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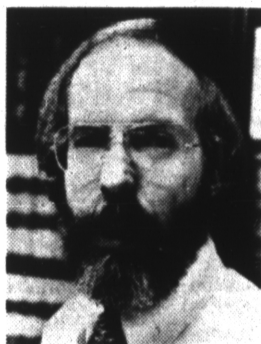


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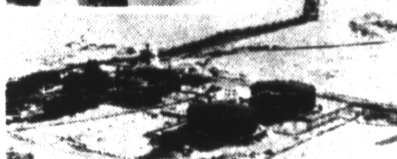
NCUA

# Let's talk...

about "special tax treatment" for oil.



Jim Howell,  
Alaska Tax Attorney,  
Exxon USA



**Q** Is it true that oil companies operating in Alaska only pay 2% or 3% in Alaska corporate income taxes while other Alaska companies pay more than 9%?

**A** No. The Alaska corporate income tax rate is 9.4% of taxable income and is applicable to all business corporations. An oil company operating in many states, including Alaska, pays the same Alaska income tax rate as a small company doing business only in Alaska.

**Q** How is the tax applied to a company that does business in Alaska and other states, too?

**A** To begin with, taxes are paid to the state in which the income is earned. A company doing business only in Alaska naturally earns all of its income in Alaska — its total income is its taxable income. On the other hand, in the case of a multi-state company, it is impossible to determine exact earnings on a state-by-state basis since the company's interrelated business activities in many states contribute to the total income of the enterprise. The Alaska income tax law recognizes this and requires

that a multi-state company attribute to Alaska, for income tax purposes, a portion of its total income. This is done through the use of a formula which apportions part of the company's total taxable income to Alaska based on the percentage of the company's total property, payroll and sales that are in Alaska. Variations of this same formula are used in 42 other states and the District of Columbia in calculating income to attribute to multi-state companies.

**Q** So a company that has 25% of its total property, payroll and sales in Alaska pays Alaska income taxes on 25% of its total taxable income?

**A** Right. That 25% portion of its total income is deemed to be Alaska taxable income and is taxed at the rate of 9.4%.

**Q** If the apportionment method works, what is the purpose of the two oil income tax bills introduced last session in Juneau?

**A** That's a good question. It appears these bills were designed solely as revenue measures. However, the rationale we have heard most often in support of higher income taxes on oil is that the State does not get a fair apportionment of the oil companies' total income under the three-factor formula. Even though the property and payroll factors are relatively high in Alaska compared with other states because of high costs, the sales factor is relatively low, since there is little market in Alaska for unrefined crude oil. However, it must be recognized that to generate income from Alaskan oil, a company must not only produce it in Alaska but also find a market and sell it primarily outside Alaska.

**Q** But doesn't Alaska's oil have a unique value to Alaskans as a limited natural resource?

**A** Of course, and the value of this limited resource is reflected in the market place and is realized by the State through royalty and the severance tax. Overall, we believe most Alaskans are more interested in the orderly development of Alaska's resources and future jobs than in further taxes on the oil industry which could lessen that development.

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