Just the FACTS...

...about tax subsidies to oil and gas companies

Normally, a business cost of improving or extending the useful life of equipment or other productive property can be deducted from business income over a specified period of time. Special tax provisions, available only to the oil and gas companies, allow them to deduct their costs immediately:

1 **Fact: Special Percentage Depletion Allowance** allows independent oil and gas producers and royalty owners to deduct a flat percentage of the income from a mine or well. Unlike depreciation or cost depletion rules for other industries, percentage depletion enables oil and gas producers to claim tax deductions in excess of their investment. No other taxpayer has such a benefit.

2 **Fact: Deduction of Intangible Drilling Costs** allows most developers of oil and gas wells to immediately deduct the costs of designing and fabricating drilling platforms, which can represent 60 to 80 percent of the costs of drilling a well. The oil-industry argues that this is their version of the "Research and Experimentation" deduction that is available to other industries. Yet, oil companies repeatedly use the same or substantially similar equipment and processes on well after well but are still able to immediately deduct their costs as if these are research costs.

3 **Fact: Deduction for Tertiary Injectants** allows oil and gas companies to immediately deduct costs even though these injectants extend the life of an oil or gas well and increase the amount of oil or gas that is recovered.

Our Take: The amortization period for oil and gas industry should be based on economic data. The useful lives of oil rigs can last up to 40 years on some formations. 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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