Washington Post: How much do oil companies really pay in taxes?

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Just how much do big oil companies pay in taxes?

Exxon Mobil says it pays plenty — more in U.S. taxes than it earned in the United States last year.

Not so, say critics of the oil industry; the Center for American Progress says the oil giant's effective federal income tax rate is about half the 35 percent standard for U.S. companies. The liberal-leaning think tank, citing Exxon Mobil's filings with the Securities and Exchange Commission, says the corporation didn't pay any federal income tax in 2009.

It all depends on how you count.

Exxon Mobil counts everything — not just federal income taxes, but also local property taxes, state taxes, gasoline taxes and payroll taxes. The Center for American Progress (CAP) and other analysts count only the company's federal corporate income taxes.

"We pay our fair share of taxes," said Kenneth Cohen, Exxon Mobil's vice president for public affairs, who in a conference call recently lumped more than $6 of sales, state and local taxes together with every $1 of federal income tax paid in 2010.

But Exxon Mobil's tax rate is "lower than the average American's," Daniel Weiss, an energy expert at CAP, countered in an analysis that put the company's U.S. federal income tax rate in 2010 at just 17.2 percent.

The tax debate may turn into the most combustible issue when top executives from five oil giants appear before a congressional committee on Thursday.

Most congressional Democrats and the Obama administration want to end or limit tax benefits — or tax breaks — for oil companies.

The provisions targeted include the industry's use of a tax break that since 2004 has trimmed the corporate tax rate for manufacturers; oil-depletion allowances that all but the biggest firms use to recover drilling costs, sometimes more than 100 percent of those costs; and the expensing of "intangible" drilling costs at a rate higher than that used by most non-oil companies to recover investment costs.

Those investment incentives have helped make the oil industry one of the most profitable, when measured by cash flow and return on investment. Soaring gasoline prices — as of Wednesday, $3.96 a gallon for regular nationwide — have revved up the issue.

“The oil companies charging these exorbitant prices are picking through New Yorkers’ pockets through the tax code, collecting billions of dollars every year in unnecessary taxpayer subsidies,” Sen. Charles E. Schumer (D-N.Y.) said Wednesday. “This is completely unacceptable, and those big oil companies should know that the jig is up.”

But those tax incentives have survived previous political onslaughts. The expensing of intangible drilling costs — including exploration and development — dates to 1916. The oil-depletion allowance dates to 1926.

The idea of eliminating these tax breaks isn’t new. In 1984, the Reagan Treasury Department’s original tax reform blueprint got rid of the provisions, but it was never passed into law. Some breaks were later limited. The biggest firms, such as Exxon Mobil, have not qualified for the depletion allowance since the 1970s, but other large oil firms known as independents still do.

Deciphering how it all affects the bottom line isn’t easy. Oil companies get credits in the United States for taxes paid to foreign nations where they produce crude oil. Exxon spokesman Alan T. Jeffers said there are 35 IRS agents who work full time auditing the company’s books.

Rhetoric aside, Exxon and CAP agree on many figures. Jeffers conceded that the company had a net federal income tax credit of $156 million in 2009, but he says that was the result of favorable audits of returns dating back a decade or more.

Cohen highlighted “total taxes and duties to the U.S. government” of $9.8 billion in 2010. But only $1.3 billion of that went to federal income taxes, the company said in SEC disclosures used by CAP. While that’s a big figure, worldwide income before taxes was $57 billion that year, and U.S. income was $7.7 billion.

Whether it’s a good idea to get rid of the tax breaks has little to do with property taxes or how much companies collect and pass on to the government in gasoline, sales and payroll taxes, says Eric Toder, a tax expert at the Urban Institute.

“All corporations are big tax collectors,” Toder said. “That’s not really the issue.”

Oil companies complain, and Toder agrees, that when it comes to the manufacturers’ tax break, they are being unfairly targeted over something other businesses enjoy (although Toder questions whether any companies should get it).

“We don’t characterize them as subsidies,” said Kurt Glaubitz, a Chevron spokesman. “They’re available to all companies in the oil industry and are similar to those in other industries.” He said the manufacturers’ tax allowance effectively cuts Chevron’s corporate tax rate by two percentage points.

But Toder sees other tax incentives as unnecessary because they are designed to reward investments that are already richly rewarded, especially given high oil prices.

Exxon says that its profits are in line with what other companies make and that it earns just 9 cents on every dollar of sales. That, Cohen said, is a “number you won’t hear in Washington.”

“That’s about half (or less) of what companies in pharmaceuticals or computers make, just to name a few,” Cohen said on a company blog. “But strangely, there’s not much talk about reducing their tax deductions.”

But Wall Street analysts don’t generally pay attention to that — and when Exxon talks to investors, it says they shouldn’t, either. It tells them to watch the company’s “return on capital employed,” or ROCE. Those returns are huge — as high as 34 percent in 2008.

“The Corporation has consistently applied its ROCE definition for many years and views it as the best measure of historical capital productivity in our capital-intensive, long-term industry, both to evaluate management’s performance and to demonstrate to shareholders that capital has been used wisely over the long term,” Exxon said in an SEC filing.

mufsons@washpost.com