Tax Cuts and Jobs Act Prioritizes American Energy

On December 20, 2017, the U.S. Congress passed the *Tax Cuts and Jobs Act*, which was signed into law by President Donald Trump two days later on December 22, 2017. The tax package has been a net positive for U.S. oil and natural gas producers, with all of the priority tax provisions that support domestic production retained in the U.S. tax code, including the Intangible Drilling Cost (IDC) deduction and Percentage Depletion deduction. TIPRO President Ed Longanecker applauded the action, commenting: “We are pleased with the outcome of the tax reform bill. Our main priority has been preserving IDCs and Percentage Depletion tax provisions, both of which are of critical importance to independent producers who develop 90 percent of the nation’s oil and gas. This tax package will help to further enhance America’s energy dominance and continued economic growth for the United States.”

The *Tax Cuts and Jobs Act* contains a number of actions that directly support the U.S. oil and natural gas industry, including:

- **Reduced corporate tax rate**: The corporate tax rate was lowered from 35 percent to 21 percent.
- **IDCs retained**: IDCs have been a part of the tax code since 1913. This tax provision allows deduction of costs associated with exploration and production activities and non-salvageable equipment as current expense rather than depreciating over the life of the project or well. Large integrated companies cannot fully utilize this deduction; consequently the elimination of this provision will have a more substantial impact on smaller companies that produce the majority of America’s domestic energy.
- **Percentage Depletion deduction preserved**: The depletion allowance has been in place since 1926. This deduction was passed to encourage high-risk ventures for exploration and development of American oil and gas reserves. It is only available to small producers and allows a deduction of 15 percent of their gross income from oil and gas production. This tax incentive is not available to large companies that process more than 50,000 barrels of oil per day, own more than 1000 barrels per day of crude oil production, or own more than 6,000,000 cubic feet per day of average gas production. Elimination of depletion allowance will remove capital that would otherwise be invested in maintaining and developing American production by smaller producers.
- **Corporate Alternative Minimum Tax (AMT) repealed**: This repeal is a real positive development for rapidly expanding midstream companies as well as many upstream producers. Maintaining the AMT would have made it difficult for businesses to reduce their effective tax rate lower than 21 percent.
- **Lower taxes on pass-through business income**: Major tax savings for oil and gas companies structured as partnerships-including Master Limited Partnerships (MLPs)-and reduced tax liability for joint ventures.
- **One-time lower rate for repatriation of overseas profits**: International companies who have held profits overseas due to high U.S. tax rates will be able to repatriate those funds for use in the U.S. at a one-time rate of 15.5 percent. This is expected to generate a significant increase in new capital for investment in all major industries in the U.S., including oil and natural gas.
- **Access to Arctic National Wildlife Refuge for energy development:** The tax plan will also open the Arctic National Wildlife Refuge (ANWR) to oil and natural gas development, which will further our country’s pursuit of true energy self-reliance.