AXPC American Exploration & Production Council

Intangible Drilling Costs: A Crucial Component of America's Energy Future

Proposals to repeal the current deductibility of Intangible Drilling Costs (IDCs) are bad policy for America and ignore the following realities:

- The ability of independent producers to deduct IDCs in the year they are incurred is a key element in attracting the massive investment capital necessary to continue to develop the oil and natural gas resources that provide the largest part of our nation's energy mix.

- America's independent producers drill the vast majority of new wells and routinely invest 130% of their cash flow in new domestic drilling projects. Repeal of the current treatment of IDCs would dramatically reduce this ability to re-invest in the country's energy needs.

- From 2007 through 2015, America's crude oil imports fell from a high of 65% of the country's daily needs to 24% in 2015. The ability to deduct IDCs played a crucial role in supporting this march towards a more secure energy future and improved trade balance.

- Over the last decade, America's carbon emissions have fallen to levels not seen since the early 1990s thanks, in large part, to the use of more natural gas to provide electricity in the nation's power generating sector. This reduction, unrivaled by any other country, was achieved without implementation of a national cap and trade system or other command-and-control regulatory schemes. It would not have been possible without the ability to deduct IDCs.

- According to the Energy Information Administration, 2015 was the third consecutive year in which the United States led the world in the production of petroleum and natural gas. This rapid increase mainly in sweet, domestic crude has led to lower imports of mostly heavy, foreign oil and enhances the country's strategic position. This would not have happened without the ability to currently deduct IDCs.

Deductibility of IDCs is Not a New Concept, Nor a Giveaway to "Big Oil"

- The deductibility of IDCs is, in fact, more than a century old, having been first incorporated into the federal tax code in 1913.

- In 1986, the law was modified to require major integrated oil companies to capitalize 30% of their IDCs and amortize them.

Intangible Drilling Costs are actually misnamed because they are anything but "intangible". They are quite simply the actual ordinary and necessary business expenses incurred in the oil and gas well drilling and the completion process. These expenses have no salvage value, and include costs such as ground clearing and surveying for the preparation of a drilling location as well as wages, fuel, repairs, drilling mud, etc.

The ability to deduct IDCs in the year incurred remains a key component to securing America's energy future. Proposals to modify or strike this well-established provision from the tax code are wrong for a host of reasons and should be opposed.