Tax Increases on the American Oil and Gas Industry in the President's FY 2010 Budget Proposals

The American oil and gas industry agrees with President Obama that we need to encourage the development of renewable and alternative sources of energy. However, we strongly believe that it should be done as part of a comprehensive energy policy that encourages the development of all forms of domestic energy. Under the most optimistic projections of future energy use by the Department of Energy, the United States will continue to rely on fossil fuels for decades. Unfortunately, the President's Fiscal Year 2010 budget proposals are not a formula for energy independence/security.

The President's budget submission makes a huge tax hit on the oil and natural gas industry: when counting the industry's possible share of the more general revenue raisers (LIFO, superfund tax, etc.) and adding that to the industry-specific hits (Section 199, IDC's, etc.) the total will likely exceed $80 billion over ten years. With America in the midst of an economic recession, now is not the time to impose new taxes on the nation's oil and natural gas industry.

These new taxes could mean less U.S. energy production, fewer American jobs and less revenue at a time when we desperately need all three. More taxes also could reduce our nation's energy security by discouraging new investment in domestic oil and natural gas production and refining capacity and pushing those investments – and American jobs – abroad. These tax proposals may also lead to weaker American oil companies in the global competition for energy and greater reliance on foreign oil and natural gas.

Increasing taxes on the oil and gas industry could personally affect every individual shareholder in these companies or anyone with mutual fund investments or a retirement plan such as a 401K or Individual Retirement Account. The companies in the oil and gas industry cannot be viewed as entities entirely separate from the rest of the economy and society. What happens to the industry affects all Americans, in one way or another, and Congress and the administration should not lose sight of this very important fact.

	Totals 2010-2019 (millions of $)
Other revenue changes and loophole closers:	
Reinstate Superfund Taxes - This proposal would re-impose expired Superfund taxes on oil and chemical products, with the revenues targeted at cleaning up contaminated sites. Need for money to be appropriated limits the amount available for cleanups.	-17,205
Repeal LIFO - Repeal last-in, first out accounting method to account for how companies track the flow of inventories for tax purposes. This would result in a significant up front tax increase, place significant cash constraints on taxpayers and limit manufacturer's ability to manage inflation in their business.	-61,052
International enforcement, reform deferral, and other tax reform policies - This proposal would likely include some provision that would allow the U.S. to immediately tax income generated by foreign subsidiary activity (repeal of deferral) and put U.S. based companies at a competitive disadvantage with foreign competitors.	-210,000

Eliminate oil and gas company preferences:

Levy excise tax on Gulf of Mexico oil and gas - This proposal would impose a new excise or severance tax on oil and gas production from federal offshore leases. While not specified in this proposal, a similar proposal in the 110th Congress would have set the tax rate at 13%.	-5,283
Repeal enhanced oil recovery credit - This proposal would eliminate a tax credit associated with certain enhanced oil recovery costs. Taxpayers are currently not able to take advantage of this credit as it is phased out when the price of oil reaches a certain level. This credit is designed to help keep production flowing from high-cost U.S. oil and gas wells, when crude oil prices are very low.	---
Repeal marginal well tax credit - This proposal would eliminate a tax credit associated with production from heavy oil or low production volume wells. Taxpayers are currently not able to take advantage of this credit as it is phased out when the price of oil reaches a certain level. This credit is designed to help keep production flowing from this type of U.S. oil and gas wells, when crude oil prices are very low.	---
Repeal expensing of intangible drilling costs - This proposal would eliminate the ability for taxpayers to immediately deduct certain costs associated with drilling and developing wells for tax purposes and instead recover such costs over some period of time. This deduction helps keep U.S. projects cost competitive with foreign projects and provides upfront cash-flow for investment in new projects.	-3,349
Repeal deduction for tertiary injectants - This proposal would eliminate the ability for taxpayers to immediately deduct certain costs associated with tertiary recovery projects for tax purposes and instead recover such costs over some period of time. This deduction helps keep production flowing from high-cost U.S. oil and gas wells.	-62
Repeal passive loss exception for working interests - This proposal would limit the ability for some taxpayers to fully use losses generated from their oil and gas properties against other income.	-49
Repeal Sec. 199 for oil and natural gas companies - This proposal would deny taxpayers from claiming a deduction on their domestic oil and gas production and refining activities. This deduction is otherwise available for all other U.S. manufacturers and is targeted at preserving U.S. investments and jobs.	-13,293
Increase G&G amortization period for independent producers to 7 years - This proposal would require all taxpayers to recover the cost of geologic and geophysical costs over a seven year period in a manner that is similar to how these costs are treated by major integrated oil companies. The current deduction helps keep U.S. projects cost competitive with foreign projects and provides upfront cash-flow to invest in new projects.	-1,189
Repeal percentage depletion for oil and natural gas - This would require all taxpayers to recover their investment in mineral reserves as such reserves are produced rather than by a stated percentage each year. The current deduction provides additional cash-flow to invest in new projects.	-8,251