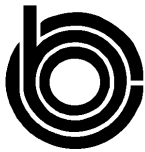

CONGRESSIONAL BUDGET OFFICE
COST ESTIMATE

July 25, 2005

Energy Policy Tax Incentives Act of 2005

As ordered reported by the Senate Committee on Finance on June 21, 2005

SUMMARY

The Energy Policy Tax Incentives Act of 2005 would amend numerous provisions of tax law mainly relating to energy production and use. The bill would enhance and create credits for the use and development of energy-efficient technologies, for the use and production of alternative motor vehicles and fuels, and for the production of renewable electricity, nuclear power, clean coal, and other types of fuel. Further, it would allow the use of tax-credit bonds to finance certain types of energy projects undertaken by the Tennessee Valley Authority (TVA), electric power cooperatives, and local governmental entities such as municipal power agencies. The bill would extend excise tax provisions and income tax credits for purchases of biodiesel fuel mixtures (a combination of diesel fuel and vegetable oil or animal fat). The bill also would raise revenue by reinstating and extending taxes on kerosene and oil. Provisions of the bill would generally take effect upon enactment.

The Joint Committee on Taxation (JCT) estimates that enacting the bill would decrease governmental receipts by $209 million in 2005, by about $10.5 billion over the 2006-2010 period, and by about $13.9 billion over the 2006-2015 period. CBO estimates that the bill would, on net, increase direct spending by $41 million over the 2006-2010 period and by $68 million over the 2006-2015 period.

CBO has reviewed sections 1551 and 1567 of the Energy Policy Tax Incentives Act of 2005 and determined that they contain no intergovernmental mandates as defined by the Unfunded Mandates Reform Act (UMRA); those sections would not affect the budgets of state, local, or tribal governments. JCT has determined that the remaining provisions contain no intergovernmental mandates as defined in UMRA.

JCT has determined that the tax provisions of the Energy Policy Tax Incentives Act of 2005 contain two private-sector mandates: (1) taxation of gasoline blendstock and kerosene; and (2) the reimposition of the oil spill trust fund tax. CBO has reviewed the non-tax provisions and determined that those provisions contain no private-sector mandates as defined in

UMRA. In aggregate, the costs of the mandates in the bill would exceed the annual threshold established by UMRA for private-sector mandates beginning in 2007. That threshold is $123 million for private-sector mandates in 2005, and is adjusted annually for inflation.

ESTIMATED COST TO THE FEDERAL GOVERNMENT

The estimated budgetary impact of the Energy Policy Tax Incentives Act of 2005 is shown in the table below. All revenue estimates were provided by JCT and assume that the bill will be enacted on August 1, 2005. CBO estimated the bill's effects on direct spending.

BASIS OF ESTIMATE

Revenues

Several provisions would reduce revenues if enacted. In total, revenue-reducing provisions would lower government receipts by about $18.5 billion over the 2005-2015 period. Those provisions include extending the renewable electricity production credit; creating a credit for investment in clean coal facilities; modifying the enhanced oil recovery credit; creating a credit for certain nonbusiness energy property; creating a credit for the purchase of certain motor vehicles that use alternative fuel sources; and extending through 2010 excise tax provisions and income tax credits for biodiesel. JCT estimates that these provisions would, if enacted, reduce revenues by $4 million in 2005, by about $6 billion over the 2006-2010 period, and by about $11.4 billion over the 2006-2015 period. In addition, miscellaneous provisions would reduce revenues by $58 million in 2005, about $2.4 billion over the 2006-2010 period, and about $4.2 billion over the 2006-2015 period.

JCT estimates that other provisions would reduce revenues in the first several years after enactment, and raise revenues later on, but with the net effect of reducing revenues over the next 10 years. These include provisions allowing cooperatives to pass through to their owners certain expenses for low-sulfur diesel; providing a temporary, immediate deduction for equipment used in the refining of liquid fuels; allowing a deduction for certain energy-efficient commercial building property; and providing a credit for retail sale of alternative fuels. JCT estimates that all such provisions would, if enacted, reduce revenues by $147 million in 2005, by about $4 billion over the 2006-2010 period, and by about $2.7 billion over the 2006-2015 period.

Finally, JCT estimates that certain provisions would solely increase revenue. Most of the revenue that would be raised comes from two sets of provisions: altering the taxation of gasoline blendstocks and including mineral spirits in the definition of kerosene; and

reinstating through 2014 the tax on oil production and imports, which expired in 1994, that finances the Oil Spill Liability Trust Fund. These provisions would yield $1.5 billion over the 2006-2010 period and about $3.4 billion over the 2006-2015 period. JCT estimates that other, miscellaneous provisions would increase revenues by $452 million over the 2006-2010 period and by $939 million over the 2006-2015 period.

	By Fiscal Year, in Millions of Dollars										
	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
CHANGES IN REVENUES											
Revenue-Reducing Provisions	-209	-1,545	-2,606	-3,151	-2,797	-2,359	-1,969	-969	-978	-880	-1,002
Revenue-Raising Provisions	*	180	351	462	490	496	505	514	522	531	307
Total Changes in Revenues	-209	-1,365	-2,255	-2,689	-2,307	-1,863	-1,464	-455	-456	-349	-695
CHANGES IN DIRECT SPENDING											
Renewable and Coal Bonds for TVA											
Estimated Budget Authority	0	1	20	35	45	38	39	20	-1	-11	-13
Estimated Outlays	0	1	20	35	45	38	39	20	-1	-11	-13
Extending Biodiesel Tax Credits											
Estimated Budget Authority	0	0	-7	-24	-30	-37	-9	0	0	0	0
Estimated Outlays	0	0	-7	-24	-30	-37	-9	0	0	0	0
Total Changes in Direct Spending											
Estimated Budget Authority	0	1	13	11	15	1	30	20	-1	-11	-13
Estimated Outlays	0	1	13	11	15	1	30	20	-1	-11	-13

SOURCES: CBO and the Joint Committee on Taxation.

* = Gain of less than $500,000.

Direct Spending

Renewable and Coal Bonds for TVA. The Energy Policy Tax Incentives Act would authorize the use of tax-credit bonds to finance certain types of energy projects undertaken by the Tennessee Valley Authority, electric power cooperatives, and government entities such as municipal power agencies. The bill would create two programs, one for renewable energy facilities and one for advanced coal generation plants, each of which would be subject to a $1 billion limit. The Secretary of Energy would allocate these funds among projects. CBO estimates that enacting these provisions would increase net direct spending by TVA

over the 2006-2015 period by a total of about $175 million, but should result in no net cost over the long run because TVA is required by law to recover such costs from proceeds from the sale of electricity.

CBO expects that TVA would increase capital spending for renewable energy projects by about $200 million over the next five years, an amount roughly equivalent to its share of electricity sales relative to other entities eligible for the bonds. CBO also anticipates that TVA would be among the entities competing for the interest-free bonds for advanced coal projects, but we assume the probability of increased capital spending is lower than for renewable projects because the larger size and higher capital cost of those plants would limit the number of coal projects undertaken. CBO estimates that allowing TVA to use tax-credit bonds for advanced coal facilities would increase the agency's capital spending by $50 million over the next several years. The net cost of both provisions reflects the expectation that TVA would begin recovering costs after the facilities were put in service.

Impact of Extending Biodiesel Tax Credits. Because the bill extends incentives to sell and use biodiesel fuels, JCT and CBO have estimated that use of those fuel mixtures will increase over the extension period through December 31, 2010. Because the vegetable oil in the mixtures is expected to be primarily derived from soybeans and a few other oilseeds, the price of those oilseeds will increase. (Qualifying vegetable oils may be derived from corn, soybeans, and a list of other oil seeds.) Higher commodity prices will result in lower costs of farm price-support and income-support programs administered by the U.S. Department of Agriculture. CBO estimates those changes in the demand for soybeans and other sources of vegetable oils would reduce federal spending by $107 million from 2007 through 2011.

ESTIMATED IMPACT ON STATE, LOCAL, AND TRIBAL GOVERNMENTS

CBO has reviewed sections 1551 and 1567 of the Energy Policy Tax Incentives Act of 2005 and determined that they contain no intergovernmental mandates as defined by the Unfunded Mandates Reform Act; those sections would not affect the budgets of state, local or tribal governments.

ESTIMATED IMPACT ON THE PRIVATE SECTOR

JCT has determined that the tax provisions of the Energy Policy Tax Incentives Act of 2005 contain two private-sector mandates: (1) taxation of gasoline blendstock and kerosene; and (2) the reimposition of the oil spill trust fund tax. CBO has reviewed the non-tax provisions and determined that those provisions contain no private-sector mandates as defined in UMRA. In aggregate, the costs of all the mandates in the bill would exceed the annual

threshold established by UMRA for private-sector mandates ($123 million in 2005, adjusted annually for inflation) beginning in 2007.

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