NORTH AMERICAN Impact of IDC Repeal

How repeal of IDCs will affect U.S. onshore and offshore energy development and the economy

Intangible Drilling Costs (IDCs) are ordinary and necessary business expenses required for the drilling, or preparation of oil and natural gas wells—such as wages, fuel, and other non-recoverable expenses. These costs represent 60 to 90 percent of the cost of a well. Taxpayers can currently elect to recover these costs as spent and put the cash back into the next well or mineral lease. However, some in Washington have proposed that these standard business deductions be capitalized for the oil and natural gas industry.

A new study by the energy consulting firm, Woods Mackenzie, currently projects an increase in domestic production of oil and natural gas of 20% over the next decade. This is production that will be tied to hundreds of billions of investment in our economy, billions in government revenue and energy security here at home and to the over 9 million American jobs currently supported by the oil and natural gas industry.

However, their study also identifies the impacts of repealing the IDC deduction on our domestic energy landscape and paints a very different picture. This repeal would have an almost immediate impact of job losses and less investment. Over time changing the current tax treatment of IDC will harm US energy production and hurt our overall economy.

This impact can be quantified in the following ways:

~9 Billion  Total barrels of oil equivalent production by 2023
10,000  Fewer number of wells drilled over the next decade
265,000  Total number of jobs lost in the U.S. by 2023
$407 Billion  Total reduction in capital expenditures in the U.S. economy over the next decade

Tax policy decisions should drive economic growth, not restrict it. America’s oil and natural gas industry already contributes in capital and jobs to the economy but it also contributes in other ways. On average, the industry pays over $85 million per day in taxes, royalties and other revenue to the Federal government, while having a total effective tax rate over 44%. In addition, the industry provides substantial revenue to state and local governments as well as individual land owners.

Americans understand the impact of taxes on energy. According to a March 2013 poll, 63% of voters believe raising taxes only on America’s oil and natural gas industry, or just on a handful of companies, would be bad tax policy, as well as unfair and discriminatory.

Congress Should Retain The Current Treatment Of IDC Costs.