

Budget outlays plus tax expenditures

[In billions of dollars]

	1968	1969	1970
Budget outlays:			
Expenditures.....	4.8	5.3	5.1
Net lending.....	1.1	.1	.1
Total.....	5.9	5.4	5.2
Tax expenditures.....	.9	1.0	1.0
Total budget outlays plus tax expenditures.....	6.8	6.4	6.2
Tax expenditures as percent of budget outlays.....	15	19	19

Natural Resources

Certain capital costs necessary to bring a mineral deposit into production may be deducted as current expenses rather than spread over the useful life of the property. Included in this category are the intangible drilling costs of oil and gas wells and the cost of developing other mineral deposits, such as mine shafts, tunnels, and stripping.

Extractive industries may choose between two methods of recovering capital costs invested in the development of natural resources. Under one method, actual outlays to the extent not immediately expensible may be deducted as "cost depletion" over the productive life of the property, much as other businesses may take deductions for the depreciation of capital goods. Alternatively, businesses in the extractive industries may deduct a prescribed percentage of gross income (at rates ranging from 27.5 percent for oil and gas to 5 percent for certain minerals, but not more than 50 percent of net income) where such "percentage depletion" exceeds "cost depletion." Percentage depletion is not limited to the cost of the investment as is cost depletion. The basis for "cost depletion" is reduced to the extent certain costs are recovered through expensing of exploration and discovery costs and intangible drilling costs. There is no comparable reduction in "percentage depletion" to allow for costs which are allowed as expenses.

Royalties from coal or iron ore deposits are treated as capital gains.

TABLE 4.—NATURAL RESOURCES

Tax Expenditures, 1968

[In millions of dollars]

Expensing of exploration and development costs.....	1 300
Excess of percentage over cost depletion.....	1 300
Capital gains treatment of royalties on coal and iron ore.....	5
Total.....	1,605

Budget Outlays Plus Tax Expenditures

[In billions of dollars]

	1968	1969	1970
Budget outlays:			
Expenditures.....	1.7	1.9	1.9
Net lending.....	(?)	(?)	(?)
Total.....	1.7	1.9	1.9
Tax expenditures.....	1.6	1.7	1.7
Total budget outlays plus tax expenditures.....	3.3	3.6	3.6
Tax expenditures as percent of budget outlays.....	94	90	90

¹ In the absence of the expensing of exploration and development costs and percentage depletion, the 1st year revenue effect would be \$750,000,000 and \$1,500,000,000 respectively. The difference from the estimates shown which are based on longrun effect is due to the fact that taxpayers with mineral properties would initially have little or no tax basis because of deductions in prior years.

² Less than \$50,000,000.