AMERICAN PETROLEUM INSTITUTE

FY2017 Budget Calls for Over $400 Billion in Targeted Tax Increases on America's Oil & Natural Gas Producers

The Administration's FY2017 Budget includes proposals that again target the U.S. oil and natural gas industry for tax increases. Between proposed tax reform "reserves" and other provisions, the industry would be burdened by over $400 billion in additional taxes.

Modernizing our tax code to help drive economic growth is a worthy goal. However that effort should not supplant politics for policies that work. America's oil and natural gas industry already returns tens of millions to the federal Treasury every day, and continues to pays taxes at far higher effective rates than most other industries. Proposals that negatively target an industry for tax increases are not sound policy and would push oil and natural gas investment elsewhere, and further stifle economic activity here at home. This would result in less domestic energy production – particularly of natural gas – more imports, even fewer new jobs, and eventually depressed revenue to the federal government. Smart tax policy should never pick winners-and-losers or punitively target a single industry.

Below are the specific provisions targeted in the FY2017 budget:

New Oil Fee ($319B) – This proposed tax of $10.25 per barrel would be imposed on domestically produced crude and imported crude and petroleum products. Exported crude and petroleum products would not be subject to the tax and domestically sold home heating oil would be temporarily exempted. The tax would be phased in over a five-year period.

Targeted repeal of Sec. 199 for only Oil and Natural Gas Companies ($9.1B) – This deduction was established in 2004 to help U.S. manufacturers maintain and create U.S. jobs. This deduction is available on qualifying income from all domestic manufacturers at 9%; however the oil and natural gas industry is limited to only 6%. Repealing this deduction for ***only*** the oil and gas industry places hundreds of thousands of jobs at risk and undermines efforts to reduce our dependence on foreign oil.

Repeal Expensing of Intangible Drilling Costs ($10B) – Drilling for oil and natural gas involves expenses such as site preparation and labor, representing 60 to 80 percent of the cost of the well. Since 1913, companies have been able to expense these costs, much like the R&D deduction enjoyed by other industries. Cost recovery is an essential part of all business models and IDC, just like R&D, serves identical policy goals: innovation, development, and growth. Eliminating the IDC deduction would discourage innovation in the energy sector, jeopardizing additional valuable advances in oil and gas exploration, high paying jobs, and America's energy security.

Modifications of Dual Capacity Rule ($9.6B) – The Budget's international provisions include a proposal to modify rules for dual capacity taxpayers. This modification will subject only U.S. based companies to double taxation on income earned overseas and greatly impact both foreign and domestic investment. Studies indicate U.S. based oil and gas companies will be significantly restricted from growing and expanding in the world marketplace – costing US revenues and US jobs that support overseas operations.

Repeal of LIFO ($28.4B[i]) – The "last-in, first-out" or LIFO accounting method is not a "gimmick" or tax loophole. It is a well-established way to determine book and taxable income for companies that anticipate inflation or rising prices over the course of their operations used by many industries.

Repealing LIFO would require companies to redirect cash or sell assets in order to cover the tax payment – potentially destroying some businesses.

Increase G&G Amortization Period and Repeal Deduction for Tertiary Injectants ($1.6B) – Changing how these costs are recovered could limit US production of oil and natural gas. These provisions allow producers to quickly recover the costs of finding new reserves and the costs associated with keeping older reserves going. Increasing the amortization period for these costs impacts the cash flow needed to keep oil and natural gas production strong.

Reinstate Superfund Taxes ($11.1B[ii]) – The proposal to reinstate Superfund taxes would impose additional taxes on crude oil and petroleum products unfairly. These products do not account for a substantial portion of the Superfund liability yet would be responsible for most of the taxes.

Repeal of Percentage Depletion ($4.9B) – For over a century small mineral right owners have been able to easily recover their investment costs in the underlying mineral is produced by using percentage depletion. Requiring cost depletion will add costs and confusion to individual taxpayers and small companies.

Treat MLPs for Fossil Fuels as C corporations ($1.4B) – Master Limited Partnerships (MLPs) are entities that are treated as partnerships for tax purposes but whose ownership shares are traded publically. Income from MLP assets is taxed once upon distribution and this proposal would impose a second level of tax on fossil fuel MLPs.

Repeal of Enhanced Oil Recovery (EOR) ($8.8B) – This provision phases in as the price of domestic oil falls below a defined price floor in order to support continued production from older reserves.

The API opposes these targeted tax increases outlined in the Administration's FY2017 Budget and considers them punitive and harmful to an industry that continues to provide stable, high-paying American jobs.

There is a choice when it comes to the policies that will help shape America's energy future. Sound energy policies consisting of oil and natural gas development – unfettered by the kind of tax increases the administration is proposing – could create one million new jobs in just seven years and increase revenue to federal and state governments by $127 billion by 2020 and $800 billion by 2030. For the industry, our nation's economy, and the American people, the choice seems clear.

For more information, visit **api.org/tax**

[i] Estimated oil and natural gas industry share (35%) of total OMB FY2017 Budget score.
[ii] Estimated oil and natural gas industry share (50%) of total OMB FY2017 Budget score.