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7.3.2022

 Report

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Tags

Fossil
Fuels

Performing without Transforming: The Case for a Windfall Tax in the United States

The 'Big Five' oil and gas companies in the United States have seen sharp rises in their profit margins and have paid out over \$200bn to shareholders since 2015, strengthening the case for a windfall tax on their profits.



1 Introduction

The ongoing energy crisis has left governments around the world searching for ways to provide relief for households faced with soaring gas and electricity bills. To pay for such relief measures, various countries are considering the implementation of a windfall tax: a one-off levy on the profits of energy companies. The [Spanish government](#) has already adopted a windfall tax on energy companies and extended tax cuts to households hit by rising energy costs. The opposition [Labour Party](#) has proposed a similar windfall tax on North Sea oil and gas producers in the United Kingdom, where the policy enjoys [widespread support](#). And the [European Commission](#) has encouraged its member states to adopt a windfall tax to finance renewable energy investments and energy cost relief for households and businesses.

This briefing examines the leading US energy companies in the context of the current energy crisis. Building on an [earlier briefing](#) focused on the UK, its purpose is to find out the extent to which leading US energy companies have profited amid the recent market turmoil in order to better understand the context in which a windfall tax could be imposed in the United States. In particular, the briefing highlights some of the lessons that US policymakers might learn from the debates that have emerged in the UK regarding the windfall tax.

Focusing on the five largest US oil and gas companies by market shares, ConocoPhillips, Chevron, Devon Energy, Exxon Mobil and Hess (referred to here as the “Big Five”), the main findings of the report can be summarized as follows:

- There has been a remarkable upswing in the profitability of the Big Five from 2020 and 2021, and estimates suggest further increases in their profits in 2022, anywhere from 33 percent to 57 percent compared with 2021.

- The Big Five have enjoyed consistently high profit margins since the 1990s, and estimates suggest these profit margins will increase further in 2022. The profit margins of ConocoPhillips and Devon Energy in 2022 are estimated to rise above 30 percent.
- The domestic (i.e. US) taxes paid by the Big Five have not only been lower than the S&P 500 average since 2015, they have in fact been *negative*. In effect, this means that the tax credits and rebates received by the Big Five from the US federal, state and local governments exceed their tax liabilities, leading to a transfer of \$1.95 billion from the US federal and state governments to the Big Five. Meanwhile the foreign taxes paid by the Big Five are significantly higher than the S&P 500 average.
- The Big Five have paid out over \$200 billion to shareholders in dividends and stock buybacks since 2015. Over this same period, the average shareholder payouts of the Big Five totalled \$40 billion, significantly higher than the S&P 500 average of \$15 billion.
- Since 2015, the Big Five have paid out 2.68 times more to shareholders in dividends and stock buybacks than they have to the US and foreign governments in taxes.
- The US supermajors Exxon Mobil and Chevron lag very far behind their European counterparts BP and Shell in low carbon investment. Estimates suggest that in 2021 low-carbon capital expenditures made up 16 and 9.5 percent respectively of the total capital expenditures of BP and Shell. In the same year, for Chevron and Exxon Mobil low carbon capital expenditures made up 2 percent and 0.16 percent respectively of their total capital expenditures. In fact, Exxon Mobil spent more than double in 2020 on executive pay than it did on low carbon capital expenditures in the past year.
- Share ownership and pension entitlements are heavily concentrated in favour of the wealthiest ten percent of US households, raising doubts about merits of arguments that

oppose the windfall tax on grounds that it will mostly harm ordinary households that own energy company shares as part of their pension and other investment plans.

Overall, the findings in this briefing provide compelling evidence on the need for a windfall tax in the United States.

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2 The Financial Performance of the Big Five

This briefing examines the financial performance of the five largest US oil and gas companies by market shares: ConocoPhillips, Chevron, Devon Energy, Exxon Mobil, Hess (referred to here as the “Big Five”). The reason for focusing on these five companies becomes clear when looking at Table 1, which shows their share of the percentage of overall revenues generated from oil drilling and gas extraction in the US. Given that there are over **65,000 companies** operating in the US oil drilling and gas extraction, a 20 percent market share for the top 5 companies is considerable.

Company	Market Share
ConocoPhillips Company	6.7%
Chevron Corp.	5.7%
Exxon Mobil Corporation	5.0%
Hess Corp.	1.4%
Devon Energy Corp.	1.3%
Total	20.1%

Table 1. US Oil and Gas Companies' Market Share

Note: Market share calculated as the percentage of overall revenues generated from oil drilling and gas extraction in the US

Source: IBISWorld (2022)

Table 2 shows the pre-tax profits of the Big Five for 2020 and 2021, as well as a profit estimate for 2022 from Thomson Reuters Eikon. In 2020, when energy prices plummeted as a result of the Covid-19 pandemic, the bottom lines of the Big Five were severely hit, and on average they incurred a loss of \$1.4 billion. But with a recovery in energy prices in 2021 came a dramatic reversal of fortune for the Big Five as their average pre-tax profits climbed to \$14 billion. As the table indicates, the pre-tax profits of the Big Five are expected to increase even further in 2022. Expressed as a percentage change from 2021 to 2022, this would represent an increase in profits of anywhere from 33 percent (Exxon Mobil) to 56.9 percent (Hess).

Company	Pre-Tax Profit 2020 (US\$ bn)	Pre-Tax Profit 2021 (US\$ bn)	Estimate of Pre-Tax Profit 2022 (US\$ bn)	Estimated Change in Pre-Tax Profit 2021-22 (%)
ConocoPhillips	-1.1	12.7	18.1	42.7
Chevron Corp.	-4.8	31.2	43.2	38.5
Exxon Mobil	-0.4	21.5	28.6	33.0
Hess Corp.	0.0	3.0	4.8	56.9
Devon Energy	-0.7	1.6	2.3	44.6
Average	-1.4	14.0	19.4	38.5

Table 2. US Oil and Gas Companies' Pre-Tax Profit

Note: Fiscal year end for each company is December 31st.

Source: Thomson Reuters Eikon (2022)

As a complement to Table 2, Figure 1 plots the pre-tax profit margins (pre-tax profits as a percentage of total revenues) of the Big Five. Since the 1990s, the Big Five have been consistently profitable, enjoying healthy profit margins ranging from 8.6 percent in the 1990s to 14.2 percent in the 2000s. Thomson Reuters Eikon estimates that the profit margins of the Big Five will surge to 16.4 percent in 2022, and will reach a truly eye-watering 31.9 percent for Conoco Phillips and 32.6 percent for Devon Energy.

Taken together these data indicate that the energy crisis has indeed been a major windfall for the Big Five. The large US oil and gas companies managed to turn a significant profit in 2021 amidst the turmoil of the energy crisis. Any effort to forecast company profitability for 2022 needs to be approached with caution. But with no end to the energy crisis in sight, and with oil prices continuing to soar in response to [Russia's invasion of Ukraine](#), there is a strong likelihood that 2022 will serve as a further, massive windfall for the Big Five.

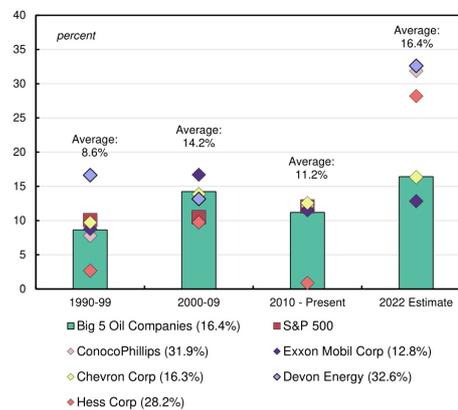


Figure 1. Pre-Tax Profit Margins for the Big 5 Oil and Gas Companies and the S&P 500

Note: Data in legend are estimated pre-tax profit margins for 2022

Source: Compustat (2022) and Thomson Reuters Eikon (2022)

3 Minimising Taxes, Enriching Shareholders

The large US oil and gas companies have been consistently profitable for decades and the surge in their profits during the energy crisis provides some justification for a windfall tax. But profitability is only part of the picture. In order to assess more systematically the grounds for a windfall tax we need to take a closer look at what the Big Five are doing with these profits. In other

words, are the profits of the Big Five already filling the public coffers in the form of tax revenue? To what extent are their profits being siphoned off to shareholders in the form of dividend payments and stock buybacks? To what extent are their profits, as [the companies themselves claim](#), being used to fuel investment in low carbon energy technologies? The remainder of this section tackles the first two questions, the subsequent section tackles the third.

Table 3 juxtaposes the taxes paid by the Big Five to the amounts they pay out to shareholders in dividends and stock buybacks from 2015 to 2021. The first two columns in the table break down the tax payments of the Big Five [along jurisdiction lines](#). The column to the left displays their tax payments to domestic (US federal, state and local) governments while the column to the right displays their tax payments to foreign governments. What immediately stands out here is the striking discrepancy in the two columns. Over this period, the domestic tax bill of the Big Five was *negative* \$2.4 billion. While the average company in the S&P 500 paid \$2.8 billion in domestic taxes since 2015, the average company in the Big Five received \$489 million due to a negative tax liability. Due to an [extremely favourable domestic tax code](#) and its long list of tax breaks for the oil and gas industry, this amounts to a net transfer from the US government to the Big Five. As the table shows the situation is very different for foreign taxes. Since 2015, the Big Five have paid over \$77 billion in taxes to foreign governments. On average, a Big Five company pays ten times more

in foreign taxes than a S&P 500 company. The third column of Table 3 calculates the amounts that the Big Five paid out to shareholders in dividends and stock buybacks from 2015 to 2021. Over this period, over \$200 billion was channelled to the Big Five's shareholders, and on average a Big Five company paid well over double the amount to shareholders compared to the S&P 500 average.

Company	Domestic Taxes <i>(US\$ bn)</i>	Foreign Taxes <i>(US\$ bn)</i>	Dividends and Stock Buybacks <i>(US\$ bn)</i>
ConocoPhillips	-0.288	12.2	27.4
Chevron Corp.	-1.760	20.4	58.8
Exxon Mobil	0.692	43.2	103.3
Hess Corp.	-0.126	1.2	3.6
Devon Energy	-0.470	0.2	8.2
S&P 500 Average	2.76	1.5	15.3
Big 5 Average	-0.390	15.4	40.3
Big 5 Total	-1.952	77.2	201.4

Table 3. US Oil and Gas companies' Tax and Shareholder payments, 2015-2021

Note: Domestic tax data is the sum of federal and state current income taxes. Deferred taxes are not separated from the state income tax data for Exxon Mobil and Hess Corporation in their 10-K filings. As such, deferred taxes paid at a state level form part of the domestic taxes data for these two companies. This means that the domestic income tax data presented are likely to be overestimates of Exxon Mobil and Hess Corporation's current tax contributions at a domestic-level.

Source: Company 10-K Filings, Compustat (2022) and Thomson Reuters Eikon (2022).

The data in Table 3 indicate that since 2015 the business models of the large US oil and gas companies have been geared towards generating far greater returns for shareholders than they do for the public coffers. This severe imbalance between shareholder returns and taxes to governments is placed in a longer-term historical context in Figure 2. In this figure, the dividends and stock buybacks of the Big Five are expressed as a ratio relative to their total tax bill

from 1990 to 2021. Within the given time frame, we see that the most recent period is truly unprecedented. Before 2015, the ratio hovered around 1, meaning that the private financial returns that shareholders received from the Big Five were more or less equal to the public financial returns that governments received from them in taxes. But from 2015 to 2021 the ratio has skyrocketed to 2.68.

Given their negative domestic tax liability, there appears to be plenty of scope for introducing a federal windfall tax on large US oil and gas companies. And the justification for such a tax becomes more apparent when taking into account the striking imbalance between what they distribute to shareholders in dividends and stock buybacks versus what they pay to governments in taxes.

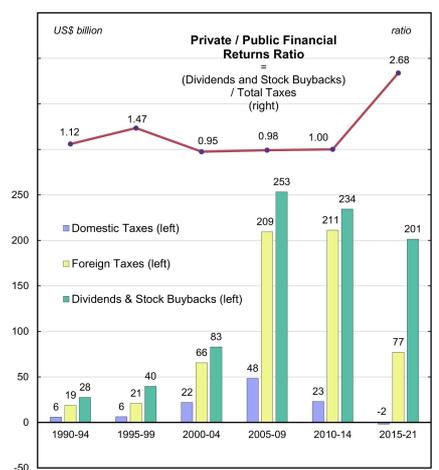


Figure 2. US Oil and Gas Companies' Tax and Shareholder Payments, 2015-21

Source: Company 10-K filings and Compustat (2022)

4 Performing *and* Transforming?

Another factor that should be taken into consideration in any discussion of a windfall tax in the US is the investments made by oil and gas companies in low carbon energy technologies. In the UK, green investment has been front and centre in debates about the proposed windfall tax. For example, BP's posting of a profit of \$12.8 billion in 2021 caused considerable outrage in the context of a devastating cost of living crisis and was seen by many as [clear evidence](#) for the windfall tax's necessity. Yet [BP hit back](#) at claims that its bumper profits should make it a target of a windfall tax, and it did so by arguing that the profits would help it to increase its investments in renewable energy. The company argued that a windfall tax was unnecessary because it was, in the words of its CEO Bernard Looney, "performing while transforming."

One way to assess whether these claims hold any water is to examine the recent track record of these companies in low-carbon investments. Figure 3 plots estimates of the low-carbon capital expenditures of BP, Shell, Chevron and Exxon Mobil as a percentage of their total capital expenditures in 2021. Recall that the data presented earlier in this briefing established that the large US oil and gas companies were indeed "performing" in 2021. But Figure 3 shows very little evidence of them "transforming." In fact, the two US supermajors Chevron and Exxon Mobil lag severely behind their European counterparts, with low-carbon capital expenditures making up a mere 2 percent and 0.16 percent respectively of their total capital expenditures. The figure also includes data on the four companies' dividends

and stock buybacks, as well as their executive pay, in 2021. What is particularly disturbing here is the fact that Exxon Mobil spent \$49 million on executive pay, more than double the \$19 million it dedicated to low-carbon investment.

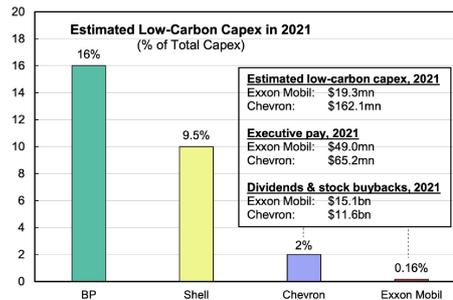


Figure 3. Estimated Low-Carbon Investments: the US versus European Supermajors
Source: Greenberg (2021) and BloombergNEF (2021)

If the US experience is anything like the UK, then any proposed windfall tax will encounter staunch opposition from the large energy companies. The Big Five might even follow their European counterparts in resisting the windfall tax on grounds that it drains funds that these companies need to invest in the renewable energy essential to tackling the climate crisis. The [evidence](#), however, demonstrates that such arguments do not hold up to scrutiny, especially in the US context. If a windfall tax does have a significant impact on the bottom line of the Big Five then they should have to justify why low-carbon investments should be slashed instead of dividends, stock buybacks and executive compensation.

5 The Case for a Windfall Tax

This briefing has shown that the Big Five have been consistently profitable for decades, that their profits have spiked through the energy crisis, and that this surge in profitability is likely to continue for the foreseeable future. It also documented how a considerable amount of the profits of the Big Five are being channelled to their own executives and shareholders at the expense of government revenues and low-carbon energy investments. Taken together, the evidence compiled in this briefing provides compelling evidence on the need for a windfall tax in the United States.

As low and middle income Americans struggle under [the burden of rising energy costs](#), and as the large oil and gas companies register bumper profits, support for a windfall tax in the US is likely to grow. In considering the potential popular appeal of the windfall tax, this briefing concludes with one more factor that should be taken into account: its impact on ordinary Americans that may own the shares of energy companies, primarily through pension and mutual funds.

Once again, the UK experience is instructive. As the case for a windfall tax gathers momentum in the UK, [some pundits](#) have countered that it will cause serious harm to the pension funds that benefit from the shareholder payouts of the energy companies. Yet [as in the UK](#), these arguments are somewhat tenuous in the US context for a simple reason: While some of the shareholder payouts of the Big Five will find their way in the hands of ordinary Americans via pensions and other investments, the distribution

of these proceeds is highly uneven. In fact, data from [the Federal Reserve](#) indicate that the top 10 percent of the population by wealth own over half of all pension wealth in the US – 17 times more than the combined share of the bottom 50 percent, which will suffer most from rising energy costs.



As household energy bills continue to soar, there is an urgent need for policymakers to alleviate the suffering of ordinary people. Any progressive strategy to deal with the energy crisis should include a windfall tax.

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