

Federal Taxes and Extractive Industries



UNITED STATES
DEPARTMENT OF
THE TREASURY



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Federal Tax Revenue – Corporate Tax

- Corporate tax rate -- 35% rate on taxable income above \$10 million.
- Corporations file consolidated tax returns that do not separately account for payments made by subsidiaries or specific activities
- Tax paid is calculated for the entire group, and tax depends on the profitability and tax benefits available to the group as a whole group
- Corporations must use different consolidation rules for financial and tax reporting
- Firms may adjust previous year's tax liability (net operating losses can be carried back two years and carried forward twenty years)
- U.S. tax generally is not imposed on the active earnings of a foreign subsidiary until the subsidiary distributes the income to the parent corporation as a dividend (i.e., until the income is repatriated)
- Corporate profits on equity investment are generally taxed twice – once at the corporate level when income is earned, and again at the individual level when received by the shareholder as a dividend or capital gain

Federal Tax Revenue – Taxation of Flow-Through Businesses

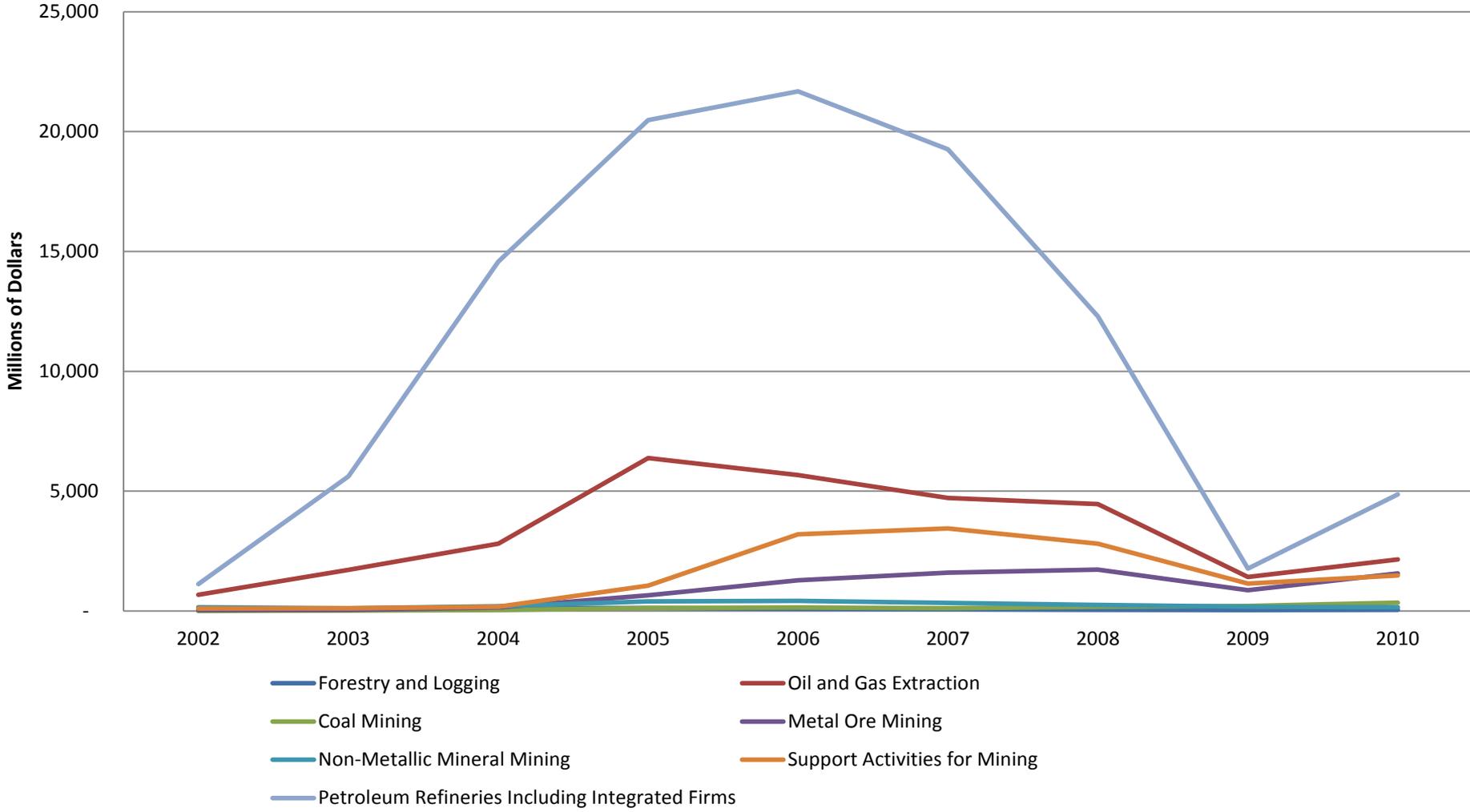
- Flow-through businesses include sole proprietorships, partnerships, and S corporations
- Income, expenses and credits are passed through to their owners – hence the name, “pass-through entities”
- Income earned (whether distributed or not) is taxed to the owners at their own tax rates along with income they may receive from other sources
- Losses may be used to offset positive income from other sources unless the losses are subject to limitations, such as the at-risk or passive activity loss rules
- Individual partners’ tax liabilities are not calculated separately for their income from specific industries or activities. Rather, tax liability is calculated based on all of their income deductions, credits, etc.
- Flow-through businesses represent an increasing share of business income – 70% of net business income in 2008

Federal Tax Revenue – Excise Taxes

- Highway Motor Fuel Excise Taxes (including Leaking Underground Storage Tax Trust Fund Tax)
 - Gasoline – 18.4 cents per gallon
 - Diesel fuel – 24.4 cents per gallon
- Airport and Airway Trust Fund Fuel Taxes (including Leaking Underground Storage Tax Trust Fund Tax)
 - Commercial aviation fuel – 4.4 cents per gallon
 - Non-commercial aviation fuel – 21.9 cents per gallon
- Inland Waterways Trust Fund Excise Tax
 - Fuel used in inland waterways – 20 cents per gallon
- Oil Spill Liability Trust Fund Excise Tax
 - Crude oil and imported petroleum products – 8 cents per barrel
- Black Lung Disability Trust Fund Coal Excise Tax
 - Underground Mines \$1.10 per ton; Surface Mines \$0.55 per ton

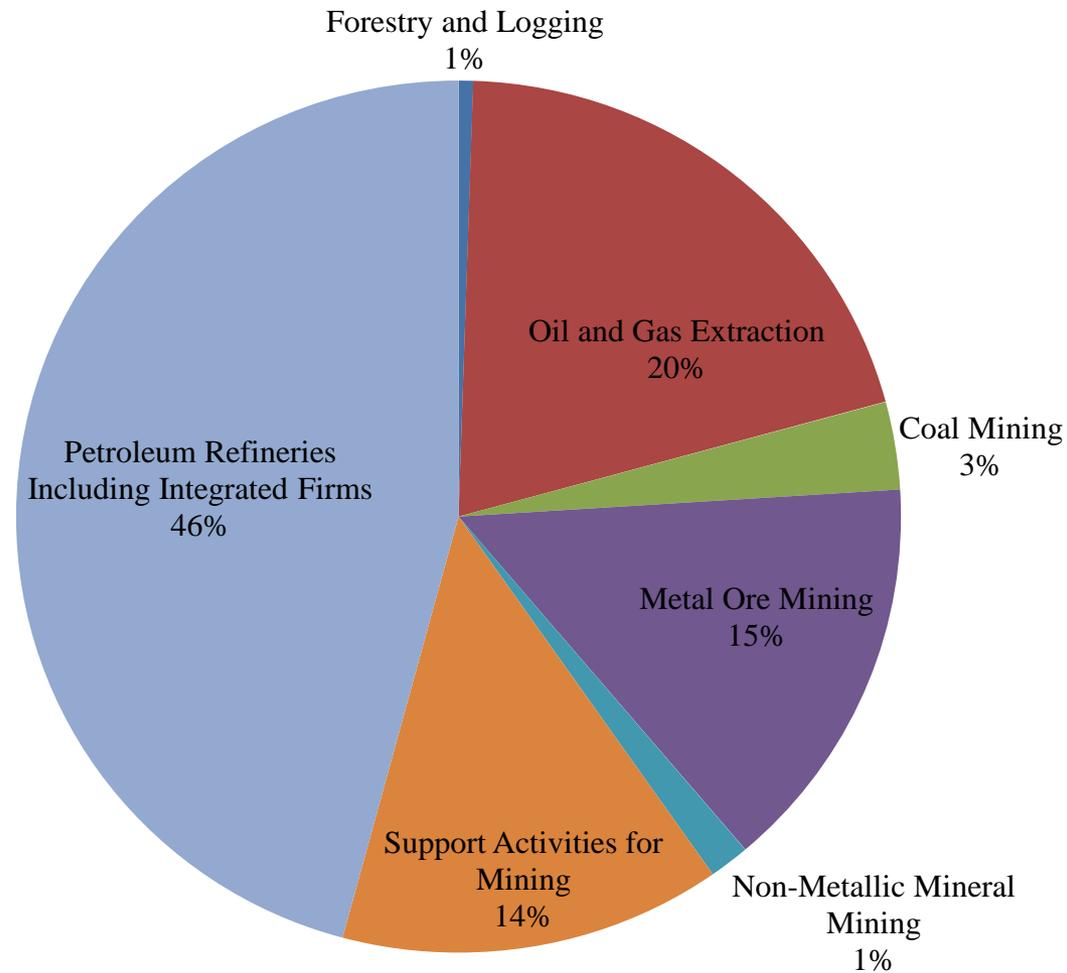
Note: This slide lists major categories of Highway fuel excise taxes and Airport and Airway fuel excise taxes. The excise taxes on coal are limited to a maximum of 4.4 percent of the coal's selling price.

Federal Income Tax Revenue From Corporations in Selected Extractive Industries Tax Years 2002-2010



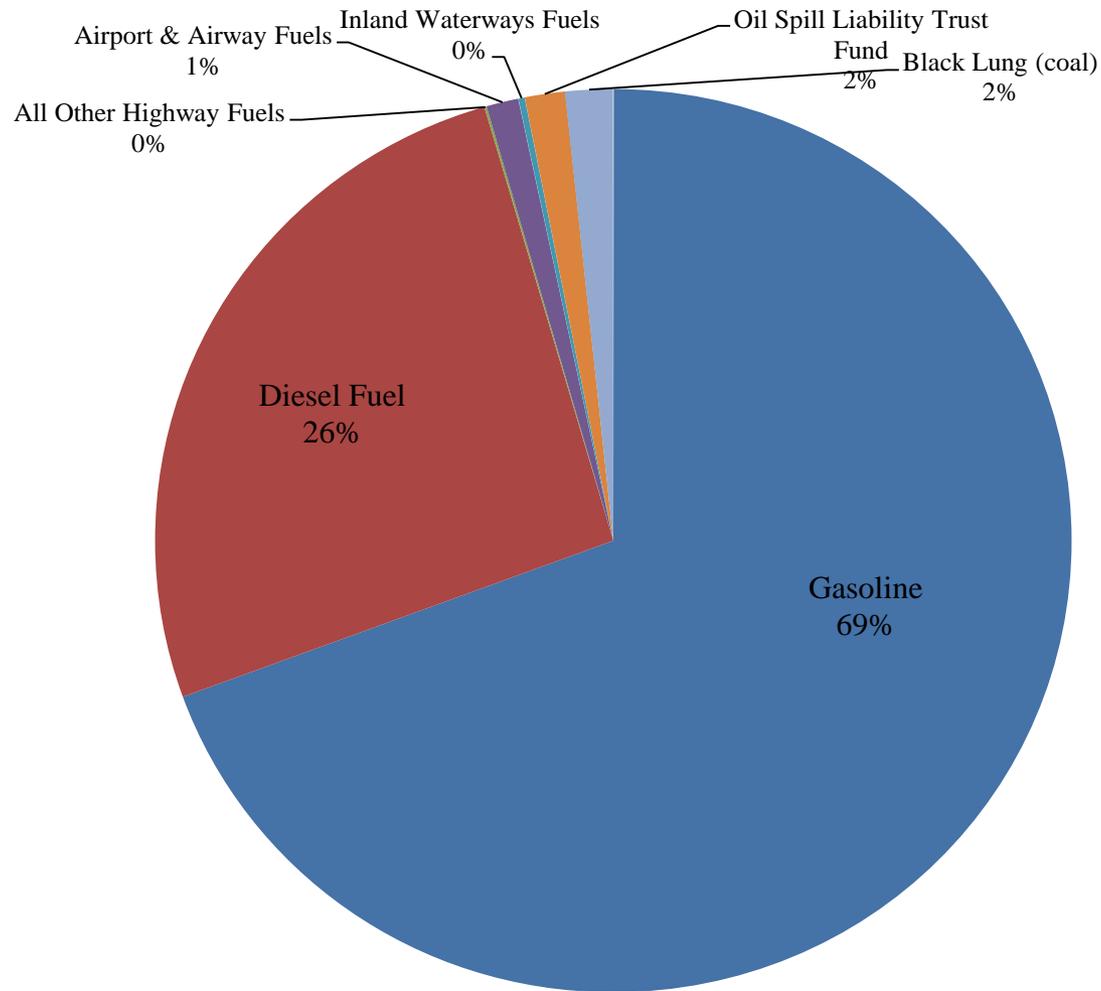
Source: IRS, SOI sample of corporate tax return files. Totals do not include S corporations, REITs and RICs. Businesses are classified into an industry category based on the taxpayer's determination of the business activity from which it derives the highest percentage of its total receipts, as reported on its tax return.

Percent of Selected Extractive Industries Corporate Tax Revenues By Industry -- 2010



Source: IRS, SOI sample of corporate tax return files. Totals do not include S corporations, REITs and RICs. Businesses are classified into an industry category based on the taxpayer's determination of the business activity from which it derives the highest percentage of its total receipts, as reported on its tax return. Total federal corporate income tax revenue equaled \$10.6 billion for these industries in tax year 2010.

Excise Fuel Tax Revenue in 2010



Source: IRS, Statistics of Income Bulletin, Historical Table 20. Total revenue from fuel excise taxes was \$36 billion in 2010. Diesel fuel includes kerosene used as aviation fuel but purchased at the Highway diesel rate.

Disclosure of Taxpayer Return Data

- Section 6103 of the Internal Revenue Code (IRC) provides that tax returns and tax return information are confidential and not subject to disclosure, unless an exception identified in the IRC applies
 - The IRC imposes civil and criminal penalties for violations of the disclosure prohibitions
- Section 6103(e)(6) and (c) provide for disclosures to powers of attorney and other designees. Taxpayers may always consent to have their tax return information disclosed to specific parties
- The Privacy Act of 1974 precludes the IRS from gathering information that is not used for tax administration purposes
 - Tax systems and processes must support tax administration objectives