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House Energy Bill Rewards Corporate Tax Avoiders

The energy bill being considered by the U.S. House of Representatives this week would create a host of expensive new corporate tax breaks, mostly targeted toward the oil and gas industry. The bill, H.R. 6, has been estimated to cuts taxes by over $8 billion over the next ten years. Specifically:

- The bill provides special accelerated depreciation rules allowing certain natural gas and electricity properties to be written off even faster than other capital investments, which are already allowed to be written off considerably faster than the assets actually wear out. For example, the bill would allow natural gas distribution pipelines to be completely depreciated over 15 years—far less than the actual useful life of such pipelines. **Ten-year cost: $3.1 billion**.
- The bill also allows "geological and geophysical" costs associated with oil exploration to be written off faster. **Ten-year cost: $1 billion**.
- A much smaller part of the bill's overall cost would encourage alternative energy policies such as energy-efficient home improvements and solar energy. **Ten-year cost: $500 million**.

The oil and gas producers who are the main beneficiaries of these tax breaks already pay federal taxes well below the legal 35 percent rate. A September 2004 CTJ/ITEP study found that profitable Fortune 500 companies in the **petroleum and pipeline industry collectively paid an average of 13.3 percent of their profits in federal taxes** during the three-year period between 2001 and 2003.

> "I will tell you with $55 oil we don't need incentives to oil and gas companies to explore. There are plenty of incentives. What we need is to put a strategy in place that will help this country over time become less dependent."
>
> *-President George W. Bush*

The study also found that the petroleum industry was among the biggest beneficiaries of the existing accelerated depreciation tax breaks between 2001 and 2003, reaping over $13 billion in accelerated depreciation tax breaks during this period —and that the **companies benefitting from these tax breaks actually reduced their overall investments by 5 percent during this period**.

"The failure of the Bush administration's accelerated depreciation tax breaks in 2002 and 2003 shows that business investment decisions are driven primarily by supply and demand, not by government attempts to micro-manage the economy," said CTJ Director Robert S. McIntyre. "Unfortunately, the Congressional leadership seems intent on ignoring this basic lesson."

For more information on the federal taxes paid by the petroleum industry, see Corporate Income Taxes in the Bush Years at http://www.ctj.org/corpfed04pr.pdf .

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