Business Deductions for America's Independent Producers Are Not Subsidies

Deducting Expenses and Receiving Subsidies are Different. The U.S. Tax Code, generally, taxes businesses on income. This means businesses, across sectors of the economy, are taxed on their earnings after the costs of doing business are deducted. Most businesses deduct their expenses. Conversely *subsidies* are either targeted tax reductions or direct payments from the government for a particular purpose.

Drilling Costs Expensing. America's independent producers have been able to deduct the costs associated with drilling for natural gas and oil that have no salvage value for more than 80 years. These "intangible" drilling costs are 65 to 80 percent of the capital expenditure budget of independent producers and eliminating this provision will decrease American jobs and production.

Percentage Depletion. All mineral resources are permitted to use percentage depletion as a way to reflect the decreasing value of their resource as it is produced. Originally added to the tax code in 1926, the oil and natural gas percentage depletion allowance only applies to America's smaller independent producers and royalty owners.

Tax Reform Must be Done Carefully

Reducing Corporate Tax Rates. Eliminating the tax deduction for drilling costs at current tax rates (Obama budget proposal) will cut independents' capital budgets by 25 percent. Eliminating the deduction even with lower tax rates (Obama corporate tax proposal) would reduce capital budgets by 20 percent.

Only Reducing the Corporate Rate Does Not Help Small Businesses. Nearly two-thirds of America's independent producers are small businesses, organized as *pass-through* entities. If Congress only lowers the corporate income tax rate, these small businesses will receive no benefit since they pay taxes as individuals.

Small Business Could Realize a Tax Increase. Pass-through entities take the same deductions as corporations. If Congress eliminates business deductions to pay for a reduction in the corporate tax rate, small businesses will no longer be able to use these deductions resulting in a tax increase.

Increasing Taxes on America's Independent Producers Will Eliminate Jobs

Lost Capital Investment Means Less American Production and Less Jobs. America's independent natural gas and oil producers have historically reinvested as much as 150 percent of their cash flow back into American production to create jobs and energy supplies here in the United States.

American Natural Gas and Oil Means Good Paying Jobs. 500,000 workers are employed in the exploration and production portion of the American natural gas and oil industry. These workers earn wages more than 50 percent higher than the average of all American manufacturing jobs. When unemployment is over 8 percent, we need these jobs.