

A large offshore oil rig is engulfed in a massive fire, with thick black smoke billowing into the sky. Two support vessels are positioned around the rig, spraying high-pressure water jets to combat the blaze. The scene is set at sea, with the ocean visible in the background.

# One Big Fossil Fuel Handout

Republicans Further Subsidize the Dirty Fossil Fuel Industry

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**Sen. Jeff Merkley, Ranking Member**

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UNITED STATES SENATE  
COMMITTEE ON THE  
**BUDGET**

## Summary

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In July 2025, Congressional Republicans passed and President Donald Trump signed into law a partisan reconciliation bill, known as the Big, Ugly Betrayal bill, that added trillions to the national debt, stripped healthcare from millions of Americans, and cut taxes for billionaires and big corporations. They did this in part to provide a windfall to the fossil fuel industry, an industry that helped bankroll reelection campaigns for the president and Republicans in Congress.

Within their Big, Ugly Betrayal bill, Republicans provided over \$3.5 billion annually in new subsidies to major polluters like ExxonMobil, ConocoPhillips, and Coterra. This is on top of the \$31 billion per year in subsidies that these fossil fuel companies were already receiving from taxpayers—for a total payout of over **\$34.5 billion annually**.<sup>1</sup> The Big, Ugly Betrayal bill opens

up millions of acres of public lands in an attempt to develop and mine fossil fuels while lowering the federal return for such resource extraction. The Big, Ugly Betrayal bill also eliminates most of the renewable and clean energy incentives created under the *Inflation Reduction Act of 2022* (IRA) while creating



new incentives for oil and gas production. The combined results line the pockets of big oil, gas, and coal CEOs while driving up energy bills for Americans and risking public health for millions.

Analysis from economists and industry experts expect that the Big, Ugly Betrayal bill will increase household energy bills:

- On average by \$110 in 2026, according to the Center for American Progress;<sup>2</sup>
- On average up to \$280 by 2035, according to the Princeton University REPEAT Project;<sup>3</sup>
- Between 9 to 18 percent nationwide, according to Energy Innovation;<sup>4</sup> and
- By 10 percent over the next four years in western states, according to the Clean Energy Buyers Association.<sup>5</sup>

Since President Trump took office in January 2025, hardworking Americans have seen energy prices rise; 68 percent of electric utility customers and 66 percent of gas utility customers saw their monthly bills increase in 2025, and this trend is expected to continue.<sup>6</sup>

In contrast, Democrats put forth an agenda in the IRA that would have reduced greenhouse gas emissions, created roughly 9 million new clean energy jobs over ten years, and saved American families in total over \$4.5 billion annually on electricity bills.<sup>7</sup> Now, Republicans are actively dismantling these initiatives and replacing them with policies that hurt American families by driving up energy costs and eliminating good paying jobs, while subsequently gifting the fossil fuel industry billions in federal subsidies and continued record profits.

## **Fossil Fuel Handouts in Republican’s Big, Ugly Betrayal Bill (OBBBA)**

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### **Fossil Fuel Industry-Specific Tax Breaks and Deductions**

#### ***Intangible Drilling Costs Deduction in Corporate Alternative Minimum Tax***

Intangible drilling costs (IDCs) are costs incurred by oil and gas developers not related to the final operation of an oil or gas well. These include the exploration and development of reserves, surveyance, ground preparation, and labor. IDCs can be deducted in the first year of investment to substantially reduce taxable income. OBBBA allows big oil and gas companies to deduct IDCs from their corporate alternative minimum tax (CAMT), a new tax enacted under the IRA which required companies that report over \$1 billion in profits to pay a minimum 15 percent tax rate.<sup>8</sup> Allowing IDCs to be deducted from the CAMT could effectively allow big oil and gas companies to avoid the CAMT completely and eliminate their tax liability.<sup>9</sup> The Joint Committee on Taxation

(JCT) estimates that corporations deducting IDCs from CAMT will result in a **\$427 million** reduction in revenues over ten years.<sup>10</sup>



*Expansion of Qualified Income Corporate Tax Deduction for Permitted Publicly Traded Partnerships*

Many fossil fuel companies are organized as Master Limited Partnerships (MLPs), a corporate structure that allows publicly traded partnerships to claim a corporate income tax exemption. OBBBA expanded the definition of qualified income that can be exempted by MLPs.<sup>11</sup> Under OBBBA, income and gains from activities relating to carbon capture and hydrogen storage can now be classified as qualified income. According to Oil Change International, over 75 percent of all MLPs are fossil fuel companies. JCT estimates that this expansion will reduce federal revenues by **\$3.2 billion** over ten years.<sup>12</sup>

### *Carbon Capture Enhanced Oil Recovery – 45Q Tax Credit Expansion*

The Section 45Q tax credit incentivizes investment in carbon capture, use, and sequestration (CCUS). CCUS is a process in which carbon oxides are injected into underground geological formations for either permanent or temporary storage. If successful, this process reduces the net emissions of greenhouse gas intensive operations, such as oil recovery, power plants, and industrial facilities.<sup>13</sup> Originally enacted in 2008, in order to incentivize permanent geological storage of carbon, the 45Q credit gave a larger credit to permanent storage than it did to carbon used for Enhanced Oil Recovery (EOR). OBBBA increased the value of the credit for carbon dioxide in EOR to make it equal in value to permanent storage.<sup>14</sup> The result is that the credit's purpose morphed from an incentive to use EOR as a transition towards the development of true CCUS, into a taxpayer-funded subsidy for oil and gas companies by paying them for an activity that is essential for fracking operations. The law also maintains full transferability of the credit, which will spur further carbon capture investment in EOR. JCT estimates that the changes to the 45Q tax credit to create parity for EOR will result in a **\$14.2 billion** reduction in revenues over ten years.<sup>15</sup>

The 45Q tax credit has a well-documented history of misuse and fraud. A 2020 investigation by the U.S. Treasury Inspector General for Tax Administration found that between 2010 and 2019, 87 percent of the credits, almost \$900 billion worth, was claimed by taxpayers without an EPA approved monitoring, reporting and verification plan, as required.<sup>16</sup> Recently, U.S. Treasury Secretary Scott Bessent issued IRS Notice 2026-1 which allows third party certification to be used for compliance verification.<sup>17</sup> By expanding the value of the credit for EOR and allowing for third party certification of compliance, waste, fraud, and abuse could worsen.

### *Metallurgical Tax Credit – 45X Tax Credit Expansion*

The IRA created the Section 45X Advanced Manufacturing Production Tax Credit to incentivize the domestic production of clean energy components and critical minerals.<sup>18</sup> 45X provided incentives for solar, wind, and battery components production as well as inverter and critical mineral production.<sup>19</sup> OBBBA expanded the 45X Advanced Manufacturing Production Tax Credit

to make metallurgical coal, which is used for steel production, eligible.<sup>20</sup> Metallurgical coal is compositionally different from steam coal, which is used to generate electricity.<sup>21</sup> The law extends 45X to metallurgical coal that is exported outside the United States for nondomestic manufacturing. JCT estimates that this provision will cost **\$1.5 billion** over ten years.<sup>22</sup>

## **Royalty Rate Cuts, Methane Fee Suspension, CAFE Standard Penalty Elimination**

### *Reduced Oil and Gas Royalties for Onshore and Offshore Drilling*

When oil and gas are extracted from federal lands or waters, fossil fuel companies conducting the extraction are required to pay a royalty to the federal government.<sup>23</sup> The IRA increased the royalty rates for onshore and offshore drilling; onshore royalties increased from 12.5 to 16.67 percent<sup>24</sup> and offshore royalties increased from 12.5 to a range of 16.67 to 18.75 percent.<sup>25</sup> This change brought the federal royalty rates closer to the market rate, which is estimated to be around 20

percent, increasing federal and state revenues. OBBBA reduced the onshore and offshore royalty rates back to their pre-IRA levels.<sup>26</sup> With the exception of Alaska, oil and gas royalties, bonuses, and rents are split roughly 50 percent between the federal



government and the state where the lease is located. As such, the reduction in royalty rates will save oil and gas companies **\$12 billion** in total over ten years, according to Resources for the Future, resulting in a \$6 billion loss each for federal and state revenues over the 10-year budget window.<sup>27</sup>

### *Reduced Coal Royalty*

Due to the rise of cheaper and more abundant energy resources, coal production in the United States has declined substantially since its peak in 2008.<sup>28</sup> Coal mined on federal lands is subject to federal royalties; the coal royalty rate was set at 12.5 percent for surface mining by the Bureau of Land Management in 1979. OBBBA reduced the royalty rate for coal mined on federal lands from 12.5 to 7 percent through fiscal year 2034.<sup>29</sup> Not only does this change reduce federal revenues, but it attempts to make the uneconomic and harmful coal industry profitable. Oil Change International estimates that the reduced coal royalty rates will cost the federal government **\$1.2 billion** over ten years.<sup>30</sup> In addition to the reduced royalty rate, OBBBA also directed the Department of Interior to reinstate and conduct additional coal lease sales on federal lands. Since the passage of OBBBA, three western coal lease sales have fallen through without successful bids, because even companies know mining coal is uneconomical. For example, a federal lease sale held in Montana on October 6, 2025, would have been the largest lease sale by the government in more than a decade, and yet it drew only a single bid of about one-tenth of a penny per ton of coal.<sup>31</sup> This bid was later rejected.

### *Elimination of Methane Royalties*

The IRA instituted a royalty fee on methane extracted from leases held on federal lands or waters, including methane gas consumed or lost by venting or flaring.<sup>32</sup> OBBBA repealed this provision,<sup>33</sup> which is estimated to reduce federal receipts by **\$30 million** over ten years.<sup>34</sup> The exact revenue that is actually lost will likely be impossible to calculate because the Trump Administration has dismantled the Environmental Protection Agency's (EPA) Greenhouse Gas Reporting Program that monitors methane emissions.

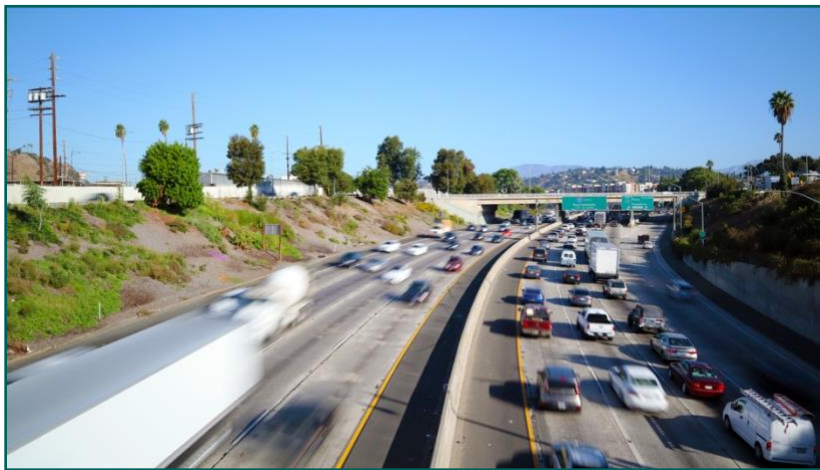
### *Delayed Collection of the Methane Fee for 10 Years*

The IRA established a waste emissions charge (WEC) that put a price on methane gas that is not captured or used by oil and gas companies.<sup>35</sup> The WEC, often referred to as the methane fee, was designed to incentivize large operators like ConocoPhillips and Occidental Petroleum that emit

methane to reduce their emissions. According to the EPA, this program would have resulted in cumulative emissions reductions of 1.2 million metric tons of methane by 2035.<sup>36</sup> OBBBA delays for ten years the collection of the WEC.<sup>37</sup> Without the enforcement mechanism, this effectively nullifies the program and renders it ineffective. CBO estimates that the delay of this fee for ten years will result in a **\$1.5 billion** reduction in revenues.<sup>38</sup> *This estimate does not incorporate the additional \$7 billion in lost revenues from the Trump Administration’s repeal of an EPA rule implementing the methane emissions reduction program.*

### ***Elimination of Corporate Average Fuel Economy Standard Penalty Collection***

Spurred by the gas crisis in the 1970s, the Department of Transportation was granted authority to set fuel economy standards for vehicles in 1975. The Corporate Average Fuel Economy (CAFE) standards require vehicle manufacturers to meet model year targets for fleet-wide fuel economy. These standards are continually updated by the National Highway Traffic Safety Administration. In 2024, the Biden Administration updated the CAFE standards to set an average 50 miles per gallon standard by 2031 for passenger vehicles and included electric vehicles in the standard for



the first time. OBBBA eliminated the penalties for noncompliance with the CAFE standards.<sup>39</sup> On net, CBO estimates that zeroing out the penalty for CAFE standards noncompliance will reduce federal receipts by **\$374 million** over ten years.<sup>40</sup>

The Trump Administration also rescinded the 2024 rulemaking and has proposed a new fleetwide standard of 34 miles per gallon for 2031 model passenger vehicles and light trucks.<sup>41</sup> While the dollar value is hard to calculate, the impact of this change will be compounded for Americans when they fill up their less fuel-efficient vehicles at the gas pump with more expensive fuel.

## **Fossil Fuel and Critical Minerals Slush Fund**

### *Defense Production Act Funding for Domestic Energy Production*

OBBBA included a \$1 billion appropriation for the Defense Production Act (DPA) to boost domestic energy production and critical mineral industries as a national security prerogative.<sup>42</sup> The DPA grants the President broad authorities to direct and influence domestic production of goods and materials deemed essential for national defense.<sup>43</sup> The Trump Administration has stated that this funding is intended to “accelerate the domestic production of fossil fuels, support strategically important coal mining operations, and reinforce the reliability and resilience of our electric grid.”<sup>44</sup> In other words, this **\$1 billion** will act as a slush fund for the Trump Administration to carry out its fossil fuel-centric energy policy with limited Congressional oversight.

### *Energy Dominance Financing Program*

Since 2005, the U.S. Department of Energy (DOE) has had the authority to issue low-interest direct loans and loan guarantees to innovative energy projects that reduce greenhouse gas emissions.<sup>45</sup> This authority was expanded in 2022 by the IRA to facilitate the deployment and investment in proven technologies to modernize and decarbonize energy systems.<sup>46</sup> OBBBA rebranded this existing DOE loan program as the Energy Dominance Financing Program, significantly expanded its mandate and lending authority, and appropriated an additional \$1 billion in subsidy funds for the newly expanded program.<sup>47</sup> DOE now has the authority to guarantee up to \$250 billion in loans for energy infrastructure and critical minerals projects. OBBBA expanded the scope of eligible technologies to include fossil fuels and removed requirements for emissions reduction, decarbonization, and engagement with affected communities. The Trump Administration can now tap into this lending authority to provide low-cost financing to oil, gas, coal, and mining projects, while excluding renewables, providing another subsidy to the fossil fuel industry. Though the exact value the fossil fuel industry will gain from this program is challenging to calculate, CBO estimates that the Energy Dominance Financing Program will issue \$24 billion in loan guarantees in 2026.<sup>48</sup>

### **Additional General Corporate Tax Breaks that Benefit the Fossil Fuel Industry**

In 2017, the *Tax Cuts and Jobs Act* permanently set the corporate tax rate at 21 percent. In OBBBA, Republicans made additional corporate tax deductions permanent using a dishonest “current policy baseline,” alleging that extending these tax breaks cost nothing, when in reality they add more than \$920 billion to the national debt over ten years.<sup>49</sup> Such deductions will further reduce the effective tax rate that large corporations pay, including many fossil fuel entities who are among the countries most profitable corporations.

#### ***Bonus depreciation***

Bonus depreciation is a current year tax deduction for certain capital expenditures or tangible equipment, which can include tangible drilling costs, equipment, and pipelines. While this subsidy does not exclusively apply to the fossil fuel industry, it is particularly advantageous to oil and gas companies that require lots of upfront capital. In the five year period between 2018 and 2022, three oil and gas companies reduced their combined tax liability using bonus depreciation by approximately \$6.8 billion.<sup>50</sup> In 2022 alone, the oil and gas industry deducted \$30 billion through 100 percent bonus depreciation.<sup>51</sup> OBBBA permanently extends the 100 percent bonus depreciation deduction for qualified property placed in service after January 19, 2025, and allows for an additional first year depreciation for certain manufacturing, production, and refining properties through January 1, 2030.<sup>52</sup> JCT estimates that the permanent extension of the bonus depreciation deduction across all applicable industries will result in a **\$141.4 billion** reduction in federal revenue over ten years.<sup>53</sup>

## Conclusion

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The Big, Ugly Betrayal bill added trillions to the national debt, stripped healthcare and food assistance from millions of Americans, and cut taxes for billionaires and big corporations. While doing so, Republicans also handed fossil fuel companies an additional \$3.5 billion in new subsidies, bringing their annual federal payout to \$34.5 billion. This will do nothing more than further line the pockets of fossil fuel executives while the American people are forced to breathe dirtier air and drink dirtier water, utility bills continue to rise, and the cost-of-living skyrockets. The Big, Ugly Betrayal bill is another example of Republican’s “families lose, billionaires win” agenda.

## Endnotes

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<sup>9</sup> Sec. 70523 of P.L. 119-21

<sup>10</sup> Joint Committee on Taxation. “Estimated Revenue Effects Relative To The Present Law Baseline Of The Tax Provisions In “Title VII – Finance” Of The Substitute Legislation As Passed By The Senate To Provide For Reconciliation Of The Fiscal Year 2025 Budget,” *JCT*, July 2025. <https://www.jct.gov/publications/2025/jcx-35-25/>

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<sup>33</sup> Sec. 50103 of P.L. 119-21

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