

# Tax policy unfairly benefits oil industry

by Hugh Malone

Commissioner, Department of Revenue

JUNEAU — The state of Alaska has assessed oil companies more than \$3 billion in disputed taxes, penalties and interest. The interest rate the state charges is so low, however, that the

## OPINION

oil companies have little incentive to resolve these disputes.

In fact, the longer an oil company can stall paying its tax bill, the better the break it gets on the interest rate. If a tax bill is paid promptly, the interest would be 12 percent. However, after five years, the interest rate charged to the taxpayer drops to 7.5 percent.

Incredibly, if a taxpayer is able to stall for more than 10 years (some have), the rate that it pays to the state on a delinquent tax bill drops to 5.45 percent.

If effect, an oil company that has not

paid its tax bill for more than 10 years gets to borrow money from the state at a 5 percent interest rate. If you had a loan of more than a billion dollars at 5 percent interest, how fast would you pay it off?

Right now, you are giving the oil companies this corporate welfare.

This outrage occurs because Alaska law provides for simple interest, rather than compound interest, on tax debts. Simple interest means that the debtor pays interest only on the amount of the original debt. No interest is charged against the interest amount.

Charging simple interest is a bad business practice. The longer the person owing a debt with simple interest waits to pay, the lower the effective interest rate.

The modern — and sensible — alternative to simple interest is compound interest. Under compound interest, interest is charged on the total amount due — including the interest already accumulated — rather than on just the original debt.

Compound interest is the method used by the IRS, banks — and oil

companies.

Changing to compound interest does not make very much difference if a taxpayer pays promptly. It is only after several years that compound interest really begins to work. Taxpayers who resolve their disputed taxes relatively quickly have nothing to fear from the state switching to compound interest.

The state of Alaska should drop its outdated simple interest provision and start charging compound interest on its disputed taxes. The law should become effective a short time after its passage.

When it becomes effective, the compound interest rate should apply to the entire outstanding amount due on these taxes.

This would give the oil companies a choice. They could pay their taxes before the new law takes effect and get the benefit of the low interest rate currently charged. Or they could choose not to pay — consistent with their claims that they do not owe these taxes — and take the chance that they might have to pay the higher interest rate.

If they do not owe the money,

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changing to compound interest will not affect them. But whatever their choice, the oil companies should not be allowed to make the state of Alaska continue to carry these debts at this absurdly low interest rate.

The oil companies would never give this deal to the people of Alaska. The people of Alaska should stop giving it to the oil companies. Our law needs to be changed now.