

1982 Crude Oil Windfall Profit Tax, First Quarter

By Michael Alexander*

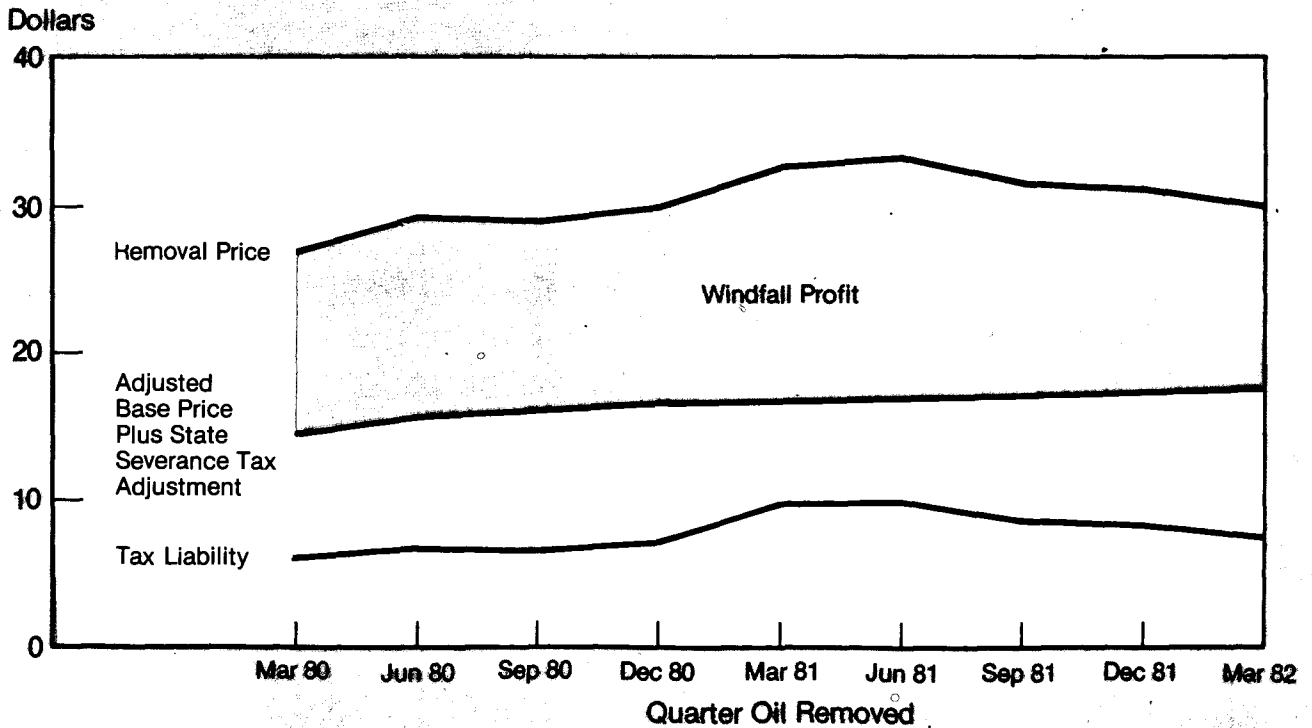
The first quarter of 1982 continued the declining trend in the windfall profit tax liability that has existed since the first quarter of 1981. The tax liability for the first quarter of 1982 amounted to slightly more than \$5 billion after adjustments, bringing the total since the inception of the Crude Oil Windfall Tax Act to almost \$41 billion.

The windfall profit tax liability after adjustments decreased from the first quarter of 1981 to the first quarter of 1982 by \$2.2 billion or 31 percent. The average windfall profit tax per barrel declined from \$9.58 for the first quarter of 1981 to \$7.42 for the first quarter of 1982, a drop of over 22 percent. This decrease in tax liability can be attributed to a combination of factors: declining prices; an increase

in the amount of oil taxed at independent producer rates, which are generally lower; a reduction in oil taxed at higher rates; and tax law changes.

The quarter ending March 1982 marked the third consecutive quarter that the average removal price (generally the price for which the oil is sold) decreased. The average price per barrel reached a high of \$33 in the second quarter of 1981 and then declined continually to slightly less than \$30 for the first quarter of 1982. The downward trend in the removal price can be attributed to the decrease in U.S. demand for oil and gasoline, a result of a sluggish economy and continued conservation efforts. An abundant supply of foreign crude oil relative to worldwide demand also created a downward force on removal prices for U.S. domestic crude oil.

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



NOTE: Because of price controls during 1980, there were cases where the removal price was less than the adjusted base price and no Form 6047 was filed. The data in the figure are based on information reported.

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Crude Oil Windfall Profit Tax, 1982

There were two major tax law changes, affecting oil removed in 1982, as a result of the Economic Recovery Tax Act of 1981. The tax rate for newly discovered oil was reduced from 30 percent to 27.5 percent. The average withholding rate for newly discovered oil for the first quarter of 1982 was 27.8 percent, which was the result of some taxes being withheld at the 30 percent rate. Another tax law change replaced the royalty owners tax credit with a more liberal exemption from the windfall profit tax for specified amounts of royalty production. Previously a \$2,500 credit for windfall profit tax paid by royalty holders (\$1,000 for 1980) was allowed. The new law provides a two barrel per day exemption for qualified royalty owners. Slightly less than 7 million barrels of oil were certified as exempt royalty oil in the first quarter of 1982.

The windfall profit tax liability is also affected by certain adjustments. The adjustments can result from errors in withholding or from the net income limitation, which limits the windfall profit to 90 percent of the net income per barrel of oil. When either 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. The large adjustments occurring in the last quarter of each year (see the summary of adjustments below) are largely due to the net income limitation. At year end, many taxpayers found they had overestimated their tax liability for previous quarters (because of having overestimated their net income) and therefore made negative adjustments on their fourth quarter returns to compensate for the

previous over-depositing. It is interesting to note that the first quarter of 1981 had a positive adjustment and the first quarter of 1982 had a negative adjustment. The positive adjustment appears to be the result of confusion in the first year of the windfall profit tax, where the withholding or depositing agents were making year end corrections prior to preparing year end information returns, Form 6248. The first quarter of 1982 represents a more stable situation where the adjustments are mostly the result of net income limitations.

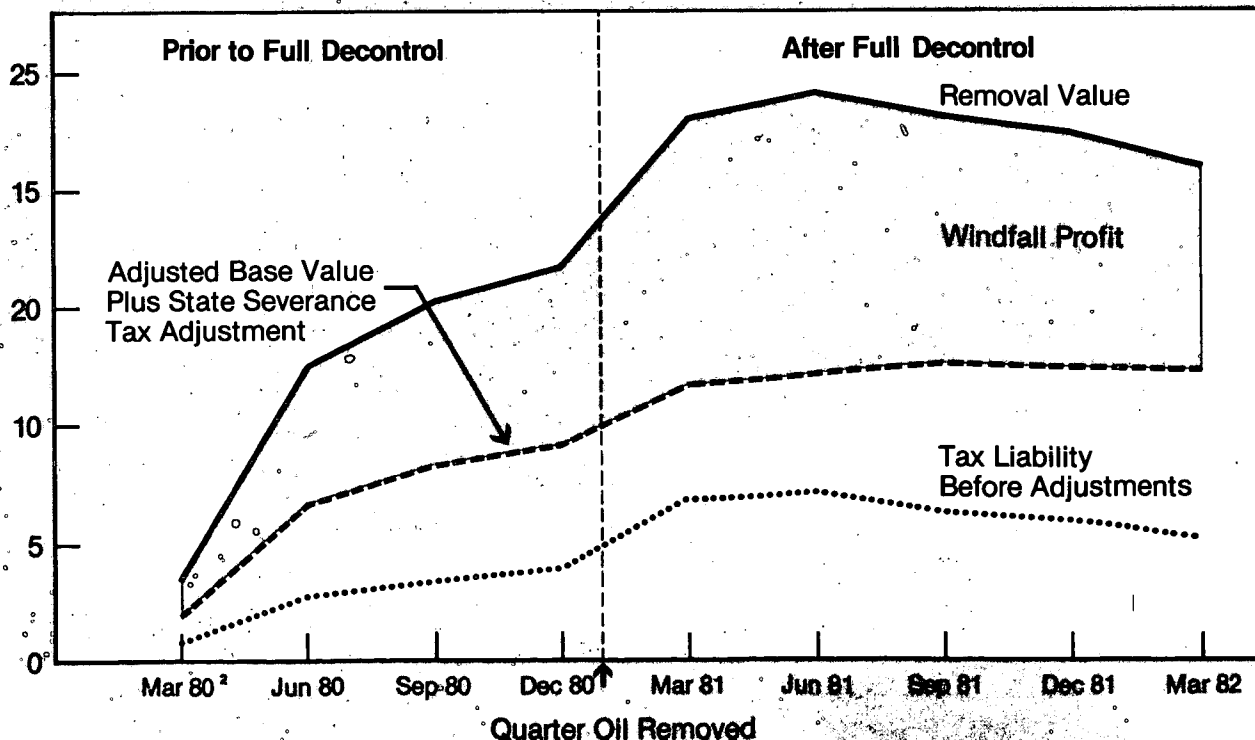
Windfall Profit Tax Before and After Adjustments (Millions)

Quarter Ending	Tax-Before Adjustments	Adjustments	Tax-After Adjustments
Total	\$42,740	-\$1,870	\$40,870
Mar. 1980 ^{1/}	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
Dec. 1981	6,007	-497	5,510
Mar. 1982	5,222	-221	5,001

^{1/} One month only.

Components of Windfall Profit Tax Liability Before Adjustments: Aggregate Values By Quarter Oil Removed

Billions of Dollars



¹Some returns report windfall profit tax liability only; therefore, data for removal value, adjusted base value and state severance tax adjustment have been adjusted to reflect totals as if all returns reported this detail.

²One month only.

DATA SOURCES AND LIMITATIONS

The Quarterly Federal Excise Tax Return, Form 720, is the form on which the windfall profit tax is reported. Form 6047, Windfall Profit Tax, shows how the tax is computed and is filed as an attachment to Form 720. Returns are due two months after the end of the quarter in which the oil is removed. Data are based on all returns with a tax liability of \$1 million or more before adjustments and a 10 percent sample of all other returns.

DEFINITIONS

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

Adjusted Base Price.--The base price multiplied by the inflation adjustment, which is derived from the "implicit price deflator" published by the Department of Commerce, Bureau of Economic Analysis, in the Survey of Current Business.

Adjustments to Liability.--Corrections applied to the current quarter's liability in order to correct for the net income limitation and 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 tiers 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 divides of the Alaska and Aleutian Ranges, and at least 75 miles from the nearest point of the Trans-Alaskan Pipeline System.

Exempt Charitable Oil.--Oil produced from economic interests held by qualified charitable medical facilities, educational institutions, and child care organizations (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, educational institution, or child care facility.

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.

Exempt Royalty Oil.--Qualified royalty owners are exempt from the windfall profit tax on two barrels of oil per day for each day of the calendar quarter for oil removed after December 31, 1981. For 1985 and thereafter, three barrels per day will be exempt.

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 tier 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 Naval Petroleum Reserve.

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 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 developed 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.

Crude Oil Windfall Profit Tax, 1982

Table 1.--Windfall Profit Tax Liability by Oil Tier and Tax Rate for Quarter Ending March 1982 Aggregate Components of Windfall Profit

[Money amounts are in millions of dollars]

Oil tier and tax rate	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)
Returns with tax liability shown by oil tier and tax rate, total.....	668,452	19,991	11,211	447	8,346	4,966
Tier one, other than Sadlerochit oil:						
Taxed at 70 percent.....	307,914	9,882	4,684	221	4,977	3,483
Taxed at 50 percent.....	29,510	980	462	31	487	243
Tier one, Sadlerochit oil:						
Taxed at 70 percent.....	117,751	2,389	1,818	76	495	346
Taxed at 50 percent.....	20	1	-	-	-	-
Tier two oil:						
Taxed at 60 percent.....	51,698	1,662	960	30	672	403
Taxed at 30 percent.....	33,336	1,102	637	21	444	133
Tier three oil (taxed at 30 percent):						
Newly discovered oil ¹	88,511	2,936	1,926	58	952	265
Incremental tertiary oil.....	9,564	321	194	7	120	36
Heavy oil.....	30,149	718	529	1	188	56
Returns with total tax liability only.....	-	-	-	-	-	256 ²

Table 2.--Windfall Profit Tax Liability For Returns Reporting Components of Windfall Profit by Oil Tier and Tax Rate For the Quarter Ending March 1982 Average Daily Production and Average Dollars per Barrel

Oil tier and tax rate	Daily production (000's)	Removal price	Adjusted base price	State severance tax adjustment	Windfall profit	Tax liability before adjustments
	(1)	(2)	(3)	(4)	(5)	(6)
All returns, total.....	7,427	\$29.91	\$16.77	\$.66	\$12.49	\$7.42
Tier one, other than Sadlerochit oil:						
Taxed at 70 percent.....	3,421	32.09	15.21	.71	16.17	11.31
Taxed at 50 percent.....	328	33.22	15.65	1.05	16.52	8.25
Tier one, Sadlerochit oil:						
Taxed at 70 percent.....	1,308	20.28	15.44	.64	4.20	2.93
Taxed at 50 percent.....	(³)	28.30	15.17	.69	12.44	6.22
Tier two oil:						
Taxed at 60 percent.....	574	32.14	18.56	.58	13.00	7.79
Taxed at 30 percent.....	370	33.05	19.12	.62	13.31	3.99
Tier three oil: (taxed at 30 percent):						
Newly discovered oil ¹	983	33.17	21.76	.66	10.75	2.99
Incremental tertiary oil.....	106	33.54	20.29	.72	12.53	3.75
Heavy oil.....	335	23.80	17.53	.02	6.25	1.87

¹Newly discovered oil is taxed at 27.5 percent beginning in 1982; however, some returns continue to withhold at the 30 percent rate.

²Includes \$14 million for returns that reported by tier and type, but did not report data for columns 1-5 in Table 1.

³Less than 1,000 barrels.

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

Table 3.--Exempt Oil Volume by Tier and Category, Quarter Ending March 1982 (Thousands of barrels)

	Total	Tier one	Tier two	Tier three		
				Newly discovered oil	Incremental tertiary oil	Heavy oil
	(1)	(2)	(3)	(4)	(5)	(6)
Total.....	32,796	19,222	3,708	9,301	274	291
Exempt governmental interest.....	17,934	14,813	829	2,034	125	133
Exempt charitable interest.....	1,163	601	271	183	95	13
Exempt Indian oil.....	1,230	551	452	217	3	8
Exempt Alaskan oil.....	5,771	154	3	5,613	-	1
Exempt Royalty oil.....	6,697	3,103	2,152	1,254	51	137

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