

Crude Oil Windfall Profit Tax, 1981

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For the first time since the enactment of the windfall profit tax, quarterly liability per barrel has significantly decreased. The average windfall profit tax dropped from \$9.94 per barrel in the second quarter of 1981 to \$8.55 for the third quarter, a decrease of almost 14 percent.

This excise tax is generally levied on the "windfall profit" generated by the phased decontrol of oil prices. The windfall profit tax base is the removal price per barrel (generally the price the oil is sold for) less the adjusted base price (a set base price adjusted by a quarterly inflation factor) and the State severance tax adjustment.

The windfall profit, and therefore the windfall profit tax liability, fluctuates largely with changes in oil prices. These fluctuations have been especially apparent since the full decontrol of oil in January 1981. For the second quarter of 1981, the removal price rose 11 percent over the last quarter of 1980, the adjusted base price remained about the same, and the tax rose 43 percent. In contrast, the removal price dropped by almost \$2.00 per barrel from the second to the third quarter of 1981, a result of the excess supply of crude oil. Since the adjusted base price increased at the same time, the result was a significant decrease in the profit and tax.

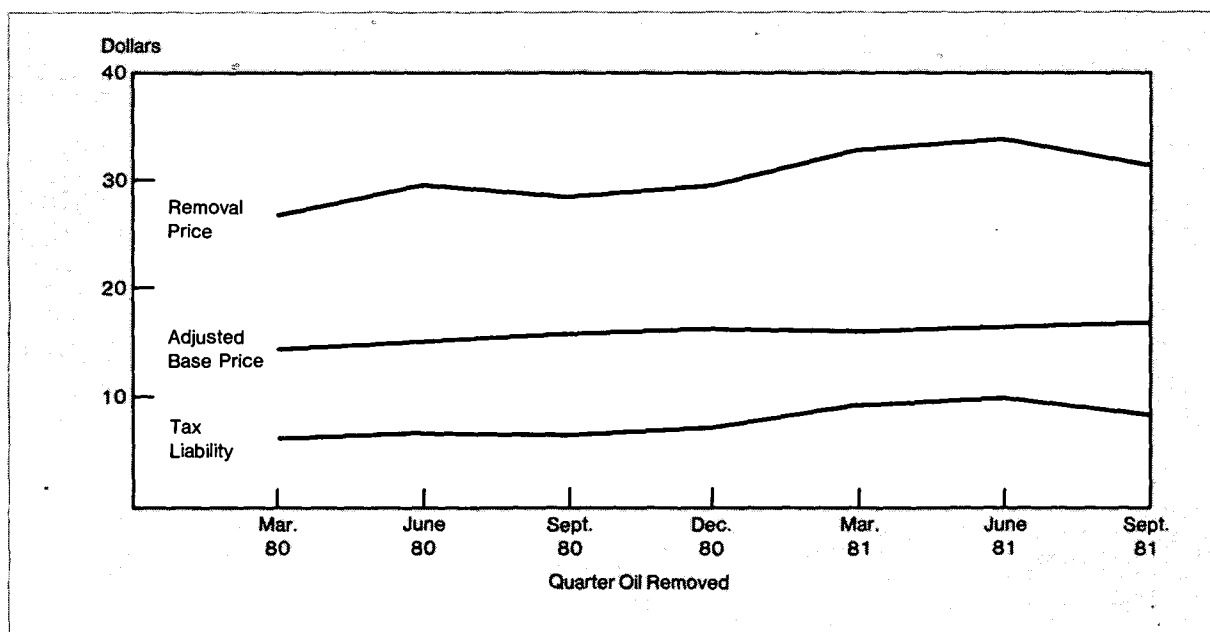
The windfall profit tax liability is also affected by adjustments made by the withholding agent. These adjustments can result from under- or over-withholding or the net income limitation. Should any of these occur, the depositing or withholding agent is

responsible for correcting the error, to the extent possible, by adjusting the amounts withheld in succeeding quarters. These adjustments may be positive or negative. For example, for the quarter ending in March 1981, total reported tax liability before adjustments was \$7.0 billion. However, adjustments had a net positive effect and liability after adjustments rose to \$7.2 billion. These positive adjustments were largely due to 1980 year-end account balancing by withholding agents. In June 1981, the tax liability before adjustment rose to \$7.2 billion; however, after adjustments, it amounted to somewhat less, \$7.1 billion. Below is a summary of windfall profit tax liability and adjustments by quarter since the inception of the tax.

Windfall Profit Tax After Adjustments
(Millions)

<u>Quarter Ending</u>	<u>Tax Before Adjustments</u>	<u>Adjustments</u>	<u>Tax After Adjustments</u>
Total	\$31,511	\$-1,152	\$30,359
Mar. 1980	788	-	788
June 1980	2,842	-21	2,821
Sept. 1980	3,413	-88	3,325
Dec. 1980	3,918	-927	2,991
Mar. 1981	6,953	+242	7,195
June 1981	7,253	-107	7,146
Sept. 1981	6,344	-251	6,093

Components of Windfall Profit Tax Liability: Averages per Barrel by Quarter Oil Removed



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Table 1.--Windfall Profit Tax Liability by Oil Tier and Tax Rate for the Quarter Ending September 1981, Aggregate Components of Windfall Profit

[Money amounts are in thousands of dollars]

Oil tier and tax rate	Tax liability before adjustments, quarter ended September 30, 1981	Returns with components of windfall profit ¹					
		Number of barrels of oil (000's)	Removal value	Adjusted base value	State severance tax adjustment	Windfall profit	Tax liability before adjustments
	(1)	(2)	(3)	(4)	(5)	(6)	(7)
All returns, total.....	6,343,667	686,198	21,401,446	11,060,854	588,232	9,752,366	5,867,552
Returns with tax liability shown by oil tier and tax rate, total	5,901,700	686,198	21,401,446	11,060,854	588,232	9,752,366	5,867,552
Tier one, other than Sadlerochit oil:							
Taxed at 70 percent.....	3,969,307	325,002	10,737,351	4,812,695	272,236	5,652,420	3,956,694
Taxed at 50 percent.....	278,977	30,363	1,037,844	461,062	33,732	543,050	271,523
Tier one, Sadlerochit oil:							
Taxed at 70 percent.....	562,692	118,971	2,711,411	1,767,777	139,787	803,847	562,692
Taxed at 50 percent.....	163	57	1,237	852	57	328	163
Tier two oil:							
Taxed at 60 percent.....	505,170	57,069	1,899,923	1,021,876	42,520	835,527	501,315
Taxed at 30 percent.....	164,453	35,566	1,191,014	631,721	25,055	534,238	160,273
Tier three oil (taxed at 30 percent):							
Newly discovered oil.....	318,763	81,559	2,826,747	1,716,044	67,058	1,043,645	313,095
Incremental tertiary oil....	17,377	4,453	153,232	92,015	3,481	57,736	17,321
Heavy oil.....	84,790	33,155	842,684	556,808	4,301	281,575	84,472
Total returns with components not shown.....	441,967	-	-	-	-	-	-

¹Represents 90 percent of all returns tabulated and 92 percent of the liability.

NOTE: Detail may not add to total because of rounding.

Table 2.--Windfall Profit Tax Liability by Oil Tier and Tax Rate for the Quarter Ending September 1981, Components of Windfall Profit, Average Dollars per Barrel

Oil tier and tax rate	Returns with components of windfall profit				
	Removal price	Adjusted base price	State severance tax adjustment	Windfall profit	Tax liability before adjustments
	(1)	(2)	(3)	(4)	(5)
All returns, total.....	31.19	16.12	0.86	14.21	8.55
Tier one, other than Sadlerochit oil:					
Taxed at 70 percent.....	33.03	14.80	0.84	17.39	12.17
Taxed at 50 percent.....	34.18	15.18	1.11	17.89	8.95
Tier one, Sadlerochit oil:					
Taxed at 70 percent.....	22.79	14.86	1.17	6.76	4.73
Taxed at 50 percent.....	21.49	14.80	0.99	5.70	2.85
Tier two oil:					
Taxed at 60 percent.....	33.29	17.90	0.75	14.64	8.78
Taxed at 30 percent.....	33.49	17.76	0.70	15.03	4.51
Tier three oil (taxed at 30 percent):					
Newly discovered oil.....	34.66	21.04	0.82	12.80	3.84
Incremental tertiary oil.....	34.40	20.66	0.78	12.96	3.89
Heavy oil.....	25.41	16.79	0.13	8.49	2.55

Table 3.--Exempt Oil Volume by Tier and Category, Quarter Ending September 1981
[Barrels]

	Total	Tier one	Tier two	Tier three		
				Newly discovered oil	Incremental tertiary oil	Heavy oil
	(1)	(2)	(3)	(4)	(5)	(6)
Total.....	19,520,560	14,478,350	3,178,642	1,496,388	176,923	190,256
Exempt governmental interest.....	17,292,863	13,325,208	2,495,898	1,192,847	125,381	153,528
Exempt charitable interest.....	934,035	468,513	264,782	142,259	51,152	7,328
Exempt Indian oil.....	1,143,300	591,933	407,138	137,519	137	6,571
Exempt Alaskan oil.....	342	-	-	342	-	-
Exempt front-end oil.....	150,019	92,655	10,822	23,420	253	22,829

NOTE: Detail may not add to total because of rounding.

DEFINITIONS

Brief definitions of the terms used in these tables are given below.

Adjusted Base Price.--For tier one and tier two oil it is the base price multiplied by the inflation adjustment, which is derived from the "implicit price deflator" published by the Department of Commerce. For tier three oil the implicit price deflator is increased by an additional 2 percent.

Adjustments to Liability.--Corrections applied to the current quarter's liability in order to correct over- and under-withholding in previous quarters.

Base Price.--For tier one oil, the upper tier ceiling price, as defined by Department of Energy price control regulations, which would have applied to the oil had it been produced and sold in May 1979, reduced by 21 cents. For tier two and three oil, the base prices were \$15.20 and \$16.55, respectively, adjusted for grade and quality.

Crude Oil.--The term applies only to natural crude petroleum and does not include synthetic petroleum, such as oil from shale or tar sands. It does, however, include natural gas liquids treated as crude oil under the June 1979 energy pricing regulations issued by the Department of Energy.

Exempt Alaskan Oil.--Oil from a reservoir other than the Sadlerochit reservoir that has been commercially exploited by any well north of the Arctic Circle; and oil produced north of the Alaska-Aleutian Range, and at least 75 miles from the nearest point of the Trans-Alaska Pipeline System.

Exempt Charitable Oil.--Oil produced from economic interests held by charitable medical facilities and educational institutions (as defined in Internal Revenue Code section 170), if such interest was held on January 21, 1980, and at all times thereafter; and oil produced from interests held by a church on January 21, 1980, if, prior to January 22, 1980, the net proceeds of such oil were dedicated to the support of a medical facility or educational institution.

Exempt Front-End Oil.--Certain oil that the Department of Energy deregulates to be used to finance a tertiary recovery project (see Tier Three Oil, Incremental Tertiary Oil). This category of oil is not in existence due to the deregulation of all domestic oil after January 28, 1981.

Exempt Governmental Oil.--Oil produced from an economic interest held by a State or political subdivision (including agencies and instrumentalities), the net income from which is used for public purposes.

Exempt Indian Oil.--Oil produced from mineral interests held by or on behalf of Indian tribes or individuals on January 21, 1980, which is one of the following: (a) production received by Indian tribes and individuals from Tribal Trust Lands (the title to such land is held by the United States in trust for the tribes), (b) production from land or mineral interests held by an Indian tribe eligible for services provided to Indians by the Secretary of the Interior, or (c) oil proceeds which are paid into the U.S. Treasury to the credit of tribal or native trust funds pursuant to law. This exemption also applies to production of any Alaskan Native Corporation prior to 1991.

Net Income Limitation.--The windfall profit on a barrel of oil may not exceed 90 percent of the net income attributable to the barrel.

Removal Price.--Generally, the price for which a barrel of oil is sold. In some instances, a constructive sale price is used.

Sadlerochit Oil.--Crude oil production from the Sadlerochit reservoir in the Prudhoe Bay oil field in Alaska.

State Severance Tax Adjustment.--A State severance tax is a tax imposed by a State with respect to the extraction of oil. The windfall profit is reduced by the amount by which the severance tax exceeds that which would have been imposed had the oil been valued at its adjusted base price.

Stripper Oil.--In general, oil from a property from which the average daily production per well has been 10 barrels or less for any consecutive 12-month period after 1972.

Tier One Oil.--All domestically-produced crude oil other than any oil classified in tiers two or three, or explicitly exempted from the tax by the Act. This includes the bulk of domestic oil from reservoirs proven to be productive before 1979.

Tier Two Oil.--Any oil which is from a stripper well property within the meaning of the June 1979 Department of Energy pricing regulations and oil from a U.S. economic interest in a National Petroleum Reserve except that oil classified as tier one and tier three oil.

Tier Three Oil, Heavy Oil.--All crude oil which is (1) produced from property which had a weighted average gravity of 16.0 degrees or less on the American Petroleum Institute (API) scale, corrected to 60 degrees Fahrenheit, for the last month of production prior to July 1979 or (2) oil from a property with a weighted average gravity of 16.0 degrees API or less, corrected to 60 degrees Fahrenheit, for the taxable period.

Tier Three Oil, Incremental Tertiary Oil.--Production in excess of a base level on a property on which a qualified tertiary recovery project (one which utilizes one of several specific chemical, fluid or gaseous recovery methods to extract oil not recoverable using standard techniques) has been undertaken. The non-incremental oil (i.e., the amount of production up to the base level) remains in the otherwise applicable tier.

Tier Three Oil, Newly Discovered Oil.--Crude oil that is sold after May 31, 1979, and that is produced from (1) an outer continental shelf area for which the lease was entered into on or after January 1, 1979, and from which there was no production in Calendar Year 1978 or (2) an on shore property after Calendar Year 1978.

Windfall Profit.--The excess of the removal price of the barrel of oil over the sum of the adjusted base price and the severance tax adjustment.

REFERENCES

- [1] See also Belal, Carol and Clark, Phil, "Windfall Profit Tax Liability for 1980," SOI Bulletin, Volume 1, No. 2, pages 50-54.
- [2] Joint Committee on Taxation (Staff), General Explanation of the Crude Oil Windfall Profit Tax Act of 1980, U.S. Government Printing Office, 1981