Oil industry benefits from billions in tax breaks

Hiram Lee
6 July 2010

The oil industry is the beneficiary of extraordinary tax breaks and financial incentives, a Sunday report by the *New York Times* reveals. The report underscores the federal government's role as guarantor of oil industry profits.

"Capital investments like oil field leases and drilling equipment are taxed at an effective rate of 9 percent," according to the article, "significantly lower than the overall rate of 25 percent for businesses in general and lower than virtually any other industry."

Indeed, for many oil companies, returns on capital investments are typically higher after taxes because the numerous write-offs and incentives granted to them are more than enough to make up for the taxes they owe on those investments.

As revealed in a letter to the Senate Finance Committee last month, BP was able to write off 70 percent of the rent it paid for the Deepwater Horizon oil rig, saving the company $225,000 per day since the lease went into effect.

Among the numerous tax subsidies for oil companies currently on the books is the Volumetric Ethanol Excise Tax Credit (VEETC), granted to oil refining companies that blend ethanol into gasoline. The credit amounts to 45 cents per gallon and has proven a windfall for companies like BP. Seventeen billion dollars in VEETC subsidies were paid out to oil companies overall between 2005 and 2009. In 2008, BP would have received approximately $510 million in VEETC credits, and this year it stands to gain $600 million in credits.

The Deepwater Royalty Relief Act of 1995, signed into law by President Clinton in 1995, suspends royalty payments for eligible companies whose drilling leases are determined not to be "economically viable" without "relief." Royalty fees owed to the US government, often as 18.5 percent of the volume of oil extracted, are suspended entirely under the law in order to "relieve" the multi-billion dollar corporations and to encourage continued interest in offshore drilling in the US. Several drilling projects in the Gulf of Mexico have been granted royalty relief under the law.

In addition to the extraordinary number of breaks granted to them by the US government, the oil companies find more ways to avoid taxes by relocating their headquarters outside the US. Transocean, the corporation which owned the Deepwater Horizon drilling rig rented by BP, relocated its headquarters from Delaware to the Cayman Islands in 1999 before ultimately setting up shop in Zug, Switzerland in 2008, all in an effort to avoid paying taxes. The move to Switzerland allowed the corporation to pay just 16 percent in taxes on its $4 billion income in 2009.

The Deepwater Horizon rig was itself officially registered with the Marshall Islands in order to avoid what little tax burden that might have been placed on its operations under US law.

Such practices are common in the energy industry. ExxonMobil has holdings located in the Bahamas, Bermuda and the Cayman Islands for the purpose of avoiding US taxes, and the oil giant paid no net US federal income tax in 2009. A 2008 study produced by the Government Accountability Office revealed that only two out of three US corporations paid federal income taxes between 1998 and 2005.

While representatives of the oil and energy industry claim that the removal of tax breaks and subsidies such as these will have a devastating effect on the industry and lead to widespread job loss, a 2009 report before a congressional hearing on "energy, natural resources and infrastructure" by Alan B. Krueger, the Assistant

Secretary for Economic Policy and Chief Economist for the US Treasury Department, refuted these assertions. “Based on estimates of short and long run supply elasticities,” said Krueger, “we estimate that the decrease in domestic production due to these proposals [to repeal existing subsidies] will be less than one half of one percent, even in the long run.”

The fact that the oil industry has received hundreds of billions in tax breaks and incentives over the past 15 years makes all the more glaring BP’s refusal to pay adequate compensation to victims of its criminal negligence in the Gulf.

According to a BP spokesman, the company has only paid $144 million total to claimants across four Gulf states, while tens of thousands of claims have most likely not even been considered.

Cannon Cochran Management Services, hired by the state of Louisiana to review the increasingly problematic claims process, found that in June compensation requests rose by 170 percent, from 30,000 claims to over 80,000 claims, even though the number of claims adjusters in place to handle the demand only increased by 87 percent, from 510 to 951.

Cannon Cochran found that on June 21, immediately following the state’s demand that BP speed up the compensation process, the oil giant mailed out 2,500 claims checks. Just a week later, the number of checks going out each day had decreased to under 500.

Kristy Nichols, Louisiana’s Children and Family Services Secretary told the Associated Press, “This is extremely distressing; families and businesses are depending on those payments to keep roofs overhead and food on tables.” She added, “BP must immediately address its apparent inability to keep up with daily incoming claims and pay claimants in a timely manner.”

On Monday, BP announced the total cost of the Deepwater Horizon disaster has now reached $3.12 billion. According to an official press release, this amount includes the “cost of the spill response, containment, relief well drilling, grants to the Gulf states, claims paid, and federal costs.” But as cleanup efforts in the Gulf of Mexico resume following a week of storms and rough seas caused by Hurricane Alex, reports continue to emerge which cast doubt on just how much of the $3 billion has really gone to workers and small business owners in need of compensation.

In fact whatever BP has paid out it can count against the total sum it must contribute to the Obama administration’s Independent Claims Facility, which BP is to fund to the tune of about $20 billion over a four-year period (“neither a floor or ceiling,” according to the White House). In addition to claims, BP can specifically count against the fund “judgments and settlements, natural resource damage costs, and state and local response costs,” according to a White House fact sheet.

Kenneth Feinberg, selected to head the escrow account, has declared those “indirectly” affected by the oil spill will not be entitled to compensation. Among those not directly affected, according to Feinberg, are families whose homes have declined in value and tourism industry employers and workers who have suffered from the “perception” that their beaches have been destroyed.

Also not entitled to compensation will be fishermen who operate on a cash-only basis—a sizable share of the New Orleans fishing industry.