

1982 Crude Oil Windfall Profit Tax, Second Quarter

By Rashida Belal*

The price of domestic crude oil is largely determined by the international market price. As the foreign oil supply has been increasing relative to demand, prices of oil on both foreign and domestic markets have been dropping significantly. In turn, falling prices for domestic crude oil have resulted in declining windfall profits and a reduction in tax revenues for the Treasury.

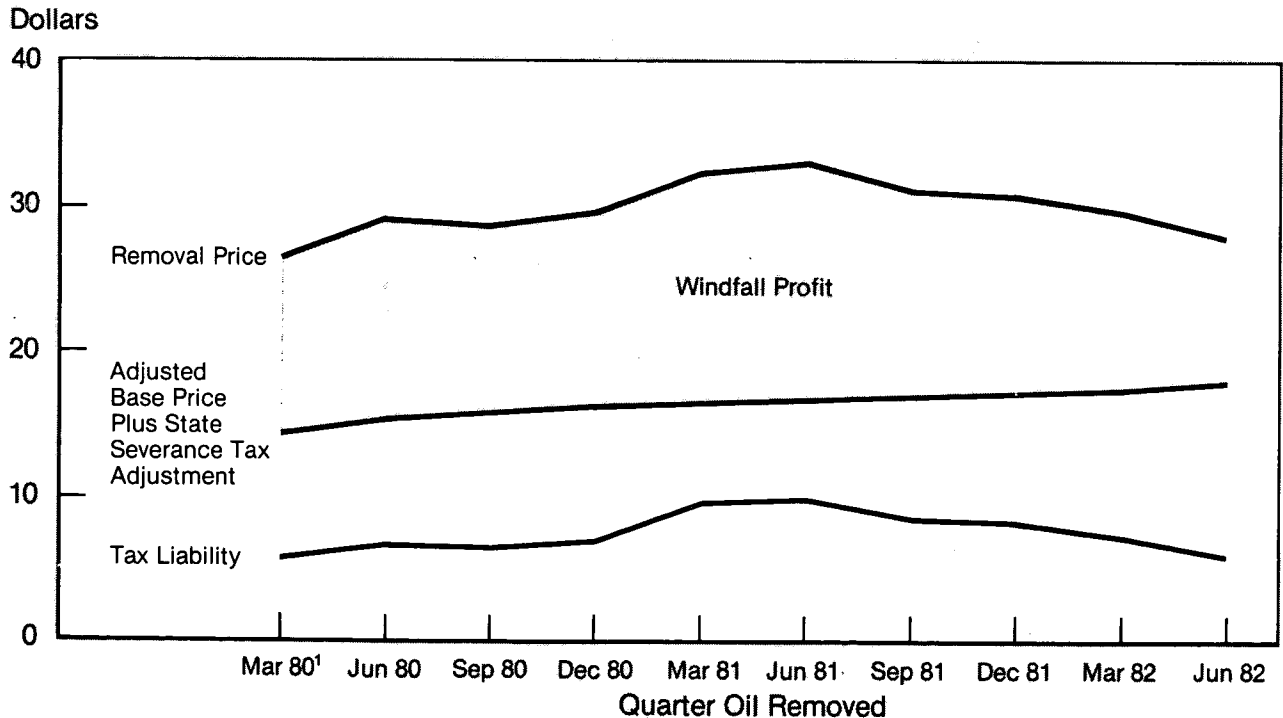
Data for the second quarter of 1982 reflect the continuing decrease in the average removal price (generally the price for which the oil is sold). The average price per barrel, which was slightly more than \$28 for the second quarter of 1982, decreased more than 15 percent since the same quarter in 1981.

Current figures for this quarter also show tax liability, after adjustments, of approximately \$4.0

billion, a decline from the first quarter of 1982 of about \$1 billion, or 20 percent. However, when compared to the high point, the quarter ended June 1981, tax liability declined about 44 percent. The liability decrease reflected not only the abundant supply of foreign crude oil relative to world wide demand, but also the continuing efforts in the United States to conserve oil and gasoline.

Shown in the table below is windfall profit tax liability before and after adjustments. Adjustments become necessary as a result of errors in withholding or from the net income limitation. (The net income limitation provision limits the windfall profit to 90 percent of the net income per barrel of oil and can be claimed quarterly.) Should under- or over-withholding occur, the depositing or withholding agent (usually

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.

¹One month only.

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the first purchaser) is responsible for correcting that error to the extent possible by adjusting the amounts withheld in succeeding quarters. It is this type of adjustment that is reflected in the table. However, 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.

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

Quarter Ending	Tax Before Adjustments	Adjustments	Tax After Adjustments
Total	\$47,023	-\$2,165	\$44,858
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

According to taxpayers who provided complete detail on how the tax is computed [1], liabilities generated by the production of tier one oil have always been the dominant element. For the quarter ended June 1982, tier one oil represented 67 percent of the total production and included all domestically-produced crude oil other than oil specifically classified as tier two or three or explicitly exempted from the tax. Tier two oil represented 13 percent of the total production, and included oil produced from stripper well property and oil from economic interests in a Naval Petroleum Reserve held by the United States. Tier three oil accounted for 20 percent of production. Tier three oil included heavy oil, incremental tertiary oil and newly discovered oil. Newly discovered oil, the tax rate for which was lowered for oil removed in 1982, increased in importance as is shown below.

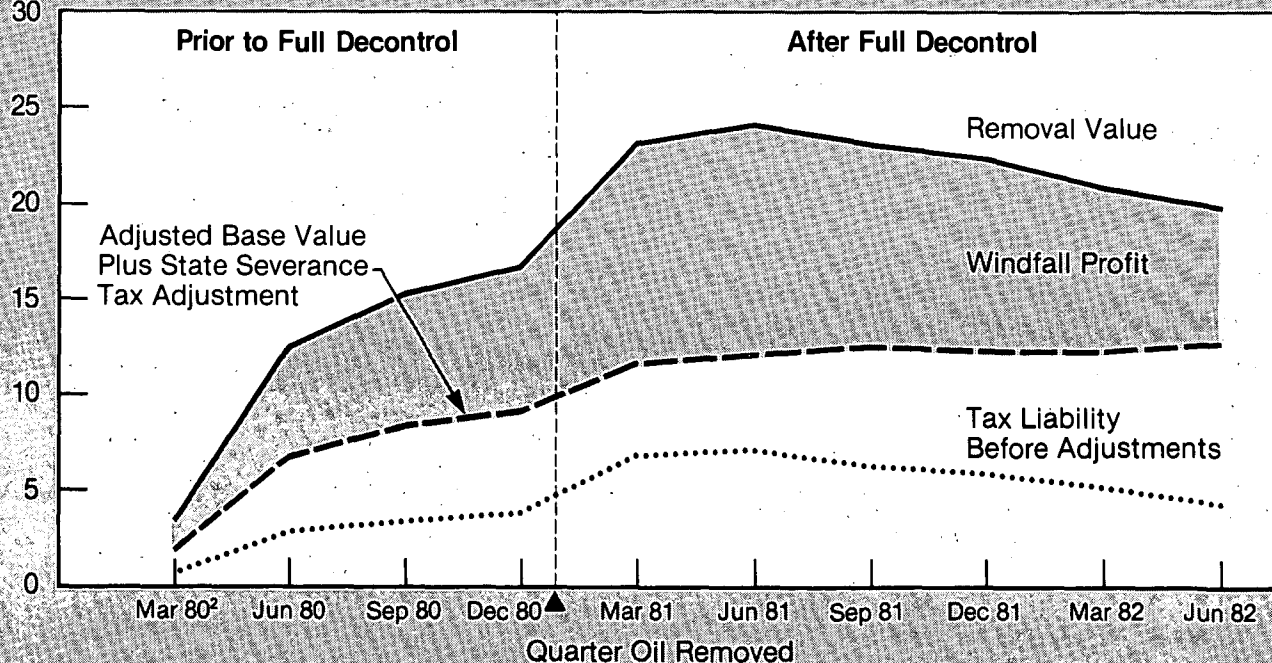
Percentage of Tax Liability by Tier of Oil

Quarter Ending	Tier One	Tier Two	Tier Three
June 1981	70	14	16
Sept. 1981	69	14	17
Dec. 1981	69	13	18
Mar. 1982	68	13	19
June 1982	67	13	20

^{1/} One month only.

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.

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.

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 proceeds 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.

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.

State Severance Tax Adjustment.--A state severance tax is 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 from 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 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] U.S. Department of Commerce, Bureau of Economic Analysis, Survey of Current Business.
- [3] Belal, Carol and Clark, Phil, "Windfall Profit Tax Liability for 1980," SOI Bulletin, Volume 1, No. 2, pages 50-54.
- [4] Joint Committee on Taxation (Staff), General Explanation of the Crude Oil Windfall Profit Tax Act of 1980, U.S. Government Printing Office, 1981.

Table 1. — Windfall Profit Tax Liability by Oil Tier and Tax Rate for Quarter Ending June 1982
Aggregate Components of Windfall Profit

[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.....	671,913	18,824	11,692	366	6,766	4,044
Tier one, other than Sadlerochit oil:						
Taxed at 70 percent.....	303,270	9,151	4,767	186	4,198	2,939
Taxed at 50 percent.....	28,933	901	465	26	410	205
Tier one, Sadlerochit oil:						
Taxed at 70 percent.....	118,277	2,211	1,885	58	268	188
Taxed at 50 percent.....	7	1	1	-	-	-
Tier two oil:						
Taxed at 60 percent.....	52,312	1,573	999	26	548	329
Taxed at 30 percent.....	32,832	1,008	647	16	345	104
Tier three oil (taxed at 30 percent):						
Newly discovered oil ¹	94,146	2,950	2,121	50	779	214
Incremental tertiary oil.....	9,400	296	211	4	81	24
Heavy oil.....	32,737	734	596	1	137	41
Returns with total tax liability only.....	-	-	-	-	-	240 ²

Table 2. — Windfall Profit Tax Liability for Returns Reporting Components of Windfall Profit by Oil Tier and Tax Rate for the Quarter Ending June 1982 Average Daily Production and Average Dollars per Barrel

Oil tier and tax rate	Daily production (000's)	Removal price	Adjusted base price	State severance tax adjustment	Windfall profit	Tax liability before adjustments
	(1)	(2)	(3)	(4)	(5)	(6)
All returns, total.....	7,384	28.01	17.40	.54	10.07	6.01
Tier one, other than Sadlerochit oil:						
Taxed at 70 percent.....	3,333	30.17	15.71	.61	13.85	9.69
Taxed at 50 percent.....	318	31.15	16.07	.89	14.19	7.09
Tier one, Sadlerochit oil:						
Taxed at 70 percent.....	1,300	18.69	15.93	.48	2.28	1.58
Taxed at 50 percent.....	(³)	29.02	15.34	.57	13.11	6.55
Tier two oil:						
Taxed at 60 percent.....	575	30.06	19.10	.49	10.47	6.28
Taxed at 30 percent.....	361	30.70	19.70	.47	10.53	3.15
Tier three oil: (taxed at 30 percent):						
Newly discovered oil ¹	1,035	31.33	22.53	.52	8.28	2.27
Incremental tertiary oil.....	103	31.49	22.47	.43	8.59	2.57
Heavy oil.....	360	22.41	18.20	.03	4.18	1.25

¹Newly discovered oil is taxed at 27.5 percent beginning in 1982; however, some returns continue to withhold at the 30 percent rate.

²Also includes \$34 million for returns that reported by tier and type, but did not report data for columns 1-5 in Table 1.

³Less than 1,000 barrels.

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

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Table 3. — Windfall Profit Tax Liability by Oil Tier and Tax Rate for January — June 1982
Aggregate Components of Windfall Profit

[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.....	1,340,365	38,828	22,903	812	15,113	9,010
Tier one, other than Sadlerochit oil:						
Taxed at 70 percent.....	611,183	19,032	9,451	407	9,174	6,422
Taxed at 50 percent.....	58,443	1,882	927	57	898	449
Tier one, Sadlerochit oil:						
Taxed at 70 percent.....	236,028	4,600	3,703	134	763	534
Taxed at 50 percent.....	27	1	-	-	1	-
Tier two oil:						
Taxed at 60 percent.....	104,010	3,235	1,959	56	1,220	732
Taxed at 30 percent.....	66,168	2,124	1,284	36	804	237
Tier three oil (taxed at 30 percent):						
Newly discovered oil ¹	182,657	5,886	4,048	108	1,730	479
Incremental tertiary oil.....	18,964	617	405	11	201	60
Heavy oil.....	62,886	1,452	1,125	2	325	98
Returns with total tax liability only.....	-	-	-	-	-	496 ²

Table 4. — Windfall Profit Tax Liability for Returns Reporting Components of Windfall Profit by Oil Tier and Tax Rate for January — June 1982 Average Daily Production and Average Dollars per Barrel

Oil tier and tax rate	Daily production (000's)	Removal price	Adjusted base price	State severance tax adjustment	Windfall profit	Tax liability before adjustments
	(1)	(2)	(3)	(4)	(5)	(6)
All returns, total.....	7,405	28.97	17.09	.60	11.28	6.72
Tier one, other than Sadlerochit oil:						
Taxed at 70 percent.....	3,377	31.13	15.46	.66	15.01	10.50
Taxed at 50 percent.....	323	32.19	15.86	.97	15.36	7.67
Tier one, Sadlerochit oil:						
Taxed at 70 percent.....	1,304	19.49	15.69	.56	3.24	2.26
Taxed at 50 percent.....	(³)	28.66	15.26	.63	12.77	6.39
Tier two oil:						
Taxed at 60 percent.....	575	31.10	18.83	.54	11.73	7.04
Taxed at 30 percent.....	366	32.09	19.41	.55	12.13	3.57
Tier three oil: (taxed at 30 percent):						
Newly discovered oil ¹	1,009	32.25	22.15	.59	9.51	2.63
Incremental tertiary oil.....	105	32.52	21.38	.58	10.56	3.16
Heavy oil.....	347	23.11	17.87	.04	5.20	1.56

¹Newly discovered oil is taxed at 27.5 percent beginning in 1982; however, some returns continue to withhold at the 30 percent rate.

²Also includes \$47 million for returns that reported by tier and type, but did not report data for columns 1-5 in Table 1.

³Less than 1,000 barrels.

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

Table 5. — Exempt Oil Volume by Tier and Category, Quarter Ending June 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.....	37,103	20,650	4,871	11,019	257	306
Exempt governmental interest.....	18,781	15,458	875	2,163	123	162
Exempt charitable interest.....	1,141	630	304	159	33	15
Exempt Indian oil.....	1,571	575	463	520	3	9
Exempt Alaskan oil.....	7,084	368	242	6,471	1	1
Exempt Royalty oil.....	8,525	3,618	2,986	1,705	97	118

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

Table 6. — Exempt Oil Volume by Tier and Category, January — June 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.....	69,899	39,872	8,579	20,320	531	597
Exempt governmental interest.....	36,715	30,271	1,705	4,197	248	295
Exempt charitable interest.....	2,304	1,231	575	342	128	28
Exempt Indian oil.....	2,802	1,126	916	737	5	18
Exempt Alaskan oil.....	12,855	523	245	12,085	1	1
Exempt Royalty oil.....	15,223	6,721	5,138	2,960	148	255

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