

Tax Reform Must Tackle Oil and Gas Subsidies



May 10, 2011

The Honorable Max Baucus
Chairman, Senate Finance Committee
United States Senate
Washington, D.C. 20510

Dear Chairman Baucus,

As the Senate Finance Committee debates tax reform, Taxpayers for Common Sense Action urges you to protect taxpayers' interest and craft a bill that will trim unnecessary and wasteful oil and gas tax incentives. By eliminating wasteful and outdated tax breaks, Congress can bring valuable revenue to the Treasury and begin chipping away at the trillion dollar deficit.

As you've acknowledged, a major area for reform is with the many oil and gas tax subsidies. From traditional fossil fuels to synfuels, tax breaks should be eliminated across the board, starting with some of the biggest and most egregious. In this fiscal climate, any revenue generated from tax reform should go to deficit reduction and not other subsidies.

Since 1918, taxpayers have provided billions of dollars in subsidies to the fossil fuel industry and the time has come to scrub them from the tax code and save taxpayers billions in lost revenue from profitable corporations. Several near century old tax breaks, including the *Expensing of Intangible Drilling Costs* and *Percentage Depletion Allowance*, must be eliminated. These two tax breaks enacted in 1918 and 1926 were intended to reduce production costs while encouraging more exploration for oil and natural gas at a time when the industry was still being established. In subsequent years, more and more tax breaks have been added to the tax code to benefit the increasingly powerful and profitable oil and gas industry. In the past decade, despite rising oil and gas company profits, Congress has continued to provide the industry with new and expanded tax breaks and subsidies. And if current policy doesn't change, the industry will receive another \$50 billion in subsidies over the next five years.

Another enormous tax incentive is the Volumetric Ethanol Excise Tax Credit (VEETC). This expensive subsidy does not go to corn farmers or ethanol refiners, but to fuel blenders, such as Shell Oil who are already raking in huge profits. VEETC is outrageously expensive-- and extending this tax break just one year would cost taxpayers more than \$6 billion. VEETC is unnecessary to promote ethanol production; in fact, the Government Accountability Office recently concluded VEETC is no longer needed to incentivize ethanol production. In the last five years, U.S. taxpayers have given fuel blenders more than \$20 billion through the VEETC. This subsidy should be eliminated immediately, as called for in S. 871.

Energy tax reform offers a great opportunity to reform outdated and unnecessary taxpayer giveaways – and put taxpayers on a more sustainable energy path. We urge you to support the above cuts and craft a bill that will save taxpayers billions and stop the century old flow of subsidies to the mature fossil fuel and ethanol industries. For more information please contact me or Autumn Hanna at (202) 546-8500.

Sincerely,

Ryan Alexander
President

CC Ranking Member, Sen. Hatch