



ATR ENERGY TAX HIKE SERIES

OBAMA 2011 BUDGET ANALYSIS

Taxing of Foreign Earned Income

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Current Law

When company X's subsidiary earns income in a country not the United States, the subsidiary's income is subject to the countries system of taxation that it was earned in. When company X wants to bring the subsidiaries earnings back to the US, the subsidiary's profits, which were already taxes by a foreign country, are then taxed again by the US government.

Obama 2011 Budget

The Obama budget includes provisions to modify how dual capacity taxpayers report income and reform the rules allowing deferral of certain foreign income. By changing common accounting techniques these new provisions will raise taxes on American energy companies by **\$8.5-12 billion by 2020.**

ATR Analysis

Tax disincentive efforts focus on the punitive measures against foreign operations of U.S. based oil and gas companies. Subjecting American energy companies to double taxation will greatly impact foreign and domestic investments putting American companies at a competitive disadvantage.

The Obama tax increase has two components: it looks to determining tax credits on a pooling basis and prevent the splitting of foreign income and foreign takes.

Currently, foreign sourced income is taxed according to two separate categories: general and passive. While it differs slightly country by country, 'passive income is income from capital gains, dividends, investments and so forth. 'General' income is all other income and is taxed at a higher rate than passive income. The Obama budget proposes to end the present distinction between passive and general income. Conflating the two categories, passive and general, results in a net tax increase because the majority of income earned is general and is taxed at a much higher rate.

The second way this year's budget looks to raise money is by "splitting" creditable foreign taxes from associated foreign income. As such, a tax credit could be allowed for foreign taxes on income not subject to U.S. federal income tax.