denominators of the apportionment formula. What remains in the formula is just the elements of property, payroll and sales attributable to other activities.

In addition the proposal would adjust the apportionment formula to take account of OCS activity.

PUBLIC REPORTING AND LEGISLATIVE OVERSIGHT

As in the Senate Resources Committee Substitute, annual reporting of aggregate income and expense statistics is provided for. In addition, the proposed substitute provides for an annual review of the department's assessment actions by the legislative auditor with an annual report to the legislature.

ASSESSMENT

This proposal differs from the Senate Resources Committee Substitute in that the department is provided more control in the determination of income. This is done to help avoid profit shifting and other manipulations of income. Thus the authority is given to the department to assess directly the income taxable under the proposed statutes. The resulting income that would be assessed is then taxed at the standard corporate income tax rate of 9.4 percent.

STATE OF ALASKA
THE LEGISLATURE

LEGISLATIVE AFFAIRS AGENCY

M E M O R A N D U M

May 31, 1978

SUBJECT: FY 79 Revenue Impact of Proposed Income Tax Legislation (CSHB 322, CSSB 105)

TO: The Honorable John Sackett

FROM: Gregg K. Erickson
Director of Research

Yesterday, we provided Judy Crondahl of your staff a copy of a March 31 memorandum to Senator Poland in which we indicated the revenue expected to be raised by the proposed oil and gas income tax legislation during FY 79 would be approximately $227 million. We believe conditions that have developed since this memorandum was written, specifically the erosion of the West Coast oil price and the increased possibility of its collapse, requires revision of this estimate. FY 79 revenue under this bill now appears more likely to fall between $150 million and $200 million, with the most likely value in the neighborhood of $185 million.

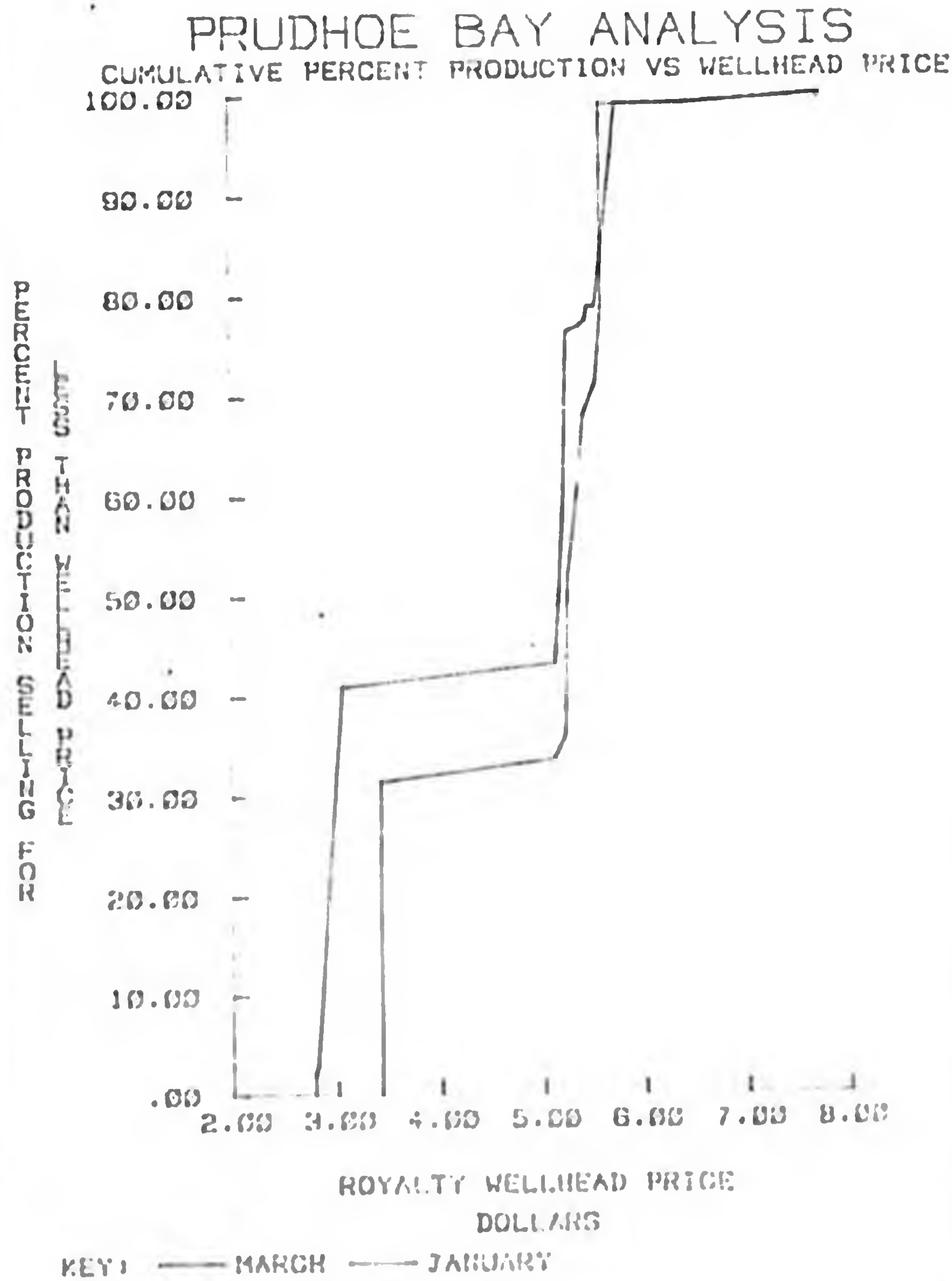
Of these monies, $113 million would be raised by the corporate income tax on trans-Alaska pipeline income. This component is not subject to much uncertainty, since it is tied directly to figures submitted by the companies themselves to the Federal Energy Regulatory Commission (FERC), and the tax itself is keyed to these submissions. The tax revenue on pipeline income could be reduced if Alaska's position before FERC on pipeline tariffs were to be sustained, but this would result in more than offsetting increases in other revenues (most importantly, royalties).

The wellhead income figures, however, are much more uncertain. A collapse of the West Coast oil price could conceivably reduce the wellhead component of that income to as low as a dollar per barrel. In this event, companies would pay income taxes on their production operations of about $[illegible] million. Thus, the total income tax take under this legislation, assuming the collapse of the West Coast price, could be as low as $[illegible] million. A graph showing the recent erosion in the West Coast price is attached.

We do not believe that this is the most likely outcome, but believe it is important that the possibility of a West Coast price collapse be

considered. We have discussed these estimates with Deputy Commissioner of Revenue John Messenger, and understand that he has arrived independently at essentially the same estimates of FY 79 revenue under these bills.

GKE:jm
Attachment
cc: The Honorable Chancy Croft
John Messenger



PRUDHOE BAY ANALYSIS
CUMULATIVE PERCENT PRODUCTION VS WELLHEAD PRICE
PERCENT PRODUCTION SELLING FOR LESS THAN WELLHEAD PRICE
100.00
90.00
80.00
70.00
60.00
50.00
40.00
30.00
20.00
10.00
.00
2.00
3.00
4.00
5.00
6.00
7.00
8.00
ROYALTY WELLHEAD PRICE
DOLLARS
KEY: MARCH JANUARY

SB 103

STATE OF ALASKA
THE LEGISLATURE

LEGISLATIVE AFFAIRS AGENCY

March 31, 1978

M E M O R A N D U M

SUBJECT: Impact of CS for CSHB 322 (Resources)

TO: The Honorable Kay Poland, Chairwoman
Senate Resources Committee

FROM: Richard G. Haggart
Research Analyst

This memorandum is in response to your request that we prepare an analysis of the relative revenue impacts of CS for CSHB 322 (Resources) on the Prudhoe Bay producers, the State of Alaska and the federal government. Unless otherwise noted, estimates contained in this memorandum are based on figures contained in the Arthur Andersen & Co. report of January, 1976, entitled, "Prudhoe Bay Field and Trans-Alaska Pipeline System: Comparative State Tax Burden Study"

Table I attached shows the total division of Prudhoe Bay and pipeline income (after deduction of expenses) among the producers, the state and the federal government under both the existing state income tax law and under the proposed bill. Figures in Table I are for the period 1977-2001. The same information is presented graphically in Chart I attached.

Table II shows the relative impact of the proposed bill only in terms of producer revenues, and state and federal income taxes. Other state revenues from Prudhoe Bay and the pipeline are excluded. Again, this material is presented graphically in Chart II.

We estimate that adoption of the proposed changes in the income tax would generate approximately $95.0 million in the remainder of FY 1978 (up from $9.8 million estimated by the Department of Revenue under current law) and approximately $227.0 million in FY 1979 (up from about $22 million estimated by the Department for FY 1979).

RGH:dh
Attachments (4)

TABLE I

Impact of Proposed CS for CS HB 322 (Resources)
On Relative Prudhoe Bay Net Revenue Shares
($ Millions)

	Existing Statute		Proposed Substitute		Net Change	
	Net Revenues	Per Cent Share	Net Revenues	Per Cent Share	Change in Revenues	Per Cent Change in Revenues
Companies	$18,593	35.2%	$17,570	33.2%	($1,023)	(5.[illegible])
State	$17,0[illegible]	32.3%	$19,053	36.1%	+$1,957	+11.[illegible]
Federal Government	$17,162	32.5%	$16,218	30.7%	($944)	(5.[illegible])

Notes: Based on Arthur Andersen & Co. report of January, 1978. State revenues include all royalties and taxes. Federal revenues are assumed to be 48% of pre-tax income after deduction of state income taxes. Net revenues to the companies is assumed to be pre-tax income less state and federal income taxes.

Figures in Table I are for the three largest oil producers in Prudhoe Bay (representing 93.7% of the [illegible]) and for the four largest owners of the trans-Alaska pipeline system (representing about 80.15% of [illegible]).

Prepared by:

Legislative Affairs Agency
Research Division
21 March 1978

TABLE 11

Net Income Tax Liability in Pru[illegible] Bay Under Present
Tax Laws and Under Pr[illegible] for [illegible] for HB 322 ([illegible])
($ Thousands)

	Pre-Tax Net	State Income Tax	Federal Income Tax	Total Income Ta[illegible]
Current State Income Tax[1]	$37,294,000	$1,539,000	$17,162,000	$18,701,000
Effective Rate on Pre-Tax	NA	4.1%	46.[illegible]	50.1%
Income Tax Under Proposed Substitute[2]	$37,294,000	$3,505,000	$16,218,000	$19,724,000
Effective Rate on Pre-Tax	NA	9.4%	43.5%	52.9%
Net Change in Liability[3]	NA	+$1,967,000	($9[illegible]4,000)	+$1,023,000
Net Change in Rate	NA	+5.3%	(2.5%)	+1.8%

1 Pre-tax net income and estimated state income taxes from Prudhoe Bay and the Trans-Alaska Pipeline system are taken from the Arthur Andersen & Co. report of January, 197[illegible]. Federal tax liability is assumed to be 4[illegible]% of pre-tax after deduction of state income taxes. Total taxes are the sum of state and federal taxes.

2 Pre-tax net income is taken from the Arthur Andersen & Co. report of January, 197[illegible]. State income taxes were calculated as 9.4% of pre-tax net. Federal income taxes were assumed to be 4[illegible]% of pre-tax after deduction of state income taxes. Total taxes are the sum of state and federal income taxes.

3 Net changes in tax liability represent the increase (or decrease) in the liability for state, federal and total income taxes under the proposed substitute.

CHART I

NET REVENUE SHARES

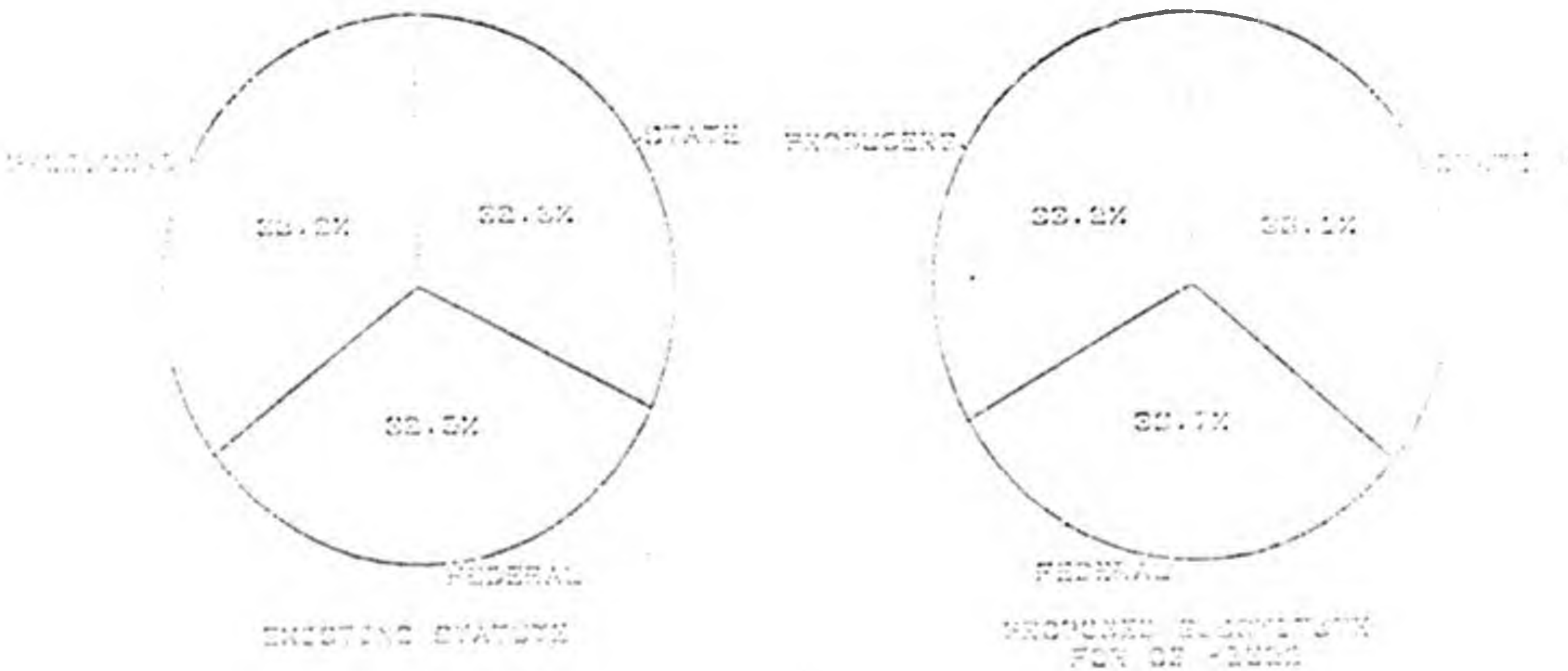
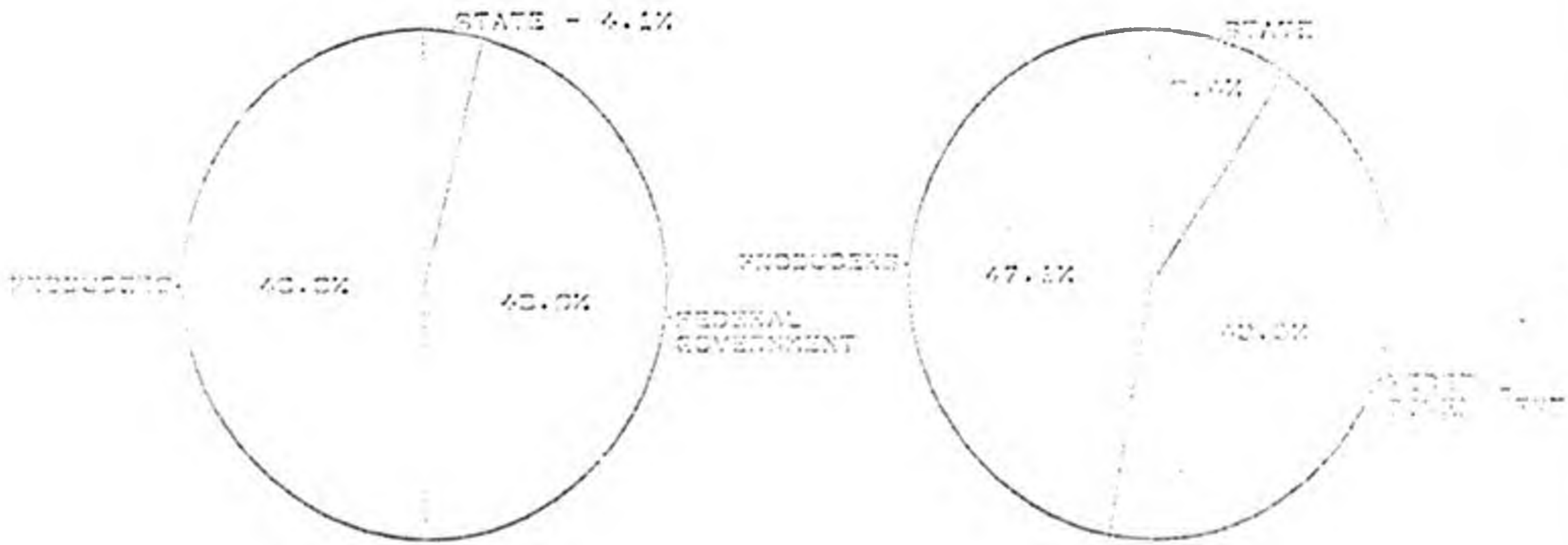


CHART II

COMPARATIVE INCOME TAX BURDEN



EXISTING STATUTE

SB 105

STATE OF [illegible]

DEPARTMENT OF REVENUE

Summary of the Proposed Committee
Substitute for House Bill 322

This proposal contains provisions of both the original House Bill 322 as introduced by the Governor and the Senate Committee Substitute for House Bill 322. It represents a compromise between the two versions which retains in large part the concept of separate accounting approach to assessing oil and gas production and pipeline transportation income, but works to avoid the problems of corporate manipulations and profit shifting by providing the state greater control in the determination of that income. It also contains elements of the original House Bill 322 for purposes of determining that portion of the income earned by oil and gas corporations from activities other than production and pipeline transportation.

DETERMINATION OF INCOME

1. Oil and Gas Production

Production income is determined under a separate accounting method. That is, instead of taking world-wide income and apportioning that income to the state based upon a formula, the income in the state is determined directly by looking only at the income and expenses of the production activity in the state. This is done as is in the bill adopted by the Senate Resources Committee by taking the well head value of total production as gross income and deducting a specified list of expenses to arrive at net income. The same list of deductions is retained except an allowance for general administrative expense or overhead is made.

The major change to the approach however is that the state plays a major role in the determination of the income by assessing the net income and tax due. This direct role by the state in assessing income will hopefully avoid the possibilities for profit shifting and other income manipulations.

2. Pipeline Transportation

Income from pipeline transportation is also determined on a separate accounting basis. As in the Senate Resources Committee substitute, the income is [illegible] according to [illegible] applicable to [illegible] Regulatory Commission.

This income is also audited by the department.

3. Income from Activities other than Pipeline Transportation and Production

Income from activities other than production and pipeline transportation is determined under a formula approach after subtracting out production and pipeline transportation income.

First the world wide book income of the corporation is determined. From this amount is subtracted the income determined separately for production and pipeline transportation activities. The remaining net income is then apportioned using the present uniform formula of property, payroll and sales. Since production and pipeline transportation income are determined separately that portion of property, payroll and sales attributable to these activities in Alaska are subtracted from the numerators and denominators of the apportionment formula. What remains in the formula is just the elements of property, payroll and sales attributable to other activities.

In addition the proposal would adjust the apportionment formula to take account of OCS activity.

PUBLIC REPORTING AND LEGISLATIVE OVERSIGHT

As in the Senate Resources Committee Substitute, annual reporting of aggregate income and expense statistics is provided for. In addition, the proposed substitute provides for an annual review of the report [illegible] by the legislature and [illegible] with an annual report to the legislature.

[illegible]

This proposal differs from the Senate Resources Committee Substitute in that the department is provided more control in the determination of income. This is done to help avoid profit shifting and other [illegible] of income. Thus the authority is given to the [illegible] of the [illegible] directly the income taxable under the [illegible] statute. The resulting amount that would be [illegible] is then taxed at the standard corporate income tax rate of 9.4 percent.

STATE OF ALASKA
THE LEGISLATURE

LEGISLATIVE AFFAIRS AGENCY

M E M O R A N D U M May 31, 1978

SUBJECT: FY 79 Revenue Impact of Proposed Income Tax Legislation (CSHB 322, CSSB 105)

TO: The Honorable John Sackett

FROM: Gregg K. Erickson
Director of Research

Yesterday, we provided Judy Crondahl of your staff a copy of a March 31 memorandum to Senator Poland in which we indicated the revenue expected to be raised by the proposed oil and gas income tax legislation during FY 79 would be approximately $227 million. We believe conditions that have developed since this memorandum was written, specifically the erosion of the West Coast oil price and the increased possibility of its collapse, requires revision of this estimate. FY 79 revenue under this bill now appears more likely to fall between $150 million and $200 million, with the most likely value in the neighborhood of $1[illegible] million.

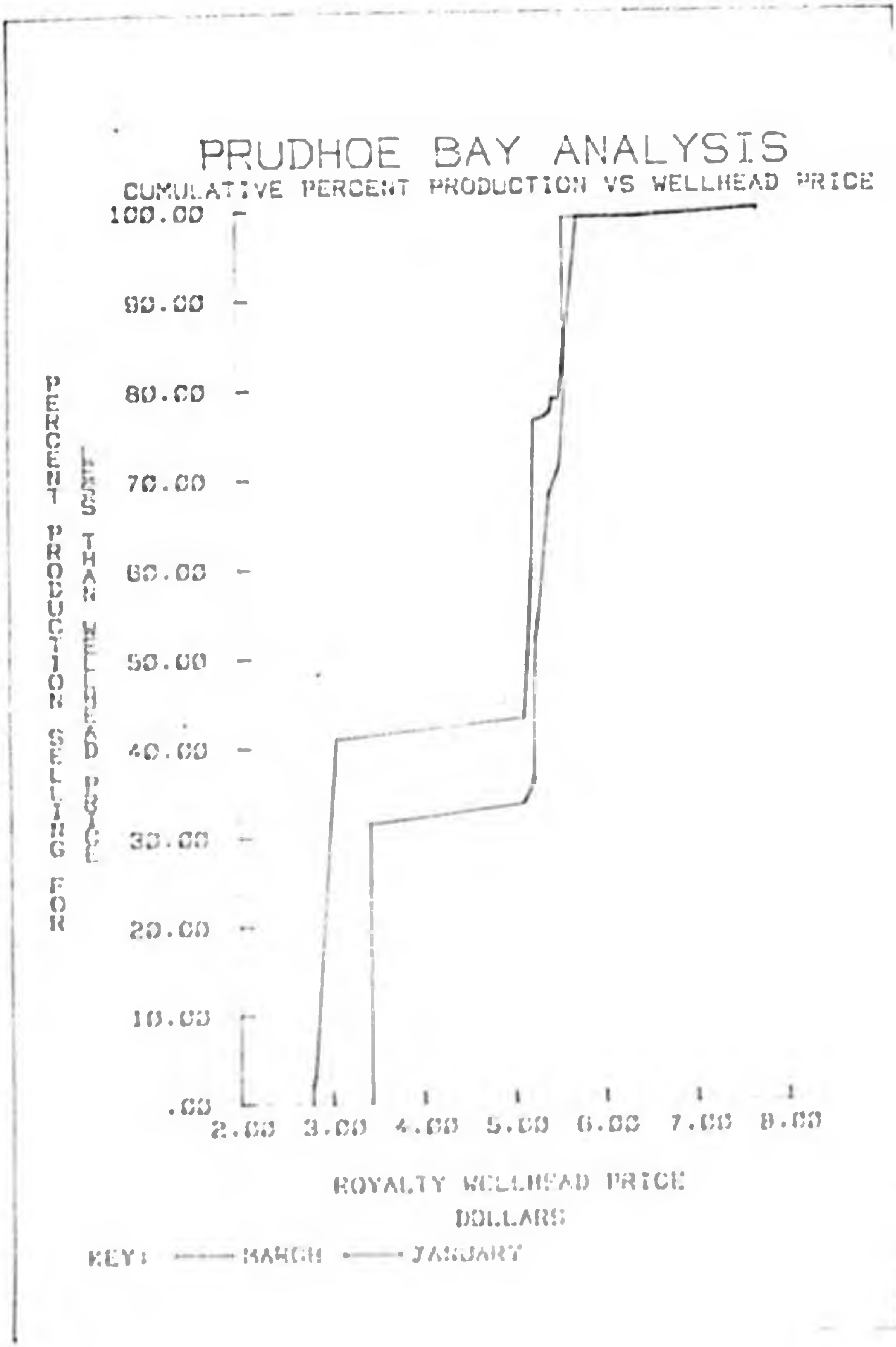
Of these monies, $113 million would be raised by the corporate income tax on trans-Alaska pipeline income. This component is not subject to much uncertainty, since it is tied directly to figures submitted by the companies themselves to the Federal Energy Regulatory Commission (FERC), and the tax itself is keyed to these submissions. The tax revenue on pipeline income could be reduced if Alaska's position before FERC on pipeline tariffs were to be sustained, but this would result in more than offsetting increases in other revenues (most importantly, royalties).

The wellhead income figures, however, are much more uncertain. A collapse of the West Coast oil price could conceivably reduce the wellhead component of that income to as low as a dollar per barrel. In this event, companies would pay income taxes on their production operations of about $13 million. Thus, the total income tax take under this legislation, assuming the collapse of the West Coast price, could be as low as $125 million. A graph showing the recent erosion in the West Coast price is attached.

We do not believe that this is the most likely outcome, but believe it is important that the possibility of a West Coast price collapse be

considered. We have discussed these estimates with Deputy Commissioner of Revenue John Messenger, and understand that he has arrived independently at essentially the same estimates of FY 79 revenue under these bills.

GKE:jm
Attachment
cc: The Honorable Chancy Croft
John Messenger


PRUDHOE BAY ANALYSIS
CUMULATIVE PERCENT PRODUCTION VS WELLHEAD PRICE
PERCENT PRODUCTION SELLING FOR LESS THAN WELLHEAD PRICE
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6.00
7.00
8.00
ROYALTY WELLHEAD PRICE
DOLLARS
KEY: MARCH JANUARY

SB 105

[illegible]

[illegible]

LEGISLATIVE AFFAIRS AGENCY

March 31, 1978

M E M O R A N D U M

SUBJECT: Impact of CS for CSHB 322 (Resources)

TO: The Honorable Kay Poland, Chairwoman
Senate Resources Committee

FROM: Richard G. Haggar[illegible]
Research Analyst

This memorandum is in response to your request that we prepare an analysis of the relative revenue impacts of CS for CSHB 322 (Resources) on the Prudhoe Bay producers, the State of Alaska and the federal government. Unless otherwise noted, estimates contained in this memorandum are based on figures contained in the Arthur Andersen & Co. report of January, 1978, entitled, "Prudhoe Bay Field and Trans-Alaska Pipeline System: Comparative State Tax Burden Study".

Table I attached shows the total division of Prudhoe Bay and pipeline income (after deduction of expenses) among the producers, the state and the federal government under both the existing state income tax law and under the proposed bill. Figures in Table I are for the period 1977-2001. The same information is presented graphically in Chart I attached.

Table II shows the relative impact of the proposed bill only in terms of producer revenues, [illegible] state and federal income taxes. Other state revenues from Prudhoe Bay and the pipeline are excluded. Again, this material is presented graphically in Chart II.

We estimate that adoption of the proposed changes in the income tax would generate approximately [illegible] million in the remainder of FY 1978 (up from $[illegible] million [illegible] the Department of Revenue under current law) and approximately [illegible] million in FY 1979 (up from about $22 million [illegible] for FY 1979).

RGH:da
Attachments (4)

TABLE I

Impact of Proposed CS for CS HB 322 (Resources)
On Relative Prudhoe Bay Net Revenue Shares
($ Millions)

	Existing Statute		Proposed Substitute		Net Change	
	Net Revenues	Per Cent Share	Net Revenues	Per Cent Share	Change in Revenues	Per Cent Change in Revenues
Companies	$18,593	35.2%	$17,570	33.2%	($1,023)	[illegible]
State	$17,0[illegible]	32.3%	$19,053	36.1%	+$1,967	+[illegible]
Federal Government	$17,162	32.5%	$16,218	30.7%	($944)	[illegible]

Note: Based on Arthur Andersen & Co. report of January, 1978. State revenues include all royalties and taxes. Federal revenues are assumed to be 40% of pre-tax income after deduction of state income taxes. The net income to the companies is assumed to be pre-tax income less state and federal income taxes.

Figures in Table I are for the three largest oil producers in Prudhoe Bay (representing 93.7% of the output) and for the four largest owners of the trans-Alaska pipeline system (representing about [illegible] of the pipeline).

Prepared by:

Legislative Affairs Agency
[illegible]
[illegible]

TABLE II

Net Income Tax Liability in Prudhoe Bay Under Present Tax Laws and Under Proposed [illegible] CS for CS for HB 337 ([illegible])
($ Thousands)

	Pre-Tax Net	State Income Tax	Federal Income Tax	Total Income Tax
Current State Income Tax[1]	$37,294,000	$1,539,000	$17,162,000	$18,701,000
Effective Rate on Pre-Tax	NA	4.1%	46%	50.1%
Income Tax Under Proposed Substitute[2]	$37,294,000	$3,506,000	$16,218,000	$19,724,000
Effective Rate on Pre-Tax	NA	9.4%	43.5%	52.9%
Net Change in Liability[3]	NA	+$1,967,000	($944,000)	+$1,023,000
Net Change in Rate	NA	+5.3%	(2.5%)	+1.[illegible]%

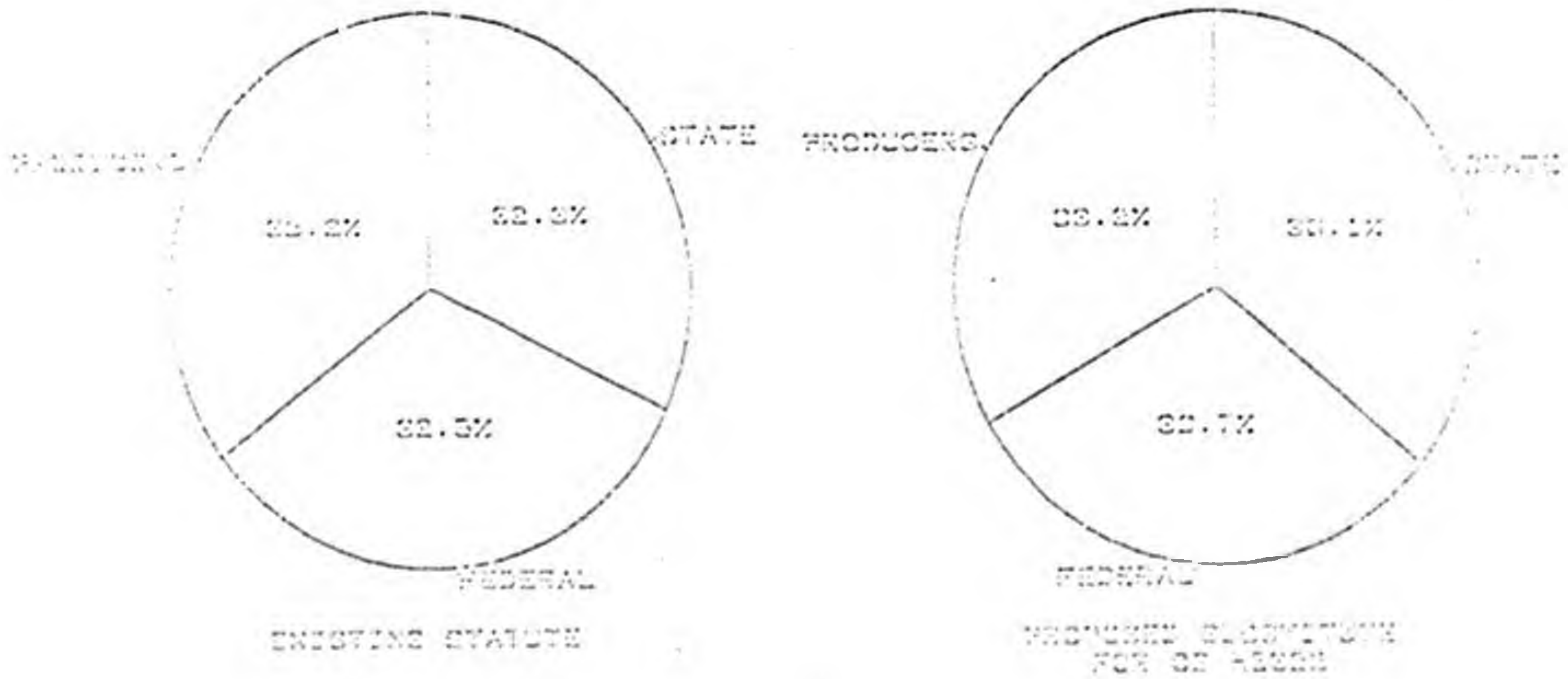
1 Pre-tax net income and estimated state income taxes from Prudhoe Bay and the Trans-Alaska Pipeline system are taken from the Arthur Andersen & Co. report of January, 1978. Federal tax liability is assumed to be 46% of pre-tax after deduction of state income taxes. Total taxes are the sum of state and federal taxes.

2 Pre-tax net income is taken from the Arthur Andersen & Co. report of January, 1978. State income taxes were calculated as 9.4% of pre-tax net. Federal income taxes were assumed to be 46% of pre-tax after deduction of state income taxes. Total taxes are the sum of state and federal income taxes.

3 Net change in tax liability represents the increase (or decrease) in tax liability for state, federal and total in [illegible] under the proposed substitute.

CHART I

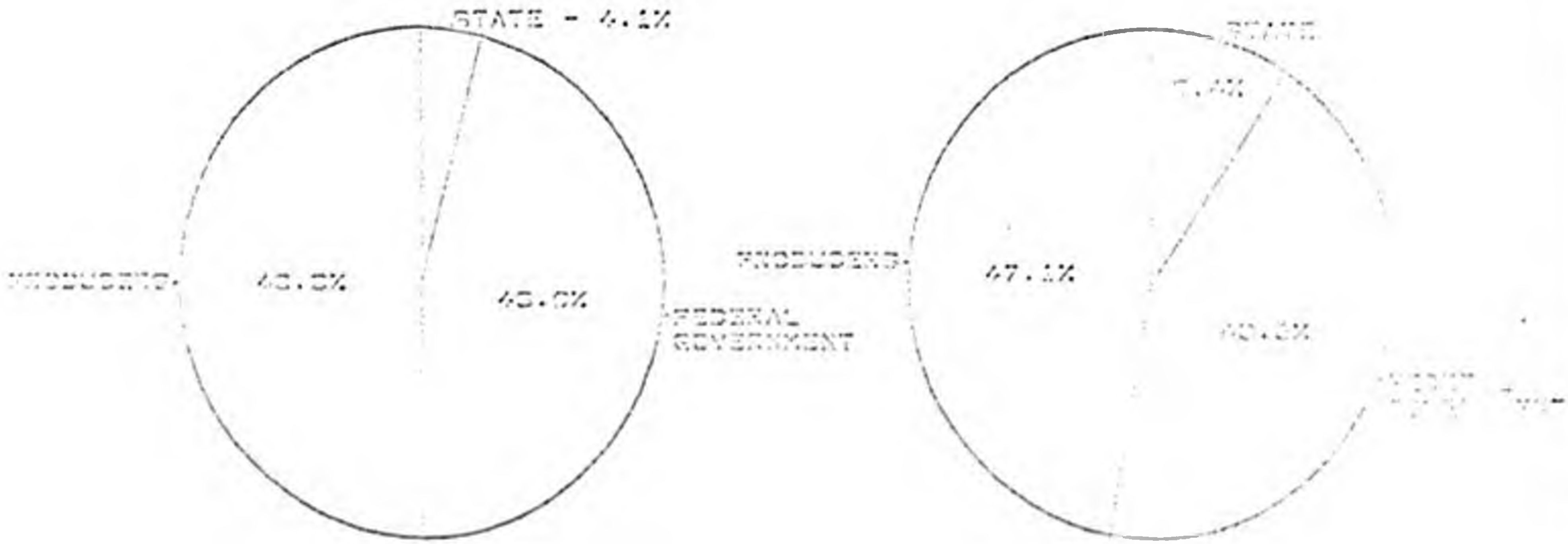
NET REVENUE SHARES



Legislative Affairs Agency
Research Division

CHART II

COMPARATIVE INCOME TAX BURDEN



EXISTING STATUTE

SB 105

STATE OF A[illegible]

DEPARTMENT OF REVENUE

Summary of the Proposed Committee
Substitute for House Bill 322

This proposal contains provisions of both the original House Bill 322 as introduced by the Governor and the Senate Committee Substitute for House Bill 322. It represents a compromise between the two versions which retains in large part the concept of separate accounting approach to assessing oil and gas production and pipeline transportation income, but works to avoid the problems of corporate manipulations and profit shifting by providing the state greater control in the determination of that income. It also contains elements of the original House Bill 322 for purposes of determining that portion of the income earned by oil and gas corporations from activities other than production and pipeline transportation.

DETERMINATION OF INCOME

1. Oil and Gas Production

Production income is determined under a separate accounting method. That is, instead of taking world-wide income and apportioning that income to the state based upon a formula, the income in the state is determined directly by looking only at the income and expenses of the production activity in the state. This is done as is in the bill adopted by the Senate Resources Committee by taking the well head value of total production as gross income and deducting a specified list of expenses to arrive at net income. The same list of deductions is retained except an allowance for general administrative expense or overhead is made.

The major change to the approach however is that the state plays a major role in the determination of the income by assessing the net income and tax due. This direct role by the state in assessing income will hopefully avoid the possibilities for profit shifting and other income manipulations.

2. Pipeline Transportation

Income from pipeline transportation is also determined on a separate accounting basis. As in the Senate Resources Committee Substitute, the income is determined according to amounts reported to the Federal Energy Regulatory Commission.

This income is also assessed by the department.

3. Income from Activities other than Pipeline Transportation and Production

Income from activities other than production and pipeline transportation is determined under a formula approach after subtracting out production and pipeline transportation income.

First the world wide book income of the corporation is determined. From this amount is subtracted the income determined separately for production and pipeline transportation activities. The remaining net income is then apportioned using the present uniform formula of property, payroll and sales. Since production and pipeline transportation income are determined separately that portion of property, payroll and sales attributable to these activities in Alaska are subtracted from the numerators and denominators of the apportionment formula. What remains in the formula is just the elements of property, payroll and sales attributable to other activities.

In addition the proposal would adjust the apportionment formula to take account of OCS activity.

PUBLIC REPORTING AND LEGISLATIVE OVERSIGHT

As in the Senate Resources Committee Substitute, annual reporting of aggregate income and expense statistics is provided for. In addition, the proposed substitute provides for an annual review of the department's assessment actions by the legislative auditor with an annual report to the legislature.

ASSESSMENT

This proposal differs from the Senate Resources Committee Substitute in that the department is provided more control in the determination of income. This is done to help avoid profit shifting and other manipulations of income. Thus the authority is given to the department to assess directly the income taxable under the proposed statute. The resulting income that would be assessed is then taxed at the standard corporate income tax rate of 9.4 percent.

STATE OF ALASKA

THE LEGISLATURE

LEGISLATIVE AFFAIRS AGENCY

M E M O R A N D U M

May 31, 1978

SUBJECT: FY 79 Revenue Impact of Proposed Income Tax Legislation (CSHB 322, CSSB 105)

TO: The Honorable John Sackett

FROM: Gregg K. Erickson
Director of Research

Yesterday, we provided Judy Crondahl of your staff a copy of a March 31 memorandum to Senator Poland in which we indicated the revenue expected to be raised by the proposed oil and gas income tax legislation during FY 79 would be approximately $227 million. We believe conditions that have developed since this memorandum was written, specifically the erosion of the West Coast oil price and the increased possibility of its collapse, requires revision of this estimate. FY 79 revenue under this bill now appears more likely to fall between $150 million and $200 million, with the most likely value in the neighborhood of $185 million.

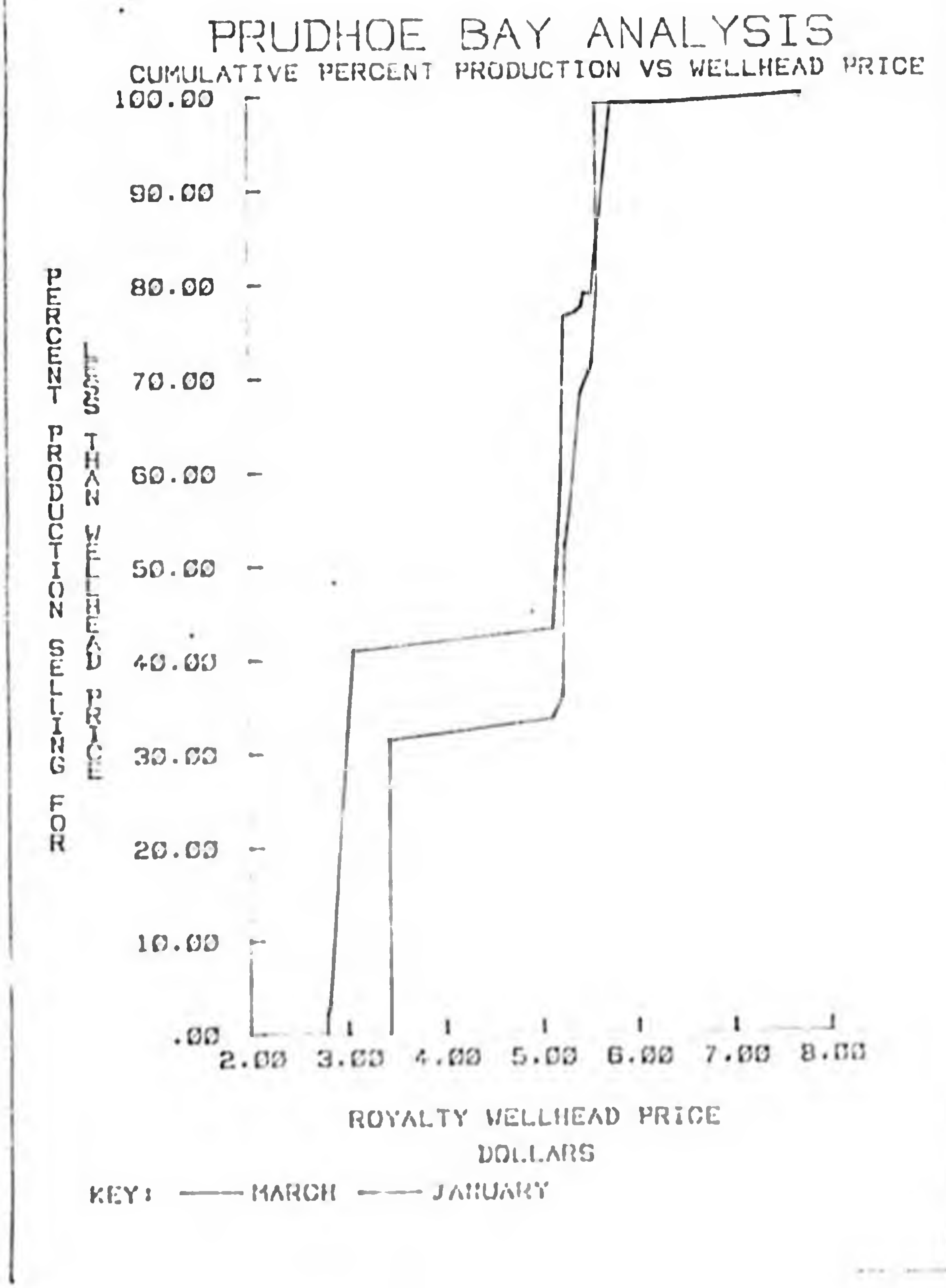
Of these monies, $113 million would be raised by the corporate income tax on trans-Alaska pipeline income. This component is not subject to much uncertainty, since it is tied directly to figures submitted by the companies themselves to the Federal Energy Regulatory Commission (FERC), and the tax itself is keyed to these submissions. The tax revenue on pipeline income could be reduced if Alaska's position before FERC on pipeline tariffs were to be sustained, but this would result in more than offsetting increases in other revenues (most importantly, royalties).

The wellhead income figures, however, are much more uncertain. A collapse of the West Coast oil price could conceivably reduce the wellhead component of that income to as low as a dollar per barrel. In this event, companies would pay income taxes on their production operations of about $[illegible] million. Thus, the total income tax take under this legislation, assuming the collapse of the West Coast price, could be as low as $150 million. A graph showing the recent erosion in the West Coast price is attached.

We do not believe that this is the most likely outcome, but believe it is important that the possibility of a West Coast price collapse be

considered. We have discussed these estimates with Deputy Commissioner of Revenue John Messenger, and understand that he has arrived independently at essentially the same estimates of FY 79 revenue under these bills.

GKE:jm
Attachment
cc: The Honorable Chancy Croft
John Messenger



PRUDHOE BAY ANALYSIS
CUMULATIVE PERCENT PRODUCTION VS WELLHEAD PRICE
PERCENT PRODUCTION SELLING FOR LESS THAN WELLHEAD PRICE
100.00
90.00
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5.00
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7.00
8.00
ROYALTY WELLHEAD PRICE
DOLLARS
KEY: —— MARCH —— JANUARY

SB 165

STATE OF ALASKA
THE LEGISLATURE

LEGISLATIVE AFFAIRS AGENCY

March 31, 1978

MEMORANDUM

SUBJECT: Impact of CS for CSHB 322 (Resources)

TO: The Honorable Kay Poland, Chairwoman
Senate Resources Committee

FROM: Richard G. Haggart
Research Analyst

This memorandum is in response to your request that we prepare an analysis of the relative revenue impacts of CS for CSHB 322 (Resources) on the Prudhoe Bay producers, the State of Alaska and the federal government. Unless otherwise noted, estimates contained in this memorandum are based on figures contained in the Arthur Andersen & Co. report of January, 1978, entitled, "Prudhoe Bay Field and Trans-Alaska Pipeline System: Comparative State Tax Burden Study".

Table I attached shows the total division of Prudhoe Bay and pipeline income (after deduction of expenses) among the producers, the state and the federal government under both the existing state income tax law and under the proposed bill. Figures in Table I are for the period 1977-2001. The same information is presented graphically in Chart I attached.

Table II shows the relative impact of the proposed bill only in terms of producer revenues, and state and federal income taxes. Other state revenues from Prudhoe Bay and the pipeline are excluded. Again, this material is presented graphically in Chart II.

We estimate that adoption of the proposed changes in the income tax would generate approximately $[illegible] million in the remainder of FY 1978 (up from $2.8 million estimated by the Department of Revenue under current law) and approximately $[illegible] million in FY 1979 (up from about $22 million estimated by the Department for FY 1979).

RGH:dh
Attachments (4)

TABLE I

Impact of Proposed CS for CS HB 322 (Resources)
On Relative Prudhoe Bay Net Revenue Shares
($ Millions)

	Existing Statute		Proposed Substitute		Net Change	
	Net Revenues	Per Cent Share	Net Revenues	Per Cent Share	Change in Revenue	Per Cent Change in Revenue
Companies	$18,593	35.2%	$17,570	33.2%	($1,023)	[illegible]
State	$17,[illegible]	32.3%	$19,053	36.1%	+$1,[illegible]	+[illegible]
Federal Government	$17,162	32.5%	$16,218	30.7%	($944)	[illegible]

Note: Based on Arthur Andersen & Co. report of January, 1978. State revenues include all royalties and taxes. Federal revenues are assumed to be 48% of pre-tax income after deduction of state income taxes. Net revenues to the companies is assumed to be pre-tax income less state and federal income taxes.

Figures in Table I are for the three largest oil producers in Prudhoe Bay (representing [illegible] of the output) and for the four largest owners of the trans-Alaska pipeline system (representing about [illegible] of the pipeline).

Prepared by:

Legislative Affairs Agency
Research Division
[illegible]

TABLE 11

[illegible]
[illegible]
($ [illegible])

	Pre-Tax Net	State Income Tax	Federal Income Tax	Total Income Ta[illegible]
Current State Income Tax[1]	$37,2[illegible],000	$1,539,000	$17,162,000	$18,701,000
Effective Rate on Pre-Tax	NA	4.1%	46%	50.1%
Income Tax Under Proposed Substitute[2]	$37,2[illegible],000	$[illegible],000	$16,215,000	$19,7[illegible],000
Effective Rate on Pre-Tax	NA	9.4%	43.5%	52.9%
Net Change in Liability[3]	NA	+$1,5[illegible],000	($[illegible],000)	+$1,0[illegible],000
Net Change in Rate	NA	+5.3	(2.5%)	+[illegible]

[1] [illegible]

[2] [illegible]

[3] [illegible]

NET REVENUE SHARES

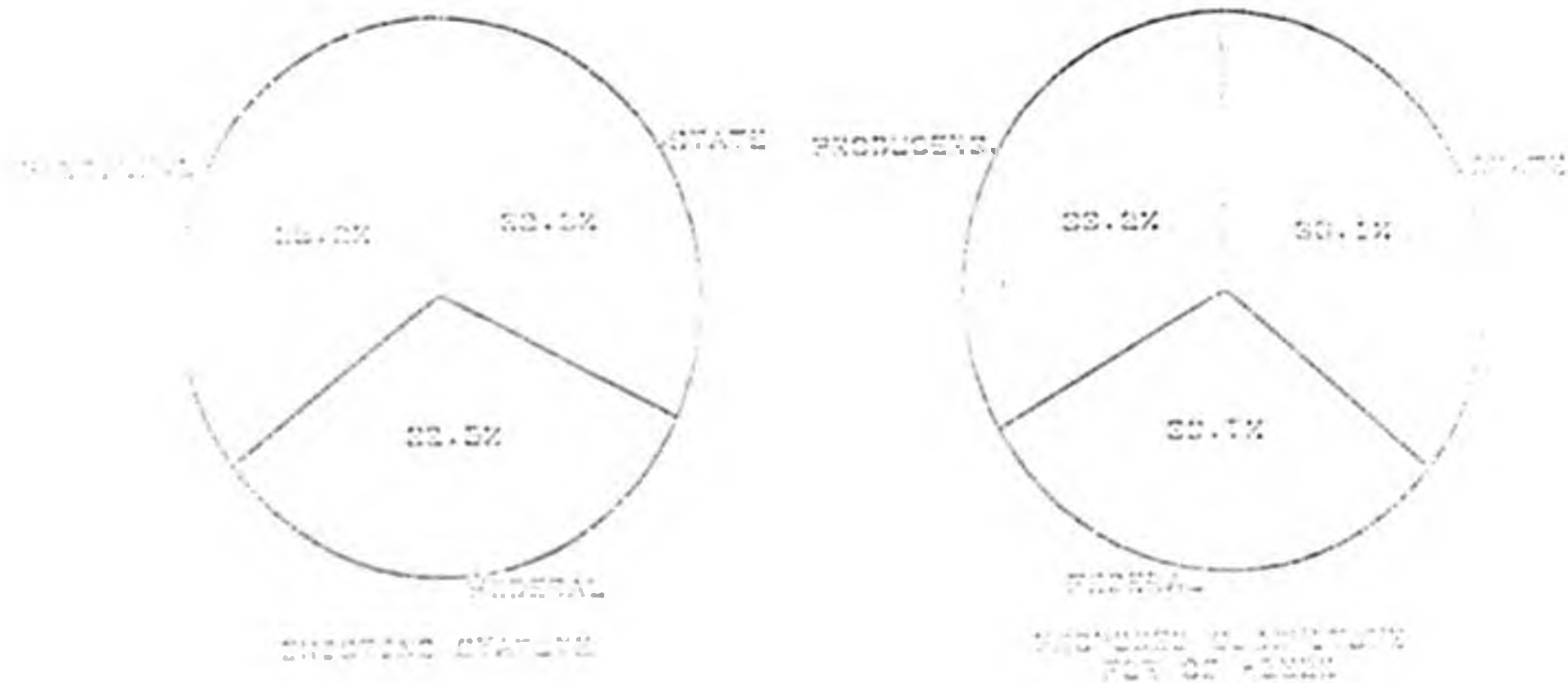
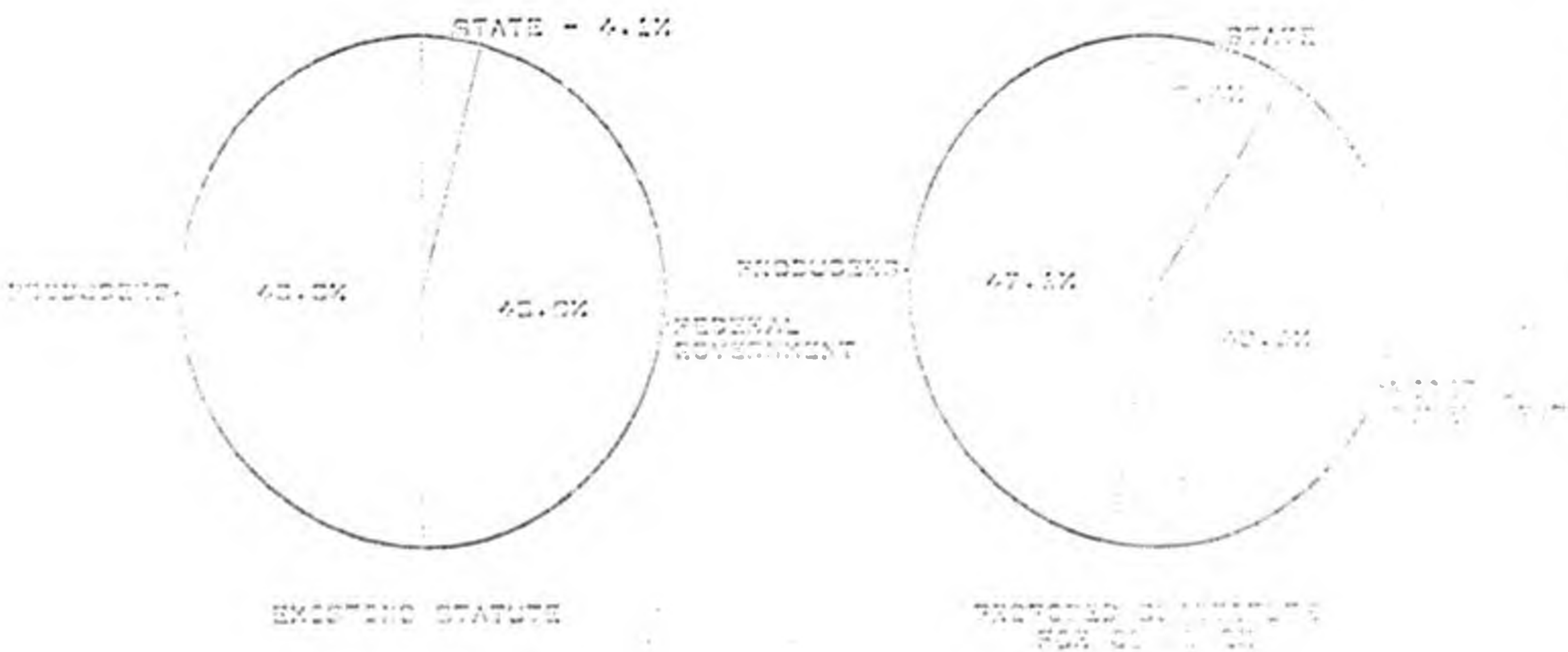


CHART II

COMPARATIVE INCOME TAX BURDEN



SB 105

STATE OF ALASKA

DEPARTMENT OF REVENUE

Summary of the Proposed Committee
Substitute for House Bill 322

This proposal contains provisions of both the original House Bill 322 as introduced by the Governor and the Senate Committee Substitute for House Bill 322. It represents a compromise between the two versions which retains in large part the concept of separate accounting approach to assessing oil and gas production and pipeline transportation income, but works to avoid the problems of corporate manipulations and profit shifting by providing the state greater control in the determination of that income. It also contains elements of the original House Bill 322 for purposes of determining that portion of the income earned by oil and gas corporations from activities other than production and pipeline transportation.

DETERMINATION OF INCOME

1. Oil and Gas Production

Production income is determined under a separate accounting method. That is, instead of taking world-wide income and apportioning that income to the state based upon a formula, the income in the state is determined directly by looking only at the income and expenses of the production activity in the state. This is done as it is in the bill adopted by the Senate Resources Committee by taking the well head value of total production as gross income and deducting a specified list of expenses to arrive at net income. The same list of deductions is retained except an allowance for general administrative expense or overhead is made.

The major change to the approach however is that the state plays a major role in the determination of the income by assessing the net income and tax due. This direct role by the state in assessing income will hopefully avoid the possibilities for profit shifting and other income manipulations.

2. Pipeline Transportation

Income from pipeline transportation is also determined on a separate accounting basis. As in the Senate Resources Committee substitute, the income is determined according to amounts reported to the Federal Energy Regulatory Commission.

This income is also assessed by the department.

3. Income from Activities other than Pipeline Transportation and Production

Income from activities other than production and pipeline transportation is determined under a formula approach after subtracting out production and pipeline transportation income.

First the world wide book income of the corporation is determined. From this amount is subtracted the income determined separately for production and pipeline transportation activities. The remaining net income is then apportioned using the present uniform formula of property, payroll and sales. Since production and pipeline transportation income are determined separately that portion of property, payroll and sales attributable to these activities in Alaska are subtracted from the numerators and denominators of the apportionment formula. What remains in the formula is just the elements of property, payroll and sales attributable to other activities.

In addition the proposal would adjust the apportionment formula to take account of OCS activity.

PUBLIC REPORTING AND LEGISLATIVE OVERSIGHT

As in the Senate Resources Committee Substitute, annual reporting of aggregate income and expense statistics is provided for. In addition, the proposed substitute provides for an annual review of the department's assessment actions by the legislative auditor with an annual report to the legislature.

ASSESSMENT

This proposal differs from the Senate Resources Committee Substitute in that the department is provided more control in the determination of [illegible]. This is done to help avoid profit shifting and other manipulations of income. Thus the authority is given to the Department to assess directly the income taxable under the proposed statute. The resulting income that would be assessed is then taxed at the standard corporate income tax rate of 9.4 percent.

STATE OF ALASKA
THE LEGISLATURE

LEGISLATIVE AFFAIRS AGENCY

MEMORANDUM

May 31, 1978

SUBJECT: FY 79 Revenue Impact of Proposed Income Tax Legislation (CSHB 322, CSSB 105)

TO: The Honorable John Sackett

FROM: Gregg K. Erickson
Director of Research

Yesterday, we provided Judy Crondahl of your staff a copy of a March 31 memorandum to Senator Poland in which we indicated the revenue expected to be raised by the proposed oil and gas income tax legislation during FY 79 would be approximately $227 million. We believe conditions that have developed since this memorandum was written, specifically the erosion of the West Coast oil price and the increased possibility of its collapse, requires revision of this estimate. FY 79 revenue under this bill now appears more likely to fall between $159 million and $200 million, with the most likely value in the neighborhood of $185 million.

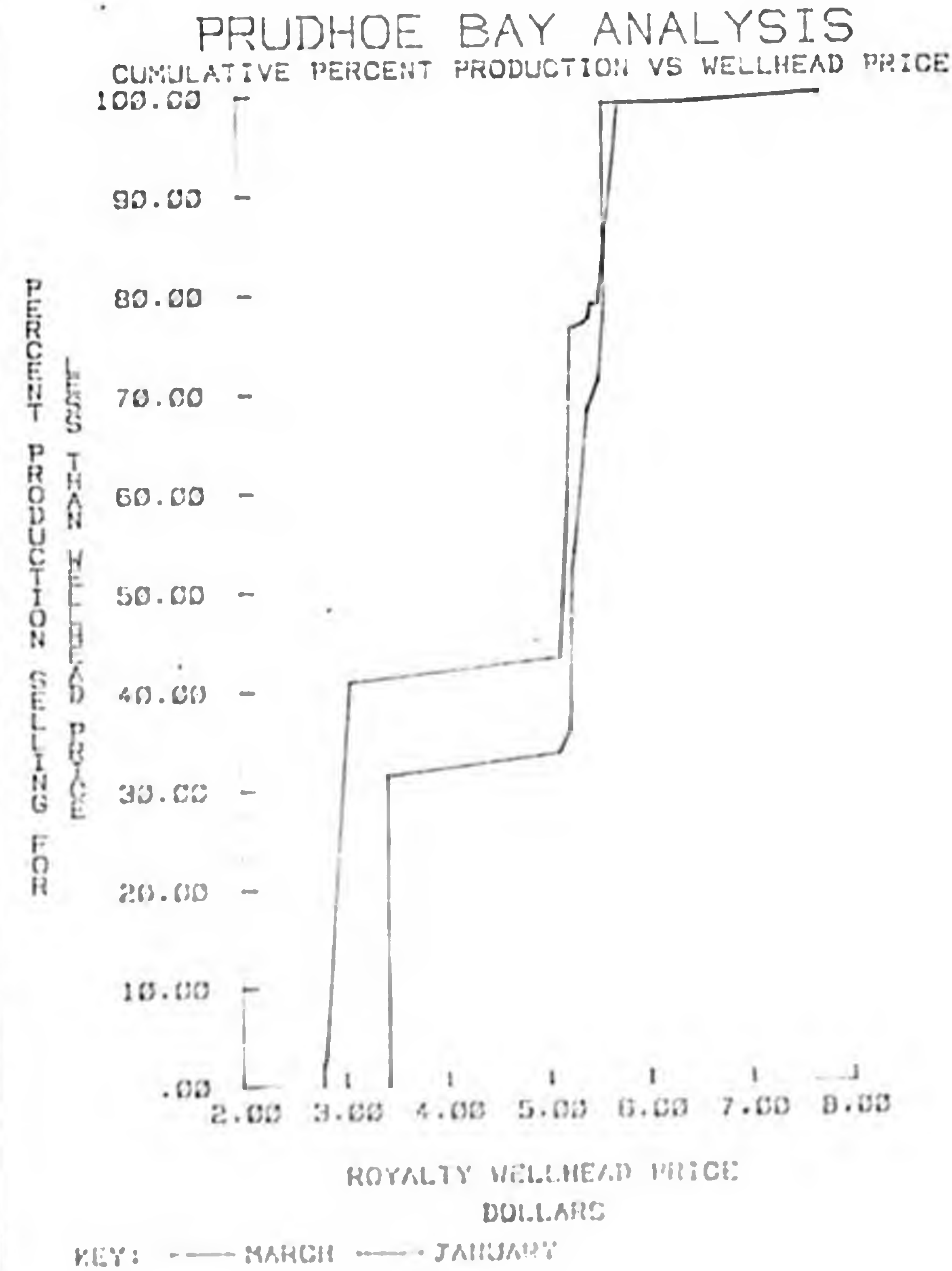
Of these monies, $113 million would be raised by the corporate income tax on trans-Alaska pipeline income. This component is not subject to much uncertainty, since it is tied directly to figures submitted by the companies themselves to the Federal Energy Regulatory Commission (FERC), and the tax itself is keyed to these submissions. The tax revenue on pipeline income could be reduced if Alaska's position before FERC on pipeline tariffs were to be sustained, but this would result in more than offsetting increases in other revenues (most importantly, royalties).

The wellhead income figures, however, are much more uncertain. A collapse of the West Coast oil price could conceivably reduce the wellhead component of that income to as low as a dollar per barrel. In this event, companies would pay income taxes on their production operations of about $43 million. Thus, the total income tax take under this legislation, assuming the collapse of the West Coast price, could be as low as $156 million. A graph showing the recent erosion in the West Coast price is attached.

We do not believe that this is the most likely outcome, but believe it is important that the possibility of a West Coast price collapse be

considered. We have discussed these estimates with Deputy Commissioner of Revenue John Messenger, and understand that he has arrived independently at essentially the same estimates of FY 79 revenue under these bills.

GKE:jn
Attachment
cc: The Honorable Chancy Croft
John Messenger



PRUDHOE BAY ANALYSIS
CUMULATIVE PERCENT PRODUCTION VS WELLHEAD PRICE
PERCENT PRODUCTION SELLING FOR
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ROYALTY WELLHEAD PRICE
DOLLARS
KEY: MARCH JANUARY

SB 165

STATE OF ALASKA
THE LEGISLATURE

LEGISLATIVE AFFAIRS AGENCY

March 31, 1978

M E M O R A N D U M

SUBJECT: Impact of CS for CSHB 322 (Resources)

TO: The Honorable Kay Poland, Chairwoman
Senate Resources Committee

FROM: Richard G. Haggart
Research Analyst

This memorandum is in response to your request that we prepare an analysis of the relative revenue impacts of CS for CSHB 322 (Resources) on the Prudhoe Bay producers, the State of Alaska and the federal government. Unless otherwise noted, estimates contained in this memorandum are based on figures contained in the Arthur Andersen & Co. report of January, 1978, entitled, "Prudhoe Bay Field and Trans-Alaska Pipeline System: Comparative State Tax Burden Study".

Table I attached shows the total division of Prudhoe Bay and pipeline income (after deduction of expenses) among the producers, the state and the federal government under both the existing state income tax law and under the proposed bill. Figures in Table I are for the period 1977-2001. The same information is presented graphically in Chart I attached.

Table II shows the relative impact of the proposed bill only in terms of producer revenues, and state and federal income taxes. Other state revenues from Prudhoe Bay and the pipeline are excluded. Again, this material is presented graphically in Chart II.

We estimate that adoption of the proposed changes in the income tax would generate approximately [illegible] million in the remainder of FY 1978 (up from $2.8 million [illegible] under current law) and approximately [illegible] million in FY 1979 (up from about $22 million [illegible] FY 1979).

RGH:dh
Attachments (4)

TABLE I

Impact of Proposed CS for CS HB 322 (Resources)
On Relative Prudhoe Bay Net Revenue Shares
($ Millions)

	Existing Statute		Proposed Substitute		Net Change	
	Net Revenues	Per Cent Share	Net Revenues	Per Cent Share	Change in Revenues	Per Cent Change in Revenues
Companies	$18,590	35.2%	$17,570	33.2%	($1,023)	(5.[illegible]%)
State	$17,0[illegible]	32.3%	$19,053	36.1%	+$1,967	+11.[illegible]%
Federal Government	$17,192	32.5%	$16,218	30.7%	($944)	(5.[illegible]%)

Note: Based on Arthur Andersen & Co. report of January, 1978. State revenues include all royalties and taxes. Federal revenues are assumed to be 48% of pre-tax income after deduction of state income taxes. Net revenues to the companies is assumed to be pre-tax income less state and federal income taxes.

Figures in Table I are for the three largest oil producers in Prudhoe Bay (representing 93.7% of production) and for the four largest owners of the trans-Alaska pipeline system (representing about 80.15% of ownership).

Prepared by:

Legislative Affairs Agency
Research Division
31 March 1978

TABLE II

Net Income Tax Liability in Prudhoe Bay Under [illegible]
Tax Laws and Under Pro[illegible] for CS for HB 3[illegible] ([illegible])
($ Thousands)

	Pre-Tax Net	State Income Tax	Federal Income Tax	Total Income Tax
Current State Income Tax[1]	$37,294,000	$1,539,000	$17,162,000	$18,701,000
Effective Rate on Pre-Tax	NA	4.1%	46%	50.1%
Income Tax Under Proposed Substitute[2]	$37,294,000	$3,506,000	$16,218,000	$19,724,000
Effective Rate on Pre-Tax	NA	9.4%	43.5%	52.9%
Net Change in Liability[3]	NA	+$1,967,000	($944,000)	+$1,023,000
Net Change in Rate	NA	+5.3%	(2.5%)	+1.8%

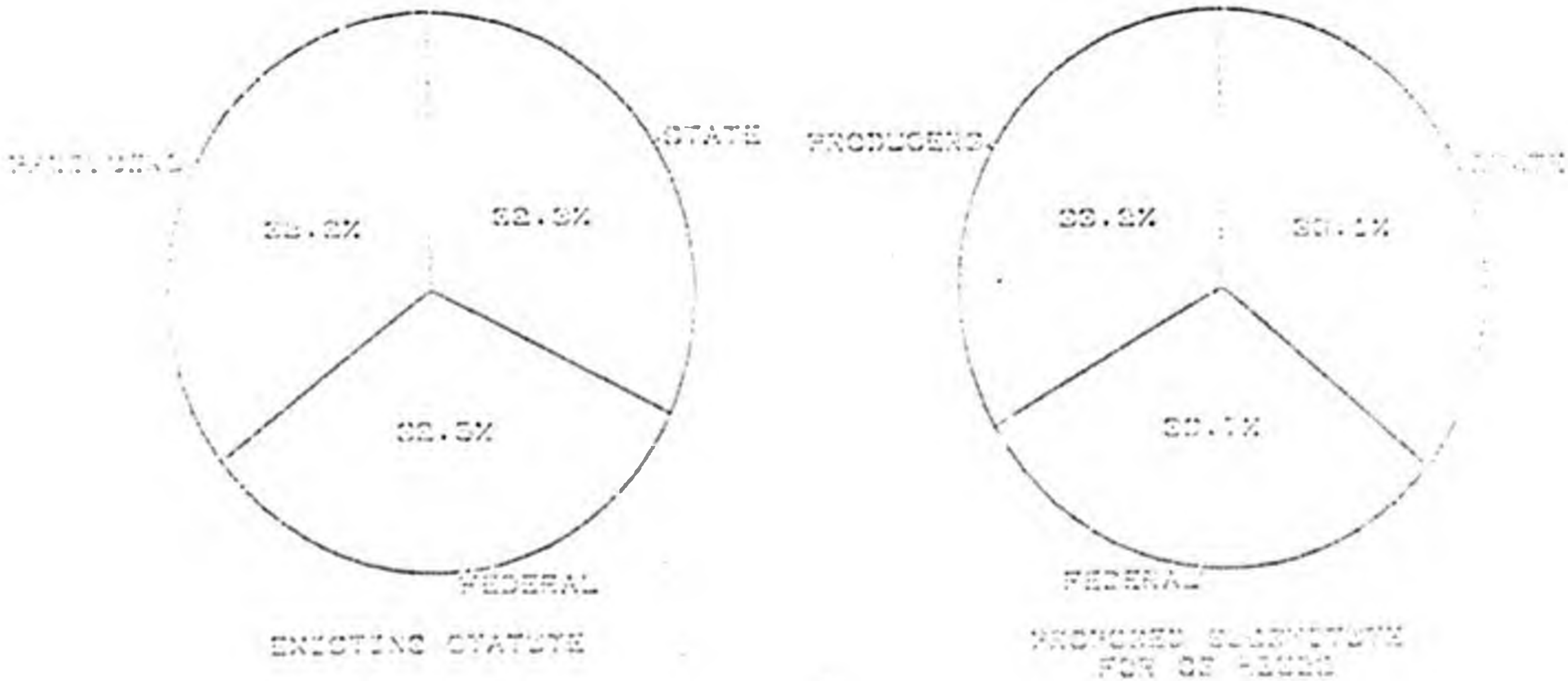
1 Pre-tax net income and estimated state income taxes from Prudhoe Bay and the trans-Alaska Pipeline system are taken from the Arthur Andersen & Co. report of January, 1978. Federal tax liability is assumed to be 48% of pre-tax after deduction of state income taxes. Total taxes are the sum of state and federal taxes.

2 Pre-tax net income is taken from the Arthur Andersen & Co. report of January, 1978. State income taxes were calculated as 9.4% of pre-tax net. Federal income taxes were assumed to be 48% of pre-tax after deduction of state income taxes. Total taxes are the sum of state and federal income taxes.

3 Net changes in tax liability represent the increase (or decrease) in tax liability for state, federal and total income taxes [illegible] the proposed substitute.

CHART I

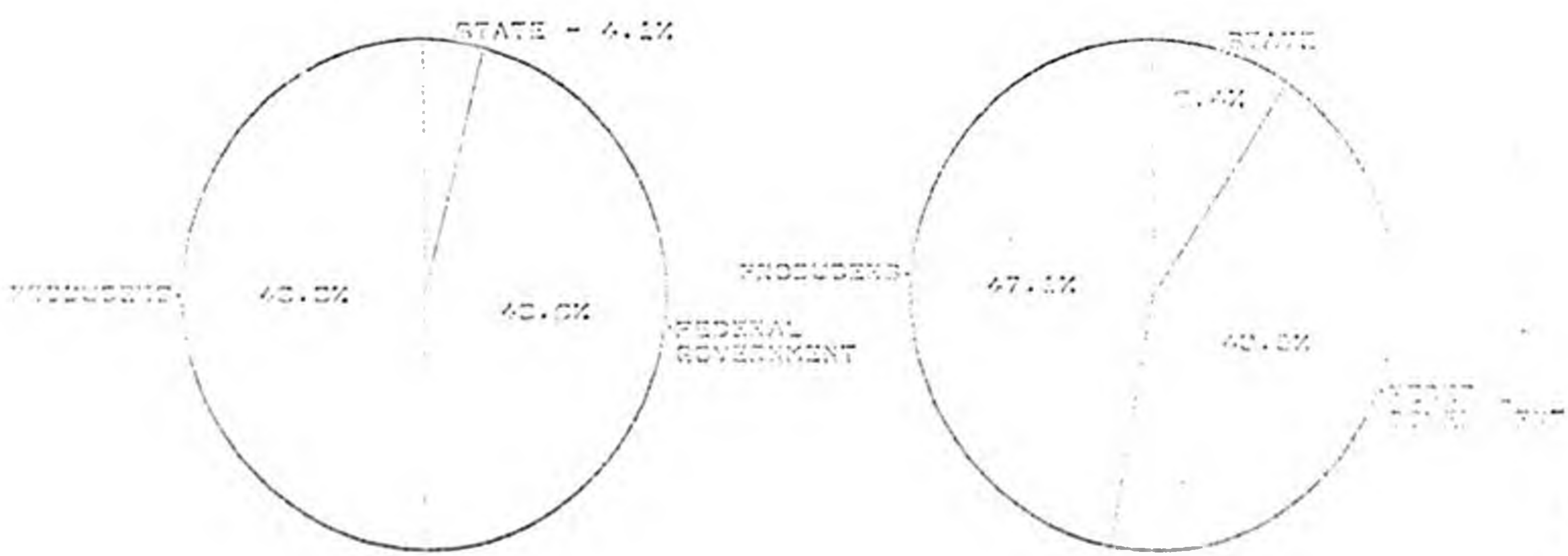
NET REVENUE SHARES



Legislative Affairs Agency
Research Division
March 31, 1979

CHART II

COMPARATIVE INCOME TAX BURDEN



EXISTING STATUTE

SB 105

STATE OF ALASKA

DEPARTMENT OF REVENUE

Summary of the Proposed Committee
Substitute for House Bill 322

This proposal contains provisions of both the original House Bill 322 as introduced by the Governor and the Senate Committee Substitute for House Bill 322. It represents a compromise between the two versions which retains in large part the concept of separate accounting approach to assessing oil and gas production and pipeline transportation income, but works to avoid the problems of corporate manipulations and profit shifting by providing the state greater control in the determination of that income. It also contains elements of the original House Bill 322 for purposes of determining that portion of the income earned by oil and gas corporations from activities other than production and pipeline transportation.

DETERMINATION OF INCOME

1. Oil and Gas Production

Production income is determined under a separate accounting method. That is, instead of taking worldwide income and apportioning that income to the state based upon a formula, the income in the state is determined directly by looking only at the income and expenses of the production activity in the state. This is done as in the bill adopted by the Senate Resources Committee by taking the well head value of total production as gross income and deducting a specified list of expenses to arrive at net income. The same list of deductions is retained except an allowance for general administrative expense or overhead is made.

The major change to the approach however is that the state plays a major role in the determination of the income by assessing the net income and tax due. This direct role by the state in assessing income will hopefully avoid the possibilities for profit shifting and other income manipulations.

2. Pipeline Transportation

Income from pipeline transportation is also determined on a separate accounting basis. As in the Senate Resources Committee substitute, the income is determined according to amounts reported to the Federal Energy Regulatory Commission.

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In addition the proposal would adjust the apportionment formula to take account of OCS activity.

PUBLIC REPORTING AND LEGISLATIVE OVERSIGHT

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ASSESSMENT

This proposal differs from the Senate Resources Committee Substitute in that the department is provided more control in the determination of income. This is done to help avoid profit shifting and other manipulations of income. Thus the authority is given to the department to assess directly the income taxable under the proposed statute. The resulting income that would be assessed is then taxed at the standard corporate income tax rate of 9.4 percent.

STATE OF ALASKA

LEGISLATIVE AFFAIRS AGENCY

MEMORANDUM

May 31, 1978

SUBJECT: FY 79 Revenue Impact of Proposed Income Tax Legislation (CSHB 322, CSSB 105)

TO: The Honorable John Sackett

FROM: Gregg K. Erickson
Director of Research

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The wellhead income figures, however, are much more uncertain. A collapse of the West Coast oil price could very easily reduce the wellhead value of that income to as low as a dollar per barrel. In this event, companies would pay income taxes on their production operations of about [illegible] million. Thus, the total income tax take under this legislation, assuming the collapse of the West Coast price, could be as low as [illegible] million. A graph showing the recent erosion in the West Coast price is attached.

We do not believe that this is the most likely outcome, but I think it is important that the possibility of a West Coast price collapse be

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GRE:jm
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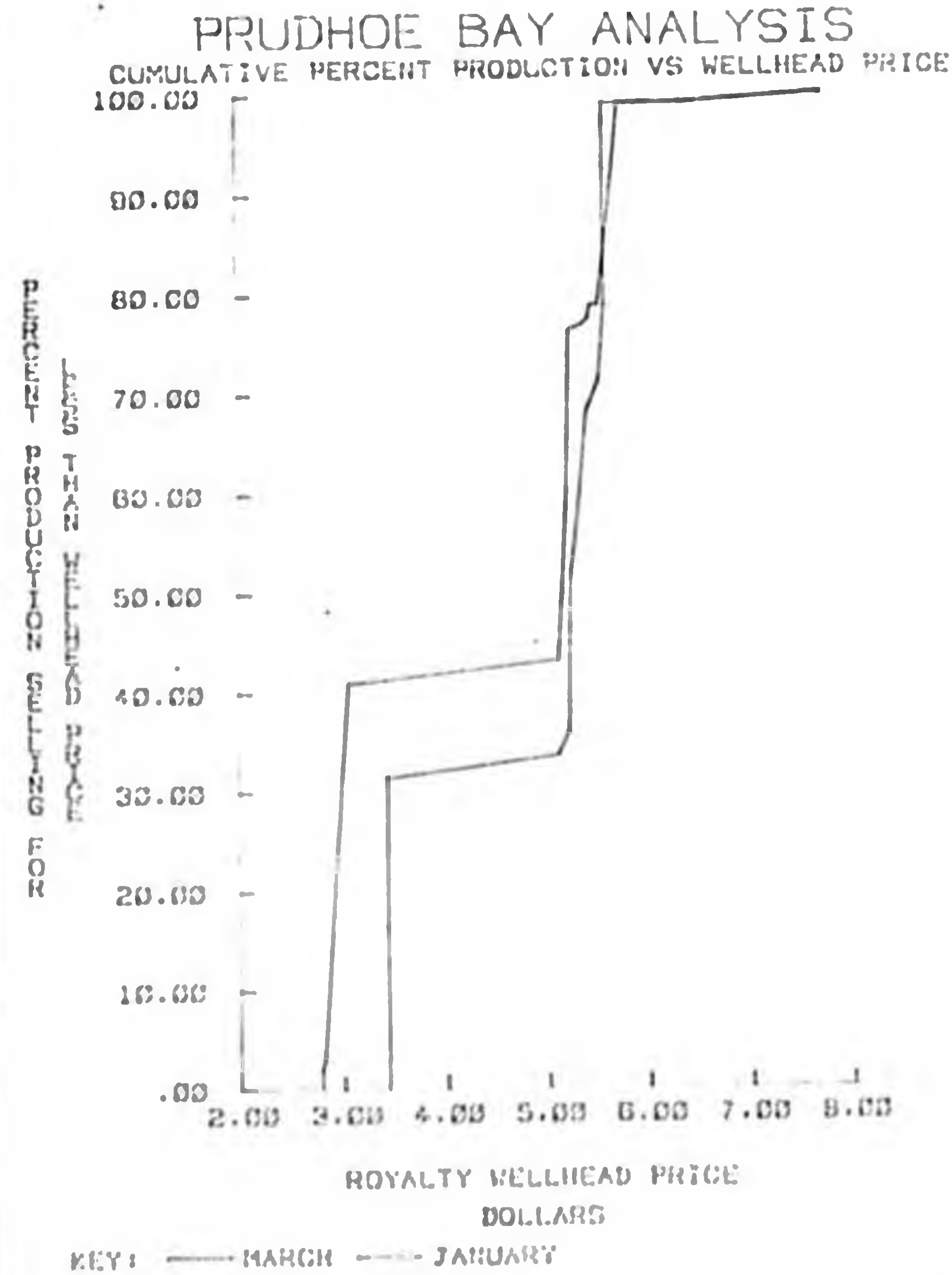
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PERCENT PRODUCTION SELLING FOR LESS THAN WELLHEAD PRICE
ROYALTY WELLHEAD PRICE
DOLLARS
KEY: —— MARCH ---- JANUARY

SB 105

STATE OF ALASKA
THE LEGISLATURE
LEGISLATIVE AFFAIRS AGENCY

March 31, 1978

M E M O R A N D U M

SUBJECT: Impact of CS for CSSB 322 (Resources)

TO: The Honorable Kay Poland, Chairwoman
Senate Resources Committee

FROM: Richard G. Haggart
Research Analyst

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We estimate that adoption of the proposed changes in the income tax would generate approximately $[illegible] million in the remainder of FY 1978 (up from $[illegible] million estimated by the Department of Revenue under current law) and approximately $[illegible] million in FY 1979 (up from about $22 million estimated by [illegible] for FY 1979).

RGH:dh
Attachments (4)

TABLE I

Impact of Proposed CS for CS HB 322 (Resources)
On Relative Prudhoe Bay Net Revenue Shares
($ Millions)

	Existing Statute		Proposed Substitute		Net Change	
	Net Revenues	Per Cent Share	Net Revenues	Per Cent Share	Change in Revenues	Per Cent Share [illegible]
Companies	$18,593	35.2%	$17,570	33.2%	($1,023)	[illegible]
State	$17,0[illegible]	32.3%	$18,053	35.1%	+$1,0[illegible]	+[illegible]
Federal Government	$17,102	32.5%	$16,218	30.7%	($884)	[illegible]

Note: Based on Arthur Andersen & Co. report of January, 1978. State revenues include all royalties and taxes. Federal revenues are assumed to be 40% of pre-tax income after deduction of state income taxes. [illegible] to the companies is assumed to be pre-tax income less state and federal income taxes.

Figures in Table I are for the three largest oil producers in Prudhoe Bay (representing [illegible] of [illegible]) and for the [illegible] largest owners of the trans-Alaska pipeline system (representing about [illegible] of [illegible]).

Prepared by:

Legislative Affairs [illegible]
[illegible] Division
[illegible]

TABLE 11

Net Income Tax Liability in Prudhoe Bay Under Present
Tax Law and Under Proposed CS for CS for HB 322 (Estimated)
($ Thousands)

	Pre-Tax Net	State Income Tax	Federal Income Tax	Total Income Tax
Current State Income Tax[1]	$37,294,000	$1,539,000	$17,162,000	$18,701,000
Effective Rate on Pre-Tax	NA	4.1%	46%	50.1%
Income Tax Under Proposed Substitute[2]	$37,294,000	$3,505,000	$16,218,000	$19,724,000
Effective Rate on Pre-Tax	NA	9.4%	43.5%	52.9%
Net Change in Liability[3]	NA	+$1,557,000	($944,000)	+$1,023,000
Net Change in Rate	NA	+5.3%	(2.5%)	+1.8%

1 Pre-tax net income and estimated state income taxes from Prudhoe Bay and the Trans Alaska Pipeline System are taken from the Arthur Andersen & Co. report of January, 1978. Federal tax liability is assumed to be 46% of pre-tax after deduction of state income taxes. Total taxes are the sum of state and federal taxes.

2 Pre-tax net income is taken from the Arthur Andersen & Co. report of January, 1978. State income taxes were calculated as 9.4% of pre-tax net. Federal income taxes were assumed to be [illegible] of pre-tax after deduction of state income taxes. Total taxes are the sum of state and federal income taxes.

3 Net change in tax liability [illegible] the increase (or decrease) in tax liability for state, federal and total income taxes under the proposed substitute.

CHART I

NET REVENUE SHARES

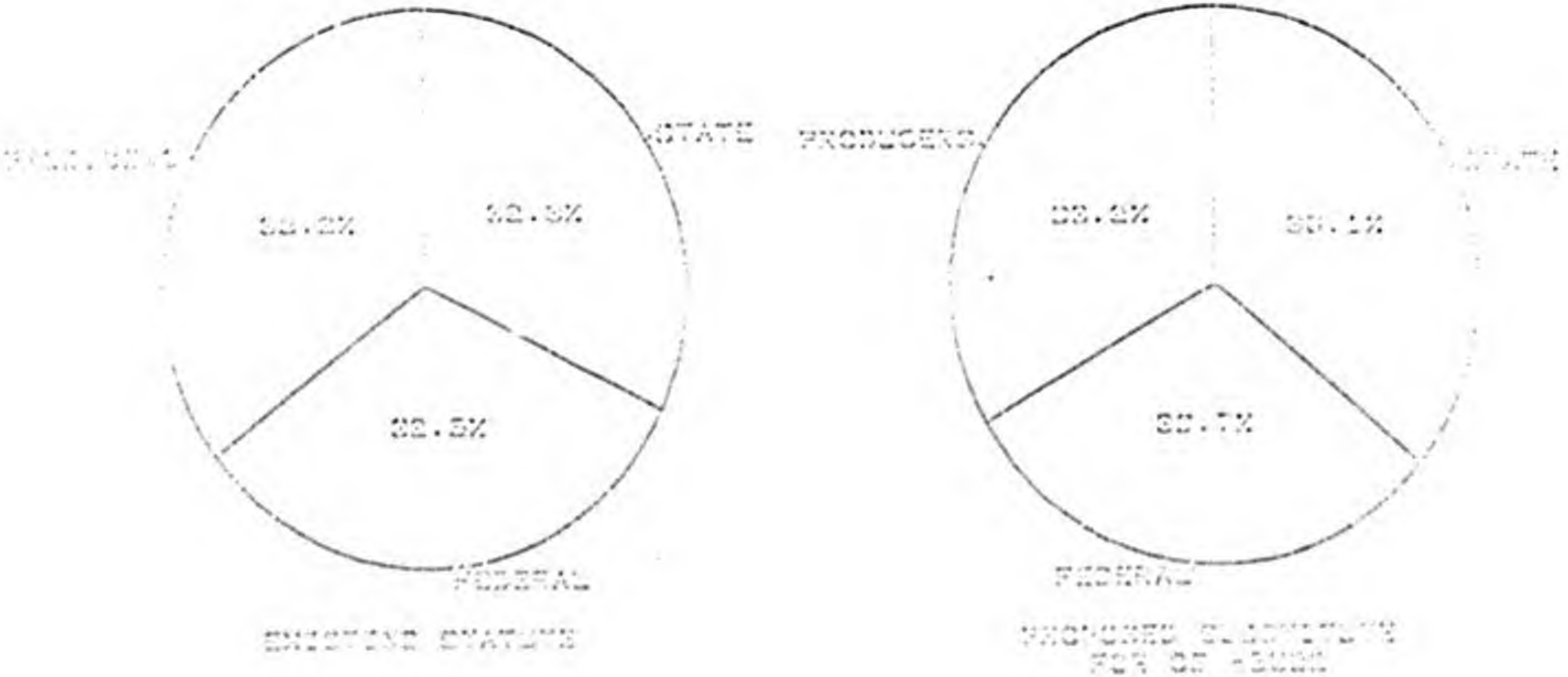
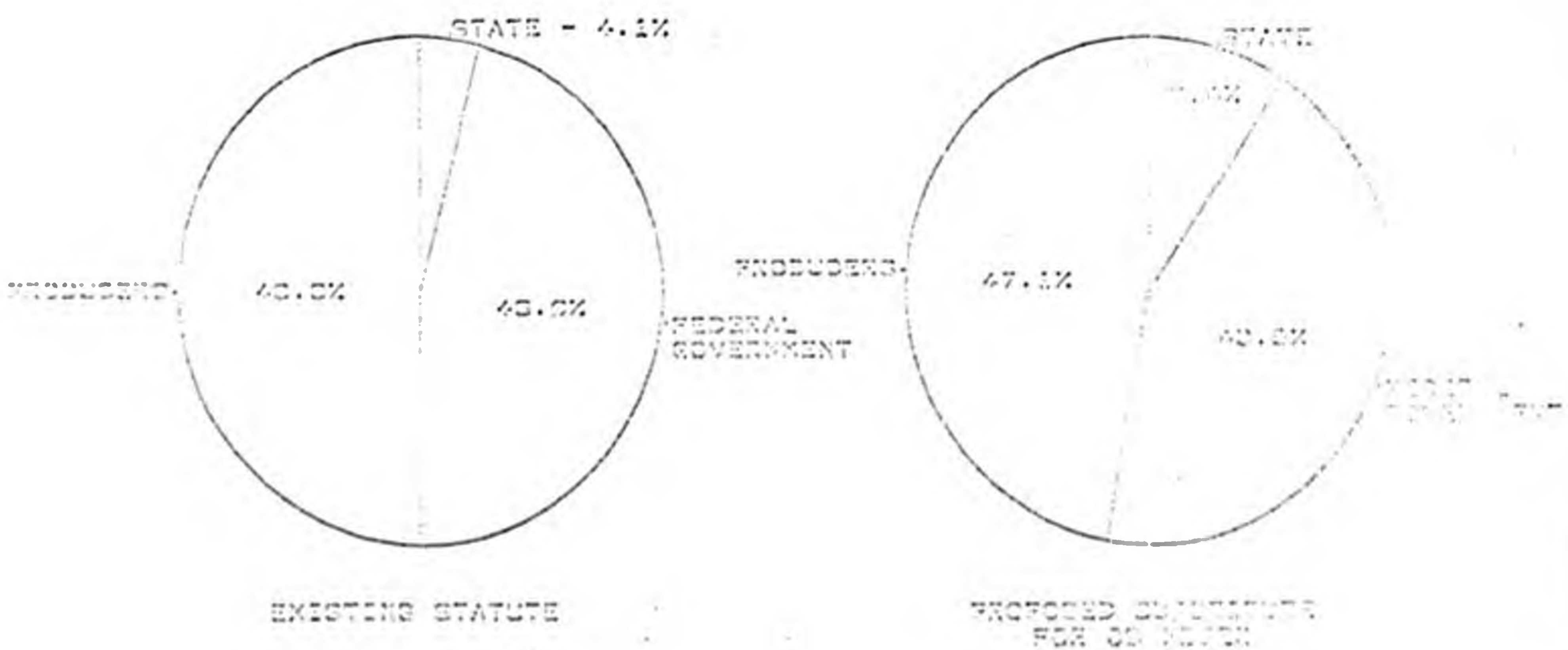


CHART II

COMPARATIVE INCOME TAX BURDEN



THE LEGISLATURE OF THE STATE OF ALASKA
TENTH LEGISLATURE

FISCAL NOTE

I. REQUEST
Bill/Resolution No. SB 105
Title An Act relating to the Alaska net income tax
Requested by ______ Date 3/8/77

II. FISCAL DETAIL
Agency Affected Commerce & Economic Development
Program Category Affected Public Protection
Budget Request Unit(s) Affected Alaska Pipeline Commission

EXPENDITURES (Thousands of Dollars)

	FY 77	FY 78	FY 79	FY 80	FY 81	FY 82
100 PERSONAL SERVICES	0	17.5	37.3	39.2	41.2	43.3
200 TRAVEL						
300 CONTRACTUAL	0	.75	1.5	1.5	1.5	1.5
400 COMMODITIES	0	.1	.2	.2	.2	.2
500 EQUIPMENT	0	1.0				
600 LAND & STRUCTURES						
700 GRANTS, CLAIMS, ETC.						
TOTAL	0	19.6	39.0	40.9	42.9	45.0

FUNDING (Thousands of Dollars)

GENERAL FUND	0	19.6	39.0	40.9	42.9	45.0
FEDERAL FUNDS						
OTHER (Specify)						

POSITIONS

FULL TIME	0	1	1	1	1	1
PART TIME						
TEMPORARY						

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

Given the Commission's workload, satisfactory performance of the certification responsibility will necessitate hiring a staff person with specialized knowledge of tax accounting.

Effective date: January 1, 1978

IV. DATE 3/8/77 PREPARED BY William L. Murray
AGENCY Alaska Pipeline Commission
PHONE 279-0583

Original Legislative Finance
cc: Budget and Management
Prime Sponsor (First Legislator Named)

13 001 (Rev. 10/76)

THE LEGISLATURE OF THE STATE OF ALASKA
TENTH LEGISLATURE

FISCAL NOTE

I. REQUEST
Bill/Resolution No. SB 105
Title An Act relating to the Alaska Net Income Tax
Requested by ______ Date 2/25/77

II. FISCAL DETAIL
Agency Affected Commerce & Economic Development
Program Category Affected Public Protection
Budget Request Unit(s) Affected Alaska Public Utilities Commission

EXPENDITURES (Thousands of Dollars)

	FY 77	FY 78	FY 79	FY 80	FY 81	FY 82
100 PERSONAL SERVICES		15.3	30.6			
200 TRAVEL						
300 CONTRACTUAL		2.1	2.1			
400 COMMODITIES		.2	.2			
500 EQUIPMENT		.8				
600 LAND & STRUCTURES						
700 GRANTS, CLAIMS, ETC.						
TOTAL		18.4	32.9			

FUNDING (Thousands of Dollars)

	FY 77	FY 78	FY 79	FY 80	FY 81	FY 82
GENERAL FUND		18.4	32.9			
FEDERAL FUNDS						
OTHER (Specify)						

POSITIONS

	FY 77	FY 78	FY 79	FY 80	FY 81	FY 82
FULL TIME		1	1			
PART TIME						
TEMPORARY						

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

Passage of this proposed legislation will require the Alaska Public Utilities Commission to employ at least one additional Financial Analyst III who would be responsible for examining the tax returns for intrastate pipelines.

Detailed expense estimate attached

Effective date: January 1, 1978

IV. DATE 2/25/77 PREPARED BY Susan B. Knowles for cg
AGENCY Alaska Public Utilities Commission
PHONE 272-1487

Original Legislative Finance
cc Budget and Management
Prime Sponsor (First Legislator Named)

33 001 (Rev. 10/76)

FISCAL NOTE

Re SB 105

1 Tax Accountant (UFA III, Range 18C)	$24408	
Benefits 25 1/2%	6226	$30634
Contractual:		
Office Space	1890	
Telephone	240	2130
Commodities:		
Stationery and Office Supplies	230	230
Equipment:		
Desk	295	
Chair	135	
Calculator	150	
Dictating Machine (Pocket Secretary)	250	830
		$33824

THE LEGISLATURE OF THE STATE OF ALASKA
TENTH LEGISLATURE

FISCAL NOTE

I. REQUEST
Bill/Resolution No. Senate Bill No. 105
Title An Act relating to the Alaska net income tax.
Requested by Senate Resources Committee Date 2-1-77

II. FISCAL DETAIL
Agency Affected Revenue
Program Category Affected Fiscal Services
Budget Request Unit(s) Affected Audit Division

EXPENDITURES (Thousands of Dollars)

	FY 77	FY 78	FY 79	FY 80	FY 81	FY 82
100 PERSONAL SERVICES		88.1	317.8	317.8	353.3	353.3
200 TRAVEL		5.0	70.0	70.0	75.0	75.0
300 CONTRACTUAL		10.2	105.2	65.2	70.0	70.0
400 COMMODITIES		.6	2.0	2.0	2.2	2.2
500 EQUIPMENT		1.8	6.0	1.0	1.8	1.0
600 LAND & STRUCTURES						
700 GRANTS, CLAIMS, ETC.						
TOTAL	-0-	105.7	501.0	456.0	502.3	501.5

FUNDING (Thousands of Dollars)

GENERAL FUND	-0-	105.7	501.0	456.0	502.3	501.5
FEDERAL FUNDS						
OTHER (Specify)						

POSITIONS

FULL TIME	-0-	3	10	10	11	11
PART TIME						
TEMPORARY						

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

This bill will necessitate an Audit staff of 8 Field Auditors with a Clerk Typist III and a Tax Examiner to handle the clerical, typing and return processing duties. The other costs are related to the development of the computer processing systems and costs related to the positions. See memo attached to R. D. Stevenson dated 2/3/77.

IV. DATE 2-3-77 PREPARED BY [signature]
AGENCY Audit Division
PHONE 465-2320

Original Legislative Finance
cc: Budget and Management
Prime Sponsor (First Legislator Named)

13-001 (Rev. 10/76)

May 8, 1978

The Honorable Kay Poland
Chairman
Senate Resources Committee
Alaska State Legislature
Juneau, AK 99801

Dear Senator Poland:

In his testimony on April 28, 1978, Milton Lipton noted three points of a technical nature which he felt should be addressed by the committee. I have talked to Gregg Erickson about these three items and believe that there is either an explanation of the specific language in the draft or a suggestion of specific language to the draft, to clear up the points raised by Mr. Lipton. I will discuss each point in order that it was mentioned.

1. Page 3, line 3

On this point, Mr. Lipton raised the concern that a tariff properly on file with a regulatory agency might be ultimately overturned by that agency or the courts with appropriate refunds ordered. In this situation, he felt that we should assure ourselves that the income tax for any prior periods would be recomputed based upon the new tariff. That was our intent and we believe that the matter can be clarified with the addition of the following additional language at line 6 on page 3 of the proposed committee substitute:

A

~~If~~ But 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.

2. Page 3, line 8, (c)(1)

On this point, Mr. Lipton felt that this deduction for royalty paid was too narrow since it included only royalties paid to the state or the United States. We agree. Our intent was to insure that a company would

NO UNDERLINING

only be taxed upon its interest in the oil and gas. Accordingly we would propose the following amendment at line 8 on page 8 of the proposed committee substitute:

(1) royalties paid in kind or in value. [TO THE STATE OR THE UNITED STATES.]

3. Page 3, line 13, (c)(4)

On this technical point, Mr. Lipton raised the concern that this particular deduction for operating expenses should fit with the definition of gross value so as to assure that there is not a double deduction of these particular expenses of producing, gathering, preparing the oil or gas for pipeline transportation. We have rechecked the interrelationship of the definition of gross value and this deduction and believe that they do fit together without overlap to assure no double deduction.

We have tied our definition of gross value to the definition of "gross value at the point of production" in the production tax statute. That definition contained in AS 43.55.140(12) provides essentially that the value at the point of production is the value at the point where the oil or gas is metered or measured in a condition of pipeline quality. This means that the oil or gas is valued without deduction for the costs of production including the costs of gathering, conditioning and treating prior to pipeline transportation. For example, for Prudhoe Bay oil production the oil is valued under this definition at the point where it is metered into the Trans Alaska Pipeline (Pump Station No. 1) and no deductions upstream from that point are allowed. In (c)(4) the companies are then allowed to take their direct upstream operating costs as deductions from the gross value in arriving at net income. Since gross value is determined without deducting these operating expenses under the definition in the production tax statute, there is no double deduction of these items. Therefore we believe the definition of gross value and deduction for operating expenses fit together.

Also, I might note in response to a question from you regarding the proposed Sec. 43.21.050 ASSESSMENT OF INCOME AND TAX, Mr. Lipton did not specify any objection but noted that this was, as far as he knew, a standard provision in other taxes. I agree, but I would like to emphasize the importance of this provision in the separate accounting approach. This provision would help to assure that the tax avoidance problems which we have pointed out in last year's CS HB 322 are eliminated, since the department itself would be directly assessing the income and tax. This would be similar to the way the property tax is now administered and in our view is essential to administer a separate accounting approach to income taxation.

Mr. Lipton also raised certain policy considerations for the committee on the proposed committee substitute for HB 322. Those items included (1) the use of "book income" instead of "federal taxable income" as a definition of net income from activities other than oil and gas production and pipeline transportation, and (2) the use of the OCS apportionment factors for apportioning income from activities other than oil and gas production and pipeline transportation. As you know, these are items which were contained in our original franchise tax approach, and we believe that they would enhance a new corporate income tax for the oil and gas industry.

Sincerely,

John R. Messenger
Deputy Commissioner

cc: Gregg Erickson

Crandall
423
3798

DRAFT #5

Finance

CS SB 105

[~~PROPOSED~~ CS FOR ~~CS FOR HOUSE BILL NO. 322~~ (Resources)]

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 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.

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

(1) royalties paid in kind or in value; ~~to the state, or the United States~~;

(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 corpora'ion 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 stat 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

(B) 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 measured by income. The department shall establish regulations governing 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, in the courts, or under sec. 40 of this chapter.

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).

02-001B

STATE
of ALASKA

MEMORANDUM

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

DATE: February 3, 1977

FROM: Gary L. Jenkins
Director
Audit Division

SUBJECT: Senate Bill 105

Senate Bill 105 provides that all oil producing and pipeline companies would compute their income on a separate accounting basis. This concept, while appearing to be simplistic and easy to accomplish, actually is very complex. This has been pointed out by the recent report prepared by Messrs. Zeifman and Ainsworth for the Department of Revenue and the Legislature.

There are several specific areas of concern which we have regarding the Bill. First, it splits the responsibility for audit of the returns to two different agencies. For a company in the production of oil and gas, the returns would be audited by this Division, while for pipeline companies it is assigned to the APUC. I would strongly urge that the audit function for pipeline companies be assigned to this Division with the provision that the APUC will generate the reporting requirements which would be used as the basis for the audit. Sections 3, 6 and 8 of the Bill would need to be amended to accomplish this.

Second, it appears that the intent of the Bill is that the Department of Revenue would by regulation define what would be deductible as an expense and how such items as intangible drilling costs would be treated for reporting purposes. To accomplish this would necessitate the employment of two Auditors and the Clerk Typist III at least one year ahead of the effective date of the law to do the research needed for these determinations.

Third, on line 17 of page 5 of the Bill is a reference to the "allocation" formula required under Sec. 65 of the chapter. To be technically correct and to remove all doubts of what is meant, I would recommend that the proper term "apportionment" be inserted in place of allocation. To allocate is to specifically identify the nature of each item of income and assign it to the proper jurisdiction, while to apportion is to assign income on the basis of a formula.

Fourth, Sec. 4 of the Bill refers to AS 43.20.330 which was repealed in 1972 by Chapter 169 of the Session Laws. The proper reference is AS 43.20.335 with the two subsections identified as (j) and (k).

Fifth, the portion of Sec. 3 of the Bill which pertains to public reporting has provisions in it which may be unconstitutional. A primary tenant of our system of self-assessed tax is that the information reported shall remain confidential. The provision which would require a summary of each return filed to be made public should be stricken from the Bill. That portion is included in lines 2 - 9 of page 6.

Lastly, there appears to be a conflict between Sections 9 and 10 of the Bill. Section 9 implies that the Bill would be effective on 1-1-77 while Section 10 states that it is effective on 1-1-78. Does Section 10 mean that returns would be due after 1-1-78 on income earned in 1977? I would recommend that this be clarified.

GLJ:mh

Introduced: 1/31/77
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)

IN THE SENATE

SENATE BILL NO. 105

IN THE LEGISLATURE OF THE STATE OF ALASKA

TENTH LEGISLATURE - FIRST SESSION

A BILL

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

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

* Section 1. LESIGLATIVE 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 Multi-State Tax Compact (AS 43.19) and AS 43.20.065 does not fairly represent the extent of the business activities in this state of multi-state corporations engaged in the production and pipeline transportation of crude oil and natural gas in Alaska. The legislature therefore intends that the provisions of section 18 of article IV of the Multi-State Tax Compact (AS 43.19) which allow separate accounting of income shall be adopted for the determination of corporate income tax liability on income derived from the production and pipeline transportation of oil and gas and related activities. The legislature further intends that separate accounting shall result in the assessment of tax against multi-state corporations so that the tax paid by these corporations will be commensurate with the tax that would be paid by corporations owning and operating only the Alaskan assets of these multi-state corporations.

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

(f) For purposes of determining taxable income under (e) of this section that part of income of any corporation derived in Alaska from oil or natural gas production or the transportation of crude oil or natural gas by pipeline, including income from royalties on oil and gas production, shall, notwithstanding sec. 65 of this chapter, be determined by separate accounting in accordance with section 13 of article IV of the Multi-State Compact (AS 43.19.010) and secs. 12 - 14 of this chapter.

* Sec. 2. AS 43.20 is amended by adding new sections to read:

Sec. 43.20.012. DETERMINATION OF OIL AND NATURAL GAS PRODUCTION INCOME. (a) The determination of taxable income attributable to oil and natural gas production, as required under secs. 31(c) and (f) of this chapter, shall be based on a separate accounting of costs and revenues associated with the production.

(b) Gross revenue from oil and gas production shall be the well-head value as established for purposes of the oil and gas properties production tax, in accordance with the provisions of ch. 55 of this title.

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

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

(2) severance taxes actually paid;

(3) property taxes actually paid by the corporation taxpayer on the producing property and the facilities directly associated with it, including facilities for the gathering, treating and preparing of the oil or gas for shipment,

(4) the costs incurred by the corporation taxpayer in operating the oil or gas field, including the costs of gathering, treating and preparing the oil or gas for shipment, but net of any payments received for those services,

(5) depreciation on investments which are associated with the production, gathering, treating and preparing for shipment of the oil or gas, and which are located in or adjacent to the site of production, in-

cluding depreciation on capitalized interest, lease acquisition payments and property taxes paid before the commencement of production on the leasehold, facilities or investment associated with it;

(6) interest expense not capitalized and capitalizable, to the extent that it does not exceed a portion of total interest paid by the corporation, its subsidiaries and affiliates, determined by multiplying total interest paid by a fraction, the numerator of which is the book value of the corporation's fixed assets in and associated with the field, and the denominator of which is the book value of all fixed assets held by the corporation, its subsidiaries and affiliates;

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

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

Sec. 43.20.013. DETERMINATION OF CRUDE OIL AND NATURAL GAS PIPELINE TRANSPORTATION INCOME. (a) Except as provided in (b) and (c) of this section, annual taxable income from the pipeline transportation of crude oil in Alaska in interstate commerce in facilities devoted wholly to interstate commerce shall be eight per cent of the valuation of the pipeline facility as determined by or in accordance with principles established by the Interstate Commerce Commission (ICC).

(b) If no ICC valuation has been made of an interstate oil pipeline facility or if the oil pipeline facilities are engaged wholly or partially in intrastate commerce, net income shall be determined in accordance with regulations established by the Alaska Pipeline Commission under AS 4_.06.041. A tax return reporting this income shall be accompanied by a certification from the Alaska Pipeline Commission to the effect that to the best of the commission's knowledge and belief the income calculation has been made in accordance with the principles established in regulations adopted by the commission, or, if the income is not, in the opinion of the commission, reported in accordance with its regulations, then a statement to that effect, identifying the deficiencies in the report and, if possible, providing a reporting of the true and correct income.

(c) A corporation operating an oil pipeline facility engaged solely in interstate commerce may elect to have the taxable income from that facility determined in accordance with (b) of this section, rather than (a) of this section if it complies with all applicable regulations and orders of the Alaska Pipeline Commission concerning accounting methods and reports, and properly files all reports or other information required by Alaska Pipeline Commission regulations.

(d) A corporation's taxable income from the transportation of natural gas shall be determined for interstate natural gas pipelines in conformance with the reporting procedures established by the Federal Power Commission, and for intrastate pipelines in conformance with procedures established by the Alaska Public Utilities Commission. A tax return reporting income from the intrastate transportation of natural gas by pipeline shall be accompanied by a certification from the Alaska Public Utilities Commission to the effect that to the best of the commission's knowledge and belief the income calculation has been made in accordance with the principles established in regulations adopted by the commission, or, if the income is not, in the opinion of the commission, reported in accordance with its regulations, then a statement to that effect, identifying the deficiencies in the report and, if possible, providing a reporting of the true and correct income.

(e) The certifications of the Alaska Pipeline Commission and the Alaska Public Utilities Commission submitted in accordance with this section shall not prejudice any future action by the respective commission nor shall it prevent the respective commission from submitting a revised certification within three years of the due date of the tax return in support of which it was originally filed.

(f) Nothing in this section or in sec. 12 of this chapter shall limit a corporate taxpayer's right to appeal or the taxpayer remedies provided under ch. 5 of this title.

Sec. 43.20.014. DETERMINATION OF INCOME FROM OTHER ACTIVITIES OF CORPORATIONS ENGAGED IN OIL OR NATURAL GAS PRODUCTION OR TRANSPORTATION. Taxable income from activities other than oil or natural gas production or pipeline transportation shall be determined by subtracting the income as determined under secs. 12 and 13 of this chapter from the corporation's consolidated net income and applying the allocation formula required under the provisions of sec. 65 of this chapter, except that the property factor and the payroll factor shall be calculated without reference to payroll or property related to production or pipeline transportation activity the income from which is taxable in accordance with secs. 12 and 13 of this chapter.

Sec. 43.20.015. PUBLIC REPORTING. Notwithstanding the provisions of AS 43.05.230, 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 Alaska income tax paid by firms and individuals covered under this chapter, itemized deductions by category and the tax cost of these deductions. For purposes of this section, "tax cost" means the amount of revenue which the state would have collected had not a specific deduction been allowed. Also included in the report shall be a summary of each corporate tax return filed which shows income from the production of oil or natural gas, showing the total amount of oil and gas produced by or for each taxpayer, the taxable income of the corporation from production as reported in accordance with sec. 12 of this chapter, from pipeline transportation as reported in accordance with sec. 13 of this chapter, from other income allocated to the state under sec. 14 of this chapter, and the tax due.

* Sec. 4. AS 43.20.330 is amended by adding new subsections to read:

(f) Any person who improperly influences, or attempts to improperly influence, by means of payment or offer of payment or other valuable consideration, any state official in his determination of values and apportionments under this chapter shall be guilty of bribery and punishable under AS 11.30.040.

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

* Sec. 5. AS 42.06.140 is amended by adding a new paragraph to read:

(11) shall provide all reasonable assistance to the Department of Revenue in determining the net income from oil pipeline facilities.

* Sec. 6. AS 42.06 is amended by adding a new section to read:

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