September 8, 2021

The Honorable Ron Wyden
Chairman
Senate Committee on Finance
219 Dirksen Senate Office Building
Washington, DC 20510

The Honorable Mike Crapo
Ranking Member
Senate Committee on Finance
219 Dirksen Senate Office Building
Washington, DC 20510

Dear Chairman Wyden and Senator Crapo:

As the Finance Committee considers possible tax changes in connection with budget reconciliation legislation, the undersigned organizations urge you to retain the present-law percentage depletion tax deduction. The percentage depletion deduction contributes significantly to the role U.S. mineral, coal, natural stone, aggregates, and independent oil and gas producers play in fostering continued American economic prosperity. Maintaining a strong natural resources production sector and limiting our dependence on foreign production is critical to the growth of the U.S. economy.

Eliminating or reducing the depletion deduction would, among other impacts, raise taxes on small energy operators and millions of oil and gas royalty owners who benefit directly from percentage depletion and make less than $400,000 per year. It would do particularly acute damage to rural economies while also damaging the 10 percent of domestic oil and natural gas production which currently comes from stripper wells. Such a policy change would also produce negative environmental consequences. Global Oil and gas emissions would rise as domestic production shifts overseas to operations with less stringent environmental standards. Where there had been community supporting domestic energy production, there will be a growing number of abandoned or orphaned domestic oil and gas wells.

These potential tax changes would also prove counterproductive to efforts to re-shore supply chains needed for infrastructure reinvestment and a healthy, globally competitive manufacturing sector. The materials produced by the extraction of natural resources are used as the building blocks of the economy and are integral to continued economic prosperity.

Increasing the cost of producing sand, stone and aggregates will directly increase the cost of building roads, bridges and other infrastructure. Hardrock mining provides uranium for generating electric power and other essential minerals stretching the full breadth of the periodic table that are essential inputs for farms, national defense systems and high-tech commercial products such as smart phones and hybrid and electric cars. Increasing the cost of metallurgical coal production will provide upward price pressure on domestic steel production and hurt U.S. exports that support thousands of jobs.

Increased taxes on natural resources extraction will result in increased electricity and fuel prices, increased costs for commodities, higher prices for consumers and increased reliance on imports, imposing an unnecessary burden on the United States' economy.

We cannot over-emphasize the importance of natural resources production to our industries and the nation's industrial base. Tens-of-thousands of individuals are directly employed in mining and resources production and for every direct job approximately four other jobs provide goods and services used by natural resources producers.

Under current law, taxpayers producing from mines, wells, and other natural deposits can claim as a deduction for depletion a percentage of the gross income from these properties. The percentage depletion deduction is an essential component of American mineral and other natural resources production operations and recognizes the unique nature of resources investments, which require significant financial commitments to long-term projects to deliver a competitive product at a low margin.

The percentage depletion deduction provides an effective way to account for the diminution of reserves within mines, wells, and other natural deposits, encouraging domestic production by providing a tax incentive to improve the cash flow for production operations. Percentage depletion was enacted so that the natural resources industries could account for the uncertainty in reserves and future revenues when investing in and developing and operating production projects in the United States. For all these reasons, the percentage depletion deduction is vitally important to U.S. natural resources operations, the competitiveness of our manufacturing sector and the health of our economy. It is clearly in the natural interest and should be retained.

We very much appreciate your consideration of our concerns.

Sincerely,

cc: Members of the Committee on Finance