

News Release



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Western Producers to Obama: Punitive Tax Hikes Will Cost Jobs and Limit Economic Growth

President's tax hikes would raise costs to consumers, threaten 260,000 western jobs

(Denver)- As President Obama prepares to deliver his second State of the Union address tonight, the Independent Petroleum Association of Mountain States (IPAMS) are imploring him to abandon plans to raise taxes on the small, independent energy companies who produce 82% of U.S. natural gas, 68% of U.S. oil, and support 260,000 jobs in the Intermountain West alone. These companies already pay an effective tax rate of 33%, which is much higher than most other American industries.

"With a \$1.35 trillion deficit for this year and a myriad of new programs being proposed, we are concerned that the President will once again target our industry with his \$80 billion in tax hikes," said Marc Smith, IPAMS Executive Director. "These proposed tax hikes could devastate small American energy companies, known as independents, who produce the clean, affordable, American natural gas that offers a real solution to our pressing economic, energy, and environmental challenges. These punitive policy proposals are contrary to the President's goals of rebuilding our economy, increasing energy security, and lowering greenhouse gas emissions.

"History has taught us that nothing is as devastating to economic recovery as raising taxes on energy. Increasing the tax burden on the independent producers will add inflationary pressures throughout all segments of the economy," continued Smith.

"Consumer spending accounts for two-thirds of our economy. When consumers are forced to spend more on driving to work and heating their homes, they have less money for discretionary spending. Raising taxes on American energy producers is the same as raising taxes on Americans-- it's that simple."

The President's anticipated tax increases would repeal expensing of intangible drilling costs (IDC), which are all costs incident to drilling domestic wells, and are similar to those expensed by all other manufacturing and production businesses. The President also intends to repeal the percentage depletion deduction, which helps small domestic producers keep marginal wells producing.

(more)

Percentage depletion and IDC deductions, which have been in the tax code since 1913 and 1926 respectively, encourage research, innovation and domestic energy production. Without them, the domestic natural gas industry would be disadvantaged compared to foreign producers and capital investment in American energy would be reduced by 30% to 50%.

The President also proposes reducing the expensing of geological and geophysical (G&G) costs, which are incurred while discovering new sources of American energy. G&G costs are similar to R&D costs, which are deductible for every other industry. Because of American ingenuity and advanced technologies, the American natural gas industry has increased gas reserves by 39% in the last three years, catapulting the U.S. into sixth place in world rankings. America has also surpassed Russia in terms of natural gas production because of superior R&D and better application of technology. It seems counterintuitive that the President would advocate policies to tax capital away from new discoveries of American energy. Such policies could ultimately make us as dependent on foreign natural gas as we are on foreign oil.

"Last October, President Obama said `What I think we need to do is increase our domestic energy production. I'm in favor of finding environmentally sound ways to tap our oil and our natural gas.` The enormous tax hike that the President is trying to impose on the natural gas and oil industry, however, will make the development of this American energy source even more difficult and costly," said Smith.

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The Independent Petroleum Association of Mountain States (IPAMS), founded in 1974, is a non-profit trade association representing more than 400 independent natural gas and oil producers, service and supply companies, banking and financial institutions and industry consultants committed to environmentally responsible energy development in the Intermountain West. More information on IPAMS and its members is available at www.ipams.org