



ATR ENERGY TAX HIKE SERIES

OBAMA 2011 BUDGET ANALYSIS

IRS Sec. 199 Repeal

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Current Law

The Internal Revenue Code (IRC) Section 199, the Domestic Production Activities Deduction, benefits all companies who produce goods on American soil – yet only energy companies are targeted for the cuts in deduction rates.

Prior to harmful energy legislation passed last Congress, businesses engaged in a qualifying production activity were eligible to take a tax deduction of 3% of the profits from this qualifying activity in tax years 2005 and 2006. The deduction increases to 6% of profit in 2007, 2008, 2009, totaling 9% in years 2010 and beyond.

However, the Pelosi-Reid energy agenda has implemented a Sec. 199 “freeze” at 6% - only for energy companies, thus further carving out their niche for non-traditional energy.

Obama 2011 Budget

- Impact on oil and natural gas: Repealing Sec. 199 will result in a **\$851 million corporate income tax increase in 2011 and a \$17.314 billion tax increase by 2020**
- Impact on hard mineral fossil fuels (coal): Repealing Sec. 199 will result in a **\$3 million corporate income tax increase in 2011 and a \$57 million tax increase by 2020**
- Total impact: Repealing Sec. 199 will result in a **\$854 million tax increase by 2011 and a \$17.371 billion tax increase by 2020.**

ATR Analysis

Culling America’s most productive energy sources for the purposes of taxation can only lead to higher energy prices for Americans. Energy companies will not pay the tax increase a repeal of Sec. 199 prompts, consumers will. This tax will be passed on to every domestic manufacturer, business, and American. Furthermore, a repeal of Sec. 199 undermines the 6 million workers that make up the oil and natural gas industry in the U.S. as it effects only domestic oil production.

Repealing the Section 199 deduction IS 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.