



The largest US independent exploration and production companies: Leaders in finding and developing secure energy supplies throughout North America

Windfall Profits Tax: A Repeat of Past Mistakes That Would Damage America's Energy Future

AXPC member companies that routinely invest multiples of their annual earnings and 100% of their cash flows know that any imposition of "windfall profits tax" (WPT) – especially at a time when this country is facing a delicate energy supply/demand balance – would have extremely damaging effects on the Nation's domestic supply of natural gas and crude oil and, ultimately, the price of gasoline to consumers.

Background

In April of 1980, the federal government enacted a WPT on the U.S. oil industry. The main purpose of the tax was to recoup for the federal government much of the revenue that would have otherwise gone to the energy companies as a result of the decontrol of oil prices. Not only did the federal government collect significantly less than what had been forecasted, but the imposition of the tax had a very negative impact on domestic oil production.

Unintended Consequences

According to a Congressional Research Service (CRS) report commissioned by Congress and dated March 9, 2006, the WPT was forecasted to raise more than \$320 billion between 1980 and 1989. However, the government collected only a net \$40 billion after considering the deductibility of this tax against corporate income tax. In addition, the WPT had the effect of decreasing domestic oil production by 3-6% thereby increasing the country's dependence on foreign oil by 8-16%. A side effect was declining, not increasing, tax collections.

TaxFoundation.org reports that over a 25 year period (from 1979 to 2004), oil companies directly paid or remitted more than \$2.2 trillion in taxes, after adjusting for inflation, to federal and state governments – including excise taxes, royalty payments and state and federal corporate income tax payments. That amounts to more than three times what they earned in profits during the same period, according to estimates of the Bureau of Economic Analysis and U.S. Department of Energy. In addition, these amounts do not include local property taxes, state sales and severance taxes and onshore royalty payments.

Energy companies have clearly profited during the last few years. However, these profits should be viewed in proper perspective given the staggering amount of tax the industry currently pays and remits to governments at the federal, state, and local levels. As the experience of the past quarter-century has shown, governments have actually "profited" more from the oil and gas industry than the industry has earned for its shareholders – yet AXPC member companies and others have continued to increase their investments in the search for new energy supplies.

The large independents lead the way by applying their advanced technology and providing the billions of dollars in capital spending. These independents routinely spend more than they earn in finding and producing energy supplies. The ability to invest at these rates is directly tied to cash available. Any increase in taxes through the imposition of a WPT would reduce that investment ability.