PIRINC

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NEW DATA ON TAX BURDEN ON U.S. OIL AND GAS INDUSTRY

Below is an updating of a report released in May 1972 entitled, The Tax Burden On The Domestic Oil And Gas Industry. In the earlier report the Petroleum Industry Research Foundation, Inc. measured the ratio of total domestic taxes (exclusive of sales and excise taxes) to domestic gross revenues for the years 1967-1970 in order to determine the industry's tax burden per dollar of revenue. The report also calculated comparable composite ratios for all other Mining and Manufacturing Corporations and for all other U.S. Business Corporations for the fiscal years 1967-69. The following report continues this series for the oil industry for the years 1971 and 1972 and for the composite industry ratios for the fiscal years 1970 and 1971, based on the latest available statistics.

The new tax burden ratios are summarized in the table on the following page.

Taxes Paid Per $ Of Gross Revenue
(¢)

	1972	1971	1970	1969	1968
Domestic Oil & Gas*	5.60	5.59	6.00	5.88	5.59
All Other U.S. Mining & Manufacturing Corporations	N.A.	4.58	5.25	5.88	5.19
All Other U.S. Business Corporations**	N.A.	4.17	4.50	4.90	4.45

*Calendar Year

**Fiscal Year as reported by the Internal Revenue Service.

The figures show that the tax burden (exclusive of sales and excise taxes) of all three groups registered a modest decline in the latest two years, compared to the two previous years. However, the decline has been somewhat less for the oil and gas industry than for the two categories of other corporations. Thus, in 1971 oil continued to bear a somewhat larger total domestic tax burden per dollar of sales than the rest of U.S. industry. The same can be expected to hold true for 1972.

As in previous years, the oil industry's federal income tax payments per dollar of revenue were smaller than those in the two other categories, particularly when compared to Mining and Manufacturing Industries. The reason for the difference lies primarily in two special provisions in the federal income tax statutes applicable to mineral industries only, namely Percentage Depletion and the Expensing of Intangible Drilling and Development Costs. These provisions reduce the oil industry's effective federal income tax rate and, hence, its tax burden per dollar of revenue relative to that of other industries.

On the other hand, the burden of the oil industry's other tax payments are substantially higher than the average for the rest of U.S. industry, thus more than offsetting the lower federal income tax payments. The principal taxes in the category of other taxes are State and local property taxes and State production taxes on crude oil and gas. A breakdown of federal income and other domestic taxes paid by the petroleum industry for the latest three years is shown below.

Estimated Domestic Taxes Of The
U.S. Petroleum Industry, 1970-72
(in billion $)

	1970	1971	1972
Federal Income	1.3	1.2	1.2
Other Direct Taxes	2.1	2.3	2.4
Total (excl. sales and excise)	3.4	3.5	3.6

The effective federal income tax rate of the domestic oil industry (the ratio of federal income tax liability to net pre-tax earnings) rose from 19.1% in 1969 to 22% in 1970, 23.5% in 1971 and 25.6% in 1972. The increase in the rate is due largely to the continuing impact of the Tax Reform Act of 1969. The Act reduced the maximum depletion duduction from 27.5% to 22% of the wellhead value of crude oil and natural gas and introduced a so-called Minimum Tax for tax payers with "preferential" tax deductions such as the percentage depletion allowance.

However, the latest effective federal income tax rate still puts the oil industry below the approximately 40% rate of U.S. corporations in general.

In addition to its domestic tax payments, the U.S. oil industry also paid foreign income taxes on the order of approximately $7.2 billion in 1972, $5.8 billion in 1971 and $3.6 billion in 1970. This is exclusive of any royalties paid to foreign governments. The foreign income tax together with the domestic federal income tax liability gave the U.S. oil industry an estimated effective worldwide income tax rate of 58% in 1972, 53% in 1971 and 45% in 1970.

(The numbers, percentages and ratios relating to the petroleum industry in this report are based on the continuing series of Statistical Data for the 18 Selected Petroleum Companies compiled annually since 1970 by the Public Accounting firm, Price Waterhouse & Co. for the American Petroleum Institute. Projections of the Price Waterhouse figures to oil industry totals are based on the 18 companies' estimated share in U.S. refining, production and U.S. foreign oil investment. Oil industry data prior to 1970 were collected directly by PIRINC. The data on U.S. industries other than petroleum are taken from the annual Internal Revenue Service publication <u>Statistics of Income - Corporation Income Tax Returns</u>. For a discussion of methodology and comparability and limitations of data see PIRINC's study, <u>The Tax Burden on the Domestic Oil & Gas Industry, 1967-70</u>, published in May 1972.)

PARTICIPATING COMPANIES

Ashland Oil, Inc.

Atlantic Richfield Company

Cities Service Company

Continental Oil Company (Delaware)

Exxon Corporation

Getty Oil Company

Gulf Oil Corporation

Marathon Oil Company

Mobil Oil Corporation

Phillips Petroleum Company

Shell Oil Company

Skelly Oil Company

Standard Oil Company of California

Standard Oil Company (Indiana)

The Standard Oil Company (Ohio)

Sun Oil Company

Texaco, Inc.

Union Oil Company of California

[illegible] Termed [illegible]

By [illegible]

[illegible] industry bears [illegible] tax bu[illegible] per dollar of [illegible] the rest of American [illegible] according to a study [illegible] by the Petro[illegible] Research [illegible].

The [illegible]ation, which is [illegible] by major and [illegible] oil companies, [illegible] in 1971 the oil industry paid [illegible] cents on every dollar of [illegible] revenue, compared with [illegible] cents for other min[illegible]ing and manufacturing industries and 4.17 cents for all other businesses. The foundation said that, although all data on 1972 and 1973 were not yet available, the [illegible] trend could be [illegible]ected to continue.

[illegible] previous years, the oil [illegible] Federal income tax [illegible] per dollar of revenue were smaller than those of other industries, chiefly because of the depletion allow[illegible] proviso, which [illegible] of [illegible].

[illegible] Payments

On the other hand, the oil industry's other tax payments [illegible] higher than [illegible] the rest of American industry, the report [illegible] taxes paid [illegible] state and local property taxes and state production [illegible] oil and gas.

The foundation said that the effective Federal [illegible] rate [illegible] the domestic oil industry had risen from [illegible] per cent [illegible] per cent in 1970 [illegible]

[illegible] effective worldwide income [illegible] rate of 58 per cent in 197[illegible] per cent in 1971, and [illegible] per cent in 1970.