Acc 120506 at http://newsminer.com/view/full_story_opinion/18467380/article-Aches--pains-and-oil-taxes--The-weaknesses-in-governor-s-plan-were-coming-out?instance=com_perspectives

Aches, pains and oil taxes: The weaknesses in governor's plan were coming out

by Richard Fineberg

Community perspective

The legislative special session ended early, saving Alaska from misguided petroleum legislation. Conflicting information on oil and gas revenue issues confounded deliberations, suggesting that Alaska should add the letter "H" to ACES. This change would convert the acronym for "Alaska's Clear and Equitable Share" to ACHES: "Alaska's Confusing, Hidden and Elusive Share."

As ACES approaches its fifth anniversary with the state's petroleum audit system languishing in disrepair, it is increasingly evident that ACHES are accompanied by PAINS, or "Piecemeal, Artificial and Incomplete Number Systems."

Many observers were surprised when Gov. Sean Parnell, who insisted for the last two years that a giant oil tax giveaway bill was an immediate necessity, meekly withdrew his latest proposal shortly after the start of the special session. The governor's announcement April 25 followed the Revenue Department's incompetent attempt to answer questions about the administration's latest confusing proposal.

With more time to unravel the administration's mixed-up picture, persistent questions by legislators might have exposed hidden elements that artificially reduce the apparent magnitude of North Slope corporate profits. For example, to estimate paid federal income taxes, Revenue Department data slides estimated the effects of the nominal 35 percent federal corporate income tax rate by subtracting 35 percent of corporate profits from the pre-tax total.

But oil companies often pay significantly lower federal income tax rates by taking advantage of special tax deductions. Two of the major North Slope producers — ConocoPhillips and Exxon Mobil — reap such large benefits from this practice that the Center for Tax Justice, a national tax watchdog group, excludes both companies from its calculation of industry gains from U.S. federal income tax deductions allowed for overseas income tax payments.

In a joint study of federal corporate income tax payments between 2008 and 2010, CTJ and the Institute on Taxation and Economic Policy reported that in 2009 ExxonMobil received more in deduction payments from the federal government than it would have paid in U.S. income taxes at the nominal 35 percent rate, reducing its overall U.S. federal income tax payments for 2009 to zero. According to the study, the company's average U.S. net income tax payment rate for the 2008-2010 study period was 14.2 percent.

The Revenue Department's questionable use of the nominal 35 percent federal tax deduction in its April 19 special session slide projections is only one example of industry Alaska profits partially hidden from oil tax deliberations. Earned income from the trans-Alaska pipeline system and the marine tanker system are both sources of profits typically overlooked in charts on Alaska production economics used in Juneau.

ConocoPhillips and ExxonMobil also are major benefactors of the transportation profits, often omitted from North Slope analyses. Although BP, the third major North Slope producer and TAPS owner, reaps similar hidden profits, the Britain-based corporation's Alaska profits are even more difficult to obtain and understand from published U.S. reports. This background information supports concerns that the state needs better information to determine whether (and at what level) major producers need tax relief and to ensure that they do not use their hegemony to stifle development by new competitors.

When Gov. Parnell pulled the plug on his oil tax proposal, the only bill remaining for special session consideration was HB9, a natural gas bill passed by the House that would grant unprecedented powers to a new and untested government entity. In urging the Senate to pass this desperate effort to put North Slope natural gas to use, the governor ignored lessons from TAPS (that mistakes and misreporting flourish behind the veil of confidentiality), tenets of transparency and checks and balances (essential ingredients of good governance) and the history of failed natural gas efforts (demonstrating the importance of unraveling economic realities before making policy).

Senate Resource Committee Chairman Joe Paskvan, D-Fairbanks, and his colleagues deserve credit for attempting to clarify the confusing petroleum picture with careful questions and for proposing creation of a Petroleum Information Management System to bring various state agencies together to ensure that petroleum data are accurate, comprehensive and germane. The PIMS proposal vanished with the special session, but not before Revenue Commissioner Bryan Butcher testified that his department was too busy trying to catch up with its administrative problems to undertake that project.

Because of industry public relations efforts or lack of resources to explore complex petroleum policy issues, the press corps has paid little attention to the implications of the broken state petroleum information system. While some knowledgeable observers have criticized legislators who refuse to be stampeded by dubious data, I disagree. Without PIMS and an effective audit system, petroleum policy deliberations will continue to be plagued by ACHES and PAINS.

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