

MAKING SENSE OF THE MYTHS

Myth #1, AUGUST 12, 2011

MYTH

MYTH: OIL AND GAS COMPANIES HAVE A HIGH EFFECTIVE TAX RATE

“The effective tax rate for the industry is 41%.” – Jack Gerard, CEO, American Petroleum Institute

“The effective tax rate for our industry is 41% - much higher than others.” – Brian Johnson, Senior Tax Policy Advisor, American Petroleum Institute

“The effective tax rate for oil and natural gas companies is 41.1 percent, compared with 26.5 percent for the rest of the S&P Industrials.” – American Petroleum Institute Release

“In 2010, income tax expenses (as a share of net income before income taxes) averaged 41.1 percent, compared to 26.5 percent for other S&P Industrial companies.” – American Petroleum Institute Report

FACT

FACT: OIL AND GAS COMPANIES DO NOT PAY HIGHER THAN THE CORPORATE TAX RATE

Oil and gas companies have complained that they pay an effective tax rate of 41%. This figure has been repeated by numerous organizations and even members of Congress as reason not to eliminate some of the lucrative tax breaks these companies enjoy. But this figure is deliberately misleading because it includes all of the taxes oil companies pay local, state, and federal. It also includes taxes paid to foreign governments.

Oil companies also base their 41% figure on an accounting term of art known as “income tax expenses.” This figure also overstates how much these companies are actually paying in taxes because it does not account for deferred tax payments or credits that would reduce their overall tax bill.

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Taxpayers for Common Sense has called for the repeal of oil and gas subsidies for more than fifteen years. Some of the preferential tax treatment these companies receive was written into the tax code almost a century ago, in an effort to help the fledgling oil industry get off the ground. With sky-high oil prices and record industry profits and at a time when the federal debt is about to exceed the size of our entire economy, ending these oil and gas subsidies has become a hot topic of debate on Capitol Hill. Oil industry lobbyists and their boosters in Congress have promoted a number of myths about how much oil companies actually pay in taxes. We think it is important to set the record straight by highlighting some of the misinformation being circulated in order to defend outdated and unnecessary oil and gas subsidies.

