

# Close Big Oil Tax Loopholes

The Close Big Oil Tax Loopholes Act would repeal tax subsidies for the "Big 5" oil companies. The nation's five largest oil companies (BP, Exxon, Shell, Chevron, and ConocoPhillips) took home nearly \$1 trillion in profits over the past decade, with only a small percentage of those earnings going towards exploration and research. The Close Big Oil Tax Loopholes Act would finally put an end to unfair taxpayer handouts to these highly profitable companies, raising \$22 billion in savings towards deficit reduction over 10 years.



**\$470 billion**

gift to one of the most profitable industries in the world paid for by U.S. taxpayers because of loopholes



**\$310 billion**

in profits for the Big 5 oil companies over 5 years



**\$92 million**

Big Oil CEO pay in 2016



**100 years**

of oil and gas companies successfully lobbying for billions in lucrative tax breaks

# Close Big Oil Tax Loopholes

## SECTION-BY-SECTION SUMMARY

### **Sec. 101. Modifications of foreign tax credit rules applicable to major integrated oil companies which are dual capacity taxpayers:**

U.S. taxpayers are taxed on their income worldwide, but are entitled to a dollar-for-dollar tax credit for any income taxes paid to a foreign government. U.S. oil and gas companies have been accused of disguising royalty payments to foreign governments as foreign taxes. This allows them to lower their taxes in the U.S. The bill would close this loophole that amounts to a U.S. subsidy for foreign oil production for the Big 5.

### **Sec. 102. Limitation on deduction for income attributable to the production of oil, natural gas, or primary products thereof:**

In 2004 Congress enacted Section 199, the domestic manufacturing tax deduction. In 2008 Congress froze the Section 199 deduction at 6% for all oil and gas activity. The bill eliminates the Section 199 deduction for the Big 5.

### **Sec. 103. Limitation on deduction for intangible drilling and development costs:**

Would deny the Big 5 oil companies the option of expensing Intangible Drilling Costs (IDCs) and require such costs be capitalized. IDCs are expenditures such as wages, fuel, repairs, hauling, and supplies necessary for the drilling of oil wells. Currently, integrated oil companies can expense 70% of the cost of IDCs. The bill requires the Big 5 to capitalize all of its IDC costs.

### **Sec. 104. Limitation on percentage depletion allowance for oil and gas wells:**

Firms that extract oil and gas are permitted a deduction to recover their capital investment under one of two methods. Cost depletion allows for the recovery of the actual capital investment—the costs of discovering, purchasing, and developing the well—over the period the well produces income. Under this method, the taxpayer's total deductions cannot exceed its original investment.

Percentage depletion allows the cost recovery to be computed using a percentage of the revenue from the sale of the oil or gas. Under this method, total deductions could (and often do) exceed the taxpayer's capital investment. The bill repeals percentage depletion for the Big 5.

### **Sec. 105. Limitation on deduction for tertiary injectants:**

Tertiary injectants are used in enhanced oil recovery to drive more oil from an existing well. Currently, oil companies are allowed to deduct the cost of tertiary injectants rather than capitalizing their costs and recovering them over time. The bill requires the Big 5 to capitalize the cost of tertiary injectants it uses during the year and recover those costs over time.

### **Sec. 201. Repeal of Outer Continental Shelf deep water and deep gas royalty relief:**

Repeals Sections 344 and 345 of the Energy Policy Act of 2005. Section 344 extended existing deep gas incentives and Section 345 provided additional mandatory royalty relief for certain deepwater oil and gas production. These changes will help ensure that Americans receive fair value for Federally-owned fossil fuel resources.

### **Sec. 301. Deficit Reduction:**

All savings realized as the result of the bill's elimination of the tax breaks and other subsidies currently going to the major integrated oil companies are devoted to deficit reduction.