



# ATR ENERGY TAX HIKE SERIES

## OBAMA 2011 BUDGET ANALYSIS

### *Deferred Interest Deduction for Energy Companies*

#### Current Law

In the simplest of terms, energy companies based in the United States who have foreign operations are allowed to claim a income tax deduction on their US taxes for foreign expenses.

This allows companies to deduct their expenses in the year they were incurred.

Traditionally, oil producers have been able to deduct approximately 15% of their income while coal producers have deducted 10%. Comparatively, sulphur and uranium producers have been able to deduct 22%.

#### Obama 2011 Budget

The Presidents proposed budget will prevent companies from being able to deduct expenses related to foreign activity until profits from those activities are repatriated to the US.

This forces the companies to realize their profits first before they can deduct expenses.

#### ATR Analysis

In this instance, a deduction delayed is a deduction denied. By waiting until the foreign earned profits are repatriated, inflation has eaten away at the real value of the deduction.

For example, assuming a historical inflation rate of 3 percent, a \$10,000 tax deduction would only be worth \$5,000 in less than 25 years. Many of the investments made by energy companies overseas are long-term projects whereby real profits may not realized until years later.

**The impact on the oil and gas industry is expected to be \$2.6 billion** – a cost that will be passed onto consumers in the form of higher energy prices.

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