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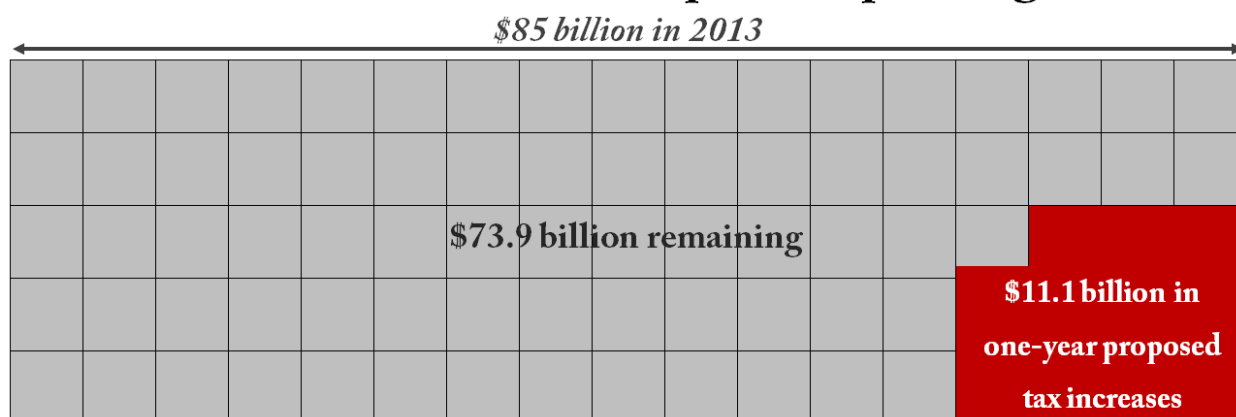
Democrats' Ideas on the Sequester: More Taxes

All indications are that Democrats will propose a sequester delay that is just more taxes on hardworking taxpayers. The tax increases buzzed about among Democrats in Congress and the White House so far include:

- Buffett Rule: \$5.00 billion in first year
- Oil Tax Provisions: \$4.75 billion in first year
- Carried Interest: \$1.30 billion in first year
- Corporate Jet: \$0.05 billion in first year

The total raised by these tax increases in one year would be \$11.1 billion. The sequester's size in 2013 is \$85 billion. These taxes raise \$101 billion over 10 years, compared to the Budget Control Act's sequester and lowered discretionary spending of \$995 billion.

Democrat tax hikes vs. sequester spending cuts



Buffett Rule (\$5 billion)

Senate Democrats are going [back](#) to the Buffett Rule. Last year the President proposed that no one making more than \$1 million per year pay less than 30 percent of their income in federal taxes. This tax raises approximately \$5 billion in its first year and \$47 billion over 10 years.

Oil Company Tax Provisions (\$4.75 billion)

In his fiscal year 2013 budget, President Obama proposed eliminating a variety of tax deductions and credits available to the oil and natural gas industries. Specifically, he proposed eliminating the following tax deductions and credits to raise an estimated \$4.753 billion in 2013 and \$38.561 billion over 10 years:

Repeal of Section 199 Domestic Manufacturer's Deduction

- Raises an estimated \$574 million in 2013 and \$11.612 billion from 2013 to 2022.
- The bipartisan "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 that produces goods in the U.S. can claim.

Repeal of Intangible Drilling Costs Deduction

- Raises an estimated \$3.49 billion in 2013 and \$13.902 billion from 2013 to 2022.
- This deduction allows companies to recover costs like site preparation and labor. Larger integrated oil companies can deduct 70 percent of these costs in the year spent, with the rest amortized over five years. The deduction only applies to costs incurred in the U.S.

Repeal of Tertiary Injectants Deduction

- Raises an estimated \$7 million in 2013 and \$100 million from 2013 to 2022.
- 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.

Repeal of Percentage Depletion Allowance

- Raises an estimated \$612 million in 2013 and \$11.465 billion from 2013 to 2022.
- The percentage depletion deduction allows extractive industries (oil and gas, gold, iron, etc.) to recover up-front capital investment.

Repeal Passive Loss Exception for Working Interests in Oil Properties

- Raises an estimated \$9 million in 2013 and \$82 million from 2013 to 2022.
- Permits the deduction of losses in oil and gas projects against other active income earned without limitation as an incentive for investment in such projects.

Increase Geological and Geophysical Amortization Periods

- Raises an estimated \$61 million in 2013 and \$1.4 billion from 2013 to 2022.
- Currently, major integrated oil companies amortize geological/geophysical costs over a period of seven years, and independent producers amortize these costs over a period of two years. The President's budget would extend the amortization period for independent producers to seven years.

On March 29, 2012, the Senate defeated S.2204, Repeal Big Oil Tax Subsidies Act, by a vote of [51 - 47](#). This legislation would have modified or repealed tax incentives available to the oil and natural gas industry, including the Section 199 Domestic Manufacturer's Deduction, the Intangible Drilling Costs Deduction, the Percentage Depletion Allowance, and the Tertiary

Injectants Deduction. The Senate defeated similar legislation, S.940, Close Big Oil Tax Loopholes Act, by a vote of [52 - 48](#) on May 17, 2011.

Carried Interest (\$1.3 billion)

Under current law, partnerships are not taxed directly. Instead, their income flows through to the partners, who then pay tax on any income. Partners who contribute capital to the business treat this income as a capital gain. Partners who contribute their labor and generally do not contribute substantial capital also treat this income as a capital gain under current law. These partners are often the “general partners” of the partnership. Management fees received by the general partner – typically two percent of fund value – are currently taxed as ordinary income.

The carried interest proposal contained in the President’s fiscal year 2013 budget would subject a general partner’s share of an “investment services partnership interest” to ordinary income rates rather than capital gains rates. When the President’s last budget was released in February 2012, this proposal was [estimated](#) to raise \$1.3 billion in the first year and \$13.5 billion over 10 years.

Defenders of the [current system](#) point to the risk involved for the general partners. If a general partner does not make money for the partnership, the management fee is the only compensation he or she receives. Defenders also point out that this change would result in the elimination of a substantial amount of economic activity. Critics of the [current system](#) maintain that the general partners are being compensated for services, and the risk they bear is similar to sales commissions or performance bonuses, which are taxed at ordinary income rates. Some Democrats, such as Senators Patty Murray, Mark Warner, Jeanne Shaheen, and Robert Casey have argued [against](#) this proposed change.

Corporate Jet Deductions (\$54 million)

Current law allows a five-year depreciation for general aviation aircraft (airplanes not used for commercial purposes). The depreciation for aircraft used for commercial purposes (passengers or freight) is usually seven years. The President’s proposal would lengthen the depreciation schedule for corporate jets to seven years. When the President’s last budget was released in February 2012, this proposal was [estimated](#) to raise \$54 million in the first year and \$2.2 billion over 10 years.