CONGRESSIONAL BUDGET OFFICE
COST ESTIMATE

June 27, 2007

H.R. 2776
Renewable Energy and Energy Conservation Tax Act of 2007

As ordered reported by the House Committee on Ways and Means on June 20, 2007

SUMMARY

H.R. 2776 would make several changes to energy tax law. The changes would include extending and creating certain energy tax credits, establishing energy tax bonds, and modifying rules related to oil and gas taxes.

The Joint Committee on Taxation (JCT) estimates that enacting H.R. 2776 would decrease revenues by less than $500,000 in 2007, increase revenues by $1.8 billion over the 2007-2012 period, and increase revenues by $1.7 billion over the 2007-2017 period. JCT also estimates that the bill would increase outlays by $876 million over the 2007-2012 period and by $1.7 billion over the 2007-2017 period. The Congressional Budget Office (CBO) estimates that implementing the bill would cost $3 million to $4 million annually, subject to appropriation of the necessary amounts.

JCT has reviewed the tax provisions of H.R. 2776 and has determined that they contain two private-sector mandates as defined in the Unfunded Mandates Reform Act (UMRA): the denial of deduction for income attributable to domestic production of oil, natural gas, or primary products thereof; and the clarification of determination of foreign oil and gas extraction income. The costs required to comply with each federal private-sector mandate generally are no greater than the aggregate estimate budget effects of the provision. The aggregate direct costs of the private-sector mandates in the bill would exceed the annual threshold established by UMRA for private-sector mandates ($131 million in 2007, adjusted annually for inflation) in each year beginning in fiscal year 2008.

JCT has also determined that the tax provisions of the bill contain no intergovernmental mandates. CBO has determined that the non-tax provisions in H.R. 2776 contain no private-sector or intergovernmental mandates as defined in UMRA.

ESTIMATED COST TO THE FEDERAL GOVERNMENT

The estimated budgetary impact of the bill over the 2007-2017 period is shown in the following table. The budgetary impact of this legislation falls within function 800 (general government).

	By Fiscal Year, in Millions of Dollars												
	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2007-2012	2007-2017
CHANGES IN REVENUES													
Title I: Production Incentives	-5	-294	-433	-348	-448	-723	-965	-1,077	-1,090	-1,167	-1,236	-2,247	-7,782
Title II: Conservation Provisions	-3	-103	-264	-529	-485	-728	-859	-778	-766	-650	-614	-2,109	-5,775
Title III: Revenue Raising Provisions	8	588	1,159	1,310	1,480	1,558	1,643	1,728	1,825	1,934	2,052	6,106	15,286
Total Changes	*	191	462	433	547	107	-181	-127	-31	117	202	1,750	1,729
CHANGES IN DIRECT SPENDING													
Title II: Conservation Provisions													
Estimated Budget Authority	0	169	0	338	200	169	169	169	169	169	169	876	1,721
Estimated Outlays	0	169	0	338	200	169	169	169	169	169	169	876	1,721
CHANGES IN SPENDING SUBJECT TO APPROPRIATION													
Title II: Conservation Provisions													
Estimated Authorization Level	0	2	3	3	3	3	3	3	3	3	3	14	30
Estimated Outlays	0	2	3	3	3	3	3	3	3	3	3	14	30
Title IV: Other Provisions													
Estimated Authorization Level	0	2	1	0	0	0	0	0	0	0	0	3	3
Estimated Outlays	0	2	1	0	0	0	0	0	0	0	0	3	3
Total Changes													
Estimated Authorization Level	0	4	4	3	3	3	3	3	3	3	3	17	33
Estimated Outlays	0	4	4	3	3	3	3	3	3	3	3	17	33

Notes: Numbers may not sum to totals because of rounding.
* = loss of less than $500,000.

Sources: Joint Committee on Taxation and Congressional Budget Office.

BASIS OF ESTIMATE

For this estimate, CBO and JCT assume that the bill will be enacted by July 1, 2007. JCT provided the estimates of changes in revenues and direct spending. CBO provided the estimates of changes in spending subject to appropriation.

Revenues and Direct Spending

The legislation would make several energy tax law changes. JCT estimates that enacting H.R. 2776 would reduce revenues by less than $500,000 in 2007, increase revenues by $1.8 billion over the 2007-2012 period, and increase revenues by $1.7 billion over the 2007-2017 period.

Title I includes a provision that would extend and modify the renewable energy tax credit. Currently, the production of electricity from certain energy resources (such as wind and solar energy) is allowed an income tax credit that is set to expire for property placed in service after 2008. H.R. 2776 would extend the credit for new property through December 31, 2012, and it would expand the definition of qualified energy resources. Additionally, rather than phasing out the credit (as under current law), the bill would place an annual limit on the total credits that may be claimed by a facility. JCT estimates that this provision would reduce revenues by $1.4 billion over the 2007-2012 period and by $6.6 billion over the 2007-2017 period. All in all, title I would reduce revenues, JCT estimates, by $5 million in 2007, by $2.2 billion over the 2007-2012 period, and by $7.8 billion over the 2007-2017 period.

Title II, JCT estimates, would reduce revenues by $3 million in 2007, by $2.1 billion over the 2007-2012 period, and by $5.8 billion over the 2007-2017 period. First, the title would allow a credit for plug-in hybrid vehicles, which JCT estimates would reduce revenues by $189 million over the 2007-2012 period and by $1.2 billion over the 2007-2017 period. Second, it would create energy conservation bonds to be used, for example, to finance expenditures made to reduce energy consumption. JCT estimates that this provision would reduce revenues by less than $500,000 in 2007, by $481 million over the 2007-2012 period, and by $1.5 billion over the 2007-2017 period. Third, the bill also would allow a five-year recovery period for time-based meters that measure and record electricity use at different points in the day and provides that data to the supplier or provider. Those meters are allowed a 20-year recovery period under current law. JCT estimates that this provision would reduce revenues by $371 million over the 2007-2012 period and by $1.3 billion over the 2007-2017 period.

Among other provisions, title II would restructure certain New York Liberty Zone tax incentives, which were enacted following the September 11, 2001, terrorist attacks. First, the bill would repeal the provisions that allow accelerated depreciation for certain property in the Liberty Zone. JCT estimates that repealing those provisions would increase revenue by $101 million over the 2007-2012 period and by $86 million over the 2007-2017 period. Second, the bill would provide the city of New York and the state of New York with tax credits for a certain amount of their expenditures made for transportation infrastructure related to the Liberty Zone. The credits could be used against the income taxes that the jurisdictions withhold from the paychecks of their employees and remit to the Internal Revenue Service. Because the jurisdictions do not owe federal income tax liability, the credits are considered federal spending. JCT estimates that instituting the credits would increase direct spending by $876 million over the 2007-2012 period and by $1.7 billion over the 2007-2017 period.

Title III includes multiple provisions that raise revenue. First, the bill would deny a tax deduction under section 199 of the Internal Revenue Code to any income from the sale or exchange of oil, natural gas, or related products, beginning in 2008. JCT estimates that this would increase revenues by $4.2 billion over the 2007-2012 period and by $11.4 billion over the 2007-2017 period.

Second, H.R. 2776 would modify the methods that transnational firms use to calculate their foreign oil and extraction income and their foreign oil related income. JCT estimates that these provisions would increase revenues by $4 million in 2007, by $1.6 billion over the 2007-2012 period, and by $3.6 billion over the 2007-2017 period. JCT estimates that title III as a whole would increase revenue by $8 million in 2007, by $6.1 billion over the 2007-2012 period, and by $15.3 billion over the 2007-2017 period.

Spending Subject to Appropriation

Section 205 would expand the use of federal employee transportation fringe benefits to include bicycle commuters. The provision would allow up to $20 per month for repairs, upgrades, and storage to employees who regularly use a bicycle for commuting purposes. Based on information from the U.S. Census Bureau, CBO estimates that about 11,000 federal employees currently commute via bicycle. Assuming the appropriation of the necessary amounts, CBO estimates that implementing this provision would cost the federal government $2 million in 2008 and about $30 million over the 2008-2017 period.

Additionally, H.R. 2776 would require two reports by the National Academy of Sciences. One report would evaluate tax provisions in the Internal Revenue Code of 1986 that affect carbon and greenhouse gas emissions, while the other report would concern biofuels, including their present status and future potential. Based on the cost of similar studies and assuming the appropriation of the specified and necessary amounts, CBO estimates that these studies would cost $2 million in 2008 and $3 million over the 2008-2009 period.

INTERGOVERNMENTAL AND PRIVATE-SECTOR IMPACT

JCT has reviewed the tax provisions of H.R. 2776 and has determined that they contain two private-sector mandates as defined in UMRA: the denial of deduction for income attributable to domestic production of oil, natural gas, or primary products thereof; and the clarification of determination of foreign oil and gas extraction income. The costs required to comply with each federal private-sector mandate generally are no greater than the aggregate estimate budget effects of the provision. The aggregate direct costs of the private-sector mandates in the bill would exceed the annual threshold established by UMRA for private-sector mandates ($131 million in 2007, adjusted annually for inflation) in each year beginning in fiscal year 2008.

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