

Repeal tax breaks and other giveaways to oil companies

Big oil companies are swimming in a sea of record-breaking profits while American consumers and taxpayers pay the price. Congress should act immediately to repeal the more than \$14 billion in tax breaks and other handouts that needlessly benefit oil and gas companies. Elected officials should instead direct this money to programs that would help consumers today and address the root of the problem—our dependence on oil—in the long term.

Big Oil profits while consumers feel the pinch

The world's biggest oil companies are reaping record-setting profits. In the third quarter of 2005 alone, the five biggest companies earned a staggering combined total of more than **\$30 billion**:

Company	3 rd Quarter Profits	% increase
ExxonMobil	\$9.92 billion	75 percent
Royal Dutch Shell	\$9.03 billion	68 percent
BP	\$6.5 billion	34 percent
ConocoPhillips	\$3.8 billion	89 percent
Chevron Texaco	\$3.6 billion	12 percent

These companies are benefiting at the expense of ordinary Americans, who are struggling to meet the high cost of energy. Consumers have felt pain at the pump for months, but the worst may be yet to come: the Energy Department is predicting that the cost of winter home heating will rise as much as 41 percent over last year. For low-income families, the skyrocketing cost of home heating could force a difficult choice between heating, food and other basic necessities.

Oil companies benefiting from \$14 billion in government handouts—despite record profits

The biggest oil companies aren't just benefiting from the high prices consumers are paying for energy. They are feeding at a government trough of tax breaks and other handouts courtesy of the American taxpayer. This summer Congress lavished **\$2.6 billion in tax cuts** on oil and gas companies as part of the Energy Policy Act of 2005. The bill also included a \$1.5 billion fund for an oil consortium in Tom DeLay's congressional district, bringing the bill's total handouts for oil companies to **more than \$4 billion**.

These companies already had **more than \$10 billion in tax breaks** available to them prior to passage of the energy bill. All told, oil companies have more than \$14 billion in tax breaks, spending subsidies and other handouts available to them—despite their record-breaking profit margins.

These tax breaks and subsidies tilt the energy playing field even further toward oil and gas companies and away from efficiency, conservation and renewable energy—the solutions that will help consumers today, and reduce our dependence on oil in the future.

Tax breaks contained in H.R. 6, the Energy Policy Act of 2005

Congress enacted **\$2.6 billion** in tax credits benefiting the oil and gas industry when it passed H.R. 6, the Energy Policy Act of 2005. The bill included the following tax credits:¹

- **Expensing for refining equipment** **\$406 million**
This tax credit allows companies to deduct 50 percent of the cost of certain equipment used at oil refineries to refine liquid fuels.
- **Low sulfur diesel expensing** **\$7 million**
This credit allows the deduction for costs incurred to comply with EPA's low sulfur diesel regulations to be passed through to members of a cooperative.
- **Natural gas distribution lines** **\$1.09 billion**
This tax credit accelerates the rate at which companies can deduct the cost of natural gas distribution pipelines, reducing the depreciation time from 20 years to 15 years. (Note: there is some disagreement about how much this actually benefits the oil and gas companies versus utilities).
- **Natural gas gathering lines** **\$16 million**
This credit accelerates the rate at which companies can deduct the cost of natural gas gathering lines, establishing a 7-year depreciation recovery period.
- **Exemption from bond arbitrage rules** **\$53 million**
This provision exempts prepayments for natural gas from tax-exempt bond arbitrage rules.
- **Refiner exception to oil depletion deduction** **\$158 million**
Prior to passage of the energy bill, small refiners were eligible for percentage depletion deductions if their daily refinery runs never exceeded 50,000 barrels. This provision expands the credit by allowing refiners whose average daily production remains less than 75,000 barrels to claim it.
- **Geological and geophysical expenditures** **\$974 million**
This credit allows companies to deduct the costs associated with searching for oil, amortizing the costs over a two-year period. Companies would still be eligible for this deduction even if they discover oil and gas.

Existing tax breaks

The energy bill only added to a tax code already replete with more than \$10 billion in tax breaks for oil and gas companies:

- **Sec. 29 credit for non-conventional fuels** **\$5.1 billionⁱⁱ**
This tax credit supports the production of "non-conventional" fuels. Its primary beneficiary is producers of coalbed methane, a lucrative and environmentally harmful form of energy production that is scarring western states and threatening scarce water supplies.
- **Oil and gas percentage depletion allowance** **\$2.8 billion**
This credit allows "independent" oil companies (those that aren't substantially involved in retailing or refining) to deduct 15 percent of their sales revenue to reflect the declining value of their investment.

This flat deduction bears little resemblance to the actual loss in value over time and companies often end up deducting more than the value of their initial investment.

- **Intangible drilling costs** **\$2.4 billion**
Integrated oil companies such as ExxonMobil are allowed to immediately deduce 70 percent of “intangible drilling costs” such as the cost of wages, supplies, and site preparation, rather than capitalizing them. Smaller, independent oil and gas producers are allowed to immediately deduct all of their intangible drilling costs.

ⁱ *Estimated Budget Effects of the Conference Agreement for Title XIII of HR 6, the Energy Tax Incentives Act of 2005.* Joint Committee on Taxation, JCX-59-05. July 27, 2005.

ⁱⁱ The estimates for these provisions are provided by the Joint Committee on Taxation, and represent the five year costs of the tax provisions from fiscal year 2005-2009. These estimates can be found in JCS-1-05.