MINUTE ITEM

This Calendar Item No. 24
was approved as Minute Item
No. 24 by the State Lands
Commission by a vote of 2
to 0 at its 10-30-80
meeting.

MINUTE ITEM

10/80
Thompson

24. IMPACT ON STATE TIDELANDS OIL REVENUE OF PROPOSED YIELD TAX ON OIL AND GAS.

36. THIRD MODIFICATION OF THE 1980-81 PLAN OF DEVELOPMENT AND OPERATIONS AND BUDGET, LONG BEACH UNIT, WILMINGTON OIL FIELD, LOS ANGELES COUNTY

Calendar Items 24 and 36 were considered together.

Mr. William F. Northrop, Executive Officer, stated the purpose of Calendar Item 36 was to augment the budget by almost $8 million to pay under protest the Long Beach Unit mining rights taxes. The additional funds are required because of the very large increase in assessed value by the Los Angeles County Assessor. Item 24 is asking the Commission to endorse a severance or yield tax on oil and gas properties in lieu of the ad valorem tax and endorse the exemption of the State from that tax.

Commission-Alternate David Ackerman asked what the other major oil producing states are doing. Mr. Northrop stated that with the exception of Pennsylvania, all the other states have a severance tax. He explained that a severance tax is deductible from the Federal Windfall Profits Tax, but that an ad valorem tax is not. Therefore, California finds itself in a unique position of being the fourth largest oil producer in the United States with a tax on oil and gas which is not credited against the producer's Windfall Profits Tax. The Treasury Department assumes that all states have a severance tax and the tax laws have been based on giving credit to the producers on this taxation concept. Mr. Northrop further explained that using the ad valorem concept, the assessor has to estimate what the future revenue is going to be to determine the assessed value and tax. It therefore encourages oil companies who are subject to this tax to try and understate their reserves and assessors to overstate the future revenues.

Mr. W. M. Thompson noted a hearing was scheduled on this subject by a legislative committee on November 25, and they were asking the Commission if the staff should testify. The Commissioners agreed the staff should testify, but asked them to meet individually with them before the hearing so they could go over the testimony.

Upon motion duly made and carried, the resolution as presented in Calendar Item 24 was approved by a vote of 2-0.

Attachment: Calendar Item 24

A 52, 57
S 27, 31

CALENDAR ITEM

24.

10/80
Thompson

IMPACT ON STATE TIDELANDS OIL REVENUE
OF PROPOSED YIELD TAX ON OIL AND GAS

Legislation (ACA 38 and AB 2796) was introduced this year that would impose a yield tax or severance tax on all oil and gas production in California at the rate of 3.12% of gross market value. The yield tax would be in lieu of the present system of ad valorem taxation. Under this legislation, the yield tax would replace the mining rights tax and the personal property tax on all down-well or nonrecoverable equipment, but the personal property tax on all surface equipment would remain. The yield tax would be levied on all oil and gas production. There would be no exemptions as there are with the ad valorem tax in cases where the right to produce is held by a tax-exempt entity. The Legislature has taken no action on this proposal.

The issue is being reactivated and will be the subject of a hearing of the Assembly Revenue and Taxation Committee on November 25, 1980.

Under present ad valorem tax laws, mining rights and personal property taxes are levied on the entire leasehold interest of State oil and gas leases issued or renewed after July 26, 1963. All taxes attributable to the State's royalty share are borne by the lessee pursuant to the terms of the leases. With respect to the net profits operations in the Long Beach tidelands, mining rights and personal property taxes are levied against the taxable possessory interests of the oil companies. Pursuant to a stipulated judgment, a few interests in the Long Beach tidelands are not taxable because the right to produce was deemed to be retained by a tax-exempt governmental entity. The taxes levied on the taxable interests are reimbursable expenses chargeable to the contractors' net profits accounts so that the taxes are borne by the City and State interest to the extent of their net profits percentage interest, which is approximately 95%.

The yield tax, as presently proposed, would be levied on all oil and gas production from State lands. On the State leases, it would be borne by the lessees because the leases require the lessees to pay all taxes. The yield tax would be a reimbursable expense under all of the net profits

A. 57, 58

S. 27, 31

CALENDAR PAGE 179
MINUTE PAGE 2470

contracts in the Long Beach tidelands so that approximately 95% of the total yield tax levy would be borne by the City-State interest.

The yield tax, unlike the property tax, will be passed on in part to the federal government because it will be an allowable deduction in determining windfall profit for purposes of assessing windfall profit taxes. The property tax is not an allowable deduction. The proposed yield tax eventually should generate more revenue for the State. It provides for reimbursement to local agencies of the amounts equivalent to each agency's base amount of property tax revenues attributable to oil and gas for the 1981-82 fiscal year. All yield taxes recovered in any year in excess of that base amount will remain with the State. One impact of the yield tax is that the revenue in excess of that for local agencies will be to the General fund. So while the State may receive greater revenues than with the present system, it could reduce the trust income available for distribution pursuant to the formula specified in Section 6217 of the PRC.

A comparison of the impact on State tidelands oil revenues of a 3% yield tax and the present ad valorem property taxes is attached. This information is provided for the Commission's use in deciding what position, if any, it might want to take on the yield tax proposal.

Comparison of Taxing Procedures
Present Ad Valorem Tax Versus Proposed Yield Tax

Long Beach Tidelands, 1979-1980

	Long Beach Unit		L.B. Harbor Dept.		
	Tract 1	Tract 2	Tidelands Parcel	Parcel A	Total
Approx. ad valorem tax paid in 1979-80	3,200,000	32,000	250,000	56,000	3,538,000
Est. 3% yield tax plus personal property tax	15,864,000	650,000	3,300,000	900,000	20,714,000
Proposed increase	12,664,000	618,000	3,050,000	844,000	17,176,000
State net profits share*	12,211,000	595,000	2,775,000	770,000	16,351,000
Dry gas - Long Beach Tidelands State share at 6% yield tax					

*Less any applicable decrease resulting from reduced windfall profit taxes. No amount calculated because of the uncertainty of the extent of the State exemption from windfall profit taxes.