

Crude Oil Windfall Profit Tax, Third Quarter 1985

By Edward Chung*

The Crude Oil Windfall Profit Tax Act of 1980 imposed a Federal excise tax on domestic crude oil extracted on or after March 1, 1980.

Tables 1 through 3 provide summary data for the third quarter of 1985, while Tables 4 through 6 give the cumulative results for the first nine months of 1985. Figures A and B, as well as Table 7, provide a historical perspective.

The reported amount of tier one (70 percent) Sadlerochit oil, on which tax was paid, dropped from 88.5 million barrels in the first quarter of 1985 to 2.7 million barrels in the second quarter. The same phenomenon occurred again in the third quarter of 1985. The decline was primarily due to the removal price falling below the adjusted base price. Reported production of tier three oil declined for the same reason.

Tables 1 and 2 each show a negative windfall profit for tier three oil and a positive

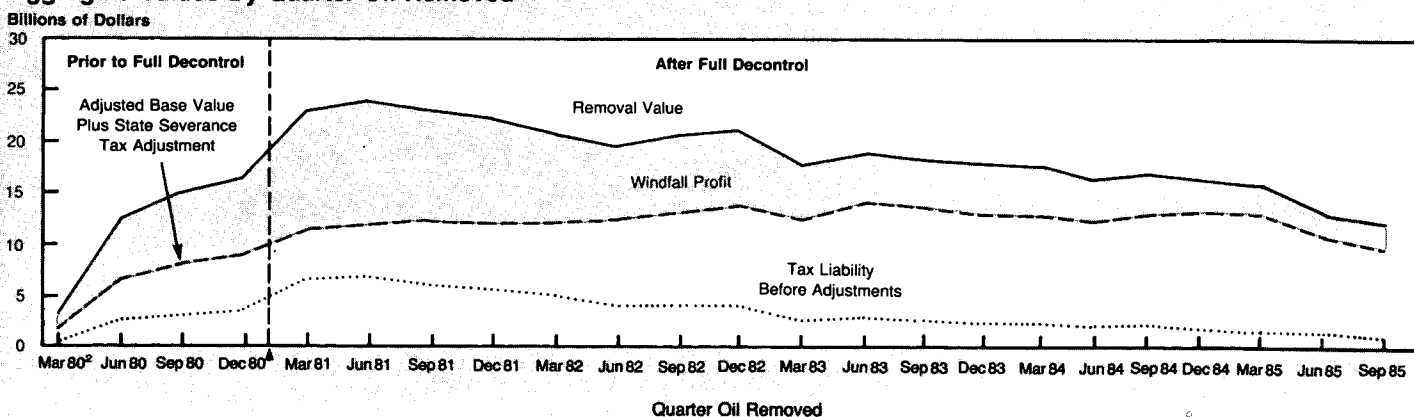
windfall profit tax liability. The loss is a result of either the adjusted base value plus State severance tax adjustment being larger than the removal value or taxpayer reporting errors. However, even though a loss was reported by some producers there cannot be a negative tax liability.

DATA SOURCES AND LIMITATIONS

The windfall profit tax is reported on the Quarterly Federal Excise Tax Return, Form 720. Form 6047, Windfall Profit Tax, shows how the tax is computed and is filed as an attachment to Form 720. Tabulations in this article are based on the Form 6047. Returns are due 2 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.

Sampling and nonsampling errors were controlled by a variety of methods. Although

Figure A
Components¹ of Windfall Profit Tax Liability Before Adjustments:
Aggregate Values By Quarter Oil Removed

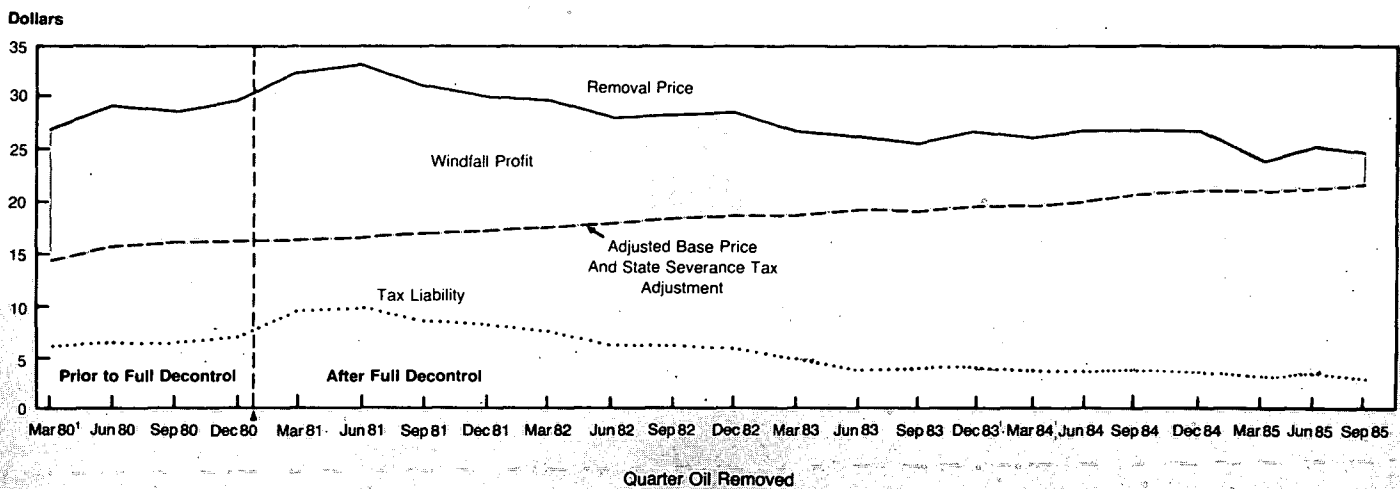


¹Some returns report windfall profit tax liability only; therefore, data for removal value, adjusted base value and state severance tax adjustment have been adjusted to reflect totals as if all returns reported this detail.

²One month only.

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Figure B
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.

¹One month only.

efforts were made to secure missing returns, some returns may have been omitted because of time and resource constraints. Attempts were made to correct imbalances in taxpayer entries for the components of windfall profit. If this proved impossible, an out-of-balance return was treated as a return on which the components were not reported, and therefore only the tax liability for each tier was tabulated. However, for returns that did not report the tax computation detail (for Figures A and B only), the components were estimated using a factor derived from the relationship of the tax liability for those reporting all of the tax computation detail to the total reported tax liability. A number of verification checks were performed at all stages of manual data abstraction and computer tabulation.

The Statistics of Income Bulletin also includes data on excise tax collections. The excise tax collection figures show the liability after adjustments, as reported on Form 720, from returns entered into the Internal Revenue Service (IRS) computerized Business Master File (BMF) each quarter. A number of considerations affect comparisons of data from these two sources. Returns are not due until 2 months after the close of the taxable quarter; however, the interval between the close of the taxable period and the final recording of the return often varies, so that the quarterly BMF totals may represent more than one taxable period. On the other hand, the data presented here have been tabulated for

specific taxable periods. As a result, the two sets of statistics are not directly comparable.

DEFINITIONS

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

Adjusted Base Price.--The base price multiplied by the inflation adjustment, which is derived from the Gross National Product (GNP) "implicit-price deflator."

Adjustments to Liability.--Corrections applied to the current quarter's liability 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 \$0.21. 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.

Deposit Requirements.--The timing of any first purchaser to deposit amounts withheld depends on the identity of the first purchaser. Major refiners, other than independent refiners, are required to make semimonthly deposits of the withholding tax. All other first purchasers are required to make withholding deposits no later than 45 days after the oil is removed from the premises, except independent refiners that purchase oil under delayed payments contracts. The latter are required to make deposits by the first day of the third month beginning after the month of removal.

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 interests were held on January 21, 1980, and at all times thereafter; and oil produced from interests held by a church on January 21, 1980, if, before January 22, 1980, the net proceeds from 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 a 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, the proceeds from 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, including wholly-owned subsidiaries of such corporations.

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.

Exempt Stripper Oil.--Oil removed from stripper wells may qualify for exemption from the windfall profit tax if the following conditions are met:

- (1) The oil must be removed from a stripper well property after 1982;
- (2) The oil must be extracted by an independent producer;
- (3) The oil must be attributable to the independent producer's working interest in the property; and
- (4) The stripper well property must not be a property transferred by a nonindependent producer on or after July 23, 1981.

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

Net Revenue.--This equals the gross revenue from the windfall profit tax, or excise tax (excluding that amount attributable to U.S. government interests), less the reduction of income tax resulting from taxpayers claiming deductions for windfall profit tax paid. Figures presented in this report are the gross liabilities reported by the withholding agents on Form 6047 and are before the reductions mentioned above.

Removal Price.--Generally, the price for which a barrel of oil is sold. In some instances, a constructive sales 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 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 for 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 by law from the tax. This includes the bulk of domestic oil from reservoirs proven to be productive before 1979.

Tier Two Oil.--Any oil 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. Note that the Crude Oil Windfall Profit Tax Act of 1980 defined tier two oil as from a "National" Petroleum Reserve. This was

amended to read "Naval" Petroleum Reserve by the Technical Corrections Act of 1982.

Tier Three Oil, Heavy Oil.--All crude oil (1) produced from property that 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 before 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 using one of several specific chemical, fluid or gaseous recovery methods to

extract oil not recoverable using standard techniques) has been undertaken. The nonincremental 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 sold after May 31, 1979, and 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 State severance tax adjustment.

Table 1.--Windfall Profit Tax Liability by Oil Tier, Tax Rate and Aggregate Components of Windfall Profit for Quarter Ending September 1985

[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	481,848	12,094	9,988	88	2,018	1,439
Tier one, other than Sadlerochit oil:						
Taxed at 70 percent	234,439	6,104	4,183	69	1,852	1,234
Taxed at 50 percent	17,791	470	327	8	134	67
Tier one, Sadlerochit oil:						
Taxed at 70 percent	2,137	39	38	-	1	-
Taxed at 50 percent	-	-	-	-	-	-
Tier two oil:						
Taxed at 60 percent	52,406	1,287	1,056	8	223	124
Taxed at 30 percent	2,495	36	31	-	5	5
Tier three oil (taxed at 30 percent):						
Newly discovered oil ¹	97,057	2,356	2,520	2	-166	4
Incremental tertiary oil	49,992	1,272	1,277	1	-5	3
Heavy oil	25,532	529	555	-	-26	1
Returns with total tax liability only	-	-	-	-	-	3

¹Newly discovered oil is taxed at 22.5 percent from 1984 to 1987.

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

Table 2.--Windfall Profit Tax Liability for Returns Reporting Components of Windfall Profit by Oil Tier and Tax Rate for the Quarter Ending September 1985¹

Oil tier and tax rate	Average daily production (000's) (barrels)	Removal price	Adjusted base price	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	5,237	25.09	20.72	.18	4.19	2.98
Tier one, other than Sadlerochit oil:						
Taxed at 70 percent	2,548	26.03	17.84	.29	7.90	5.26
Taxed at 50 percent	193	26.39	18.40	.45	7.54	3.78
Tier one, Sadlerochit oil:						
Taxed at 70 percent	23	18.29	17.99	.02	.28	.19
Taxed at 50 percent	-	-	-	-	-	-
Tier two oil:						
Taxed at 60 percent	570	24.56	20.15	.15	4.26	2.37
Taxed at 30 percent	27	14.49	12.57	.09	1.83	2.12
Tier three oil (taxed at 30 percent):						
Newly discovered oil ²	1,055	24.27	25.96	.02	-1.71	.03
Incremental tertiary oil	543	25.45	25.53	.01	-.09	.06
Heavy oil	278	20.73	21.75	.00	-1.02	.02

¹All amounts are average dollars per barrel.²Newly discovered oil is taxed at 22.5 percent from 1984 to 1987.

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

Table 3.--Exempt Oil Volume by Tier and Category, Quarter Ending September 1985

[Thousands of barrels]

Exempt Oil	Total	Tier one	Tier two	Tier three		
				Newly discovered oil	Incremental tertiary oil	Heavy oil
	(1)	(2)	(3)	(4)	(5)	(6)
Total	60,131	15,844	36,115	6,191	1,408	574
Exempt governmental interest	16,476	12,211	883	2,046	846	490
Exempt charitable interest	808	351	280	75	97	4
Exempt Indian oil	1,134	446	181	427	75	4
Exempt Alaskan oil	1,411	115	-	1,295	-	-
Exempt royalty oil	8,413	2,720	2,882	2,347	389	75
Exempt stripper oil	31,890	-	31,890	-	-	-

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

Table 4.--Windfall Profit Tax Liability by Oil Tier, Tax Rate and Aggregate Components of Windfall Profit for January to September 1985

[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	1,569,233	39,206	32,239	301	6,666	4,653
Tier one, other than Sadlerochit oil:						
Taxed at 70 percent	709,776	18,668	12,648	221	5,799	3,934
Taxed at 50 percent	60,932	1,591	1,101	30	461	233
Tier one, Sadlerochit oil:						
Taxed at 70 percent	93,318	1,634	1,633	5	-4	18
Taxed at 50 percent	-	-	-	-	-	-
Tier two oil:						
Taxed at 60 percent	149,756	3,837	3,111	28	699	396
Taxed at 30 percent	7,872	116	99	1	16	17
Tier three oil (taxed at 30 percent):						
Newly discovered oil ¹	322,520	7,998	8,323	11	-336	24
Incremental tertiary oil	137,005	3,496	3,428	4	63	25
Heavy oil	88,055	1,865	1,897	-	-32	5
Returns with total tax liability only	-	-	-	-	-	292

¹Newly discovered oil is taxed at 22.5 percent from 1984 to 1987.

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

Table 5.--Windfall Profit Tax Liability for Returns Reporting Components of Windfall Profit by Oil Tier and Tax Rate for January to September 1985¹

Oil tier and tax rate	Average daily production (000's) (barrels)	Removal price	Adjusted base price	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	5,748	24.98	20.54	.19	4.25	2.97
Tier one, other than Sadlerochit oil:						
Taxed at 70 percent	2,600	26.30	17.82	.31	8.17	5.54
Taxed at 50 percent	223	26.11	18.06	.49	7.56	3.83
Tier one, Sadlerochit oil:						
Taxed at 70 percent	342	17.51	17.50	.06	-.04	.19
Taxed at 50 percent	-	-	-	-	-	-
Tier two oil:						
Taxed at 60 percent	549	25.62	20.77	.19	4.67	2.64
Taxed at 30 percent	29	14.76	12.60	.13	2.03	2.15
Tier three oil (taxed at 30 percent):						
Newly discovered oil ²	1,181	24.80	25.81	.03	-1.04	.07
Incremental tertiary oil	502	25.52	25.02	.03	.46	.18
Heavy oil	323	21.18	21.54	.00	-.36	.06

¹All amounts are average dollars per barrel.²Newly discovered oil is taxed at 22.5 percent from 1984 to 1987.

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

Table 6.--Exempt Oil Volume by Tier and Category, for January to September 1985

[Thousands of barrels]

Exempt Oil	Total	Tier one	Tier two	Tier three		
				Newly discovered oil	Incremental tertiary oil	Heavy oil
	(1)	(2)	(3)	(4)	(5)	(6)
Total	217,828	50,035	120,121	42,129	3,813	1,731
Exempt governmental interest	50,186	38,367	2,346	5,919	2,182	1,372
Exempt charitable interest	2,603	1,203	823	277	277	23
Exempt Indian oil	3,125	1,274	527	1,109	204	10
Exempt Alaskan oil	24,608	343	-	24,264	-	-
Exempt royalty oil	30,552	8,847	9,669	10,559	1,149	327
Exempt stripper oil	106,755	-	106,755	-	-	-

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

Crude Oil Windfall Profit Tax, 1985

Table 7.--Windfall Profit Tax Before and After Adjustments
[Millions of dollars]

Quarter ending	Tax before adjustments	Total adjustments	Tax after adjustments
	(1)	(2)	(3)
Total	\$82,414	-\$5,702	\$76,712
March 1980	788	-	788
June 1980	2,842	-21	2,821
September 1980	3,413	-88	3,325
December 1980	3,918	-927	2,991
March 1981	6,953	+242	7,195
June 1981	7,253	-107	7,146
September 1981	6,344	-251	6,093
December 1981	6,007	-497	5,510
March 1982	5,222	-221	5,001
June 1982	4,283	-295	3,988
September 1982	4,404	-445	3,959
December 1982	4,440	-634	3,806
March 1983	3,320	-193	3,127
June 1983	2,951	-203	2,748
September 1983	2,822	-300	2,522
December 1983	2,736	-465	2,271
March 1984	2,622	-228	2,394
June 1984	2,468	-218	2,250
September 1984	2,447	-200	2,247
December 1984	2,236	-256	1,980
March 1985	1,850	-117	1,733
June 1985	1,653	-132	1,521
September 1985	1,442	-146	1,296

One month only.