# CONGRESSIONAL BUDGET OFFICE
# COST ESTIMATE

Revised April 1, 2002

# S. 1979
## Energy Tax Incentives Act of 2002

*As ordered reported by the Senate Committee on Finance on February 13, 2002*

## SUMMARY

S. 1979, the Energy Tax Incentives Act, would amend numerous provisions of tax law relating to energy. The bill would enhance and create credits for the use and development of energy-efficient technologies, amend tax rules to provide deductions for certain devices and credits for businesses that provide energy, and enhance and create credits and deductions for the production of oil, gas, and other types of fuel. Certain tax credits would be available to the Tennessee Valley Authority (TVA) and rural electric cooperatives in the form of credits that could be used to pay sums owed to the Treasury. The bill also would provide tax credits for the production of biodiesel fuels, which would result in a reduction in the subsidies provided by the Department of Agriculture (USDA) for certain crops. Most provisions of S. 1979 would take effect in 2003, but some would take effect in 2002.

The Congressional Budget Office (CBO) and the Joint Committee on Taxation (JCT) estimate that enacting the bill would decrease governmental receipts by $80 million in 2002, by $8.3 billion over the 2002-2007 period, and by $14.4 billion over the 2002-2012 period. CBO estimates that provisions in the bill affecting TVA, rural electric cooperatives, and USDA would result in an increase in direct spending of $20 million in 2002, a decrease of about $75 million over the 2002-2007 period, and a decrease of about $200 million over the 2002-2012 period. CBO also estimates that certain provisions requiring studies and reports would have an insignificant impact on spending subject to appropriation. Since S. 1979 would affect direct spending and receipts, pay-as-you-go procedures would apply.

CBO has determined that provisions of the bill requiring the Secretary of the Treasury and the General Accounting Office to report the results of certain studies contain no intergovernmental mandates as defined in the Unfunded Mandates Reform Act (UMRA) and

would not affect the budgets of state, local, or tribal governments. JCT has determined that the remaining provisions of the bill contain no intergovernmental mandates as defined in UMRA. The bill contains no new private-sector mandates as defined in UMRA.

## ESTIMATED COST TO THE FEDERAL GOVERNMENT

The estimated budgetary impact of the bill is shown in the following table.

| | By Fiscal Year, in Millions of Dollars | | | | | |
|---|---|---|---|---|---|---|
| | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 |
| **CHANGES IN REVENUES** | | | | | | |
| Estimated Revenues | -80 | -312 | -1,237 | -2,259 | -2,583 | -1,869 |
| **CHANGES IN DIRECT SPENDING** | | | | | | |
| Credits for Clean Coal and Renewable Technologies Used by TVA | | | | | | |
| Estimated Budget Authority | 0 | 0 | 10 | 10 | 10 | 10 |
| Estimated Outlays | 0 | 0 | 10 | 10 | 10 | 10 |
| Credits for Clean Coal and Renewable Technologies Used by Rural Electric Cooperatives | | | | | | |
| Estimated Budget Authority | 20 | 0 | 0 | 0 | 0 | 0 |
| Estimated Outlays | 20 | 0 | 0 | 0 | 0 | 0 |
| Effect of Biodiesel Tax Credits on Spending for Farm Programs | | | | | | |
| Estimated Budget Authority | 0 | -13 | -22 | -28 | -33 | -38 |
| Estimated Outlays | 0 | -13 | -22 | -28 | -33 | -38 |
| Total Changes in Direct Spending | | | | | | |
| Estimated Budget Authority | 20 | -13 | -12 | -18 | -23 | -28 |
| Estimated Outlays | 20 | -13 | -12 | -18 | -23 | -28 |

## BASIS OF ESTIMATE

### Revenues

All revenue estimates were provided by JCT except for one provision. For the years 2006-2012, CBO estimated the revenue effects of the provision providing a tax credit and excise tax rate reduction for biodiesel fuel mixtures.

Five provisions would compose a significant portion of the effect on revenues if enacted. Those provisions would extend the credit for producing energy from certain sources, extend the credit for purchase of alternative motor vehicles, and modify the credit for purchase of electric vehicles. They also would establish a statutory 15-year recovery period for natural gas distribution lines, expand the credit for certain qualifying fuels produced from coal to fuels produced in facilities placed in service after the date of enactment, and modify the rules governing certain requirements for contributions to, and transfers of, qualified nuclear decommissioning funds. These provisions would, if enacted, reduce revenues by $57 million in 2002, $3.3 billion over the 2002-2007 period, and $6.8 billion over the 2002-2012 period.

Section 209 of the bill would provide for an income tax credit and a reduction in the excise tax rate on purchases of biodiesel fuel mixtures (a combination of diesel fuel and vegetable oil). These provisions would expire on December 31, 2005. The JCT assumes that they would expire at that time and estimates that they would reduce revenue by $74 million through fiscal year 2006. CBO extends those revenue losses beyond 2006, however, based on the rules governing CBO's revenue baseline. Those rules require CBO to treat excise taxes dedicated to trust funds as permanent, even if they expire during the projection period. The excise taxes on motor fuels are dedicated to the Highway Trust Fund and are scheduled to expire on September 30, 2005. The biodiesel provision would reduce the excise tax rate on certain motor fuels. Because CBO's baseline extends the excise taxes at the rate existing at time of expiration, the biodiesel provision would, for budgetary scoring purposes, be treated as if it were extended permanently. On that basis, CBO estimates that the biodiesel provision would reduce revenues by $448 million from 2006 through 2012. In all, CBO and JCT estimate that the provision would reduce revenues by $522 million from 2002 through 2012.

### Direct Spending

**Effect of Biodiesel Tax Credits on Farm Programs.** Because of the bill's incentives to sell and use biodiesel fuels, JCT and CBO have estimated that use of these fuel mixtures would increase. Because the vegetable oil in the mixtures is expected to be primarily derived from soybeans and a few other oilseeds, the price of these oilseeds would increase. (Qualifying vegetable oils may be derived from corn, soybeans and a list of other oil seeds.) Higher commodity prices would result in lower costs of farm price-support and income-support programs administered by the Agriculture Department. CBO estimates these changes in the demand for soybeans and other grains would reduce federal spending by $308 million over the 2002-2012 period.

**Use of Credits for Federal Payments by TVA and Rural Electric Cooperatives.** The bill would establish tax credits for electric power producers using certain clean coal and renewable technologies. Although exempt from taxation, TVA and rural electric cooperatives would be eligible to take such credits in the form of cash-equivalent credits that could be used to repay amounts they owe to the Treasury. We estimate that the provisions would cost $20 million in 2002 and $110 million over the 2002 -2012 period.

CBO expects that TVA will make significant investments in pollution control and clean coal technologies over the next 10 years and thus would be eligible for the cash-equivalent credits authorized by the bill. TVA could use such credits to reduce its payment to the Treasury for past appropriations. TVA could then pass such savings on to its customers by lowering the price it charges for electricity. We estimate that this price adjustment would reduce TVA's power revenues by an average of $10 million a year beginning in 2004, when we expect the agency would revise its rates. Hence, CBO estimates that this provision would cost a total of about $90 million over the 2002-2012 period.

Rural electric cooperatives would be eligible for both the clean coal technology and renewable energy tax credits offered under the bill. Based on information from industry analysts, CBO expects that rural electric cooperatives would make investments in technologies that would qualify for such credits over the next several years. The bill would allow the credits to be sold or traded to certain other taxable entities, or used to prepay loans held by the federal government. For this estimate, we assume that around 15 percent of eligible cooperatives would prepay their federal loans with the Rural Utilities Service, rather than trade the credits.

The authority provided by the bill to prepay federal loans with non-cash credits would be considered a loan modification. Under the Credit Reform Act, the cost of a loan modification is the change in the subsidy cost of the loan (on a present-value basis) because of the modified loan terms. CBO estimates that the cost of this provision would be about $20 million and would be recorded in 2002, when the modification would be authorized.

## Spending Subject to Appropriation

The bill would require the General Accounting Office and the Department of the Treasury to provide annual reports on energy tax incentives. Based on information from these agencies, CBO expects that preparing the reports would cost less than $500,000 per year, assuming appropriation of the necessary amounts.

## PAY-AS-YOU-GO CONSIDERATIONS

The Balanced Budget and Emergency Deficit Control Act sets up pay-as-you-go procedures for legislation affecting direct spending or receipts. The net changes in outlays and governmental receipts that are subject to pay-as-you-go procedures are shown in the following table. For the purposes of enforcing those procedures, only the effects through 2006 are counted.

| | By Fiscal Year, in Millions of Dollars | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 |
| Changes in outlays | 20 | -13 | -12 | -18 | -23 | -28 | -29 | -31 | -22 | -26 | -16 |
| Changes in receipts | -80 | -312 | -1,237 | -2,259 | -2,583 | -1,869 | -1,234 | -1,181 | -1,174 | -1,214 | -1,289 |

## PREVIOUS CBO COST ESTIMATES

This revised cost estimate supersedes the CBO cost estimate for this bill prepared on February 27, 2002. Revenue estimates have changed because Public Law 107-147, the Job Creation and Worker Assistance Act of 2002, signed on March 9, 2002, extends certain tax credits that would also be extended by S. 1979. In addition, CBO has increased the estimate of revenue losses by about $448 million to account for the impact on baseline projections of the reduction in excise tax rates for biodiesel fuels.

The revised estimate also includes an estimate of direct spending effects on TVA, loans issued by the Rural Utilities Service to rural electric cooperatives, and crop subsidies provided by the USDA. The effect of these changes would be to increase direct spending by

$20 million in 2002 and decrease direct spending by about $200 million over the 2002-2012 period.

## INTERGOVERNMENTAL AND PRIVATE-SECTOR IMPACT

CBO has determined that provisions of the bill requiring the Secretary of the Treasury and the General Accounting Office to report the results of certain studies contain no intergovernmental mandates as defined in UMRA and would not affect the budgets of state, local, or tribal governments. JCT has determined that the remaining provisions of the bill contain no intergovernmental mandates as defined in UMRA. The bill contains no private-sector mandates as defined by UMRA.

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