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COVER

*2003 SPE/IADC Drilling Conference topics include deepwater drilling, underbalanced operations, geoscience, and well control. Credits: main cover photo of the Discoverer Enterprise, **Transocean Inc**; seismic cube, **Knowledge Systems;** Arctic land rig, **Polar Lights Co**; photo of artificial island Northstar, courtesy of BP; and underwater scene, **Unocal Thailand.***

IRS proposal on offroad vehicles would greatly increase costs for carrier-mounted drilling rigs

Brian T Petty, Senior Vice President-Government Affairs

IRS Offroad Equipment Tax Proposal (Washington)—The Internal Revenue Service (IRS) has proposed changing the definition of a “highway vehicle” and by doing so eliminating longstanding exemptions from a variety of fuel and highway-vehicle taxes for offroad machinery. If implemented, these changes would have a substantial impact on the cost of operating certain types of land rigs.

The technical change is another in a long line of battles over diesel fuel tax and a host of other provisions in which the drilling industry has largely prevailed. It would alter through administrative fiat a regulatory structure that has been in place for more than 25 years. The excise tax exemption has existed since the highway trust fund originated in the 1950’s. Current definitions were formalized in 1977 and rely on a three-part standard for defining nonfarm offroad equipment.

With input from member companies, IADC has written the IRS voicing opposition to the proposal, which would cover mobile carrier and trailer mounted land drilling rigs, and requested that it be withdrawn. 80 members of the US House of Representatives also voiced their opposition to the proposal in a letter dated November 21, 2002 specifically citing the proposal’s impact on “construction companies, drillers and other small businesses.”

Among other points, IADC noted that the resulting 12 percent tax on chassis for carrier or trailer mounted rigs is a disincentive to capital investment in replacing older rigs. Mobile drilling machinery makes minimal use of the highway system and spends the majority of its time off road. Truck mounted drilling rigs already pay tax on fuel used for over-the-road travel, and road tax for minimal use of the highways. IADC estimates the proposed taxing of all diesel fuel used by carrier mounted drilling rigs while stationary and rigged-up on a well site (85% to 95% of the time) would cost $3000-$5000 per rig, per year.

In addition, the Mobile Machinery Coalition, representing 60 trade associations (including IADC) and companies, filed its strong opposition to the proposal. Its letter stated that the IRS has demonstrated no basis justifying this proposed revocation of grounds for exemption, having only asserted but not proven or demonstrated an apparent increase in road use by mobile equipment long exempt from federal highway taxes. The coalition asserted the proposal would, among other things, impose well over $100 million annually in State fuel taxes on previously exempt equipment, and impose several millions of dollars in new tire excise taxes and heavy vehicle fees on previously exempt special equipment owners. It added that elimination of the exemptions would have an immediate impact on concrete pumpers, mobile cranes, well drilling and servicing equipment and digger derricks.

The IRS will hold a public hearing on its proposal in Washington on February 23, 2003.