



# Just the FACTS...

## ...about the effective tax rates of oil and gas companies

The effective tax rate (ETR) sounds like it measures what oil companies are paying to Uncle Sam. What a company's ETR actually measures is the total amount of tax it expects to pay on a year's **worldwide** income. The income taxes taken into account include all local, state, national and foreign income taxes that are either owed currently or have been deferred to later years.

Oil and gas companies claim they pay an effective tax rate of 44 percent, while the U.S. corporate rate is 35 percent. Citing the global effective tax rate is misleading. The more useful measure of a company's U.S. tax burden is how much federal income tax it owes:

**1 Fact:** During the 2008-2012 period, the three largest U.S.-based oil and gas companies, ExxonMobil, ConocoPhillips, and Chevron paid average federal tax rates of 24.7 percent, 28 percent, and 26.7 percent, respectively.

Many of the largest U.S.-based oil and gas companies are also able to defer much of their total tax liabilities for substantial periods thanks to industry-specific tax provisions and to accelerated depreciation.

**2 Fact:** If the amount these companies deferred is not included in their tax payment calculation, the average "current" tax rates of ExxonMobil, ConocoPhillips, and Chevron during the 2008-2012 period fall to 16.5 percent, 24.5 percent, and 21.7 percent, respectively.

**Our Take:** The amount oil and gas companies actually pay to the federal government is much smaller than their total tax liability thanks to a combination of several tax subsidies, such as percentage depletion, deductions for intangible drilling costs (IDCs), and tertiary injectants, which give oil and gas producers significantly more generous capital cost write-offs than those available to other taxpayers – even small businesses. The oil and gas industry is mature and profitable enough that it does not need special tax treatment for its business investments.



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