

ALASKA LEGISLATURE SPECIAL COMMITTEE / SUBJECT FILES 8672
1483 SCOMM 55: JNT. SPEC. COMM. ON STATE TAX POLICY, 1986-1987

1283

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

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

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

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

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

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

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

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

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

B. Production taxes.

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

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

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

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

10/ Ch. 40, SLA 1955.

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

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

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

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

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

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

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

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

15/ Id.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

21/ Ch. 110, SLA 1968.

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

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

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

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

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

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

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

"The stake of the people of Alaska goes up with the cost.

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

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

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

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

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

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

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

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

*Pattern
Industry
Change*

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

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

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

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

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

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

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

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

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

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

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

36/ Ch. 4, FSSLA 1973.

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

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

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

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

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

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

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

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

C. Ad Valorem Taxes.

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

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

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

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

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

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

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

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

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

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

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

"A vital change is that the legislation being proposed now will provide immediate revenues in the next few years, as the trans-Alaska pipeline is being constructed. You are all aware, I am sure, of the drain on our General Fund balance as our expenditures to meet the needs of Alaskans continue at approximately twice the rate of our recurring income. The near-term revenue that would be made available under the ad valorem tax on oil and gas property will help significantly to ease the pinch we might otherwise feel in the late 1970's. This tax is expected to bring in an estimated \$180 million even while pipeline construction is taking place and through the first year of production. After that, the ad valorem levy will produce upwards of \$100 million annually.

"...I personally feel that the above estimates are very conservative and that by the end of this decade, because of the tremendous activity which will take place in oil and gas exploration and production in Alaska, that [sic] a \$7 billion to \$9 billion estimated value of such properties is well within the bonds of likelihood." 46/

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

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

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

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

D. Corporate Income Tax and Gross Receipts Tax.

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

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

^{48/} AS 43.58.020 and -.030.

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

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

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

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

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

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

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

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

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

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

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

53/ Ch. 144, SLA 1978.

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

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

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

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

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

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

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

SOURCES AND FORMULAS --

Column [1]: Vincent Wright, chief of research, to Mary Nordale, Commissioner of Revenue, Memorandum of October 31, 1985, Table 3.

Columns [2] & [3]: January 1986 DOR Revenue Sources, p. 39.

Columns [4] to [12]: Vincent Wright, loc. cit.

Column [13]: sum of columns [2] through [12]

Column [14]: column [1] - column [13]

Column [15]: Revenue Sources, p. 39.

Column [16]: column [14] - column [15].

Column [17]: column [16] * (production-weighted average tax rate -- 1982 = .279; 1983 = .274; 1984 = .294; 1985 = .294). Company effective rates for '82-84 from R. McIntire and R. Folen, "Corporate Income Taxes in the Reagan Years," Oct. 1984, pp. 32-36; '85 estimated by OMB.

Column [18]: column [16] - column [17].

Column [19]: column [8] + column [17].

Column [20]: sum of columns [2], [3], [4], and [15].

Column [21]: (column [18])/(sum of columns [18], [19], and [20]).

Column [22]: (column [19])/(sum of columns [18], [19], and [20]).

Column [23]: (column [20])/(sum of columns [18], [19], and [20]).

**Office of Management and Budget
Division of Strategic Planning
revised April 11, 1986**

DRAFT COMPASS ARTICLE

OIL PROFITS

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

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

I guess I agree with ARCO on at least one point: These numbers are important. Alaska's taxes on the oil industry do need to be related to the profits being earned in Alaska. If the profits are as large as AkPIRG says, it strengthens the case for higher taxes; if profits are as small as ARCO claims, it weakens the argument. But the issue goes further than that: The AkPIRG findings--if valid--raise real questions about the credibility of what ARCO and other oil companies have been telling us since 1981.

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

A study that is only "plausible," however, is not adequate. What we need is an unbiased

analysis of oil profits attributable to Alaska production and pipeline operations, and we need it from a source of unquestioned credibility, someone beholden neither to oil company or state. How could we possibly achieve this? My suggestion is that the Alaska Board of Public Accountancy conduct such a study using a recognized expert on the accounting faculty of a major university. The legislature and ARCO should share the costs but otherwise keep hands-off.

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

Mary Ellen Frank

TABLE 1
PERCENTAGE SHARES OF AGGREGATE MONEY INCOME (1)

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

(1) SOURCE: THE ECONOMIC OF PUBLIC FINANCE, BREAK ET AL, P 120.

(2) INCLUDES INTEREST INCOME, DIVEDENDS, RENTS, ROYALTIES AND INCOME FROM TRUSTS AND ESTATES.

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

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

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

3. Percentage Distribution, By Type of Tax

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

(continued on next page)

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

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

est.--estimated

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

Table 4
A Comparison of Selected State Taxes

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

A Comparison of Selected State Taxes

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

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

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

(3) Rate is 20% of wholesale price.

C.B. Control Board State

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

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

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

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

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

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HISTORICAL REVIEW OF ALASKA PETROLEUM TAXES

-- 1955 - 1978 --

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The decade 1967 to 1973 was one of intense conflict between Alaska state policymakers and the petroleum industry. It was a period of great policy instability and change. The intensity of the issue at times took on more the complexion of policy "warfare," with the state and its petroleum partners quarreling severely over the division of their respective partnership profit shares. The warfare of the period saw both sides make generous use of whatever political weapons they could as they bid to win the public's support to their side.

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

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

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

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

CURRENT STABILITY:

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

ROYALTY AND TAXES

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

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

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

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

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

THE BEGINNINGS OF POLICY: 1955

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

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

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

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

1st enactment
The legislation created an Alaska Oil and Gas Conservation Commission, attached to the Department of Mines, with the commission made up of the Governor, Commissioner of Highways, and the Commissioner of Mines. The legislation was largely seen as conservation management legislation, but did set a one percent tax on oil and gas production. The bill passed the House on the 29th day without a dissenting vote, and only 15-days later passed the Senate without a dissenting vote to become Chapter 41 of 1955.

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

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

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

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

STATEHOOD AND ROYALTIES

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

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

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

BEGINNING OIL FLOW IN THE 1960s

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

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

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

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

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

CLIMATE OF THE MID-1960s

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

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

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

OIL TAX ISSUES 1965-66

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

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

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

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

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

OIL TAX ISSUES 1967-'68

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

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

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

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

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

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

2nd time
SB-399 increased the severance tax from one percent to three percent, but on top of the state's 1967 disaster tax, the total tax would become a combined 4 percent on oil production. The bill passed the Senate after efforts to amend by a 14 to 6 vote. In the House the bill did not draw any "rave" recommendations, coming out of House Finance Committee with three "do not pass" recommendations, three "no" recommendations, and only one "do pass." The bill survived attempts to amend by exempting oil processed by Alaska utilities, and to exempt the northern leasing district (the North Slope). Ultimately SB-399 passed the House 32-8, and the legislature had set major oil tax policy for the first time since actual oil discovery (and for the first time since 1955).

A TAX GEARED TO COOK INLET

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

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

The new taxes riding on the increasing production of Cook Inlet jumped severance taxes in the first year from \$1.9-million to \$5.6-million, and then to \$7.9-million and \$10.4-million in the next two years.

Royalty income still represented the lions share of the state's petroleum revenue. However, in the late 1960s another key revenue shift was taking

place. Up until 1968 the preponderance of state petroleum revenue came from the federal royalties of which the federal government provided a 90% share to the state. Beginning in 1968 state royalty earnings from

state lands surpassed federal earnings and with increasing Cook Inlet production by 1969 doubled the federal royalty contribution. In 1969,

when lawmakers were planning the 1970 state budget, they were looking

at severance tax income of approximately \$8-million, federal receipts of approximately \$8-million, and royalty income from state lands of almost \$19-million.

However, the new sources of non-bonus income also fueled increases

in state spending in the late 1960s. Concerned about dependence on bonus payments lawmakers had held the budget between \$70-million and \$93-million in fiscal 1963, 1964, 1965, and 1967. In 1967 lawmakers drafted the 1968 budget which broke the \$100-Million Mark (\$103-million), but bolstered by rising royalty and oil tax revenue the budget jumped to \$124-million in general fund outlay for fiscal 1969, and in the year prior

to the Prudhoe Bay discovery jumped from \$124-million to \$154-million (a 50% increase in two years). In 1970 in the wake of the \$900-million

lease sale held in late 1969 for unleased tracts at Prudhoe Bay, the state would make the bid budget jump for fiscal 1971 to \$314-million.

1968: DECADE OF PETROLEUM TAX ISSUES

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

1969: PRUDHOE BAY AND POLICY

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

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

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

Four to five more federal offerings prior to the land freeze in 1966. Companies Sinclair, British Petroleum, Richfield, and others, and they left a string of dry holes northward.

In 1964 the state leased most of its opened up the coastal zone to the exploration brought \$5.6-million and \$6.1-million respectively for what was to become some of the best in America. The state sold a small amount of Prudhoe Bay in 1967 for \$1.4-million (\$35 an acre) which was essentially what "was left" at Prudhoe Bay. Nor, was the 1969 acreage being that those lands did not draw sizable bids from holders at Prudhoe Bay who had access to the same terms, the the main Prudhoe operators won the lease for just a few dollars an acre in 1964 and the 1969 tracts were no where worth the money. They had only marginal geologic information.

North Slope area were Oil, and in their way

Prudhoe Bay, which The sales price was \$5 and \$6 per acre in North Slope at Prudhoe Bay in 1969, 2,218, 590, or the evidence of an existing lease agreement. In other words placed great many of the companies who

The Prudhoe Bay discovery took place in 1968, just prior to a new legislature coming into session. The discovery would define the great magnitude of success which would not come until later in 1969.

THE 1969 SESSION

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

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

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

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

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

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

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

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

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

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

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

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

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

THE 1972 OIL TAX AND REGULATORY PACKAGE

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

They were:

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- (1) CENTS PER BARREL SEVERANCE TAX (FCCHB-168), establishing a cents-per-barrel tax floor to be triggered by a falling percentage of value yield. Both the value and fixed fee rates were tied to well productivity with a variable schedule.
 - (2) RIGHT-OF-WAY LEASING ACT (CSSB-294), providing conditions for right of way leasing. Allows addition of "soft benefits" in state leases as a "contractual" obligation.
 - (3) PIPELINE REGULATION ACT (CSSB-314), permitting state regulation assertion, as per the present Alyeska tariff disputes, etc.
 - (4) ALASKA LOCAL HIRE ACT (CSHB-726), requiring Alaska resident hire as a provision of leasing.
 - (5) BRISTOL BAY LEASE BAN (SB-2am), banning oil and gas leasing in the submerged areas of Bristol Bay.
 - (6) CRITICAL HABITAT AREAS (CSHB-614), allowing the establishment of certain areas to be regulated with special restrictions as critical habitat areas.

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

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

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

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

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

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

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

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

SPECIAL SESSION-1973

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

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

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

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

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

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

THE 1975-1975 LEGISLATURE

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

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

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

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

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

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

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

- (1) A pure 20-mill tax levied for two years with no provision for industry recovery. This option was most favorable to the state.
- (2) A provision under a 20-mill approach termed "royalty credit," under which the state temporarily sold its royalty oil to SOHIO, this allowing the "oil" (in return for tax payment) to be reflected as an asset (and not a tax liability wiping out profits). This approach was most favorable to industry.
- (3) A middle-ground approach allowing imposition of the tax with a provision for a future "credit" against the payment of production taxes. This allowed SOHIO enough flexibility to meet legal requirements.

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

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

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

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

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

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

NATURAL GAS PRODUCTION TAXATION

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

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

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

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

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

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

1976 OIL LEGISLATION

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

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

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

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

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

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

THE 1977 SEVERANCE TAX

9m In 1977 oil tax issues were back in the legislative forefront, but this time increased severance taxes and the corporate tax legislation were pushed both by legislative leaders and by gubernatorial sponsorship. In the past advocacy of increased petroleum taxation had come primarily from the legislature, the exceptions being Administration support for the one percent disaster tax in the Special Session of 1967 and the 20-mill pipeline tax introduced by the Governor in the 1973 Special Session on oil regulatory legislation.

The 1977 law brought gas taxation up to 10% as previously described, and imposed a 12.25% value tax on oil or a conversion to .60¢ per barrel.

However, the legislation developed a sophisticated approach to the more marginal field by applying a so-called ELF factor (Economic Limit Factor) to leases of low productivity.

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

THE 1978 OIL CORPORATE INCOME TAX

In 1978 the Alaska Legislature came to grips with the issue of creating a special corporate income tax to apply to the petroleum industry.

The issue is complex and its details perhaps not of importance to the theme of this report, but the issue was driven along politically by the allegation that the petroleum industry was unfairly able to escape an equitable application of the state's regular corporate income tax law.

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

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

1979 AND TAX ISSUES OF A DECADE

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

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

estimated 60 petroleum related policy bills passed the legislature in the years 1967 to 1978.

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

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

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

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

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

BACKGROUND INFORMATION ON CONTEMPORARY TAX ISSUES

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

Non-Petroleum Taxes

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

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

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

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

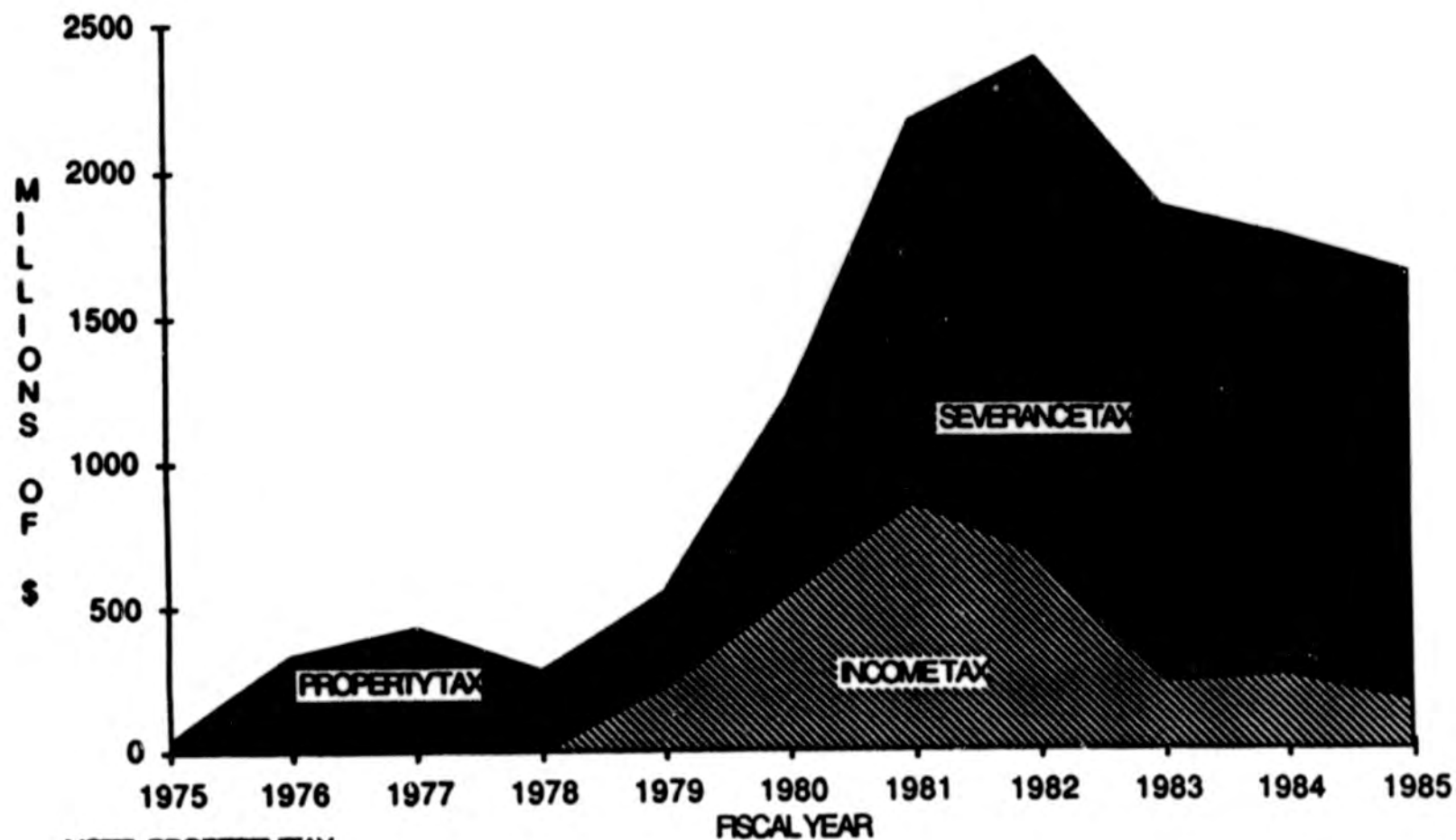
mostly came from fish processing and large corporate businesses.

Petroleum Taxes

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

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

ALASKA'S OIL TAX TRIAD



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

SOURCE: DOR

OMB: JULY 30, 1985

Severance Tax

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

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

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

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

Property Tax

The value of oil company personal property was adopted as a tax base by the 1973 special session. Local governments had always been able to tax these assets, but much of the oil development was expected to fall outside the cities and boroughs (existing

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at the time). The so-called "hardware tax" established a statewide, state-assessed 20 mill tax on oil related personal property. Unlike other oil taxes, receipts from this levy are largely unaffected by changes in oil prices or production levels.

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

Corporate Income Tax

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

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

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

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

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

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

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

Recent Developments

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

Two House committees - the Oil and Gas Committee headed by Representative Mike Davis, and a subcommittee of the Finance Committee headed by Sam Cotten - were planning to work on the oil tax issue over the interim. So far, however, not much has been heard from either on the issue, as both have focused on the pending TAPS tariff settlement and a recent FERC decision

affecting that case. It is not clear what effort either committee may make on oil taxation this fall.

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

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

Non-Petroleum Tax Issues

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

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

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

Alaska Department of Revenue

Various Tax Types, Statutes, Rates, Incidence

1985

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

A Comparison of Selected State Taxes

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

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Montana	X	6.75	No Tax	15.0	16.0	C.B.
Nebraska	X	6.65	X	14.7	18.0	2.75
Nevada	No Tax	No Tax	X	12.0	15.0	2.05
New Hampshire	X	8.0	No Tax	14.0	17.0	C.B.
New Jersey	X	9.0	X	8.0	25.0	2.80
New Mexico	X	7.2	X	11.0	12.0	3.94
New York	X	10.0	X	8.0	21.0	4.09
North Carolina	X	6.0	X	12.25	2.0	C.B.
North Dakota	X	10.5	X	13.0	18.0	4.05
Ohio	X	9.2	X	12.0	14.0	C.B.
Oklahoma	X	4.0	X	9.0	18.0	5.00
Oregon	X	7.5	No Tax	9.0	19.0	C.B.
Pennsylvania	X	9.5	X	12.0	18.0	C.B.
Rhode Island	X	8.0	X	13.0	23.0	2.50
South Carolina	X	6.0	X	13.0	7.0	4.91
South Dakota	No Tax	No Tax	X	13.0	15.0	3.80
Tennessee	X	6.0	X	10.0	13.0	4.00
Texas	No Tax	No Tax	X	10.0	19.5	2.40
Utah	X	5.0	X	14.0	12.0	C.B.
Vermont	X	9.0	X	13.0	17.0	C.B.
Virginia	X	6.0	X	13.72	2.5	C.B.
Washington	No Tax	No Tax	X	18.0	23.0	C.B.
West Virginia	X	7.0	X	15.35	17.0	C.B.
Wisconsin	X	7.9	X	16.0	25.0	3.25
Wyoming	No Tax	No Tax	X	8.0	8.0	C.B.

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

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

(3) Rate is 20% of wholesale price.

C.B. Control Board State

CORRECTION

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

Alaska Department of Revenue

Various Tax Types, Statutes, Rates, Incidence

1985

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

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

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Colorado	X	5.0	X	12.0	15.0	2.28
Connecticut	X	11.5	X	15.0	26.0	3.00
Delaware	X	8.7	No Tax	11.0	14.0	2.25
District of Columbia	X	9.9	X	15.5	13.0	1.50
Florida	No Tax	5.0	X	9.7	21.0	6.50
Georgia	X	6.0	X	7.5	12.0	3.79
Hawaii	X	6.435	X	8.5	24.0	(3)
Idaho	X	7.7	X	14.5	9.1	C.B.
Illinois	X	4.0	X	12.0	12.0	2.00
Indiana	X	3.0	X	11.1	10.5	2.68
Iowa	X	12.0	X	13.0	18.0	C.B.
Kansas	X	6.75	X	11.0	16.0	2.50
Kentucky	X	6.0	X	10.0	3.0	1.92
Louisiana	X	8.0	X	16.0	16.0	2.50
Maine	X	8.93	X	14.0	20.0	C.B.
Maryland	X	7.0	X	13.5	13.0	1.50
Massachusetts	X	8.33	X	11.0	26.0	4.05
Michigan	X	2.35	X	15.0	21.0	C.B.
Minnesota	X	12.0	X	17.0	18.0	4.39
Mississippi	X	5.0	X	9.0	11.0	2.50
Missouri	X	5.0	X	7.0	13.0	2.00