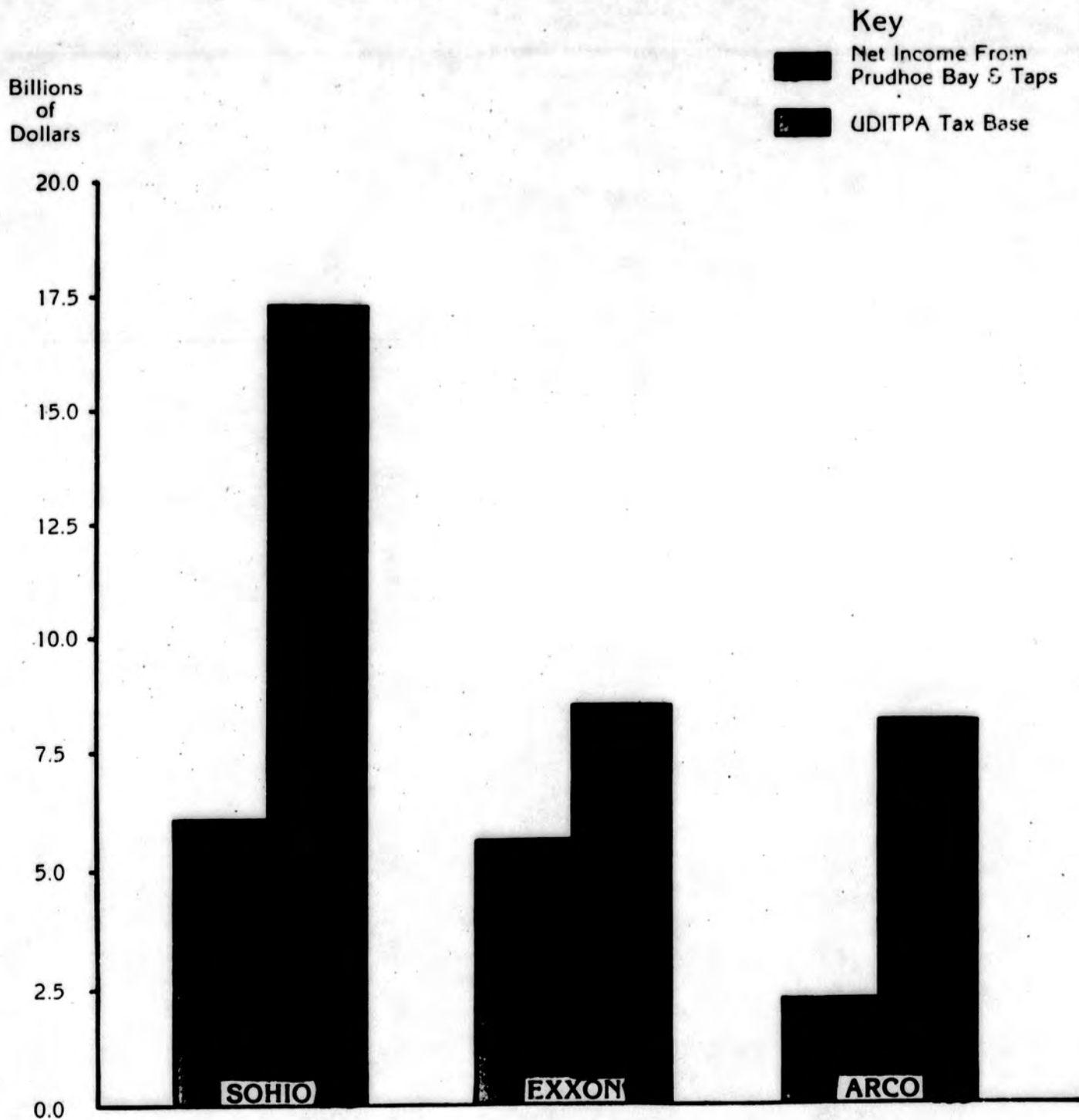


SCOMM

#46:5

# Net Income From Prudhoe Bay and Taps Compared With UDITPA Tax Base (Life of Field)



Source: Arthur Anderson Study, Exhibit VIII(a)(R. 2899)

# *League of Women Voters of Alaska*

April 18, 1985

Dear Representative:

You will soon have the opportunity to vote on House Joint Resolution 3. This adds Alaska to the growing list of states that have ratified the United States Constitutional amendment to grant voting representation in Congress to the residents of the District of Columbia. The League of Women Voters urges you to vote "yes."

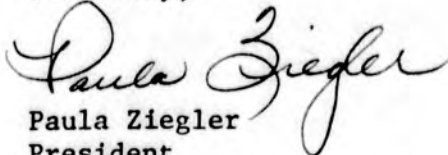
The United States has the dubious honor of being one of only two nations in the world that denies residents of its national capital the right to voting representation. (Brazil is the other.) As Alaska before 1959, District residents have all the responsibilities of American citizenship (taxpaying, military service, etc.) without the ability to have a voice in national legislative decision-making.

Changing this sad situation has long been a priority for members of the League. Whereas now federal laws apply "to residents of the several states and the District of Columbia," we would like to see the right to elect those who make the federal laws also apply "to residents of the several states and the District of Columbia."

For us, it is simply a matter of fairness; we hope you will see it that way, too.

Thank you.

Sincerely,



Paula Ziegler  
President

127 N. Franklin Apt. 909  
Juneau, Alaska 99811



collections. Moreover, certain retroactive refunds and credits for AS 43.21 tax years are still being processed.

4. Estimates of AS 43.20 taxes under a modified approach are based upon best available information.

5. The figures below reflect the most current information on the earnings and taxes collected by the State of Alaska under AS 43.21 and my best judgment on what would have accrued had AS 43.20, as presently amended, been in effect during the same period. These figures pertain only to the appellants in the above-captioned action, and do not consider either the AS 43.21 or possible AS 43.20 liability of other taxpayers.

6. The figures below are expressed in millions of current dollars and have been rounded to the nearest \$1 million.

7. Total net income subject to tax under AS 43.21 is:

<u>YEAR</u>	<u>AS 43.21 EARNINGS TAXED</u>
1978	\$ 1,588,000,000
1979	4,125,000,000
1980	7,637,000,000
1981	<u>7,617,000,000</u>
TOTAL	\$20,967,000,000

95%      623,000,000  
43.20      lost

1.4 bill  
↓  
426 mil  
1.826

8. Total AS 43.21 net collections to date:

<u>YEAR</u>	<u>AS 43.21 NET COLLECTIONS</u>
1978	\$ 148,000,000
1979	387,000,000
1980	648,000,000
1981	<u>838,000,000</u>
TOTAL	\$2,021,000,000

9. Estimated alternate tax liability under the AS 43.20 modified formula apportionment approach would be:

<u>YEAR</u>	<u>AS 43.20 ESTIMATED ALTERNATE TAX</u>
1978	\$ 66,000,000
1979	165,000,000
1980	216,000,000
1981	<u>176,000,000</u>
TOTAL	\$ 623,000,000

10. The net tax difference between AS 43.21 tax liabilities and estimated AS 43.20 tax liabilities is:

<u>YEAR</u>	<u>DIFFERENCE BETWEEN AS 43.21 AND AS 43.20 TAX LIABILITY</u>
1978	\$ 82,000,000
1979	222,000,000
1980	432,000,000
1981	<u>662,000,000</u>
TOTAL	\$1,398,000,000

HYPOTHETICAL TAXPAYER

STATE A  
(Manufacturing)

STATE B  
(Sales)

Cost of Production:	4	Transfer Value:	
\$4/unit		\$5/unit	
		6	
		Distribution and Marketing Costs:	Retail Sales Price:
		\$4/unit	\$10/unit

*Transfer*

Separate Accounting Income:  
(1000 units)

Gross income (transfer value X 1000)	= \$5,000
Cost of production (X 1000)	= \$4,000
<b>Net Income</b>	<b>= \$1,000</b>

Gross income (retail sales X 1000)	= \$10,000
Cost of goods (transfer X 1000)	= \$5,000
Cost of sales (X 1000)	= \$4,000
<b>Net Income</b>	<b>= \$1,000</b>

Total Corporate Net Income = \$2,000

*WELL HERE*

*RETURN*

Three Factor Formula Income:

(Formula assumptions: all property State A; 1/2 payroll each state; all sales State B)

Formula Income:
Property    Payroll    Sales
1/1            1/2            0
Factor average: 1/2
Net Income (1/2 X \$2,000) = \$1,000

Formula Income:
Property    Payroll    Sales
0            1/2            1/1
Factor average: 1/2
Net Income (1/2 X \$2,000) = \$1,000

*WELL HERE COST OF PRO*  
*COMPS ALL TOGETHER*

CHRONOLOGY

Income attribution rules for  
oil and gas producers for  
corporate income tax purposes

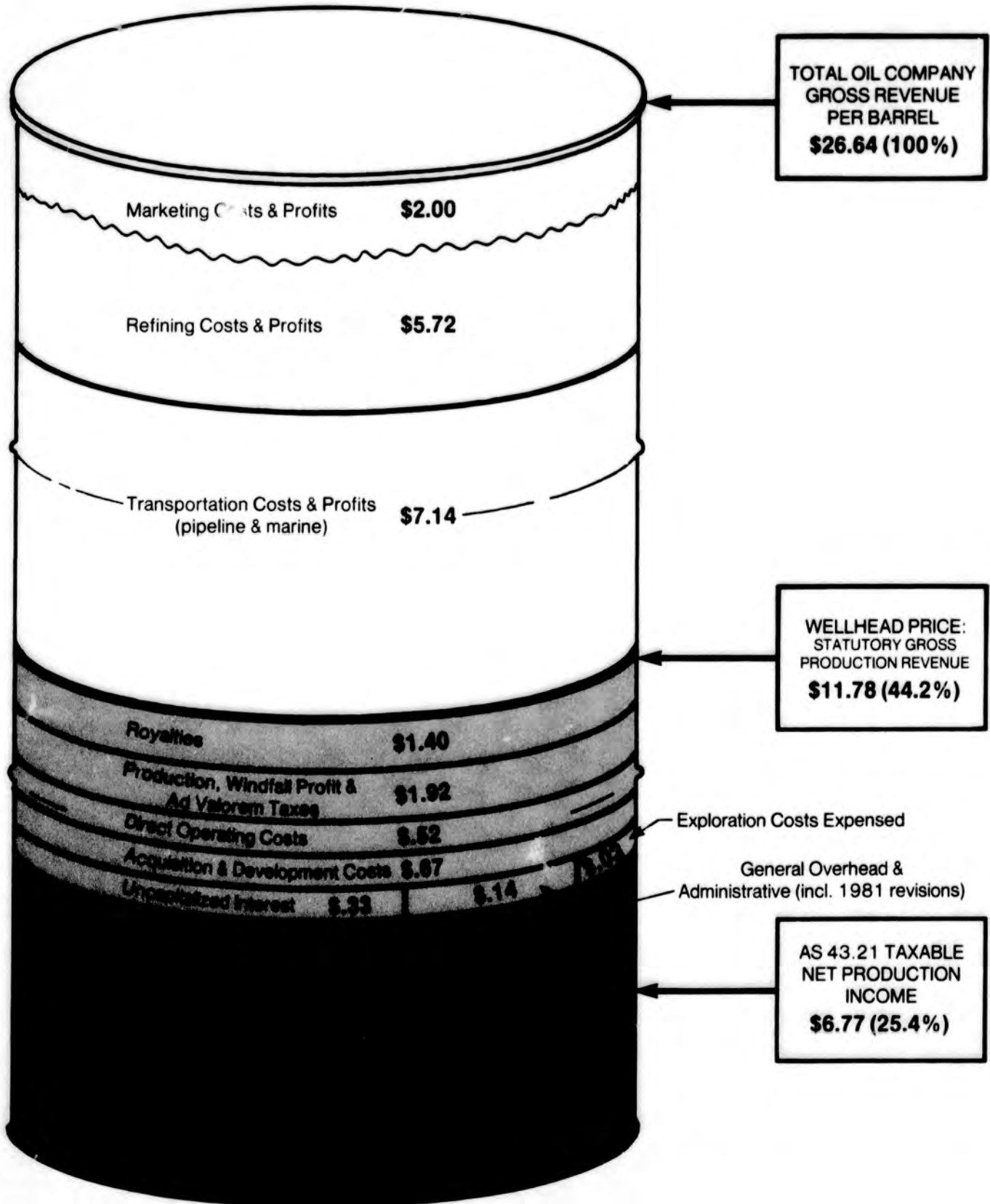
TAX YEARS	METHOD	DESCRIPTION
Territorial days through 1977	Formula apportionment	Three factor formula - "UDITPA" (Uniform Division of Income for Tax Purposes Act) AS 43.19/43.20
1978 - 1981	Separate accounting	Subject of lawsuit; AS 43.21
1982 - present	Modified formula apportionment	Two factor formula - uses property and extraction factors AS 43.20.072

## CHRONOLOGY

Income attribution rules for  
oil and gas producers for  
corporate income tax purposes

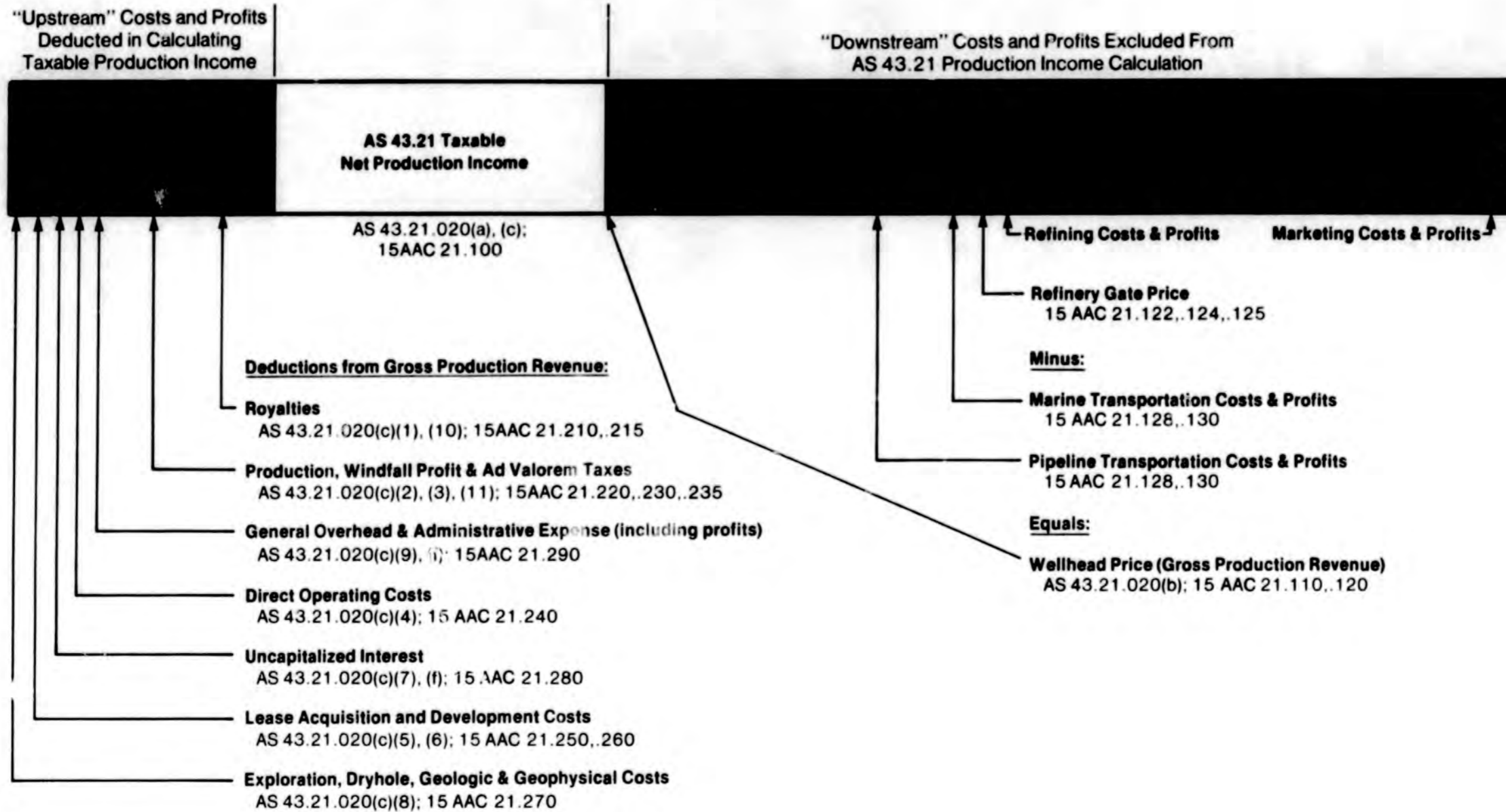
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1982 - present	Modified formula apportionment	Two factor formula - uses property and extraction factors AS 43.20.072

**ESTIMATED REVENUES AND COSTS  
PER BARREL OF ALASKAN CRUDE OIL  
1978 - 1980**



SOURCE: Deakin 2d Supplemental Affidavit \* 15.

**AS 43.21 TAXABLE NET PRODUCTION INCOME CALCULATION  
EXCLUDES ALL COSTS AND PROFITS OF UPSTREAM AND DOWNSTREAM ACTIVITIES**



**NOTE:** Segments of bar are proportioned by approximate values for these taxpayers for 1978 - 1980. SEE Deakin 2d Supplemental Affidavit ¶ 15.

OIL AND GAS CORPORATE INCOME TAX

Sec. 1, ch. 110, SLA 1978

\* 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. IV, sec. 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.

**Chapter 21. Oil and Gas Corporate Income Tax.**

Section	Section
10. Application	50. Assessment of income and tax
20. Determination of taxable income from oil and gas production	60. Returns
30. Determination of income from oil and gas pipeline transportation	70. Payment of tax
40. Determination of income from activities other than oil and gas production or pipeline transportation	80. Transitional rules
	90. Regulations
	100. Penalties
	110. Public reporting
	120. Definitions

**Chapter repealed effective January 1, 1982.** — Section 19, ch. 116, SLA 1981, repealed this chapter effective January 1, 1982.

**Editor's notes.** — As to legislative findings and intent, see § 1, ch. 110, SLA

1978, in the 1978 Temporary and Special Acts and Resolves.

Section 4, ch. 110, SLA 1978, provides: "This Act applies to taxable income earned or received after December 31, 1977."

**Sec. 43.21.010. Application [Repealed effective January 1, 1982].** AS 43.21.010 — 43.21.120 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 the state or from the pipeline transportation of oil or gas in the state. The tax calculated under AS 43.21.010 — 43.21.120 is measured by the total taxable income of the corporation during the tax period as determined under AS 43.21.020 — 43.21.040 and is calculated at the rates established under AS 43.20.011(e). (§ 3 ch 110 SLA 1978; am § 28 ch 113 SLA 1980; am § 6 ch 116 SLA 1981)

**Effect of amendments.** — The 1980 amendment retroactive to January 1, 1978, deleted "or directly associated with" following "a lease or property in" near the middle of the first sentence.

The 1981 amendment, retroactive to January 1, 1978, added "during the tax period" following "income of the corporation," substituted "determined under" for "defined in" preceding "AS 43.21.020 —

43.21.040" and substituted "calculated" for "determined" preceding "at the rates" in the second sentence.

**Editor's notes.** — Section 50, ch. 113, SLA 1980 makes this section applicable to tax years beginning after December 31, 1977.

Section 20, ch. 116, SLA 1981 provides that the 1981 amendment apply to tax years beginning after December 31, 1977.

**Sec. 43.21.020. Determination of taxable income from oil and gas production [Repealed effective January 1, 1982].** (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, but if a tariff properly on file with a regulatory agency is subsequently amended, changed, or overturned retroactively, the reasonable costs of transportation shall be recomputed for that period using the newly determined tariff.

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

- (1) royalties paid in kind or in value;
- (2) taxes imposed under AS 43.55.011 — 43.55.150 and AS 43.57.010 which are actually paid or incurred by the corporation on the production from a lease or property in the state;
- (3) taxes imposed under AS 43.56.010 — 43.56.210 and AS 29.53.010 — 29.53.460 which are actually paid or incurred 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 not 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 or incurred under AS 43.56.010 — 43.56.210 and AS 29.53.010 — 29.53.460 (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;

1.020

§ 43.21.020

REVENUE AND TAXATION

§ 43.21.020

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(7) interest expense of the corporation, not capitalized during construction, that was paid or incurred in connection with property in Alaska; however, unless (f) of this section applies, the interest expense may not exceed that portion of the total interest paid by the consolidated business of which the corporation is a part, determined by multiplying the total interest 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; in this subsection, "total interest paid by the consolidated business" does not include interest expense arising from intercompany obligations within the consolidated business except to the extent that the interest expense reflects a pass-through of interest on a third-party borrowing by the parent or other member of the consolidated business with the purpose, expressed at the time of the third-party borrowing, of financing Alaska business activity of the taxpayer corporation;

(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 deriving income from the production of oil or gas from a lease or property in the state to the extent, except as provided in (f) of this section, that it does not exceed 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;

(10) the amount of income from the production of oil and gas from a lease or property that is divided among the regional native corporations under sec. 7(i) of the Alaska Native Claims Settlement Act (P.L. 92-203);

(11) the tax imposed by sec. 4986 of the Internal Revenue Code that is paid or incurred by the taxpayer for oil production from leases or properties in the state.

(d) Deductions from gross income under this section shall not include expenses previously deducted on a return filed under AS 43.20.011 — 43.20.350.

(e) Where a corporation subject to AS 43.21.010 — 43.21.120 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.

(f) If a corporation demonstrates to the satisfaction of the department that it paid or incurred actual expenses for interest or for general overhead or administration attributable to deriving income from the production of oil or gas from a lease or property in the state in an amount greater than the amount determined under (c)(7) or (c)(9) of this section, the department may allow the corporation to deduct the greater amount. (§ 3 ch 110 SLA 1978; am § 29 ch 113 SLA 1980; am §§ 7, 8 ch 116 SLA 1981)

**Effect of amendments.** — The 1980 amendment retroactive to January 1, 1980, in paragraph (7) of subsection (c), inserted "of the corporation" and substituted "during construction" for "of the corporation", both near the beginning of the paragraph.

The 1981 amendment, retroactive to January 1, 1978, in subsection (c), added "or incurred" following "actually paid" in paragraphs (2) and (3), added "or incurred" following "taxes paid" in paragraph (6), and in paragraph (7), substituted "that was paid or incurred in connection with property in Alaska; however, unless (f) of this section applies, the interest expense may" for "to the extent that it does," deleted "(reduced by intercompany transactions within the consolidated business)" following "the total interest" and added the language beginning "in this subsection" and ending with "business activity of the taxpayer corporation." Additionally, in subsection (c), the amendment added "deriving income from" preceding "the production of," added "except as provided in (f) of this section" following "to the extent," deleted "the lesser of:" following "does not exceed," deleted subparagraph designation (A) and repealed subparagraph (B) which read "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" in paragraph (a). The amendment also added paragraphs (10) and (11) in subsection (c) and subsection (f).

**Editor's notes.** — Section 52, ch. 113, SLA 1980 makes this section applicable to tax years beginning after December 31, 1979.

Section 20, ch. 116, SLA 1981 provides that the 1981 amendment apply to tax years beginning after December 31, 1977.

Section 24, ch. 116, SLA 1981 provides: "If the method of determining taxable income under either AS 43.21.020 or AS 43.21.030 is held invalid by a final judgment of a court from which an appeal is not taken, and if as a result of that judgment a corporation, whether or not a party named in that judgment, receives a refund of taxes or estimated taxes paid under AS 43.21, then the provisions of AS 43.20, as amended in sec. 5 of this Act, apply to that corporation for the entire period for which it receives the refund."

Section 25, ch. 116, SLA 1981 provides: "Section 24 of this Act is retroactive to January 1, 1978, and applies to tax years beginning after December 31, 1977."

Section 26, ch. 116, SLA 1981 provides: "If sec. 25 of this Act is held invalid by a final judgment of a court from which an appeal is not taken, then sec. 24 of this Act is retroactive to January 1, 1979, and applies to tax years beginning after December 31, 1978."

Section 27, ch. 116, SLA 1981 provides: "If secs. 25 and 26 of this Act are held invalid by a final judgment of a court from which an appeal is not taken, then sec. 24 of this Act is retroactive to January 1, 1980, and applies to tax years beginning after December 21, 1979."

Section 28, ch. 116, SLA 1981, provides: "If secs. 25, 26 and 27 of this Act are held invalid by a final judgment of a court from which an appeal is not taken, then sec. 24 of this Act is retroactive to January 1, 1981, and applies to tax years beginning after December 31, 1980."

**Sec. 43.21.030. Determination of income from oil and gas pipeline transportation [Repealed effective January 1, 1982].** (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 Commission 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. (§ 3 ch 110 SLA 1978)

**Editor's notes.** — Section 24, ch. 116, SLA 1981 provides: "If the method of determining taxable income under either AS 43.21.020 or AS 43.21.030 is held invalid by a final judgment of a court from which an appeal is not taken, and if as a result of that judgment a corporation, whether or not a party named in that judgment, receives a refund of taxes or estimated taxes paid under AS 43.21, then the

provisions of AS 43.20, as amended in sec. 5 of this Act, apply to that corporation for the entire period for which it receives the refund."

Section 25, ch. 116, SLA 1981 provides: "Section 24 of this Act is retroactive to January 1, 1978, and applies to tax years beginning after December 31, 1977."

Section 26, ch. 116, SLA 1981 provides: "If sec. 25 of this Act is held invalid by a

final judgment of a court from which an appeal is not taken, then sec. 24 of this Act is retroactive to January 1, 1979, and applies to tax years beginning after December 31, 1978."

Section 27, ch. 116, SLA 1981 provides: "If secs. 25 and 26 of this Act are held invalid by a final judgment of a court from which an appeal is not taken, then sec. 24 of this Act is retroactive to January 1,

1980, and applies to tax years beginning after December 21, 1979."

Section 28, ch. 116, SLA 1981, provides: "If secs. 25, 26 and 27 of this Act are held invalid by a final judgment of a court from which an appeal is not taken, then sec. 24 of this Act is retroactive to January 1, 1981, and applies to tax years beginning after December 31, 1980."

**Sec. 43.21.040. Determination of income from activities other than oil and gas production or pipeline transportation [Repealed effective January 1, 1982].** (a) Taxable income of a corporation subject to AS 43.21.010 — 43.21.120 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) — (f) of this section.

(b) The total taxable income of the consolidated business is its entire income less the portion of that entire income attributable to worldwide production and pipeline transportation of oil and gas. In this section,

(1) for a member of a consolidated business who is required to file under the Internal Revenue Code, "entire income" means taxable income under Subtitle F and chapter 1 of Subtitle A of the Internal Revenue Code of 1954, as amended, except that those provisions adopted after December 31, 1975, which change or modify exemptions from tax are not adopted by reference as a part of this section until the second January 1 following the effective date of the federal law;

(2) for a member of a consolidated business who is not required to file under the Internal Revenue Code, "entire income" means book income, except that a taxpayer may elect to report his income as the income would be determined under (1) of this subsection.

(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) Repealed by § 17 ch 116 SLA 1981.

(e) Repealed by § 17 ch 116 SLA 1981.

(f) The value attributed to vessels transporting Alaskan oil or gas of the consolidated business which are not owned or effectively owned by the consolidated business shall be excluded from the property factor. (§ 3 ch 110 SLA 1978; am §§ 30 — 32 ch 113 SLA 1980; am §§ 9, 17 ch 116 SLA 1981)

**Effect of amendments.** — The 1980 amendment, retroactive to January 1, 1978, in subsection (a), substituted "(f)" for "(e)" near the end of the subsection, in former subsection (b), substituted "earnings and profits of the consolidated

business gained directly from oil and gas production and pipeline transportation" for "taxable income of the corporation as determined under AS 43.21.020 and 43.21.030" at the end of the subsection, and added subsection (f).

The 1981 amendment, retroactive to January 1, 1978, rewrote subsection (b) and repealed subsection (d) which read "Compensation earned by the 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 the base of operation maintained in this state" and repealed subsection (e) which read "The value of oil or gas production facilities or other properties of the consoli-

dated 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."

Editor's notes. — Section 50, ch. 113, SLA 1980 makes this section applicable to tax years beginning after December 31, 1977.

Chapter 1 of Subtitle A and Subtitle F of the Internal Revenue Code, referred to in subsection (b), are found in 26 U.S.C. § 1 et seq. and 26 U.S.C. § 6001 et seq.

Section 20, ch. 116, SLA 1981 provides that the 1981 amendment apply to tax years beginning after December 31, 1977.

**Sec. 43.21.050. Assessment of income and tax [Repealed effective January 1, 1982].** (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 AS 43.21.010 — 43.21.120 a notice of assessment showing the amount of income taxable under AS 43.21.010 — 43.21.120 for the previous year and the amount of tax payable on that taxable income.

(c) For purposes of AS 43.21.010 — 43.21.120 the department may combine taxable incomes of corporations subject to tax under AS 43.21.010 — 43.21.120 who are part of the same consolidated business.

(d) If the methods of allocation and apportionment provided in AS 43.21.010 — 43.21.120 do not fairly represent the extent of a corporation's business activity in the state, the corporation may petition for or the department may require, in respect to all or any part of the corporation's business activity, if reasonable, the employment of any method authorized under art. IV, sec. 18, of the Multistate Tax Compact (AS 43.19.010) to effectuate an equitable allocation and apportionment of the corporation's income. The commissioner shall include in his annual report required in AS 43.21.110 a report on all relief granted under this subsection, including for each case a statement of the changes in tax liability resulting from the granting of relief, the tax years involved, and a description of the method of determining taxable income that was substituted for those provided in AS 43.21.010 — 43.21.120. (§ 3 ch 110 SLA 1978; am § 10 ch 116 SLA 1981)

**Effect of amendments.** — The 1981 amendment, retroactive to January 1, 1978, added subsection (d).

**Editor's notes.** — Section 20, ch. 116,

SLA 1981 provides that the 1981 amendment apply to tax years beginning after December 31, 1977.

**Sec. 43.21.060. Returns [Repealed effective January 1, 1982].** On or before April 15 of each year, a corporation subject to tax under AS 43.21.010 — 43.21.120 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 AS 43.21.010 — 43.21.120, the department may require corporations subject to tax under AS 43.21.010 — 43.21.120 who are part of the same consolidated business to file a single return. (§ 3 ch 110 SLA 1978)

**Sec. 43.21.070. Payment of tax [Repealed effective January 1, 1982].** The tax levied under AS 43.21.010 — 43.21.120 is payable to the department on or before September 30 of each year or in installments, including prepayments of estimated tax, 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 AS 43.21.010 — 43.21.120 or any provision of AS 43.21.010 — 43.21.120 is challenged before the department or in the courts. (§ 3 ch 110 SLA 1978; am § 11 ch 116 SLA 1981)

**Effect of amendments.** — The 1981 amendment, retroactive to January 1, 1978, added "including prepayments of estimated tax" preceding "at the times and under the conditions" in the first sentence.

**Editor's notes.** — Section 20, ch. 116, SLA 1981 provides that the 1981 amendment apply to tax years beginning after December 31, 1977.

**Sec. 43.21.080. Transitional rules [Repealed effective January 1, 1982].** The department shall provide by regulation transition rules for corporations subject to tax under AS 43.20.011 — 43.20.350 before July 9, 1978 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 AS 43.21.010 — 43.21.120. (§ 3 ch 110 SLA 1978)

**Sec. 43.21.090. Regulations [Repealed effective January 1, 1982].** The department may adopt regulations in accordance with the Administrative Procedure Act (AS 44.62.010 — 44.62.650) as appropriate to administer and enforce AS 43.21.010 — 43.21.120. (§ 3 ch 110 SLA 1978)

**Sec. 43.21.100. Penalties [Repealed effective January 1, 1982].** The penalties established in AS 43.20.011 — 43.20.350 apply to AS 43.21.010 — 43.21.120. (§ 3 ch 110 SLA 1978)

**Sec. 43.21.110. Public reporting [Repealed effective January 1, 1982].** (a) The commissioner of revenue shall compile and transmit to the legislature an annual consolidated report of state revenues and taxation policies under AS 43.21.010 — 43.21.120. This report shall include total aggregate income tax paid by corporations covered under

AS 43.21.010 — 43.21.120 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 AS 43.21.010 — 43.21.120. (§ 3 ch 110 SLA 1978)

**Sec. 43.21.120. Definitions [Repealed effective January 1, 1982].** Unless the context requires otherwise the definitions contained in AS 43.55.140 are applicable to AS 43.21.010 — 43.21.120. In addition, in AS 43.21.010 — 43.21.120

(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 more than 50 percent 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. (§ 3 ch 110 SLA 1978; am § 33 ch 113 SLA 1980)

**Effect of amendments.** — The 1980 amendment, substituted "more than" for "at least" in paragraph (2).

SLA 1980 makes this section applicable to tax years beginning after December 31, 1977.

**Editor's notes.** — Section 50, ch. 113,

### Chapter 23. Permanent Fund Dividends.

Section	Section
10. Eligibility for permanent fund dividend	70. Exemption of permanent fund dividends
20. Proof of eligibility	80. Eligibility for state public assistance payments
30. Amount of dividend	90. Tax exemption
40. Penalties and enforcement	100. Definitions
50. Dividend fund established	
60. Duties of the department	

**Editor's notes.** — Section 1, ch. 21, SLA 1980, retroactive to January 1, 1979, provides: "POLICY, PURPOSES AND FINDINGS. (a) It is the duty and policy of the state with respect to the natural resources belonging to it and the income derived from those natural resources to provide for their use, development, and conservation for the maximum benefit of the people of the state.

(b) The purposes of this Act are

(1) to provide a mechanism for equitable distribution to the people of Alaska of at least a portion of the state's energy wealth derived from the development and

production of the natural resources belonging to them as Alaskans;

(2) to encourage persons to maintain their residence in Alaska and to reduce population turnover in the state; and

(3) to encourage increased awareness and involvement by the residents of the state in the management and expenditure of the Alaska permanent fund (art. IX, sec. 15, state constitution).

(c) The legislature finds that the accrual of permanent fund dividends provided in AS 43.23 [AS 43.23.010 — 43.23.100] enacted in sec. 2 of this Act, based on full years of residency since Jan-

Recent History of Alaska Corporation Net Income Tax  
Prepared by Audit Division  
March 13, 1985  
Alaska Department of Revenue

- I. 1975 through 1977 AS43.20.011(e)  
All corporations paid tax on net income derived from sources in the state. Tax rate equaled 5.4 percent plus a 4 percent surtax on income over the Federal surtax exemption. Oil companies were required to use worldwide combination using the unitary concept. All multistate taxpayers were required to use the standard three factor formula of property, payroll and sales.
- II. 1978 AS43.20.011(e)  
Regular corporations tax rates remained the same. The surtax exemption was set at \$50,000.
- 1978 AS43.21.010  
Companies deriving income from the production or pipeline transportation of crude oil or natural gas are to calculate net income under AS43.21 using separate accounting. Their tax rate remained the same as for regular corporations. The standard three factor formula remained in effect.
- III. 1981 AS43.20.011(e)  
The tax rates applicable to all corporations were revised and the surtax exemption eliminated. Progressive rates from 2 percent on income over \$10,000 to 11% on income over \$4 million was set.
- IV. 1982 AS43.20.011(e)  
Regular corporation's tax rates were revised slightly with a top tax rate of 9.4% for income exceeding \$90,000.
- 1982 AS43.20.072  
The separate accounting law at AS43.21 was repealed effective 12/31/81. AS43.20.072, applicable to oil and gas producers and pipeline companies was enacted bringing the companies back under combination and apportionment under the unitary concept. Special apportionment factors specifically for these groups were devised.

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HYPOTHETICAL TAXPAYER

STATE A  
(Manufacturing)

STATE B  
(Sales)

Cost of Production:  
\$4/unit

Transfer Value:  
\$5/unit

Distribution and  
Marketing Costs:  
\$4/unit

Retail Sales  
Price:  
\$10/unit

Separate Accounting Income:  
(1000 units)

Gross income (transfer  
value X 1000) = \$5,000  
Cost of production  
(X 1000) = \$4,000  
  
Net Income = \$1,000

Gross income (retail  
sales X 1000) = \$10,000  
Cost of goods  
(transfer X 1000) = \$5,000  
Cost of sales  
(X 1000) = \$4,000  
Net Income = \$1,000

Total Corporate Net Income = \$2,000

Three Factor Formula Income:

(Formula assumptions: all property State A; ½ payroll each state; all sales State B)

Formula Income:

Property Payroll Sales  
1/1 1/2 0  
Factor average: 1/2  
Net Income (1/2 X \$2,000) = \$1,000

Formula Income:

Property Payroll Sales  
0 1/2 1/1  
Factor average: 1/2  
Net Income (1/2 X \$2,000) = \$1,000