



## ATR ENERGY TAX HIKE SERIES

### OBAMA 2011 BUDGET ANALYSIS

#### *Repeal Expensing of Intangible Drilling Costs*

##### Current Law

To encourage companies to continue developing oil deposits, they have the option to expense intangible drilling costs (IDC). Expensing IDC has proved vital in attracting investment in large up-front-risk projects, such as oil and natural gas exploration. Expensing costs include: labor, fuel, repairs, hauling, and supplies necessary for drill preparation and well construction.

##### Obama 2011 Budget

Obama's budget repeals IDC expensing which increases taxes by **\$1.202 billion in 2011 and \$7.839 billion by 2020.**

##### ATR Analysis

Since drilling costs are not liquid, a company cannot sell a hole, mining operations have been allowed to deduct these costs as first year expenses. Otherwise, oil explorers recover their initial investment over the lifespan of the property through its depreciation allowance. As such, explorers in failed mining operations will never recover their drilling costs deductions.

IDC remains relevant because although technology has advanced, concurrently has the difficulty of drilling operations. So while technology has opened up the potential for Lower Tertiary Trend mining it remains a precarious investment. Should IDC be repealed many American oil reserves could remain untapped, it would be too risky to develop them. Considering how much oil and natural gas Americans consume, it would be imprudent to discourage investors looking to develop and cultivate American oil reserves.

Repealing IDC undermines domestic oil production and increases American reliance on foreign oil. Decreased American oil production will inevitably lead to higher unemployment as fewer oil ventures will be undertaken. Similarly, less oil production will have the unintended consequence of decreasing government revenue. It is for all of these reasons that well-established IDC practices should remain in place.

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