

Crude Oil Windfall Profit Tax for 1982

By Michael Alexander*

Windfall profit tax liability after adjustments for the fourth quarter of 1982 was \$3.8 billion. This was the seventh consecutive quarter that windfall profit tax after adjustments has declined. The total windfall profit tax after adjustments reported since the enactment of the Crude Oil Windfall Profit Tax Act amounted to almost \$53 billion through December 1982. Of this total, \$10 billion was reported for 1980, \$26 billion for 1981 and \$17 billion for 1982. The sharp increase in 1981 was largely due to the full decontrol of oil prices in January 1981 and the fact that the law had been in effect for only 10 months of 1980. The decrease in 1982 can be attributed to lower removal prices and windfall profit, which resulted from an abundant supply of foreign crude oil relative to worldwide demand, and tax law changes.

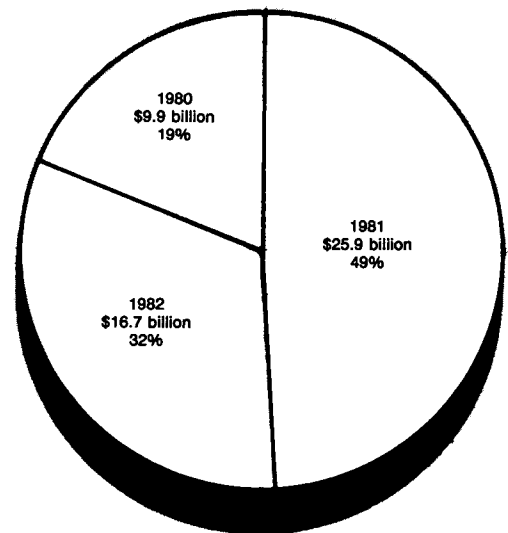
The windfall profit tax reported for 1981, which had increased by 162 percent from the amount for 1980, has accounted for nearly one-half of the total tax liability during the three-year period. The full decontrol of oil prices in January 1981 caused the removal price (generally the price for which the oil is sold) to increase, which resulted in the quarterly tax liability after adjustments to reach a height of \$7.2 billion in the first quarter of 1981. Since then, there has been a declining trend in the windfall profit tax reported, with the largest quarterly drop being from \$7.1 billion for the second quarter of 1981 to \$6.1 billion in the third quarter.

The continuing decline could be attributed to a combination of lower removal values and increases in the adjusted base value. The adjusted base value (see Definitions) was increasing primarily because of inflation. The removal value declined in the third quarter of 1981 and into 1982 as a result of a decrease in U.S. demand for oil and gasoline, a result of a sluggish economy and increased 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.

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. 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. Almost 34 million barrels of oil were certified as exempt royalty oil in 1982.

Shown in the table below is windfall profit tax liability before and after adjustments. Because of a

**Windfall Profit Tax Liability
by Year March 1, 1980
Through December 31, 1982**



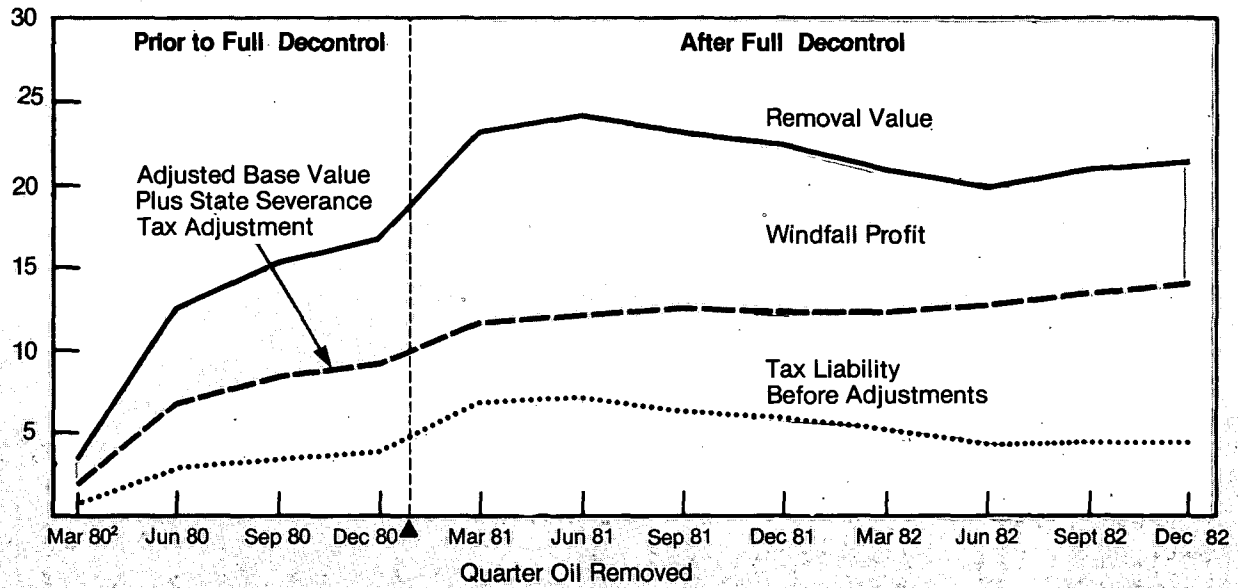
large (\$634 million) negative adjustment, the windfall profit tax liability after adjustments showed a decrease of \$153 million from the previous quarter. These adjustments were necessary as a result of errors in withholding during previous quarters or, more frequently, from the application of the net income limitation. The net income limitation accounted for 92 percent of the adjustments for the fourth quarter of 1982. (The net income limitation provision limits the windfall profit to 90 percent of the net income per barrel of oil and can be estimated by certain taxpayers for the current quarter.) Should under- or over-withholding occur, the depositing or withholding agent (usually the first purchaser) is responsible for correcting that error to the extent possible by adjusting the amounts withheld in succeeding quarters. These adjustments are also reflected in the table below. Additional over-withholding of windfall profit tax due to error or the net income limitation which has not been corrected by the withholding agent can be claimed as a refund or credit by producers on their income tax returns.

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

Billions of Dollars

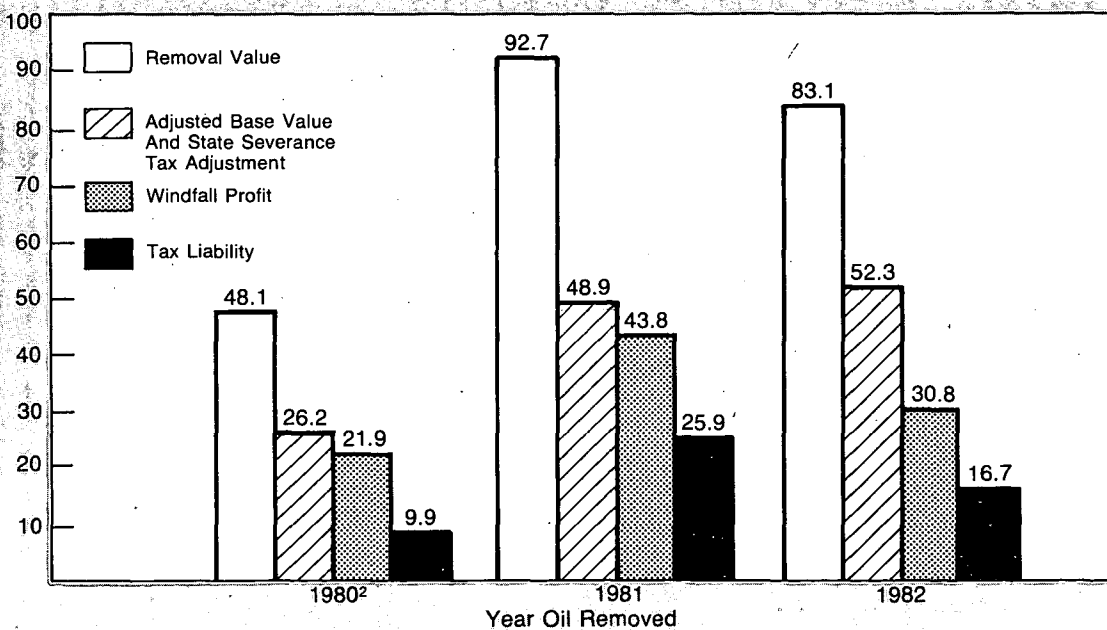


¹Some returns report windfall profit tax liability only; therefore, data for removal value, adjusted base value and state severance tax adjustment have been adjusted to reflect totals as if all returns reported this detail.

²One month only.

Components¹ of Windfall Profit Tax Liability After Adjustments: Aggregate Values by Year Oil Removed

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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.

²Represents only 10 months.

Windfall Profit Tax Before and After Adjustments
(Millions of Dollars)

Quarter Ending	Tax Before Adjustments	Adjustments	Tax After Adjustments
Total	\$55,867	\$3,244	\$52,623
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
June 1982	4,283	-295	3,988
Sept. 1982	4,404	-445	3,959
Dec. 1982	4,440	-634	3,806

^{1/} One 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. Tabulations in this article are based on the Form 6047. 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.

Sampling and nonsampling errors were controlled by a variety of methods. Missing returns were requested from the service centers. However, some returns may have been omitted due to 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 liability for each tier was tabulated. A number of verification checks were performed at all stages of manual data abstraction and computer tabulation.

The SOI 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 IRS' computerized Business Master File (BMF) each quarter. A number of considerations affect comparisons of data from these two sources. As mentioned above, returns are not due until two 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 usually represent several taxable periods. 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 below.

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 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 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 the native Indian corporation as clarified by IRS on September 3, 1982.

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.

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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 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. 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 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 to 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 State severance tax adjustment.

NOTES AND REFERENCES

- [1] At the inception of the windfall profit tax, taxpayers were not required to complete the detail of the Form 6047, which shows how the tax is computed. However, taxpayers were required to provide full information as of January 1981.
- [2] Joint Committee on Taxation (Staff), General Explanation of the Crude Oil Windfall Profit Tax Act of 1980, U.S. Government Printing Office, 1981.
- [3] See also Belal, Carol and Clark, Phil, "Windfall Profit Tax Liability for 1980," Statistics of Income Bulletin, Volume 1, Number 2, pp. 50-54.
- [4] See also Coleman, Michael, "Crude Oil Windfall Profit Tax for 1981," Statistics of Income Bulletin, Volume 2, Number 2, pp. 41-46.

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

[Money amounts are in millions of dollars]

Oil tier and tax rate	Removal value	Adjusted base value	State severance tax adjustment	Windfall profit	Tax liability before adjustments
	(1)	(2)	(3)	(4)	(5)
Returns with tax liability shown by oil tier and tax rate, total.....	19,085	12,017	361	6,707	3,968
Tier one, other than Sadlerochit oil:					
Taxed at 70 percent.....	8,716	4,551	176	3,989	2,793
Taxed at 50 percent.....	894	458	25	411	205
Tier one, Sadlerochit oil:					
Taxed at 70 percent.....	2,368	1,977	57	334	234
Taxed at 50 percent.....	-	-	-	-	-
Tier two oil:					
Taxed at 60 percent.....	1,568	995	26	547	328
Taxed at 30 percent.....	1,023	651	16	356	107
Tier three oil (taxed at 30 percent):					
Newly discovered oil ¹	3,269	2,397	53	819	225
Incremental tertiary oil.....	482	347	7	128	39
Heavy oil.....	765	641	1	123	37
Returns with total tax liability only.....	-	-	-	-	473 ²

¹Newly discovered oil is taxed at 27.5 percent.

²Also includes \$165 million for returns that reported by tier and type, but did not report data for columns 1-5.

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

Table 2.--Windfall Profit Tax Liability by Oil Tier and Tax Rate For January - December 1982 Aggregate Components of Windfall Profit

[Money amounts are in millions of dollars]

Oil tier and tax rate	Removal value	Adjusted base value	State severance tax adjustment	Windfall profit	Tax liability before adjustments
	(1)	(2)	(3)	(4)	(5)
Returns with tax liability shown by oil tier and tax rate, total.....	77,622	47,202	1,557	28,863	17,152
Tier one, other than Sadlerochit oil:					
Taxed at 70 percent.....	36,881	18,772	761	17,348	12,144
Taxed at 50 percent.....	3,716	1,873	109	1,734	867
Tier one, Sadlerochit oil:					
Taxed at 70 percent.....	9,384	7,630	266	1,488	1,042
Taxed at 50 percent.....	1	(¹)	(¹)	1	(¹)
Tier two oil:					
Taxed at 60 percent.....	6,398	3,967	108	2,323	1,394
Taxed at 30 percent.....	4,346	2,703	70	1,573	468
Tier three oil (taxed at 30 percent):					
Newly discovered oil ²	12,452	8,845	215	3,392	936
Incremental tertiary oil.....	1,479	1,025	23	431	129
Heavy oil.....	2,967	2,387	4	576	174
Returns with total tax liability only.....	-	-	-	-	1,200 ³

¹Less than 500,000

²Newly discovered oil is taxed at 27.5 percent.

³Also includes \$235 million for returns that reported by tier and type, but did not report data for columns 1-5.

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

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Table 3.--Exempt Oil Volume by Tier and Category, Quarter Ending December 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.....	37,532	21,075	4,453	11,225	408	371
Exempt governmental interest.....	19,592	16,293	689	2,227	163	221
Exempt charitable interest.....	976	535	294	83	54	11
Exempt Indian oil.....	1,410	559	450	386	5	10
Exempt Alaskan oil.....	6,359	70	-	6,290	-	-
Exempt Royalty oil.....	9,195	3,619	3,019	2,241	187	129

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

Table 4.--Exempt Oil Volume by Tier and Category, January - December 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.....	144,006	80,546	18,105	42,735	1,271	1,350
Exempt governmental interest.....	74,494	61,441	3,190	8,592	571	702
Exempt charitable interest.....	4,331	2,372	1,146	535	224	55
Exempt Indian oil.....	5,855	2,254	1,848	1,703	13	38
Exempt Alaskan oil.....	25,380	702	245	24,431	1	1
Exempt Royalty oil.....	33,946	13,778	11,674	7,475	462	555

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