

F. Leasing & Taxation

Taxes & Leasing

If you have large wealth you can invest ~~simul~~ simul instead of sequentially and so reduce ave. time lag.

Say success ratio is .10. Invest sequentially and you wait on ave 5 cycles

Invest in 10 at once and your chance of succeeding is not 100% - comp. by chance of succeeding twice

Whatever is the chance of succeeding in 10 tries - say $x\%$ - the lag is less if you shoot them all at once. The small investor can pool risk over time

The big investor increases his chances of success by taking 10 tries at once. He raises his chances to less than 100%, & $\therefore$ by less than ten times.

But he raises his cost 10 times. ~~As the~~ This disproportion is probly offset by chances of double & triple successes. Work out some simple math. e.g.s.

✓✓ Suppose bonus on dry holes is deductible, and otherwise not? If so, bias is pro low success ratios. More of expl. outlay is deductible.

Tax. & Leasing

Lease is more binding — both ways.

If lessee contracts to reserve future tax. to State, he is bound, future legis. cannot give away.

If lessee gets low present taxes, is no guarantee of his future ones.

If state contracts to leave future to lessee, is bound. But taxes are not contractual.

For intertemporal bargains, $\therefore$, leasing is better.

Leasing is ownership xfr. de facto, but less subject to prop. tax. Is it a more absolute ex. xfr. than sale of fee or title.

Lease lets Ak. discriminate w/o violating Comm. Clause. Can allow dedn. of Ak. costs & not outside costs. Same use of tax power unconst.

Leasing & taxes.

Rent-sharing is same as taxif land, exempting K.

allowing K recovery at hi i is rent sharing.

" " " " low i is same as taxif K income

" " " " zero i " " " " as heavily as land

" no K " (royalty) is " " " " gross sales

Ad val. rental is same as prop. tax on land

There is no lease element comp. to taxif K. Landlord wants lessee to apply K. May be a message there re prop. tax policy.

To recover from past mistakes at Prudhoe, must
use tax -- ~~the~~ leasing new lands won't do it.

Except leasing pipeline might do it. Value of r.o.w.
depends on value of oil at the end. State changes
8% of value of r.o.w. annually (99C 80.015) It doesn't say
how to define value of r.o.w.

99C 80.045 Field gathering lines are exempt from
the requir. of obtaining a r.o.w. lease, under A.S. 38.35.