# Top-Line Findings of "*Budget Impasse Hinges on Confusion among Deficit Reduction, Tax Increase, and Tax Reform*" Study

With the August 2nd deadline rapidly approaching, talk on Capitol Hill over the debt ceiling has become enmeshed in debate over repeal of tax deductions for U.S. oil firms. The marriage of these issues, however, confuses the similar but distinct concepts of deficit reduction, tax reform, and tax increases.

Increases in tax rates do not guarantee increased tax *revenues*.

Throughout the recent budget debate, President Obama has consistently proposed increasing the effective tax rates paid by the American oil and gas industry as a necessary condition for achieving a compromise; part of that proposal is the elimination of the Section 199 tax deduction for oil and gas companies and adding substantial additional restrictions to the foreign tax credit rules by changing the "Dual Capacity" taxpayer rules.

That policy has been motivated variously as a social agenda tax reform and as a deficit reduction measure. The important question to sort out, however, is whether it can be both.

Proponents boast proposed revisions to Section 199 and Dual Capacity would raise approximately $30 billion in Federal tax revenue over the next 10 years. But the tax hike would come at the expense of industry cutbacks that can reasonably be expected to cost the economy:

- $341 billion in economic output;
- 155,000 jobs;
- $68 billion in wages; and
- $83.5 billion in *reduced* tax revenues.

The net fiscal effect, a loss of $53.5 billion in tax revenues, suggests that the policy proposals exacerbate, rather than alleviate, the Federal deficit.

Deficit reduction policies are not limited to changes in the tax code. Economic growth could result from expanding oil and gas exploration and production on the Outer Continental Shelf (OCS) which could generate the following:

- Benefits from short-run exploration phases of development include
  - $73 billion annually in economic activity;
  - $16 billion annually in wages;

- $11 billion annually in Federal tax revenue;
- $5 billion annually in state and local tax revenue; and
- 250,000 jobs.

- Benefits from long-run production phases of development
  - $275 billion annually in economic activity;
  - $70 billion annually in wages;
  - $55 billion annually in Federal tax revenue;
  - another $14 billion annually in Federal royalty payments;
  - $19 billion annually in state and local tax revenue; and
  - 1.2 million jobs.