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Death Tax Repeal Act of 2017 Introduced

By Roy Littlefield

Senator Thune (R-SD), Congresswoman Noem (R-SD) and Congressman Bishop (D-GA) reintroduced the Death Tax Repeal Act for the 115th Congress (Senate Bill: S. 205 House Bill: H.R. 631). SSDA-AT in conjunction with the Family Business Coalition sent a letter of support for the legislation signed by 133 organizations.

SSDA-AT supports the Death Tax Repeal Act of 2017 for the following reasons:

- Repealing the death tax would spur job creation and grow the economy.

- Many studies have quantified the job losses caused by the death tax. Last year the Tax Foundation and

- Heritage Foundation both found that the US could create over 100,000 jobs by repealing the death tax.

- A 2012 study by the House Joint Economic Committee found that the death tax has destroyed over \$1.1 trillion of capital in the US economy — loss of small business capital means fewer jobs and lower wages.

- Lawrence Summers, former Secretary of the Treasury under President Clinton; Alicia Munell, member of President Clinton’s Council of Economic Advisors; Joseph Stiglitz, a Nobel laureate for economics; and Douglas Holtz-Eakin, former CBO Director have all published work on the death tax’s stifling effect on job growth and the economy as a whole.

- The death tax contributes a very small portion of federal revenues.

- The death tax currently accounts for less than half of one percent of federal revenue. There is a good argument that not collecting the death

tax would create more economic growth and lead to an increase in federal revenue from other taxes. A 2014 Tax Foundation analysis found repeal of the death tax would increase federal revenues by \$3.3 billion per year using a more realistic, “dynamic” economic analysis.

- A super-majority of likely voters support eliminating the death tax.

- Poll after poll has indicated that a super-majority of likely voters support repealing the death tax.

- Typically, two thirds of likely voters support full and permanent repeal of the death tax. People instinctively feel that the death tax is not fair.

- The death tax is unfair.

- For many family-owned businesses to keep operation after the death of the owner, they must plan for the estate tax. Planning costs associated with the estate tax are a drain on business resources, taking money away from the day to day operations and business investment.

- The death tax also costs all taxpayers because of unnecessary and unproductive compliance costs. According to the Joint Economic Committee, for every dollar of tax revenue raised from the death tax, a dollar is wasted in compliance costs. For example, in 2006, it was estimated that family businesses spent \$27.8 billion just to comply with the law.



U.S. Shale Oil Braces for the Unfamiliar in 2017: Inflation

U.S. shale producers are facing their first production cost increase in five years in 2017 as industry activity picks up and energy service providers hike fees to take a bigger share of the profits generated by higher oil prices.

Drilling innovations over the past decade have generated a dizzying reduction in the cost of pumping oil from shale formations across the United States - the world's largest energy consumer - triggering an energy revolution and a production boom.

When that boom ended with the onset of a two-year global price war in 2014, shale producers responded with even deeper cost cuts. Technological breakthroughs allowed producers to wring more oil from the rock and halved the per-barrel price needed to turn a profit.

But for the first time since 2012, shale producers will see a rise in break-even production costs this year, according to data from Rystad Energy, which surveys producers. The per-barrel costs will rise an average of \$1.60 across the shale patch to \$36.50.

The drive to lower costs has run its course for now, and service firms are leveraging power in the more crowded oilfields, such as the Permian basin in West Texas, to eke out higher payments from producers.

Firms that supply rigs, crews, technological expertise are clamoring to take back discounts they extended during the slump, in some cases asking for between 10 percent and 15 percent more as the number of rigs and crews deployed in the fields rises.

Producers expect that to continue.

"In the Permian, activity has picked up, and going forward we would expect to see some pressure," Chevron Corp's (CVX.N) Chief Executive John Watson said on an earnings call last month.

Oil service providers acknowledge, however, that their price hikes may not stick until drillers generate enough demand to burn through the remaining spare capacity in the oil service sector.

In a securities filing on Feb. 8, service provider Baker Hughes Inc (BHI.N) cautioned that drilling "activity needs to increase meaningfully before excess service capacity can be substantially absorbed and meaningful pricing recovery takes place."

PERMANENT COST SAVINGS

Service inflation represents only a fraction of the expected rise in international crude prices this year. A Reuters poll of 31 analysts and economists forecast benchmark U.S. oil prices will average \$56.08 per barrel in 2017, up from \$43.47 last year.

Between half and two-thirds of the cost savings achieved during the oil price slump are likely to become permanent even if oil prices tick higher, according to industry experts and company estimates.

Shale companies deployed more rigs than they have done in sixteen months last week, and have steadily increased the number in the field to take advantage of crude prices that have mostly held at more than \$50 per barrel since the world's top oil exporters, both OPEC and non-OPEC, agreed to cut supplies in late November.

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U.S. Shale Oil Braces for the Unfamiliar in 2017: Inflation

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A further rise in the oil price could quickly stir drilling activity across the United States, which would in turn accelerate service fee and labor cost inflation. That is a worrying development for an industry that has lately gotten used to costs heading only down.

There were 207 hydraulic fracturing fleets at work in January across the U.S., up 20 percent from last June, according to data from Houston-based Primary Vision, which tracks oilfield service equipment usage.

Pioneer Natural Resources Co (PXD.N) has its own fracturing crews, which it hopes will help offset rising service costs elsewhere.

"I believe we will be able to keep our inflation numbers down to more like approximately 5 percent, but the internal plan is to make sure that cost inflation is offset by our efficiency gains," Pioneer Natural Chief Executive Tim Dove said on a post-earnings call earlier this month.

HEDGING AGAINST INFLATION

Other companies have locked in contracts to insulate themselves from the rise in service and labor costs. WPX Energy, a leading shale oil producer in North Dakota and Texas, has sought to protect against price inflation through contracts for sand, stimulant, equipment and services, said CEO Rick Muncrief in an interview.

Other companies including Hess Corp (HES.N) hope to beat the inflation forecasts with yet more efficiency gains.

Hess hopes to wring more barrels out of each well with new techniques that allow it to conduct hydraulic fracturing at 60 spots

along a well, up from the usual 50, president Greg Hill said on a conference call last month.

In addition, using more sand and other proppants - used to keep fissures in shale rock open - in the wells should help boost production, Hill said.

Oil producers can already count on many cost savings achieved in recent years, such as reductions in the time it takes to drill wells, said Gürcan Gülen, an energy economist at the Bureau of Economic Geology at the University of Texas at Austin.

"Once you know better how to do things, you're not going to change that when oil prices move higher," said Gülen.

But the possibility of more deep cost reductions are, for the most part, gone.

A number of companies saw break-even costs at the wellhead - the price required to profit from oil at a new well - stagnate between the third and fourth quarters, data from Rystad Energy showed.

"To certain producers, there's a little bit of opportunity to lower costs more," said Bill Costello, a portfolio manager at Westwood Holdings Group. "But those are few and far between."



SSDA-AT attends CPAC 2017



Last month, SSDA-AT attended CPAC, the largest annual gathering of conservative activists from across the United States. It's an event that keeps growing, with attendance topping the 10,000 mark this year. It's four days of speeches, panel discussions, breakout sessions, networking breakfasts, and dinners, all with plenty of patriotic music mixed in, where the crowd consists of leading conservative voices - some of them elected officials, some best-selling authors

or media stars, and other icons of the movement.

This year SSDA-AT heard speeches at the conference from, President Donald Trump and Vice President Mike Pence in addition to Senator Ted Cruz as well as many Representatives including: Ron DeSantis, Mike Burgess, Kevin Brady, Jody Hice, French Hill, Barry Loudermilk, Andy Biggs, Ken Buck, and Mark Walker. Over 100 speakers spoke at the event. Tax reform, repeal of Obamacare, trade, foreign policy, and transportation were all topics of conversation over the four-day conference.

U.S. Oil and Gas Prices May Tumble On Trump's 'Energy Revolution'

President Trump's vow to "unleash an energy revolution" by reversing regulations may send oil and natural gas prices tumbling in 2018, according to Bank of America Merrill Lynch.

Domestic oil and gas prices will likely suffer as the U.S. continues to increase its output, analysts including Francisco Blanch, head of commodities research, wrote in a note dated Feb. 3. Though U.S. oil and natural gas producers could see a surge in investment under Donald Trump's numerous proposals from a likely reform of the corporate tax code to a possible border tax, prices may suffer from the resulting increase in output.

"The industry has high hopes for less red tape, a more pragmatic approach to regulation and lower costs of having to comply with climate change rules," the analysts said. The

impact of Trump's policies will take months if not years to play out.

The jump in natural gas production combined with relaxing the Clean Power Plan will likely send prices lower through 2018. If Mexico reciprocates with its own border tax and sparks a trade war, natural gas exports and prices would be severely hurt at the Henry Hub, as the U.S. currently sends five percent of its annual gas to Mexico via pipelines. American companies are sending record amounts of gas south of the border, with exports touching 4 billion cubic feet per day.

However, many of Trump's policies are unknown at this point and yet to be formed in detail, so it is perhaps too early to draw strong conclusions on how they may impact investment decisions and energy prices.

Perry's Energy Nomination Advanced by Committee

A Senate panel signed off on former Republican Texas Gov. Rick Perry's nomination to lead the Department of Energy.

The Energy and Natural Resources Committee voted 17-6 to approve Perry's nomination, sending it to the full Senate.

During his confirmation hearing earlier this month, Perry was forced to walk back his infamous pledge, from his 2011 presidential run, to abolish the Energy Department if he had been elected.

Instead, he said, he understands and respects the agency's mission, which focuses on the country's nuclear arsenal and research activities that span across industries.

"I am committed to modernizing our nuclear stockpile, promoting and developing American energy in all forms, advancing the department's critical science and technology mission, and carefully disposing of nuclear waste," he said during his hearing.

During his confirmation hearing, Democrats on the panel expressed concerns about Perry's position on climate change – he believes in it, but doesn't know how much influence human activities have on it.

They also pressed Perry on proposed Trump administration cuts to the Department of Energy, begging him to convince the president and

others to preserve the agency's research capacity.

Sen. Maria Cantwell (D-Wash.) said Tuesday she is worried about Perry's ability to influence the White House, noting President Trump's lack of consultation with the Pentagon on national security executive orders issued last week.

"The governor's responses for the record left me wondering whether he would stand up to fight the White House's approach to these programs," she said.

"A lot can be said in the last few days to what the White House's approach is. Frankly, I don't think it matters, because if you can have somebody over at the Department of Defense who's not even consulted on a security memorandum, where is that going to leave Secretary Perry on these issues of nuclear security as well?"

Even so, Republicans said they trusted Perry to run the department smoothly. He is likely to win confirmation comfortably when his nomination goes to the floor.

"I don't subscribe to the theory that only scientists can manage other scientists," Sen. Lisa Murkowski (R-Alaska) said at Perry's confirmation hearing, noting the agency's research mission.

"I think what we need is a good manager. We need a manager to manage all these scientists, one who acknowledges, maybe I don't know everything in that space, but being capable of organizing, setting direction, imposing accountability, making the greatest possible use of taxpayer dollars and setting goals."



M&A report reveals positive year ahead for US shale

Oil prices aside, the year ahead for shale oil plays in the U.S. appears to be bright. Andrew Dittmar, an upstream analyst at PLS, a Houston-based information and transaction advisory firm, believes we are already seeing or soon will see signs of a positive year for activity and production throughout the Permian, Bakken, Eagle Ford and SCOOP/STACK plays of the U.S.

PLS recently released a 2016 review assessment and 2017 primer of the merger and acquisition activity possible throughout nearly every U.S. shale play. Compared to 2015, the M&A market increased by 117 percent in 2016. Brian Lidsky, managing director at PLS, said during the downturn in oil prices that started in 2014, the industry focused on three areas: decreasing costs, increasing recoveries and performing capital discipline.

Those efforts during the downturn have helped shift the price at which oil producers need oil to trade at in order to maintain profitable—the breakeven price—to much lower levels than in 2014.

PLS's review of M&A activity clearly shows that of all the regional specific shale plays in the U.S., none has seen as much interest or investment as the Permian Basin of West Texas and Eastern New Mexico. The Delaware Basin, an oval-shaped portion of the Permian's western edge, was proclaimed "the play of the year" by PLS. Fresh equity poured into the region last year to the tune of \$18 billion as companies moved in to buy Tier 1 acreage in the counties of Reeves, Pecos and Loving.

According to PLS, those buyers fortunate enough to be on the winning side of a Dela-

ware Basin purchase should be well positioned in a rising oil price environment. Until a full recovery happens, producers there should be more equipped to thrive at current prices as anyone in the U.S. Breakeven economics throughout much of the region are well below \$40 per barrel and moving product to market is much cheaper than other places.

Deals in the Permian and the Midland Basins accounted for 39 percent of all deals that happened in 2016, according to PLS's data.

Dittmar said his team could see the moves piling up throughout the year and they knew before their recent assessment of 2016 had been released that the big story of the year would be the amount of activity that took place in the Delaware. "People knew there was a lot of oil there [in the Delaware]," he said. "It has the same stacked pay zones as the Midland but it is a little more technically challenging and it took them longer to crack the code on it."

In 2016, he added, "it looks like they cracked that code."

The ability, or new understanding, of unconventional oil producers to work through the challenges of the Delaware essentially created a land rush in 2016.

According to Dittmar, acreage costs went from less than \$10,000 per acre at the start of 2016 to a range of \$30,000 to \$50,000 per acre by the end of the year.

The rush in the Delaware happened for multiple other reasons as well. Entering the Delaware was easier for new entrants or

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M&A report reveals positive year ahead for US shale

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players to the region, as opposed to the Midland Basin which has a long history of oil production by established operators. The areas also had already commenced unconventional development prior to 2014.

Wall Street was also very receptive to provide private equity to companies looking to acquire massive acreage blocks, Dittmar said. “Companies have been able to fund larger deals through equity, as opposed to cash on hand or going to their credit lines,” he said.

Although the Permian dominated 2016 for the M&A activity storyline, Dittmar expects the other major plays to make headlines in 2017. Deal activity in both the Bakken and the Eagle Ford climbed in 2016 compared to 2015. “We expect those plays to be big winners when we come into 2017.

As confidence builds in oil prices that we are going to hold above \$50/b, we are going to see more interest in the oil plays and there will be less to buy in the Delaware Basin,” Dittmar said.

“Buyers are going to need to look into other plays. They are cautiously optimistic. They don’t want to be left behind on a great buying opportunity as we move into higher prices,” he added.

Already, the signs are there that value exists in places like the Bakken or Eagle Ford. Oasis Petroleum, a Bakken pure-play operator was able to raise private equity from Wall Street overnight for the purchase of a large bolt-on acreage block. (The seller in the deal, SM Energy, is selling all of its Williston Basin assets to focus solely on the Midland Basin, where it has acquired several new assets throughout 2016).

Enerplus, a Calgary-based operator also largely leveraged to the Bakken, was also able to sell some acreage for a high value, another sign that acreage values have recovered in places other than the white-hot Permian, Dittmar said.

Advancements in reservoir analysis, completion strategies and drilling efficiencies will also help make 2017 a good year for shale. Such advancements will allow some companies to focus on more than just what they consider Tier 1 acreage.

Good well results that match the necessary initial rate of return metrics for wells drilled and completed on prime acreage can now happen on Tier 2 acreage, something Dittmar said operators didn’t think was possible in 2014 or 2015.

In addition to its recent M&A assessment report, Dittmar’s team keeps an updated database of the largest deals or volume of deals throughout every play. “We look at these deals every day.

We see them as they come out,” Dittmar said. “We have a good feel of what a final report will look like.” According to Dittmar, although the 2017 report hasn’t been written yet, the signs point to a positive year for shale.



Scott Pruitt Could Tip Regulatory Power From EPA to States

State regulators could see more autonomy and a new seat at the table as the Environmental Protection Agency drafts federal regulations under Oklahoma Attorney General Scott Pruitt, President-elect Donald Trump's pick to run the agency.

Pruitt has conceded the federal government does play a role in protection of the environment, particularly when pollution crosses state lines, even though he has joined challenges to just such regulations offered by the Obama administration.

"I believe the EPA has an important role to play in our republican form of government. There are clearly air and water quality issues that cross state lines and sometimes that can require federal intervention," Pruitt said during a House Science Committee hearing in May 2016. "At the same time the EPA was never intended to be our nation's foremost environmental regulator. The states were to have regulatory primacy."

Pruitt, who will appear before the Senate Environment and Public Works Committee for his confirmation hearing Jan. 18, could tip the balance of power on environmental protection toward states. As attorney general, Pruitt has fought back against federal regulations he argues encroach on state authorities—even setting up a federalism division in his office—and has questioned the EPA's primacy when protecting the environment.

"What does turning more authority back to the states look like to states? What it looks like is flexibility and respect for state decision making and state choices. Right now, I would say there's room for improvement," Alexandra Dapolito Dunn, executive director and general counsel of the Environmental Council of the States, told Bloomberg BNA.

EPA Scaled Back as States Take Lead

Nick Loris, an energy and environment-focused economist for the Heritage Foundation, told Bloomberg

BNA he supports Pruitt's apparent approach to have states lead environmental protection efforts.

The EPA should ensure states comply with existing rules and shouldn't add regulations such as those addressing carbon dioxide or other greenhouse gas emissions, Loris said. If they must, such as if it is court ordered, they should work with states to be reasonable, and in certain cases, such as statute-required regulations, Congress could step in and alter the law, he said.

"There is certainly a need for legislative reform to our environmental statutes to empower states," Loris said.

Additionally the EPA should steer clear of addressing local or regional challenges, Loris said. That means programs such as the Great Lakes Restoration Initiative should be cut, he said. In this newly limited role, the EPA's funding could be significantly reduced, he said.

States won't need more funding necessarily to shift into the front seat—just to be more strategic in their enforcement efforts and in reducing regulatory burdens, Loris said.

States, however, will be looking for increased funding if they are to take a lead on environmental regulation. If Pruitt is serious about delegating more authority to the states, he should also request proportional funding increases for his agency's State and Tribal Assistance Grants program, Dunn said. If doing this doesn't appeal to Pruitt—typically Republicans are loath to increase the EPA's budget for any reason—Dunn said an alternative could be to remove restrictions on how states can spend their existing federal grant money.

"The alternative to not enough resources has to be allowing states to be in more significant control of their workload and their priorities," she told Bloomberg BNA.

Federal Rules a Backstop

Scott Pruitt Could Tip Regulatory Power From EPA to States

Though Pruitt has said the role of the EPA should be to address pollution crossing state lines, former state environmental regulators said he has previously challenged such federal regulations. The regulators, in a Jan. 16 letter to the Senate environment committee, pointed to Pruitt's fights against the cross-state air pollution rule and the interstate air pollution rule as an example of this.

With federal regulation and enforcement, it is more difficult for industry to shop around states for the least stringent environmental rules, Eric Schaeffer, executive director of the Environmental Integrity Project and past director of the EPA's civil enforcement office, told Bloomberg BNA.

Pruitt, however, has touted the expertise of state officials.

"I reject, in fact, I find it offensive, that regulators in Washington believe that regulators in the states somehow aren't interested in the air that we breathe and the water that we drink in our respective places that we call home," Pruitt said during May 2014 remarks at a Federalist Society event in Washington, D.C. "I reject that utterly. In fact, I would say to you that Washington, EPA, other agencies that are involved in these areas could learn a lot with respect to the expertise of the states."

Speedier Plan Approvals

A Pruitt EPA may be less inclined toward "pushing the states around," William Yeatman, a senior fellow at the Competitive Enterprise Institute, told Bloomberg BNA. The could mean speedier approvals of state plans to implement environmental regulations and more deference to how states go about meeting those goals. That would be in contrast to an Obama EPA that was quick to issue federal plans instead, Yeatman said.

For example, Pruitt in 2011 launched an unsuccessful legal challenge against the EPA's disapproval of Oklahoma's regional haze plan. Pruitt argued that the EPA's disapproval of that plan and decision to implement a federal plan for improving visibility in national parks and protected areas "usurped the right" of Oklahoma to set its own energy policy.

The U.S. Court of Appeals for the Tenth Circuit sided with the EPA in a 2013 opinion (*Oklahoma v. EPA*, 723 F.3d 1201 , 77 ERC 1047, 2013 BL 191593, (10th Cir. 2013)).

How Cooperative is Pruitt's Federalism?

Yeatman predicted Pruitt would also be extremely deferential to states, even those that choose to pursue policies on greenhouse gases, while Dunn said a key area to watch in the coming months is how strongly Pruitt would advocate on behalf of states in a key area of water regulation.

Though the Clean Water Act allows states to ask for regulatory authority over the dredging and filling of their wetlands, Dunn said the Army Corps of Engineers has often denied these requests. Currently, only two states have successfully taken over wetland regulation from the federal government, though Dunn said many others have tried.

She would like to see Pruitt work harder than his predecessors did to try to persuade the Army Corps on this issue.

"This is where, if [he] is truly about getting authority to states that desire this authority, here's a classic example where he can show leadership," she said.

Some lawmakers and advocacy groups have praised Pruitt precisely for his approach to cooperative federalism, including Republicans such as Senate Majority Leader Mitch McConnell (Ky.).

US-Canada oil exports see first drop since 2010

US oil exports to Canada dropped in 2016, the first time since 2010, as refiners on the Canadian Atlantic coast sought cheaper crude from overseas.

Overall oil imports into Canada rose slightly in 2016 to 759,000 b/d, but imports from the US fell by 23pc to 363,000 b/d, from 473,000 b/d in 2015. US crude accounted for 54pc of all crude imports into Canada in 2016, reversing a multi-year trend, Canada's National Energy Board said today.

Two things sparked the move, NEB chief economist Shelley Milutinovic told Argus: the US lifting the decades' old ban on crude oil exports in December 2015, opening US production to a number of new markets other than Canada; and the differential between oil benchmarks WTI and Brent narrowing last year to lows not seen since 2010.

New Brunswick, the province with Canada's largest oil refinery, the 300,000 b/d Irving Oil facility, saw total imports fall by 6pc to 218,000 b/d last year, with US imports falling by 61pc. Overseas imports, primarily from Saudi Arabia, rose by 27pc.

Saudi Arabia (86,698 b/d) and Algeria (84,759 b/d) were Canada's primary sources for overseas imports, at 11pc each, followed by Nigeria at 10pc (73,700 b/d), and Norway at 6pc (41,838

b/d). Algeria and Nigerian roughly doubled their share of imports, rising from 39,633 b/d in 2015 and 40,982 b/d, respectively. Oil also came from Kazakhstan, the United Kingdom, Azerbaijan, and other countries.

Quebec saw imports fall by 25pc to 214,000 b/d led by a 43pc drop in US imports. Suncor Energy's 140,000 b/d Montreal refinery and Ultramar's 265,000 b/d Quebec City refinery are located in the province.

In Newfoundland and Labrador, home to North Atlantic Refining's 115,000 b/d Come-by-Chance refinery, imports rose marginally by 1pc to 90,000 b/d. Nearly all of Newfoundland's imported crude came from the US in 2015, but it fell to roughly half in 2016.

Ontario bucked the trend, tripling to reach 85,000 b/d, with all of it from the US. In Western Canada, all crude oil imports were from the US, rising 33pc to 152,000 b/d in 2016. Most of this is attributable to increased imports of diluent for oil sands transportation.



Senate Confirms Scott Pruitt as EPA Administrator in Mostly Party-Line Vote

The Senate confirmed President Donald Trump's nominee, Oklahoma Attorney General Scott Pruitt, to lead the Environmental Protection Agency on Friday in a mostly party line vote.

The confirmation vote came after contentious hearings during which Democratic lawmakers questioned Pruitt over his ties to fossil fuel companies, his multiple legal challenges to EPA regulations and his public statements questioning the science behind climate change.

Senate Democrats boycotted a committee vote to move forward Pruitt's nomination earlier this month and stretched debate before the full Senate into the early hours of Friday. On Thursday evening, some Democrats again called for Pruitt's confirmation vote to be delayed after an Oklahoma judge ordered his office to turn over thousands of communications with fossil fuel companies to a watchdog group.

But the nominee appeared to have the votes needed to win confirmation on Friday.

Democrats Heidi Heitkamp of North Dakota and Joe Manchin of West Virginia, both from energy-producing states, voted with Republicans to confirm Pruitt. Just one GOP senator, Susan Collins of Maine, voted against Pruitt.

The final vote was 52 to 46 in favor of confirmation.

While Democrats and environmentalists bristled at Pruitt's nomination from the start, conservatives and the energy industry have welcomed his efforts to place more power over drilling and mining regulations in the hands of states. He set up a "federalism unit" at the office of the Oklahoma attorney general to "combat unwarranted regulation and overreach by the federal government."

Pruitt is seen as an ideal candidate to execute Trump's promises to scale back the EPA's Obama-era initiatives. He has been a leading figure in a campaign by Republican attorneys general to sue government agencies over some of President Barack Obama's landmark achievements, including the Af-

fordable Care Act and regulations to reduce the impacts of climate change.

A Pulitzer Prize-winning New York Times investigation found Pruitt's office in 2011 signed a letter criticizing environmental regulations that was drafted by lawyers for Devon Energy.

During his confirmation hearing, Pruitt rejected the claim he acted on behalf of energy companies in suing the EPA more than a dozen times. He said the suits were in the interest of Oklahoma citizens given the role of energy in the state's economy.

Trump plans to announce executive orders during Pruitt's swearing in at EPA headquarters, Reuters reported this week, citing sources who were briefed on the plans. Earlier in the week, Beltway newsletter Inside EPA reported the planned orders may impact the agency's work on climate change, citing an administration source.

The president has vowed to cancel Obama's Climate Action Plan, a framework for reducing greenhouse gas pollution, and the Clean Power Plan, a rule limiting carbon emissions from power plants. He has also threatened to defund the Paris Agreement, an international accord aimed at reducing the impact of climate change.

Trump promises to increase U.S. coal, natural gas and crude oil production, in part by making federal land more readily available to drillers and miners.



RPM Act

U.S. Representative Patrick McHenry (R-NC) and his colleagues reintroduced H.R. 350, the Recognizing the Protection of Motorsports Act of 2017 (RPM Act). The bipartisan bill, which was submitted for reintroduction on the first day of the new Congress, protects Americans' right to modify street cars and motorcycles into dedicated race vehicles and industry's right to sell the parts that enable racers to compete.

The RPM Act is cosponsored by 44 members of the U.S. House of Representatives. The bill ensures that transforming motor vehicles into racecars used exclusively in competition does not violate the Clean Air Act. For nearly 50 years, the practice was unquestioned until the EPA published proposed regulations in 2015 that deemed such conversions illegal and subject to severe penalties. While the EPA withdrew the problematic language from the final rule making last year, the agency still maintains the practice is unlawful.

SSDA-AT looks forward to working with Congress to enact the RPM Act and make permanent the Clean Air Act's original intention that race vehicle conversions are legal. We thank Representative McHenry and all the cosponsors for reintroducing a bill that will protect businesses that pro-

duce, install and sell the parts that enable racers to compete.

When the RPM Act was first introduced in 2016, racing enthusiasts and Americans working in the motorsports parts industry flooded Congress with nearly 200,000 letters in support of the bill. More than one-fourth of the U.S. House of Representatives joined as bill cosponsors as a result. However, the shortened election year schedule did not permit sufficient time for passage of the bill by the previous Congress.

"Last year I was proud to lead the fight against the misguided EPA regulation targeting racing, but our work is not done," said Rep. Patrick McHenry. "In the coming months, I look forward to working with my colleagues in Congress and the new Administration to ensure the RPM Act becomes law."

Motorsports competition involves tens of thousands of participants and vehicle owners each year, both amateur and professional. Retail sales of racing products make up a \$1.4 billion market annually. There are an estimated 1,300 race-tracks operating across the U.S., including oval, road, track and off-road race-tracks, the majority of which feature converted race vehicles that the EPA now considers to be illegal.

U.S. Refiners Give Mixed Reviews of GOP-Backed Border Tax Plan

U.S. independent refiners like Phillips and Valero have offered mixed support for Republican efforts to boost American jobs and products, expressing concerns about how a border tax on imports could upend the energy ecosystem.

The comments by refining executives in a wave of recent earnings calls offer the first glimpse of the balancing act U.S. refiners must perform under the Trump Administration: Applaud pro-business proposals while raise alarms about protectionist policies that may hurt American consumers - and perhaps their own balance sheets. Congressional Republicans and the Trump administration are considering a basket of tax reforms, the centerpiece of which is a 20 percent tax on imports, to try to drive domestic manufacturing and energy industry growth. The tax would be offset by cutting income taxes on exports.

Refining executives warned it would have significant consequences for the U.S. refining industry that imports around 40 percent of its daily crude oil needs, and the consumer was most likely the one to get hit.

"If it were to pass, we'll be able to be flexible. We'll be able to move the price onto the consumer," Marathon Petroleum Chief Executive Gary Heminger said.

It is not clear that refineries would easily be able to absorb more U.S. light, sweet crude when many of them are designed to refine heavier grades of oil from Canada and Saudi Arabia. Phillips 66 is among the largest buyers of the roughly 3.3 million barrels per day of Canadian crude that flows into the United States. Phillips CEO Greg Garland said last week that Canadian producers, at the moment, need U.S. buyers to survive and will need to adjust to any border tax. "Short-term, I'm not sure where the Canadian crude goes, I think it's got to drain south. Long-

er-term, I think options can be developed for that. So I don't think we're worried about the Canadian crude going away, but it will have to price such that the refiners run it," Garland said. The company imports roughly 1 million bpd of crude oil. It could replace about 400,000 bpd of that with domestic barrels, but ultimately they and other refiners need to look outside the borders.

"The heavy crudes, the availability is not really there," said Phillips 66 president Tim Taylor. Valero said they can run between 600,000 to roughly 1 million barrels per day of light domestic crude in their 3 million bpd network, giving them flexibility to respond.

Executives noted that they have made investments in recent years to increase their product export capacity, which would yield higher returns if exports were tax free. U.S. products exports have risen dramatically in recent years. The border tax proposal still faces hurdles. Big U.S. retailers that rely on imports oppose it, President Donald Trump has sent mixed signals, and some U.S. Senate Republicans question whether it would pass muster under international trade rules.

The tax reform would have a disproportionate effect across the country. Refiners on the East and West Coast who lack direct access to U.S. pipelines and rely more on imports would have less flexibility to shift crude slates than their Gulf Coast counterparts. Companies without significant product export operations would not be able to offset the new import tax costs.

"We think crude prices go up 25 percent. We think gasoline prices go up 30 to 40 cents a gallon in that scenario. We're worried about demand destruction in that case and what happens," Garland said.

Tax Reform

Is there really a chance for comprehensive tax reform this year? It's possible for the first time in a decade. There is a real pent up demand on the part of Republicans to simplify the tax code, make it more pro-growth and reduce tax rates. Their plan is to tackle tax reform using the budget reconciliation process with the 2018 budget that is expected to be released sometime late this summer (2017). Any downside to using budget reconciliation to get tax reform through the Senate? Yep. Any tax provision passed under the budget reconciliation process that would lose revenue beyond the budget window (almost always 10 years) must expire at the end of the budget window. You might remember when federal estate taxes were repealed in 2010 and then sprung back into being in 2011. That's because the 10 year budget window ran out in 2011 and if the provision had continued past the 10 year window it would have lost tax revenue so it had to expire. The same tax bill that had estate tax repeal also contained very favorable retirement plan provisions such as increasing the amount that an individual could contribute to a retirement plan. Those favorable retirement plan provisions remained after 2010 because they were later passed again by the House and the Senate (without the benefit of budget reconciliation) as part of separate legislation during the 10 year window.

What is likely to happen to individual taxes? Based on the House Republicans' Tax Reform "Blueprint" and President Trump's plan (which are about 80% the same):

There will be 3 lower personal tax rates:

0 – 12% for married couples filing jointly with taxable income below \$75,000

25% for married couples filing jointly with taxable income between \$75,000 and \$225,000

33% for married couples filing jointly with taxable income above \$225,000

The thresholds are half the above amounts for single taxpayers and the head of household rates are eliminated.

The standard deduction will be increased:

The standard deduction would be increased to \$24,000 for a joint filer, \$18,000 for a single taxpayer with a child and \$12,000 for a single filer under the House Blueprint. Trump's plan would be a bit higher - \$30,000 for a joint filer and \$15,000 for a single filer.

Personal exemptions will be eliminated.

Trump's plan would cap itemized deductions at \$200,000 for joint filers and \$100,000 for single filers. The Blueprint would not cap itemized deductions.

Reduced rates for capital gains, dividends and interest income. Under the House Blueprint, the tax rates for net capital gains, dividends and interest income will be cut in

half – so subject to a tax rate of 6%, 12.5% or 16.5% depending on the tax bracket. Trump's plan states that it would not change the current capital gains rates.

AMT would be eliminated.

The 3.8% net investment income tax which was enacted to help pay for the Affordable Care Act would be eliminated.

Estate tax and generation skipping transfer tax would be repealed. Neither the Blueprint nor Trump's plan mentions whether the gift tax would also be repealed. It is also not clear whether a new "death capital gains tax" would be imposed under the House Blueprint. Under Trump's plan, it appears that a new "death capital gains tax" would be imposed but not on the first \$10,000,000 of capital gains. This seems like a high enough number to protect many small businesses but, based on what has happened in the past, we are concerned that this number over time would be reduced in order to raise revenue.

The mortgage interest and the charitable contribution deduction would be preserved for those itemizing deductions under the House Blueprint.

How will the Blueprint and Trump's plan reform business taxes?

Reduced Business Tax Rates – major change for pass-through entities and sole proprietors.

Blueprint: A new concept, "active business income" from pass-through entities and sole proprietors is capped at a 25% tax rate. Active business income is the income remaining after deducting the "reasonable compensation for services" for the owner(s). This means that for owners of a pass-through entity, an amount equal to a reasonable compensation for the owners' services would be taxed at the regular personal income tax rate for each owner and the remainder of the income generated by the company would be considered to be "active business income," which would be taxed at a rate no higher than 25%. This is a concept that the SBLC started promoting years ago.

Tax rate for C corps would drop to 20%.

Trump's plan: Business tax rate drops to 15% for both C corps and "active business income" for pass-through entities. It appears that the same active business income concept from the Blueprint is included in Trump's plan for pass-through entities though Trump's rate would be 10% less than that in the Blueprint.

There are lots of questions surrounding how "active business income" and "reasonable compensation for services" would be determined. If we end up with a lower tax rate on active business income, it's easy to imagine the slew of new regulations, IRS challenges, and court cases, particu-

Tax Reform

larly on what is considered to be “reasonable” compensation. Ultimately though, the concept is sound.

Businesses allowed to expense investments:

Blueprint: All U.S. businesses would be permitted to expense investments in all tangible and intangible assets, except land. But note – the Blueprint eliminates the deduction for interest expense associated with the debt incurred to finance the investment (though it can be deducted up to the corporation’s interest income). More on this below.

Trump’s plan: Manufacturers would be able to deduct 100% of asset acquisition and production costs but would not be permitted to deduct interest expenses.

AMT would be eliminated under both plans.

Border Adjustability:

Blueprint: The corporate tax would not apply to exports while corporations would no longer be able to deduct the cost of imported items – meaning imports would be subject to corporate tax. Clearly the intent here is to encourage exports and discourage imports. This provision is intended to raise over \$1 trillion in tax revenue over ten years. It is, however, causing a feud within the GOP as it pits companies like General Electric, Boeing, and pharmaceutical companies (i.e., exporters) against Wal-Mart, Target and other retailers as well as the auto industry (i.e., net importers). Koch Industries has said that the Blueprint would “adversely impact American consumers by forcing them to pay higher prices on products...they use every single day.” They also warn that gas prices would “skyrocket.” In fact, a new coalition representing the importers, called “Americans for Affordable Products,” maintains that this tax would force companies to pass it on to the consumers, thereby raising prices. One can see how an export-focused company might end up with significantly reduced taxes, at the expense of the importers and their consumers paying additional dollars. Ways and Means Chair, Kevin Brady (R-TX) has sent out warning signals that this provision is key to raising revenue and without it the tax rates envisioned in the Blueprint would have to be increased.

Trump’s plan: Trump’s plan would impose tariffs on imports from other countries, which many economists believe could lead to unnecessary trade wars with our friends. Our read is that Trump is walking away from this proposal and is moving in the direction of the Blueprint.

There are other changes to the international tax rules which are designed to stop inversions (U.S. corps becoming “owned” by foreign companies to avoid US tax) and

to bring back a lot of the dollars stored offshore by US companies.

Most “special interest deductions and credits” other than the R&D credit would be eliminated. This would raise revenue and theoretically level the playing field.

Employer Based Retirement Plans:

Blueprint: Current tax incentives will be maintained but Ways and Means is directed to consolidate and reform the multiple retirement options “to provide effective and efficient incentives for savings and investments.” The employer based retirement plan community has developed a number of ideas for simplification over the years, but this language appears to indicate that the flexibility that is now in the system and welcomed by employers would be diminished. Tax free savings accounts are also mentioned in the Blueprint – these accounts would have no restrictions on removing the money. If the proposal lowering the tax rate on “active business income” for pass-through entities becomes law then some modification on the tax rate for distributions from a retirement plan would be required, in order to keep these plans viable from a tax viewpoint. It’s hard to imagine small business owners getting excited about a deduction for retirement plan contributions at a 25% rate and being taxed later at the personal rate of 33%. Unless distributions were also taxed at a 25% rate, it would be reasonable to assume business owners would close down the retirement plan and take the funds out at the 25% rate and then invest the dollars in assets which would be taxed at capital gains rates.

NOLs will be allowed to be carried forward indefinitely and LIFO will be preserved. The Blueprint directs Ways and Means to continue to “evaluate options for making the treatment of inventory more effective and efficient in the context of this new system.”

The devil is in the details! Until we see the actual legislative language, we really don’t know how many of these provisions will actually work. Our guess is that as tax reform goes through Congress that the tax rates will end up higher and the deductions and credits will be reduced and that’s assuming that the Republicans in Congress can coalesce behind one plan. Because of the budget reconciliation process, many of the provisions may be phased in slowly over the ten year budget window.

Outside factors, most notably what’s going to happen with replacing the ACA, could also have a significant impact on the timing and likelihood of tax reform.

**TAX
REFORM**

Congress Could Block One Of Obama's Most Expensive Regulations

A bipartisan group of lawmakers introduced legislation to roll back Environmental Protection Agency (EPA) regulations on ground-level ozone, taking aim at one of the agency's most expensive rules.

Republican lawmakers, and one Democrat, have a bill that would push back the implementation date of the EPA's 2015 ozone, or smog, standard until 2025, and would have the agency revisit the standard every 10 years, instead of every five years.

The bill would also require EPA to consider the technological feasibility of meeting more stringent ozone standards and submit a report to Congress on how pollution from China and other countries impacts the rule.

"In West Virginia and across the country, states have suffered job losses and economic devastation under the regulatory burdens of the previous administration," West Virginia Republican Sen. Shelley Capito, one of the bill's co-sponsors, said in a statement.

Republicans criticized the EPA's 2015 smog standards for being too expensive, and hammered the agency for imposing the more stringent standards before states had fully complied with the 2008 standards. They hope their bill will fix these problems.

"The Ozone Standards Implementation Act will provide more clarity, more regulatory certainty, and ease the economic burden of never-ending overreach," Capito said.

EPA's 2015 ozone standard is one of the costliest air regulations ever imposed by the agency. EPA estimated lowering allowable ambient ozone concentrations from 75 parts per billion to 70 parts per billion would cost \$2 billion, including California's compliance costs.

EPA said the benefits of the ozone rule range from \$3.1 billion to \$8 billion, but most of those benefits come from reducing fine particulate matter and not lower ozone levels.

Environmentalists favor more stringent ozone standards, and are likely to oppose any legislation trying to upend EPA rules. Environmentalists already oppose Oklahoma Attorney General Scott Pruitt, who President Trump picked to head EPA.

Pruitt sued EPA to get federal courts to overturn the agency's 2015 smog regulation.

Ground-level ozone forms when air pollutants, from natural and man-made sources, mingle together in the presence of sunlight. EPA already requires states to limit the amount smog-forming pollutants they emit.

Some states say ozone from China and nature make it nearly impossible to comply with the new rules. A 2014 study, for example, found that more than 100 state and national parks would be out of compliance with a 70 parts per billion ozone standard.

"Hardly transportation corridors and centers of heavy pollution, many observers would be surprised to know that Death Valley National Park, Sequoia National Park, and Cape Cod National Seashore have ozone readings of 71 to 87 [parts per billion]," reads the report from the right-leaning American Action Forum.



Tillerson Sworn in as Secretary of State

Rex Tillerson was sworn in as the Trump administration's secretary of state Wednesday evening after having been confirmed by the Senate earlier in the day.

"It's time to bring a clear-eyed focus to foreign affairs," President Donald Trump said at a White House ceremony, adding, "All of us are better off when we act in concert and not conflict. There's rarely been conflict in the world like we see today. Very sad."

Vice President Mike Pence gave the oath of office to Tillerson.

The former ExxonMobil CEO -- who was confirmed in the Senate by a vote of 56 to 43, with all Republicans in support and most Democrats voting against him -- fills one more slot on Trump's national security team despite questions about his approach to Russia and state sponsors of terror, such as Iran.

Three Democratic senators split with their party to back Tillerson: Joe Manchin of West Virginia, Heidi Heitkamp of North Dakota and Mark Warner of Virginia. They were joined by Independent Sen. Angus King of Maine, who caucuses with Democrats.

Sen. Bob Corker, a Tennessee Republican and chairman of the Senate For-

ign Relations Committee, said he was sure Tillerson would be an effective leader at the State Department.

"Mr. Tillerson led a global enterprise with 75,000 employees, possesses deep relationships around the world, and understands the critical role of US leadership," Corker said in a statement. "He has expressed a commitment to defend American values and to restore US credibility by strengthening old alliances and building new ones."

Time of uncertainty

Tillerson will take the helm of the US government's oldest executive agency, founded in 1789, at a time when Trump has roiled some of America's oldest and most stalwart allies.

The European Union president warned Tuesday that the Trump administration now poses a "threat" after the President's declaration that NATO is "obsolete. Trump also has repeatedly praised Brexit and said he expects other countries to leave the EU.

Asian allies such as South Korea and Japan are seeking reassurance after Trump suggested reconsidering security ties.



Phillips 66 says Border Tax Could Spike Fuel by 40 Cents a Gallon

A proposed border tax on imports would cause gasoline prices for American drivers to skyrocket as much as 40 cents a gallon, the chief executive of the nation's largest refiners said.



Lawmaker wants to outlaw fracking in Nevada

The practice of hydraulic fracturing or “fracking” would be prohibited in Nevada under a bill introduced by a Las Vegas lawmaker.

Assembly Bill 159 by Assemblyman Justin Watkins, D-Las Vegas, would prohibit the practice and repeal regulations governing the practice that were previously approved by the state Division of Minerals.

Noble Energy put in wells in Elko County a few years ago to produce oil from hydraulic fracturing but the price of oil has made the effort impractical and no activity is underway in Nevada.

Critics say the process can pollute groundwater. Hydraulic fracturing uses a high-pressure stream of water, sand and chemicals to tap into oil and gas reserves in rock formations.

Nevada has produced oil over the past several decades, but not through fracking. The finds are primarily in an area called Railroad Valley in Nye County. Oil production began in the mid-1950s, with a peak of 4 million barrels of oil produced in 1990. But many of those wells have been exhausted, and new finds have been limited.





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