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Trump's Tax Scam Hands Billions to Big Oil as Gas Prices for Working Families Soar

Report of the Senate Finance Committee Democratic Staff

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Report Summary

On top of billions in existing special tax subsidies, Trump's tax law is handing Big Oil a nearly $15 billion windfall and opening up new supertanker-sized loopholes.

- Big Oil companies, which already benefit from nearly $5 billion each year in special tax subsidies, are celebrating their massive windfall from Trump's tax law.
- Four Big Oil companies project the tax law will hand them nearly $15 billion in tax benefits over the next decade, according to earnings calls.
- Trump's tax law opens up huge new loopholes for Big Oil, allowing massive oil and gas partnerships to claim the "small business" pass-through deduction and handing a $4 billion windfall to multinational oil companies by repealing anti-abuse rules for overseas income.

As Big Oil rakes in billions in new tax windfalls, prices at the pump are rising toward their highest level in more than three years.

- Average gas prices have risen nearly 20 percent since Trump signed his tax law at the end of December.
- Gas prices for working families are rising toward $3 a gallon on average nationwide, which would be the highest price since late 2014.

Big Oil CEOs are funneling corporate tax cuts into stock buyback schemes that boost their own compensation, despite stunning gaps between CEO and employee pay.

- Since Trump signed his tax law, Fortune 500 oil companies have authorized nearly $13 billion in stock buybacks. By boosting stock prices, these schemes increase CEO's stock-based compensation and enrich foreign shareholders.
- Meanwhile, filings from these companies show ratios of CEO to median employee pay ranging from 100-to-1 all the way up to 935-to-1.
- Big Oil CEOs received over $335 million in compensation in 2017. It would take over 5,800 families working at median income to earn that much in a year.

Introduction

Families across the country are looking at their budgets and wondering if they can afford to take a road trip this summer. As they watch prices at the pump skyrocket, Big Oil companies - which already benefit from nearly $5 billion each year in special tax subsidies - are celebrating their massive windfall from Trump's tax law.

Of the 27 Fortune 500 oil companies, four alone are poised to rake in nearly $15 billion over the next decade in corporate tax cuts. Meanwhile, since Trump signed his tax law at the end of December, average gas prices have risen nearly 20 percent. Now average prices are rising toward $3 a gallon, which would be the highest price in more than three years.

While Donald Trump and Congressional Republicans broke their promise to deliver $4,000 wage increases to working Americans, they're lining the pockets of multinational corporations and the donor class. In just the first three months of 2018, companies in the S&P 500 have reported $12.8 billion in tax benefits from Trump's tax law.

Trump Tax Law Brings Massive Tax Windfalls for Big Oil, Price Hikes at the Pump for Working Families

In earnings calls and supporting documents, four of the 27 oil companies in the Fortune 500 provided estimates of how the tax law will increase their earnings in 2018. Those four projections alone add up to $1.47 billion in tax benefits this year.

Trump's tax law delivered enormous savings to major corporations by cutting the corporate tax rate from 35 percent to 21 percent. Because the corporate rate cut was made permanent, Big Oil companies will continue seeing major tax savings year after year. As a result, the $1.47 billion in benefits going to just four Big Oil companies this year will add up to approximately $14.7 billion over the next decade.

Big Oil didn't have to wait long to start raking in tax benefits. In quarterly filings, two of the 27 Fortune 500 oil companies revealed that Trump's tax law already handed them a $168 million tax benefit – and that's in just the first three months of 2018.

How much will the other 25 Fortune 500 oil companies end up raking in? Seven "supermajor" Big Oil companies, which together received over $345 billion in revenue in 2017, have not publicly revealed the size of their Trump tax windfalls. It's clear these tax cut estimates are only going to rise as more companies reveal projections.

Oil companies have already enjoyed special tax favors for more than 100 years, with the federal subsidies for oil and gas production dating to 1916. Now, on top of steep cuts to the corporate tax rate, Trump's tax law has opened up new supertanker-sized tax loopholes designed to line the pockets of Big Oil.

One loophole straight off the oil lobbyist wish list allows massive oil and gas partnerships to claim the "small business" pass-through deduction. This directly benefits subsidiaries of Shell and Valero. This is a far cry from helping mom-and-pop shops and true small businesses who are in need of a simpler, fairer tax code.

The giveaways for Big Oil don't end there. Trump's tax law also repealed a decades-old rule that prevented Big Oil companies from abusing the tax code to avoid paying U.S. tax on their overseas income. According to the official Joint Committee on Taxation, this one change will hand a $4 billion windfall to multinational oil companies over the next decade.

Big Oil Companies Gained Even More Financial Benefits from Trump's Giveaway to Multinational Tax Dodgers and its Colossal Corporate Rate Cut

While only four Big Oil companies have revealed how much they expect to benefit from Trump's tax law in 2018, end-of-the-year 2017 filings show the law resulted in billions of dollars in financial benefits across all 27 of the Fortune 500 oil companies.

Fortune 500 oil companies reported, on net, nearly $21 billion in financial benefits to their 2017 books due to the remeasurement of their deferred tax assets and liabilities at the new corporate rate. The reduction of the corporate tax rate from 35 percent to 21 percent reduced the cost of existing deferred tax liabilities when remeasured at the lower rate. Similarly, the corporate rate cut reduced the benefit of existing deferred tax assets.

Before Trump's tax law, multinational corporations like Big Oil companies delayed paying U.S. taxes by stockpiling their earnings overseas. Under prior law, U.S. corporations paid a 35 percent statutory rate on their worldwide income but could defer paying taxes on their offshore earnings until the earnings were repatriated to the United States. Multinational corporations exploited this deferral regime, indefinitely postponing paying U.S. tax while accumulating trillions of dollars in offshore jurisdictions.

Trump and Congressional Republicans used their tax law to reward corporations for exploiting this loophole, allowing them to repatriate their earnings at extremely low tax rates. Trump's tax law imposed a one-time transition tax on previously deferred foreign earnings at a rate between 8 percent and 15.5 percent, lower than the new corporate tax rate of 21 percent and far lower than the previous 35 percent rate the earnings would have been subject to had the corporations paid their taxes at the time they earned the money.

This unnecessarily low rate handed multinational oil companies a huge tax break. If Republicans had taxed offshore income at their new 21 percent domestic corporate tax rate, they could have raised over $800 million more in revenue from Fortune 500 oil companies. If they had taxed offshore income at the 35 percent statutory rate that was law at the time it was earned, they could have raised over $2 billion in additional revenue from these 27 companies alone. That's more than $2 billion that could have been put toward strengthening Medicare and Social Security or toward tax relief for working families.

Big Oil Companies are Funneling their Tax Cuts into Billions of Dollars in Stock Buybacks, Resulting in Big Pay-Outs for Uber-Wealthy CEOs

Since Trump's tax law passed, major corporations have authorized more than $410 billion in stock buybacks. By funneling corporate tax cuts into buybacks, corporate CEOs can use these windfalls to inflate stock prices. These inflated prices, in turn, boost CEOs' stock-based compensation and enrich foreign shareholders.

In 2018, seven of the 27 Fortune 500 oil companies have announced stock buybacks adding up to nearly $13 billion. Meanwhile, recent corporate filings verify, for the first time, that corporate CEOs are being paid hundreds of times more than their median employees. Among Fortune 500 oil companies that authorized stock buybacks in 2018, ratios of CEO pay to median employee pay in 2017 ranged from 100-to-1 all the way up to 935-to-1.

Altogether, 24 CEOs of Fortune 500 oil companies received over $335 million in compensation in 2017. It would take over 5,800 families earning the 2016 median income of $57,617 to earn that much in a year. As if this weren't enough, Big Oil CEOs' tax-cut-fueled stock buyback bonanza may cause these stunning gaps between CEO and employee pay to get even wider.

Appendix: Methodology and Data Tables

Projected Tax Benefits for 2018 and the Rest of the Decade

The four companies included in the first section meet the following three conditions. First, the companies are members of the Fortune 500.

Second, the companies are identified by Fortune as part of the "Energy" sector and any of the following industries: "petroleum refining," "oil and gas equipment, services," "mining, crude-oil production," "pipelines," or "energy." The sector and industry designations of the Fortune 500 can be viewed by visiting the online list and clicking "Filter." Though Freeport-McMoRan, Newmont Mining, Oneok, NRG Energy, Calpine, UGI, and Vistra Energy fall under these sector and industry categories, these companies were excluded from this report because their financial reports reveal no direct involvement with oil. Western Refining was excluded because its parent company, Andeavor, was included.

The third condition is that companies must have provided a projection of their 2018 earnings benefit attributable to the tax law in their earnings calls or supporting materials. To meet this condition, companies must have explicitly attributed specific dollar amounts of earnings increases to the tax law. Of the 27 Fortune 500 oil companies, four provided these 2018 projections.

Senate Finance Democratic staff analyzed 2017 Q4 earnings calls, 2018 Q1 earnings calls, accompanying earnings call slides and reports, and published 2018 guidance of the 27 Fortune 500 oil companies. For the two companies that provided a projected range of 2018 benefits attributable to the tax law, the midpoint in that range was used. This method yields a total of $1.47 billion in 2018 tax benefits for the four companies.

In providing guidance to investors on the benefits of the tax law, companies noted they view these tax benefits as sustainable over the long-term, as the bulk of the benefits are derived from the permanent reduction in the corporate income tax rate from 35 percent to 21 percent. As a result, staff assumed that, over the next decade, the yearly tax benefit from the Republican tax law for each of the four Fortune 500 oil companies analyzed in this section would, on average, remain equal to their 2018 tax benefit.

Similar methods were used to identify the two companies whose 2018 Q1 benefits from the Republican tax law were included in the first section. These two companies were part of the same group of 27 Fortune 500 oil companies. In their 2018 Q1 10-Q filings, they provided a dollar figure for their quarterly earnings benefit from the tax law. This method yields a total of $168 million in 2018 Q1 tax benefits for the two companies.

Remeasurement of Deferred Tax Assets and Liabilities

For financial reporting purposes, Accounting Standards Codification 740 requires changes in tax law to be recognized at the time of enactment, including making necessary adjustments in deferred tax liabilities and assets. Nineteen of the 27 Fortune 500 oil companies reported a net benefit from the remeasurement of their deferred tax assets and liabilities. Seven of the 27 companies reported a net loss from the remeasurement, while one company reported that it did not have any deferred tax assets or liabilities. The combined financial impact of the remeasurement on the 27 companies was a net gain of $20.99 billion.

Benefit from Tax Cut on Offshore Earnings

Under prior law, U.S. corporations were taxed at up to a 35 percent statutory rate on their worldwide income but were permitted to defer paying taxes on their offshore earnings until the earnings were repatriated to the United States. This deferral regime allowed multinational companies to indefinitely postpone U.S. taxation on accumulated foreign earnings. Trump's tax plan made major changes to the taxation of foreign earnings of U.S. corporations by moving the U.S. away from a worldwide tax system and toward a territorial tax system. It imposed a mandatory one-time transition tax on accumulated foreign earnings that had previously been subject to deferral. The mandatory transition tax rate was set at between 8 percent (for accumulated earnings held in illiquid assets) and 15.5 percent (for accumulated earnings held in cash or cash equivalents). The transition tax's favorable rate provided a significant benefit to companies with large accumulated foreign earnings.

According to their 2017 10-K filings, Fortune 500 oil companies will pay $2.37 billion in repatriation taxes, which can be spread out over the next eight years. Staff conservatively assumed that all of the reported transition taxes were paid at a 15.5 percent rate, rather than the lower 8 percent rate. If those offshore earnings had been taxed at the 35 percent statutory rate in effect at the time the earnings were accumulated, the tax bill on those same offshore earnings would have been $5.36 billion. Thus, the lower rate resulted in a tax break of over $2 billion in this method. It should be noted that the transition tax rate on offshore earnings is favorable even when compared to the new low 21 percent rate Republicans chose to apply to all other corporate earnings. Had corporate offshore income been taxed at the 21 percent rate now applicable to all other corporate earnings, Big Oil's offshore tax bill would have been $3.22 billion, meaning the preferential transition rate resulted in a tax break of over $800 million on offshore earnings.

Table 1: Projected 2018 Tax Savings Attributed to Trump Tax Law

Company	Projected 2018 Tax Savings
Phillips 66	$400,000,000
Marathon Petroleum	$450,000,000
Andeavor[1]	$416,666,666
Anadarko Petroleum	$200,000,000
Total	**$1,466,666,666**

Table 2: 2018 Q1 Tax Savings Attributed to Trump Tax Law

Company	2018 Q1 Tax Savings
Kinder Morgan	$44,000,000
Baker Hughes	$124,000,000
Total	**$168,000,000**

[1] Andeavor reports that "Federal tax reform legislation is expected to result in additional cumulative cash flow from operations of approximately $1.0 to $1.5 billion through 2020." To find 2018 tax savings, the midpoint of that range ($1.25 billion) is divided by three, for each year of the projection window.

Table 3: 2017 Financial Benefits from Trump Tax Law

Company	Mandatory Repatriation Tax	Difference Between Tax Calculated at 21% and Tax Paid	Difference Between Tax Calculated at 35% and Tax Paid	Benefit (Loss) from Remeasurement of Deferred Taxes
Exxon Mobil	$0	$0	$0	$5,942,000,000
Chevron	$0	$0	$0	$2,020,000,000
Phillips 66	$149,000,000	$52,870,968	$187,451,613	$2,870,000,000
Valero Energy	$734,000,000	$260,451,613	$923,419,355	$2,643,000,000
Marathon Petroleum	N/A	N/A	N/A	$1,500,000,000
Energy Transfer Equity	N/A	N/A	N/A	$1,810,000,000
World Fuel Services	$143,700,000	$50,990,323	$180,783,871	$76,900,000
ConocoPhillips	$0	$0	$0	$852,000,000
Andeavor	N/A	N/A	N/A	$918,000,000
Enterprise Products Partners	N/A	N/A	N/A	($21,200,000)
Plains GP Holdings	N/A	N/A	N/A	($823,000,000)
PBF Energy	$0	$0	$0	($20,153,000)
Halliburton	$305,000,000	$108,225,806	$383,709,677	($898,000,000)
Kinder Morgan	$0	$0	$0	($1,240,000,000)
Devon Energy	$167,000,000	$59,258,065	$210,096,774	$103,000,000
NGL Energy Partners	N/A	N/A	N/A	$0
HollyFrontier	$6,500,000	$2,306,452	$8,177,419	$315,000,000
Occidental Petroleum	$0	$0	$0	$583,000,000
Baker Hughes	$271,000,000	$96,161,290	$340,935,484	$132,000,000
Chesapeake Energy	N/A	N/A	N/A	($1,266,000,000)
Anadarko Petroleum	$0	$0	$0	$1,200,000,000
EOG Resources	$179,000,000	$63,516,129	$225,193,548	$2,200,000,000
Williams Companies	N/A	N/A	N/A	$1,923,000,000
National Oilwell Varco	$0	$0	$0	$242,000,000
Targa Resources	N/A	N/A	N/A	$269,500,000
Delek US Holdings	N/A	N/A	N/A	$174,300,000
Apache Corporation	$419,000,000	$148,677,419	$527,129,032	($516,000,000)
Total	**$2,374,200,000**	**$842,458,065**	**$2,986,896,774**	**$20,989,347,000**

Table 4: 2018 Stock Buyback Authorizations and 2017 CEO Pay Ratios

Company	2018 Stock Buyback Authorization	2017 CEO-to-Median Employee Pay Ratio
Phillips 66	$3,300,000,000	138-to-1
Valero Energy	$2,500,000,000	117-to-1
Marathon Petroleum	$5,000,000,000	935-to-1
ConocoPhillips	$500,000,000	138-to-1
Devon Energy	$1,000,000,000	100-to-1
Anadarko Petroleum	$500,000,000	106-to-1
Delek US Holdings	$150,000,000	137-to-1
Total	**$12,950,000,000**	

Table 5: 2017 CEO Compensation

Company	2017 CEO Compensation
Exxon Mobil	$17,495,119
Chevron	$24,781,568
Phillips 66	$23,677,209
Valero Energy	$22,532,260
Marathon Petroleum	$19,670,807
Energy Transfer Equity	N/A
World Fuel Services	$5,508,381
ConocoPhillips	$21,864,670
Andeavor	$19,924,675
Enterprise Products Partners	N/A
Plains GP Holdings	$42,500
PBF Energy	$8,923,488
Halliburton	$23,091,346
Kinder Morgan	$382,026
Devon Energy	$13,448,976
NGL Energy Partners	N/A
HollyFrontier	$9,907,151
Occidental Petroleum	$12,696,788
Baker Hughes	$14,317,060
Chesapeake Energy	$14,903,906
Anadarko Petroleum	$16,959,896
EOG Resources	$10,573,685
Williams Companies	$10,620,236
National Oilwell Varco	$12,640,701
Targa Resources	$5,321,895
Delek US Holdings	$12,168,871
Apache Corporation	$14,433,373
Total	**$335,886,587**