



ATR ENERGY TAX HIKE SERIES

OBAMA 2011 BUDGET ANALYSIS

Amortization Period Increase

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Current Law

According to IRS Publication 535, “Business Expenses”, the current law states: You can amortize the cost of geological and geophysical expenses paid or incurred in connection with oil and gas exploration or development within the U.S.

These costs can be amortized over a 24-month period beginning on the mid-point of the tax year in which the expenses were paid or incurred. For major integrated oil companies (as defined in section 167(h)(5)) these costs must be amortized ratably over a 5-year period for costs paid or incurred after May 17, 2006 (a 7-year period for costs paid or incurred after December 19, 2007).

Obama 2011 Budget

Increase the amortization period to seven years will result in a **\$44 million tax increase for energy companies in 2011 and a \$1.1 billion tax increase by 2020.**

ATR Analysis

Raising taxes on oil companies by increasing the amortization period of geological and geophysical (G&G) expenditures makes U.S. oil and natural gas exploration projects less competitive globally, thereby discouraging new U.S. production and increasing the nation’s reliance on imported oil. Almost all large oil and gas companies are publicly-traded entities, whose shares are owned by millions of investors through their 401(k) plans, retirement plans and pension funds. Taxing away the earnings of those companies negatively impacts the ability of hard-working Americans to achieve a more financially secure future.

Further, this tax will be passed on to every American family in the form of higher energy costs.

Increasing the amortization period results in A CORPORATE INCOME TAX INCREASE and is therefore a PLEDGE VIOLATION *unless* the increase is offset completely with other income tax cuts.

34 Senators and 172 Congressmen have signed the Taxpayer Protection Pledge. In so doing, they promised to their constituents and the American people that they would “oppose any net reduction or elimination of deductions or credits...”

Note: Budget neutrality (which is concerned with deficits) has no role in determining applicability of the Pledge. Rather, tax revenue neutrality (as scored by the JCT) is the only relevant metric for the purposes of the Pledge.