



# ATR ENERGY TAX HIKE SERIES

## OBAMA 2011 BUDGET ANALYSIS

### *Raises Taxes on Tertiary Injectants*

722 12<sup>th</sup> Street N.W.

Fourth Floor

Washington, D.C.

20005

T:(202)785-0266

F:(202)785-0261

[www.atr.org](http://www.atr.org)

#### Current Law

In order to mine inaccessible oil reserves, oil producers often inject liquids and gasses into an oil well's surrounding area, a process called tertiary injection. Domestic oil producers deduct the costs incurred from the tertiary injection process. Expenses that oil companies claim as deductions are: the cost of acquiring or producing the tertiary injectants, the costs associated with injecting, reinjecting, and recovering the purchased and produced tertiary injectants.

#### Obama 2011 Budget

The administration has proposed to repeal tertiary injectants deductibility status. Doing so would raise taxes on energy producers by **\$5 million in 2011 and \$67 million by 2020.**

#### ATR Analysis

Changing how tertiary injections are listed under the tax code, from deductible to capital, will raise the initial investment required by producers looking to extract oil. Section 193 of the IRS code states that oil producers should be able to deduct "costs related to injecting a substance with a transitory *effect on production*" and "costs of producing and reinjecting gas or hydrocarbon liquids utilized in a recycling process." Thus, if tertiary injectant deductions bolstered oil production, as the IRS code explicitly states, then rescinding it will have the opposite effect – stifling production.

The purpose of the deduction was to help producers pay for the high costs associated with tertiary injection. Changing how producers recover their initial investment could force companies to shut in older fields which would adversely affect local economies. In many tertiary injection projects carbon dioxide is the gas used to gain access to oil deposits. Utilizing carbon dioxide in enhanced oil recovery projects is one of the primary ways to prevent carbon dioxide from escaping into the atmosphere; keeping deductions for tertiary injectants would encourage this process.

Considering America's oil and natural gas industry is one of the largest, supporting more than 9 million jobs, increases the cost of energy for every American family.