
Oil and natural gas taxes and “subsidies”

The U.S. oil and natural gas industry does not receive “subsidized” payments from the government to produce oil and gas. However, there are many provisions in the tax code that allow companies to recover their costs. The oil and gas industry are eligible for these deductions, which are similar to, if not the same as, deductions available to many other industries.

Tax deductions should in no way be confused with subsidies. A fundamental pillar of the U.S. income tax system is that businesses are taxed only on net income. This means that there needs to be some practical and fair method for businesses to recover costs. The policies underlying cost recovery provisions in the tax code legitimately utilized by the oil and natural gas industry are no different than those for any other industry, and are necessary to insure that our industry is treated no differently than any other.

In fact, deductions allowed for the U.S. oil and natural gas industry are often more restrictive when compared with other industries. For example, Section 199 (the manufacturing tax deduction), which some in Congress have proposed eliminating just for the oil and gas industry, is already one-third lower on a percentage basis than for other industries.

Here are the facts about industry taxes and “subsidies”:

- In 2009, according to the Compustat North American Database, U.S. oil and natural gas companies paid income taxes at an effective rate (48.4 percent) that was 70 percent higher than the effective rate (28.1 percent) of the S&P Industrial companies.
- U.S. oil and gas companies pay on average almost \$100 million every single day to the federal treasury in rents, royalties, and lease payments – these do not include excise tax payments.
- U.S. Energy Information Administration data show the major U.S. oil and natural gas producers paid \$300 billion in income taxes between 2004 and 2008. This does not include another \$60 billion in production, sales, use, property and other non-income taxes or \$350 billion in excise taxes paid on petroleum products.
- In 2008, 2009, and 2010, Congress has provided over \$65 billion in grants, credits, and other taxpayer subsidized incentives to renewable energy and conservation programs.

The oil and natural gas industry supports more than 9.2 million U.S. jobs, contributes 7.5% to GDP, supplies most of the nation’s energy, invests hundreds of billions in new energy projects annually – all while paying our fair share of taxes.

For more information, visit www.api.org/policy/tax.