H.R.5644, the END BIG OIL TAX SUBSIDIES ACT

Congressman Earl Blumenauer ▪ Third District of Oregon ▪ www.blumenauer.house.gov

End Unnecessary Tax Breaks for Big Oil

For decades, the oil industry has enjoyed billions of dollars in subsidies and tax breaks despite making record-breaking profits. While ordinary Americans pay into the tax system, Big Oil benefits from exemptions that will total around $35 billion over the next five years. At a time when the top five oil companies made more than $123 billion in profits in 2007, these unnecessary carve-outs have exacerbated the deficit, undermined our ability to invest in clean, renewable energy, and damaged our environment – with the tragic oil spill in the Gulf of Mexico demonstrating the consequences of our addiction to oil.

At time when we are working to recover the economy and curb the deficit, America cannot and should not subsidize the most profitable corporations in the world. President Obama's FY 2011 Budget proposed ending many of these tax breaks, which could reduce the deficit and fund national priorities from education to clean energy. At the recent G-20 Summit in Pittsburgh, the administration again agreed to eliminate these subsidies, which will save taxpayers an estimated $35 billion over 10 years.

Re-Balance our Energy Investments

Instead of wasting taxpayer dollars to subsidize the highly profitable and technologically mature fossil fuel industry, instead invest in renewable energy. This would help break America's addiction to oil, curb global warming pollution, and reduce our dependence on foreign oil imports. Through targeted tax credits to renewable energy and efficiency efforts, we will create hundreds of thousands of jobs in construction, manufacturing, installation, electrical, and other industrial sectors.

The unique tax breaks enjoyed by the oil industry provide unnecessary and harmful incentives for exploration, drilling, and refining activities that cause serious pollution and severely impact public health. They also keep America tied to oil like an anchor, which is a threat to the environment and national security. The United States consumes 25% of the world's oil but has less than 3% of the proven reserves. Simple math shows that in the decades to come, there is not enough oil to fuel our transportation sector – which accounts for 75% of our oil consumption.

By continuing to artificially subsidize fossil fuels, we undermine investments that will guarantee our energy dependence. It is time for our country to shift gears and direct our limited resources away from the fuels of the past and towards initiatives that will secure a clean and secure energy future.

Highlights of the Legislation

The End Big Oil Tax Subsidies Act would remove unnecessary subsidies for the biggest oil companies, including a number of the tax credits, deductions, special depreciation rules, exclusions, and exemptions for various activities associated with exploring, drilling and refining activities. Unlike the burgeoning clean energy industries, oil companies have been drilling, exploring, and researching for decades and no longer need help from the American taxpayer.

To protect American small businesses, these subsidies will be preserved for small independent producers.

A full summary of the provisions in the bill follows:

For more information, contact David Skillman in Rep. Blumenauer's office at (202) 225-4811.

- End the section 45I credit for wells that are nearing the end of their useful lives and that are producing limited quantities of higher cost oil and gas.

- End the section 43 credit, which provides oil companies a 15% credit for the cost of extracting oil using costly technologies after the readily accessible oil has been exhausted. This credit allows companies to off-set the cost of chemicals and injectants to access oil and the cost of constructing pipelines and related facilities.

- End the section 263(c) provision allowing the expensing of "intangible drilling costs." This means the oil company can deduct the full amount of those costs in the first year they occur, rather than—as other businesses would—amortizing them over time. These intangible costs include the cost of wages, planning costs, and the supplies relating to drilling wells.

- End the section 613 depletion for oil and gas wells, which allows oil and gas companies to deduct 15% of the income produced by the well each year. This deduction often ends up deducting more than the value of the investment in the well, according to a report by Friends of the Earth.

- End the section 193 deduction for tertiary injectants, or chemicals and other solvents injected into the ground to retrieve oil, during the taxable year. The deduction would remain for processes using anthropogenic carbon dioxide as an injectant.

- End the section 469 exception for passive loss limitations for oil and gas properties, which allows oil and gas companies to shelter active income. Typically, active income must be offset with active losses or deductions, if at all. But that's not true if you own an oil and gas well -- there you can off-set your income with losses, even though you don't materially participate in the business that lost income. It is a classic tax shelter that has been eliminated in much of the rest of the tax code.

- End the section 199 domestic manufacturing deduction for oil and gas production, so that oil and gas companies don't get a unique benefit simply for generating income from domestic oil and gas activities. This deduction allows for the deduction of a percentage of the gross receipts of domestic production minus the costs associated with that production.

- Modify § 179C, Election to Expense Certain Refineries. This provision was added to the tax code in 2008 to allow the write-off of the costs associated with the construction of refineries to process tar sands or shale oil – among the dirtiest and most wasteful of energy to generate. The bill would bar oil companies that exploit shale and tar sands from taking advantage of the expensing provision.

- Repeal Last-In, First-Out (LIFO) accounting for the major integrated oil companies. LIFO is being phased out as the United States moves to an international accounting standard. While it persists, it allows the large oil companies to hugely understate their income.

- Match the section 167 amortization periods for oil and gas companies at 7 years. Certain companies may write off the costs associated with exploratory work in two years, while other companies must amortize those same costs over seven years; this will level the playing field by requiring seven years for all large oil companies.