

COST RECOVERY — A PRO-GROWTH TAX POLICY FOR AMERICAN ENERGY

It is well understood that the cost of capital has strong and significant effects on business investment. U.S. businesses invest trillions of dollars each year in various assets such as equipment, structures and intellectual property.

This type of investment that is a main driver of economic growth, technological advancement and jobs in the U.S. economy and should be considered wisely when making any changes to the tax code.

The U.S. oil and natural gas industry invests approximately **\$232 billion** in domestic capital investments every year. That's steel in the ground, paychecks for families, and American production helping to grow our economy – and that's a good thing.

The U.S. tax system can impact the cost of capital in important ways. In particular, how those costs are recovered and depreciated is directly tied to a business's cost of capital analysis. For example, it has been estimated that the average cost of capital for equipment across all industries will increase by approximately 8.1 percent if current depreciation rules in the tax code are eliminated.

- **For oil and natural gas, as well as geothermal energy, eliminating or lengthening the Intangible Drilling Cost (IDC) deduction could cost jobs and loss of American energy production.**

- **Exactly like IDCs, various forms of depreciation (including bonus), R&D deductions, advertising deductions, and others, if eliminated or lengthened could result in loss of investments here in the U.S.**

Further, even if coupled with a corporate tax rate reduction to lessen the impact of depreciation repeal or timing increases, most studies show that the long-term effects would result in slower economic growth.

- **Any pro-growth tax system should recognize the cost of capital and move toward a model of immediate expensing or decreasing depreciation lives to as short as possible.**

The oil and natural gas industry is very capital intensive – from well equipment to pipelines to refinery towers. The ability to continue to make substantial investments would be directly impacted by slower capital cost recovery provisions that increase the costs of such investments.

Therefore, as tax policy is debated and tax reform is considered, it must be remembered that proposals increasing the cost of capital could have long-term, negative economic consequences on businesses and domestic energy production.