AMERICAN PETROLEUM INSTITUTE

Repealing the Section 199 Manufacturing Deduction for Oil and Natural Gas Companies Puts Jobs at Risk

In 2004, Congress enacted the Section 199 deduction which makes deductible a portion of income derived from domestic production, manufacturing and extractive activities to encourage job expansion and creation in the US. This deduction was enacted at a 3% rate and graduated to 6% and then 9% in 2006 and 2008 respectively for all who qualify. For most U.S. manufacturers the current deduction is 9% of their net income derived from qualified domestic production activities. The oil and natural gas industry was denied the ability to use the 9% like other industries and is the only sector frozen at a 6% deduction[1].

Proposals to eliminate the Sec. 199 deduction altogether for only the oil and natural gas industry will have the harmful effect of hurting American energy workers and their contributions to our economic recovery. The purpose of Sec. 199 is to encourage domestic job creation, and investment among US manufacturers and producers – something we have been, and continue to do every day. From 2004-2007, the oil and natural gas industry was responsible for nearly 2 million additional domestic jobs and billions in infrastructure investments.

- Since the inception of Sec. 199, additional jobs have led to increased US production which strengthens our energy security. Despite declining reserves and access restrictions, according to DOE:
    - Oil production has increased 5.6% between 2005 and May 2010
    - Federal offshore Gulf of Mexico production increased 22%
    - North Dakota production, including the Bakken oil reserve region, has increased 122%, and
    - Domestic natural gas production has increased 16%

- According to a Wood Mackenzie study, the repeal of Sec 199 and other proposed tax changes could place as much as 600,000 boe/d at risk in 2011 and by 2017, more than 10% of US oil and gas productive capacity could be compromised. This volume accounts for approximately $10-17 billion in direct upstream investment per year. These proposed tax changes for only the US oil and gas industry could also place thousands of jobs at risk:
    - 58,800 direct, indirect and induced US jobs are at risk in the year implemented
    - 165,000 total direct, indirect and induced US jobs at risk by 2020
    - The Rocky Mountain, on-shore Gulf Coast, and mid-Continent regions of the US have the highest potential jobs at risk

- Repeal of the deduction would threaten some of the 9.2 million high paying jobs supported by the US oil and gas industry. The average salary of an extraction and production job (including petroleum geologists, refinery workers, rig builders, accountants, chemical engineers, environmental technicians and many other categories of workers) directly supported by the oil and gas industry is $52,000 *higher* than the average salary in the US.

- Eliminating the deduction would force the industry to pay more in taxes, creating special challenges for financing high-cost domestic projects. Paying billions more in income taxes would make it harder to find the capital to build costly projects such as a major refinery expansion, and would be harmful to our domestic energy security and continued job creation.

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

[1] The 2015 Omnibus package allowed independent refiners to deduct certain transportation costs under Sec. 199.