September 8, 2021

The Honorable Richard Neal
Chairman
Committee on Ways and Means
1102 Longworth HOB
Washington, DC 20515

The Honorable Kevin Brady
Ranking Member
Committee on Ways and Means
1139 Longworth HOB
Washington, DC 20515

Dear Chairman Neal and Representative Brady:

As the Ways and Means 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 present-law percentage depletion deduction would among other impacts would 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 significantly harm the competitiveness of American natural resources industries, including industries that are key employers in states represented by Members of the Ways and Means Committee and hurt or destroy rural economies. The change would increase oil and gas emissions as roughly ten percent of domestic production generated by stripper wells will be shifted overseas; and increase the proliferation of abandoned and orphaned oil and gas wells.

In addition, 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 for commercial use as cost-effective inputs for farms, national defense systems, and high technology such as cell phones, hybrid cars and minerals for the manufacturing base. The negative impact on domestic metallurgical coal production used for steel making would hurt U.S. exports as well reduce access to a key component of the domestic manufacturing sector.

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

We cannot over-emphasize the importance of natural resources production to our industries. Thousands of individuals are directly employed in in mining and resources production and, for every direct job, approximately four other jobs provide goods and

services used by natural resources producers. The aspirational, as yet not identified, "clean energy economy" will not replace these jobs.

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 and should be retained.

We very much appreciate your consideration of our concerns.

Sincerely,

cc: Members of the Committee on Ways and Means