

# Crude Oil Windfall Profit Tax, Second 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 second quarter of 1985 while Tables 4 through 6 give the cumulative results for the first half of 1985. Figures A and B, as well as Table 7, provide a historical perspective.

Please note that tier one (70 percent) Sadlerochit oil dropped from 88.5 million barrels in the first quarter of 1985 to 2.7 million barrels in the second quarter. This decline was primarily due to several oil companies, with significant amounts of production, reporting zero tax liability for this tier of oil.

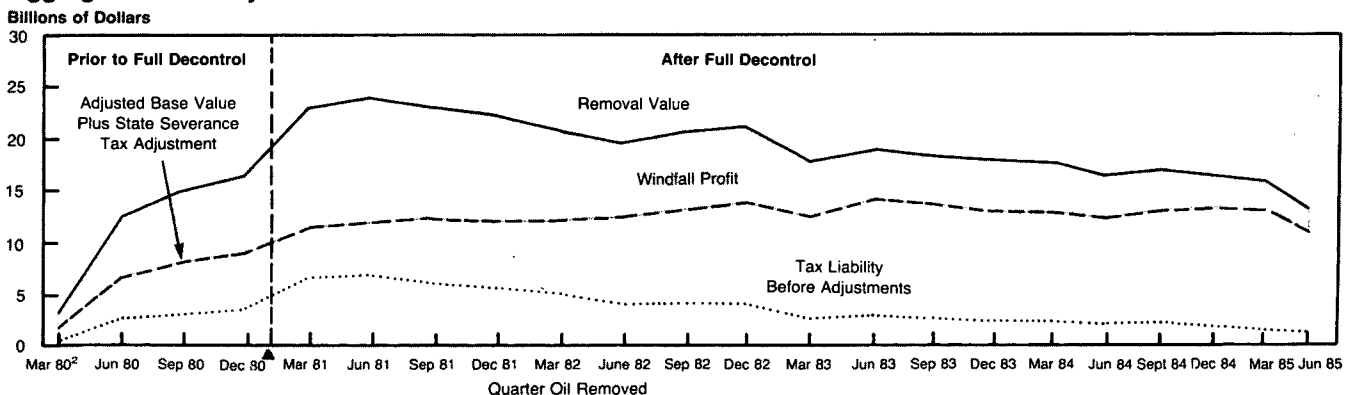
## DATA SOURCES AND LIMITATIONS

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 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 not reporting the tax computation detail (for Figures A and D only), the components were estimated using a factor derived from the relationship of the tax

**Figure A**  
**Components<sup>1</sup> of Windfall Profit Tax Liability Before Adjustments:**  
**Aggregate Values By Quarter Oil Removed**

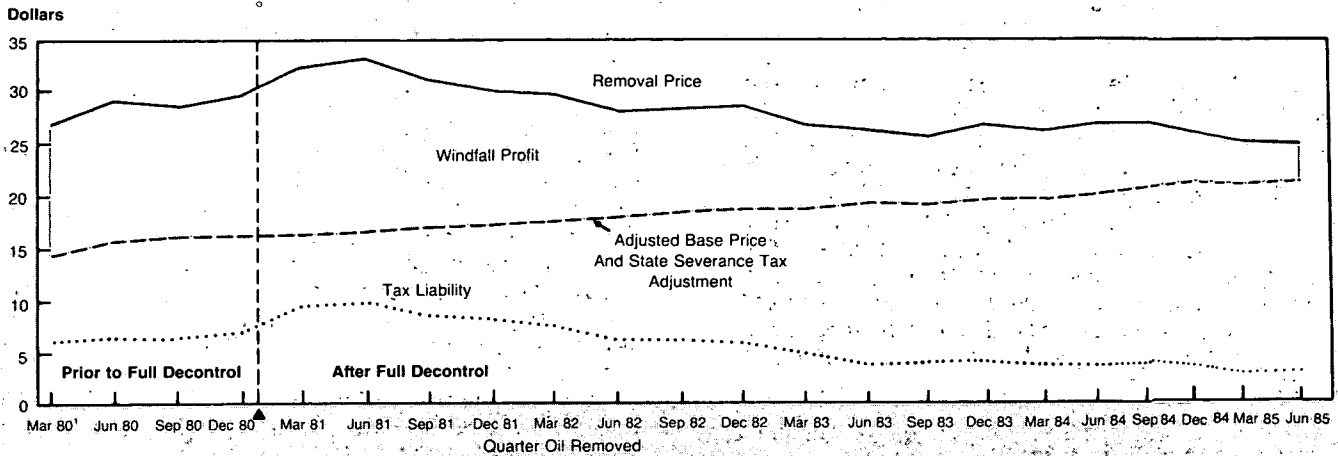


<sup>1</sup>Some returns report windfall profit tax liability only; therefore, data for removal value, adjusted base value and state severance tax adjustment have been adjusted to reflect totals as if all returns reported this detail.

<sup>2</sup>One 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.

<sup>1</sup>One month only.

liability for those reporting all of the tax computation detail. 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 semi-monthly 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 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 June 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 .....	473,539	11,953	9,753	92	2,108	1,470
Tier one, other than Sadlerochit oil:						
Taxed at 70 percent .....	222,823	5,826	3,961	69	1,796	1,247
Taxed at 50 percent .....	20,230	529	362	10	157	80
Tier one, Sadlerochit oil:						
Taxed at 70 percent .....	2,703	49	48	0	1	1
Taxed at 50 percent .....	-	-	-	-	-	-
Tier two oil:						
Taxed at 60 percent .....	46,100	1,195	973	8	214	121
Taxed at 30 percent .....	2,693	40	34	-	6	6
Tier three oil (taxed at 30 percent):						
Newly discovered oil <sup>1</sup> .....	102,942	2,508	2,592	3	-86	5
Incremental tertiary oil .....	44,582	1,131	1,105	1	25	9
Heavy oil .....	31,465	675	680	-	-5	2
Returns with total tax liability only .....	-	-	-	-	-	183

<sup>1</sup>Newly 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 June 1985<sup>1</sup>

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 .....	5,204	25.24	20.59	.19	4.46	3.10
Tier one, other than Sadlerochit oil:						
Taxed at 70 percent .....	2,449	26.14	17.77	.30	8.07	5.59
Taxed at 50 percent .....	222	26.13	17.88	.49	7.76	3.95
Tier one, Sadlerochit oil:						
Taxed at 70 percent .....	30	18.10	17.73	.04	.33	.23
Taxed at 50 percent .....	-	-	-	-	-	-
Tier two oil:						
Taxed at 60 percent .....	507	25.91	21.09	.17	4.65	2.63
Taxed at 30 percent .....	30	14.84	12.50	.12	2.22	2.17
Tier three oil (taxed at 30 percent):						
Newly discovered oil <sup>2</sup> .....	1,131	24.36	25.17	.02	-.83	.04
Incremental tertiary oil .....	490	25.37	24.77	.03	.57	.19
Heavy oil .....	346	21.44	21.59	.00	-.15	.05

<sup>1</sup>All amounts are average dollars per barrel.<sup>2</sup>Newly 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 June 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 .....	76,293	16,798	40,244	17,480	1,210	562
Exempt governmental interest .....	16,713	12,904	747	1,963	671	428
Exempt charitable interest .....	827	406	249	71	94	7
Exempt Indian oil .....	1,157	443	166	469	75	5
Exempt Alaskan oil .....	10,985	97	-	10,888	-	-
Exempt royalty oil .....	10,912	2,947	3,384	4,089	370	122
Exempt stripper oil .....	35,699	-	35,699	-	-	-

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 June 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 .....	1,087,384	27,112	22,251	213	4,648	3,214
Tier one, other than Sadlerochit oil:						
Taxed at 70 percent .....	475,337	12,564	8,465	152	3,946	2,700
Taxed at 50 percent .....	43,141	1,121	773	22	326	166
Tier one, Sadlerochit oil:						
Taxed at 70 percent .....	91,181	1,595	1,595	5	-5	18
Taxed at 50 percent .....	-	-	-	-	-	-
Tier two oil:						
Taxed at 60 percent .....	97,350	2,550	2,055	20	476	272
Taxed at 30 percent .....	5,377	80	68	1	11	12
Tier three oil (taxed at 30 percent):						
Newly discovered oil <sup>1</sup> .....	225,462	5,642	5,803	9	-169	20
Incremental tertiary oil .....	87,013	2,223	2,151	4	68	22
Heavy oil .....	62,524	1,336	1,341	0	-6	5
Returns with total tax liability only .....	-	-	-	-	-	289

<sup>1</sup> Newly 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 June 1985 <sup>1</sup>

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 .....	6,008	24.93	20.46	.20	4.27	2.96
Tier one, other than Sadlerochit oil:						
Taxed at 70 percent .....	2,626	26.43	17.81	.32	8.30	5.68
Taxed at 50 percent .....	238	26.00	17.92	.51	7.57	3.85
Tier one, Sadlerochit oil:						
Taxed at 70 percent .....	504	17.50	17.49	.06	-.05	.19
Taxed at 50 percent .....	-	-	-	-	-	-
Tier two oil:						
Taxed at 60 percent .....	538	26.19	21.11	.20	4.89	2.79
Taxed at 30 percent .....	30	14.88	12.62	.14	2.12	2.16
Tier three oil (taxed at 30 percent):						
Newly discovered oil <sup>2</sup> .....	1,246	25.03	25.74	.04	-.75	.09
Incremental tertiary oil .....	481	25.55	24.72	.04	.79	.25
Heavy oil .....	345	21.36	21.45	.00	-.09	.08

<sup>1</sup>All amounts are average dollars per barrel.<sup>2</sup>Newly 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 June 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 .....	157,697	34,191	84,006	35,938	2,405	1,158
Exempt governmental interest .....	33,709	26,156	1,463	3,873	1,336	882
Exempt charitable interest .....	1,796	852	543	201	180	19
Exempt Indian oil .....	1,991	828	346	682	129	6
Exempt Alaskan oil .....	23,197	228	-	22,969	-	-
Exempt royalty oil .....	22,139	6,128	6,787	8,212	760	252
Exempt stripper oil .....	74,865	-	74,865	-	-	-

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

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 .....	\$79,299	-\$5,424	\$73,875
March 1980 <sup>1</sup> .....	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 .....	1,830	-117	1,713
June 1985 .....	1,653	-132	1,521

<sup>1</sup>One-month-only.