Alaska must do a thorough, independent review of the oil tax regime

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In a time when all Alaskans must suck it up and face a reinstatement of an income tax, it is also a time to do a thorough review of the appropriate tax structure for oil and gas.

The oil industry can't be blamed for avoiding taxes. It's the American way. But if the Alaskan public is not to be spun around a cylinder on a spiral ridge by artful corporate tax dodgers, the technically educated in the state government and their community colleagues had better pencil down hard.

The moment is in the realization that the current model for state financial survival won't work, as we have lately been reminded by the powerful credit-rating agency Moody's. The governor's conference on the fiscal situation earlier this summer in Fairbanks left the same impression, though it went easy on the variable role of oil taxes. Perhaps the conferees were more accepting of the notion, beloved by the Big Three (ConocoPhillips, BP and Exxon Mobil), that the voters' narrow rejection of the referendum proposing to repeal SB 21, the bill which established the current tax regime, ended all discussion of the oil revenue contribution.

Even if you accepted the notion that a bill passed only by the votes of legislators who were also oil company employees didn't need a new look; even if you were not bothered by the enormous sums that were spent by the Big Three, directly and indirectly on advertising, much of it misleading, to assure the defeat of the referendum, new evidence should change your mind. Recent information reveals that the production and discovery rebates of the bill have already taken hundreds of millions from state revenue with no showing of a state benefit. Surely this requires a new look at the whole oil tax situation.

Of course the industry giants are filing state tax returns. Is the state working a prompt, thorough audit? Unlikely. Human resource talent for these jobs is scarce. State audit budgeting is tight – hmmm. On the other side, fiddling with returns to minimize taxes, also very American, employs many accountants.

The record of the industry for avoiding Alaska’s taxes actually due is phenomenal. Many billions of dollars have had to be recovered by the state in annual audit demands and litigation, mostly settled, but when did an oil company settle without thinking it was getting a better deal than the judge would give it?

In a time when the rest of us are being asked to scrape up new revenues out of service cuts and to spend savings, surely many factors suggest a fresh look at oil taxation. Prudhoe Bay and neighboring fields are still surprisingly profitable to the Big Three as indicated in reports required to be filed with the federal Securities Exchange Commission. Those that can spread their profit sources add a chunk from enhanced pipeline profits, another from shipping and another from refining. We want them to profit, but as the Alaska Constitution states, the development should be “for the maximum benefit of the people.” That means that the profit must be reasonable under the circumstances.

“Reasonable” is a pretty flexible word. Higher profits make sense if there is a high-risk investment. If the state assumes a big chunk of that risk, then a high profit margin makes less sense. Established fields, with known or easily predictable levels of production (with all costs deductible) do not require a high-profit, low-tax regime. If a buck’s to be made, the oil will be produced. If it takes more investment to maximize production, those costs are largely deductible. The oil will still be produced though there is an argument that new costs deserve an extra profit reflecting the time value of the extra money required to be invested.

Yes, the calculation of a fair profit is more complicated than that, and the calculation is variable depending on specific ground conditions. But the state's problem is that it has not recently made an attempt to make the calculation. In a time when all Alaskans must suck it up and face a reinstatement of an income tax, (deductible, as are oil taxes, from the federal tax of course), it is also a time to do a thorough review of the appropriate tax structure for oil and gas.

John Havelock, *as the state's attorney general, negotiated a new tax regime with the major oil companies in a 1973 special session.*

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