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Fact: Raising Taxes Won't Lower Gas Prices

On Monday the Senate voted to proceed to S. 2204, a bill that would repeal tax incentives available to American oil and gas companies. As gas prices reached $3.92 per gallon this week, this is the only energy-related bill Democrats have brought to the Senate floor. It is yet another demonstration that the Democrats have no energy policy.

Democrats Do Not Have an Energy Policy

Raising taxes on oil producers will not lower gas prices. Neither will any of the other measures proposed or implemented by Democrats in recent months:

- Tapping the Strategic Petroleum Reserve;
- Blocking the construction of the Keystone XL pipeline;
- Asking Saudi Arabia to produce more oil;
- Re-activating an old task force to study speculation;
- Increasing regulations on refiners and their petroleum products;
- Gambling billions of taxpayer dollars on "green" energy bets like Solyndra; or
- Imposing new fuel economy requirements on cars.

Whether considered independently or collectively, these measures do not constitute a credible energy policy. At best, they do *nothing* to relieve our pain at the pump. At worst, they *exacerbate* it. Higher gas prices may be exactly what President Obama and other Democrats hope to achieve. The president and his energy team have repeatedly indicated their desire to raise, not lower, gas prices.

Recycling Failed Legislation

When gas prices soared last year, Senate Democrats prioritized legislation similar to S. 2204 to raise taxes on oil companies, which they admitted would not ease consumers' pain at the pump:

- Sen. Reid: "But it is not a question of gas prices."
- Sen. Menendez: "Nobody has made the claim that this bill is about reducing gas prices."

- Sen. Schumer: “This was never intended to talk about lowering prices.”
- Sen. Baucus: “This is not going to change the price at the gasoline pump.”
- Sen. Levin: “This proposal will not alter the economic fundamentals that determine gasoline prices.”

Two Senate Democrats even criticized their own party for papering over the gas price issue while unfairly punishing oil companies:

- Sen. Landrieu: “I would just like to add my strong voice to urging my colleagues to read this bill, to look at it and understand the inherent unfairness in it, the lack of significant deficit reduction, and the fact that it will not … reduce gasoline prices by one penny.”
- Sen. Begich: “It won’t decrease prices at the pump for our families and small businesses. It will discourage companies, especially the independents, from domestic investment and job creation.”

That Democrats’ attempt to raise taxes was defeated in a bipartisan 52 to 48 vote.

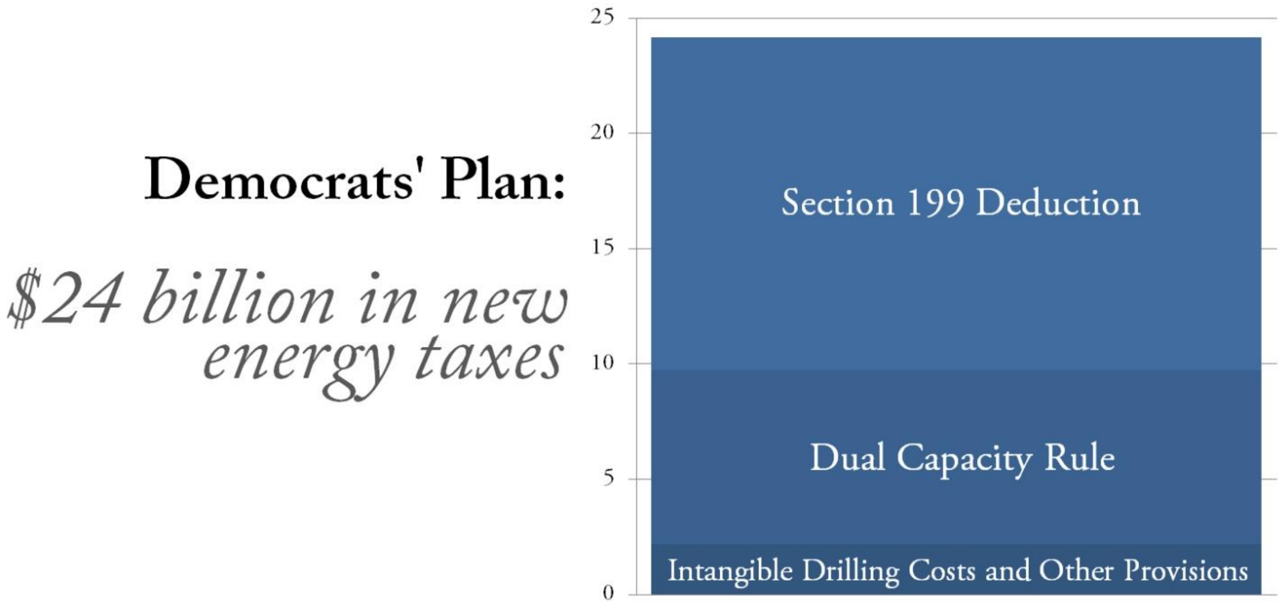
The Democrats’ Plan – Higher Taxes, Higher Gas Prices

Raising taxes on oil producers will *increase* the price of gasoline for American consumers. Increasing oil exploration costs will lead to more expensive crude oil, the main ingredient in producing gasoline.

In the past, raising taxes on energy companies has led to decreased oil production – something American consumers can ill-afford at a time of skyrocketing gas prices and a volatile Middle East. A tax hike on oil and gas profits in the United Kingdom last year led to an 18 percent decline in oil and gas production there. The British government is now working on new tax relief to reverse the precipitous production drop. A Congressional Research Service report found that higher taxes on American energy producers also would lead to “increasing consumer prices and possibly increasing the nation’s dependence on foreign oil.”

Raising taxes on oil and gas companies will hurt, not help, the economic security of average Americans. Nonetheless, President Obama, Majority Leader Reid, and other Democrats are obsessed with trying to score political points by punishing an industry that supports 9.2 million American jobs, adds more than $1 trillion to the national economy, and contributes 7.5 percent of our nation’s wealth.

S. 2204 would raise taxes by an additional $24 billion over 10 years and would put upward pressure on the price of gasoline and other oil-based products.



Repeal of Section 199 Domestic Manufacturer's Deduction

- The "American Jobs Creation Act" established this deduction in 2004.
- Oil and gas producers are already allowed only a six percent deduction compared to the nine percent every other industry can claim.
- S. 2204 eliminates this deduction completely for major integrated oil companies, picking winners and losers.

Repeal of Dual Capacity Rule

- This rule ensures U.S. businesses can operate in other countries without being taxed by both the host country and Washington.
- S. 2204 changes this rule to make major integrated oil companies pay taxes *twice* on any overseas earnings.
- One study of oil and gas company competitiveness in 10 major countries concluded such a rule change would make the U.S. the least competitive in the group, except for India.
- U.S. businesses would be at a disadvantage to foreign competitors like BP, Shell, Total, and national oil companies in China and Venezuela.

Repeal of Intangible Drilling Costs Deduction

- This deduction allows companies to recover costs like site preparation and labor -- much like the research and development deduction used by other businesses to encourage creation of new products and services.
- Larger integrated oil companies can deduct 70 percent of these costs in the year spent, with the rest amortized over five years.
- S. 2204 gets rid of this deduction for major integrated oil companies.
- The deduction only applies to costs incurred in the U.S., so its repeal will only affect U.S. oil and gas production, making American companies less competitive.

Repeal of Outer Continental Shelf Deep Water and Deep Gas Royalty Relief

- The Interior Department gives royalty relief for offshore oil and gas exploration if the price of oil falls below a certain threshold. Royalty relief is phased out when the price of oil is high, like today.
- S. 2204 repeals royalty relief for natural gas produced from deep wells on leases in the Gulf of Mexico.
- Given the potential for prices to rise and fall over time, repealing this royalty relief program could make development prohibitively risky, jeopardize energy development from offshore energy resources, and increase our dependence on foreign oil.

Repeal of Tertiary Injectants Deduction

- Manufacturers can deduct the cost of materials and supplies used in the production process, including liquids and gases injected into oil reservoirs to boost production.
- S. 2204 eliminates this deduction for major integrated oil companies.
- This could increase the cost of operating older oil and gas fields.

Repeal of Percentage Depletion Allowance

- Democrats have targeted the percentage depletion deduction, which allows extractive industries (oil and gas, gold, iron, etc.) to recover up-front capital investment.
- In the oil and gas industry, only independent producers can use the deduction, *not* integrated companies that produce, refine, and market oil.
- S. 2204 repeals this deduction for major integrated oil companies even though this allowance was already eliminated for them in 1975.

Higher energy taxes would mean higher prices at the pump, less U.S. energy production, less job creation, and more imports from unfriendly countries overseas. Higher taxes will eventually mean a shrinking American energy industry.