

“There Will Be Blood” was the title of 2007 movie about an old-time oilman. If you were doing a similar movie about the situation today, you might call it, “There Will Be Tax Write-Offs.”

The taxpayers have been generous to the industry. Oil companies get about \$5 billion per year in favored tax treatment. Mostly, these provisions allow oil companies to write off costs faster than normal businesses. The depletion allowance can actually allow a company to write off “costs” that are greater than the amount it actually spent. Some of these special provisions favor the industry as a whole, but others are available only to independents rather than Big Oil. Despite arguments to the contrary at [AEI](#), it’s clear that these are deviations from normal tax principles, which would provide less favorable treatment to such capital expenditures. These benefit the industry at the expense of not only taxpayers but of other businesses that are competing for capital.

Estimates by the Treasury as well as by [independent researchers](#) indicate that the effect on oil production is small, under 1% of total production. The effect on price is also miniscule. Mostly, the subsidies encourage producers to drill in marginal locations, which otherwise wouldn’t be worth the trouble. To the extent that these tax rules increase oil production, [RFF](#) calculates that each additional barrel of oil costs the Treasury several hundred dollars.

Because the subsidies are fairly ineffective in encouraging production, eliminating them wouldn’t have a big direct effect on greenhouse gas emissions. But the U.S. is far from being the only country to have such subsidies, and there have been international efforts to eliminate them. U.S. action could help support this international movement, and the cumulative effect of eliminating all these subsidies would have much greater environmental benefits than U.S. action alone.

This is one issue where environmentalists and Tea Partiers should be able to unite. These subsidies are at best an unjustified benefit for a special interest and at worst a threat to the environment. Their continued existence is an embarrassment.