

Windfall Profit Tax, 1980-1981

By Rashida Belal*

Windfall profit tax liability after adjustments for the second quarter of 1981 amounted to approximately \$7.1 billion, bringing the first half of Calendar Year 1981 total to \$14.3 billion. Below is a summary of windfall profit tax liability by quarter and cumulatively since the inception of the tax. These data reflect adjustments made by the depositing or withholding agent because of error or the application of the net income limitation provision.

Windfall Profit Tax After Adjustments
(Millions of Dollars)

<u>Quarter Ending</u>	<u>Quarterly</u>	<u>Cumulative</u>
June 1981.....	7,142	24,262
March 1981.....	7,195	17,120
December 1980.....	2,991	9,925
September 1980.....	3,325	6,934
June 1980.....	2,821	3,609
March 1980.....	788	788

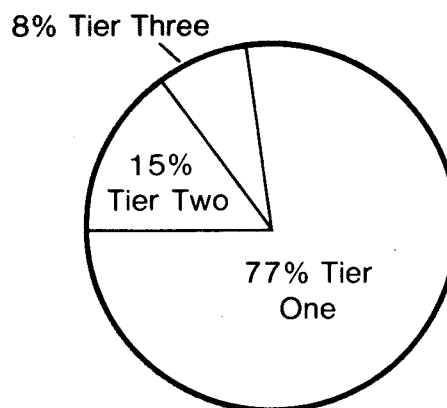
The tax begins to phase out when cumulative "net" revenues reach \$227.3 billion, with the phase-out beginning no earlier than January 1988 and no later than January 1991. The "net" revenue equals the gross windfall profit tax (excluding amounts attributable to U.S. governmental interests), \$24.3 billion to date, less refunds, the reduction in income taxes as a result of windfall profit taxes being deductible, and the royalty owner's credit.

Congress attempted to structure the tax in such a way as not to cause "adverse effects on domestic production" and to provide an incentive to producers to seek new sources of oil. Therefore, a structure was established so that the tax rate varied with the classification of the taxable crude oil into one of three tiers. Also, the law provides reduced tax rates for up to 1,000 barrels per day of tier one and tier two production by independent producers [1].

Tier one oil basically is oil that comes from high volume wells that were productive before 1979; as a result, it is accorded the highest tax rate of 70 percent (50 percent for independents). Tier two oil includes stripper well oil and oil produced from a National Petroleum Reserve, with a tax rate of 60 percent (30 percent). Tier three oil is newly discovered oil, heavy oil and incremental tertiary oil, taxed at 30 percent. About 70 percent of the oil produced has been tier one oil and it represents 77 percent of the liability (see also Table 1).

Five types of oil production are exempt from the windfall profit tax. In general these are (a) governmental interests; (b) charitable interests; (c) Indian oil; (d) certain Alaskan oil; and (e) certain oil deregulated in order to finance a tertiary recovery project ("front-end oil"). For the quarter ending June 30, 1981, there was a total of 16.8 million barrels of exempt oil reported and almost 85 percent was from exempt governmental interests (see Table 2).

Tax Liability by Tier March 1, 1980, Through June 30, 1981



For more detailed information concerning the tax, adjustments, and exempt oil, see the Winter issue of the SOI Bulletin [2].

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. Returns are due two months after the end of the quarter in which the oil is removed.

The data for 1980 are based on all returns filed without regard to amount of liability. Data for 1981 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. Data formerly published [2] for the first quarter of 1981 were based on returns with a tax liability of \$1 million or more before adjustments, adjusted upward to estimate total liability and barrels of oil. All data may be revised as additional returns are received.

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.

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Windfall Profit Tax, Second Quarter, 1981

Table 1.--Windfall Profit Tax Liability by Oil Tier and Tax Rate for the Quarter Ended June 30, 1981; Components of Windfall Profit Cumulative from March 1, 1980, to June 30, 1981

[Money amounts are in millions of dollars]

Oil tier and tax rate	Tax liability before adjustments		Returns with components of windfall profit cumulative from March 1, 1980 to June 30, 1981 ¹					
	Quarter ended June 30, 1981	Cumulative from March 1, 1980, to June 30, 1981	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)	(7)	(8)
All returns, total.....	7,253	25,167	1,442,183	46,247	22,446	1,257	22,543	13,213
Returns with tax liability shown by oil tier and tax rate:								
Total.....	6,869	22,312	1,442,183	46,247	22,446	1,257	22,543	13,213
Tier one, other than Sadlerochit oil:								
Taxed at 70 percent.....	4,631	14,128	736,786	23,604	10,547	650	12,407	8,684
Taxed at 50 percent.....	340	970	80,326	2,500	1,160	75	1,265	632
Tier one, Sadlerochit oil:								
Taxed at 70 percent.....	700	1,659	147,598	3,562	2,145	159	1,258	881
Taxed at 50 percent.....	3	19	1,207	44	17	2	25	12
Tier two oil:								
Taxed at 60 percent.....	560	2,899	139,389	4,937	2,393	118	2,426	1,454
Taxed at 30 percent.....	177	865	93,634	3,444	1,650	72	1,722	517
Tier three oil (taxed at 30 percent):								
Newly discovered oil.....	354	1,316	169,817	6,256	3,354	170	2,732	820
Incremental tertiary oil.....	13	32	6,181	203	122	6	75	22
Heavy oil.....	89	422	67,243	1,697	1,059	5	633	191
Total returns with tax liability not shown by oil tier and tax rates.....	385	2,855	-	-	-	-	-	-

¹Represents 72.4 percent of all returns tabulated and 52.5 percent of liability (79 percent of the liability for the first two quarters of 1981). Filers were not required to report this detail for 1980.

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

Table 2.--Exempt Oil Volume by Tier and Category, Quarter Ending June 30, 1981

[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.....	16,841	13,655	1,891	1,093	76	121
Exempt governmental interest.....	14,165	12,251	906	850	74	79
Exempt charitable interest.....	867	514	237	99	2	16
Exempt Indian oil.....	1,107	484	494	124	-	5
Exempt Alaskan oil.....	18	8	5	5	-	-
Exempt front-end oil.....	684	399	248	15	-	21

REFERENCES

[1] Joint Committee on Taxation (staff), General Explanation of the Crude Oil Windfall Profit Tax of 1980. U.S. Government Printing Office, 1981.

[2] U.S. Department of Treasury, Internal Revenue Service, SOI Bulletin, Volume 1, Number 3, Publication 1136, U.S. Government Printing Office, 1981.