CONGRESSIONAL BUDGET OFFICE
COST ESTIMATE

Revised June 10, 2003

S. 1149
Energy Tax Incentives Act of 2003

As reported by the Senate Committee on Finance on May 23, 2003

SUMMARY

The Energy Tax Incentives Act would amend numerous provisions of tax law mainly 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. The bill also would provide tax credits for production of biodiesel fuels, which would result in changes in the subsidies provided through the U.S. Department of Agriculture (USDA) for certain crops. 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 as payments owed to the Treasury. The bill also would raise revenue by changing the tax treatment of inversion transactions and altering requirements for reportable transactions and tax shelters. Provisions of the bill would generally take effect upon enactment (assumed to be July 1, 2003).

The Congressional Budget Office (CBO) and the Joint Committee on Taxation (JCT) estimate that enacting the bill would decrease governmental receipts by $457 million in 2003, by about $15.8 billion over the 2003-2008 period, and by about $15.7 billion over the 2003-2013 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 2003, an increase of $11 million over the 2003-2008 period, and a decrease of $80 million over the 2003-2013 period. CBO also estimates that extending IRS user fees would increase spending subject to appropriation by $18 million over the 2003-2008 period and by $39 million over the 2003-2013 period.

CBO has reviewed section 702 and found no intergovernmental mandates as defined in the Unfunded Mandates Reform Act (UMRA). That section would require the General Accounting Office (GAO) to analyze the effectiveness of alternative vehicle and fuel credits

and would impose no costs on 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 provisions relating to the tax treatment of corporate inversion transactions, tax shelters, the alternative tax regime for individuals who expatriate, reinsurance agreements, the excise tax on stock compensation of insiders of inverted corporations, and the excise tax on vaccines against hepatitis A all contain private sector mandates as defined in UMRA. The cost of complying with the mandates would not exceed the threshold established by UMRA ($117 million in 2003, adjusted annually for inflation). CBO has determined that sections 702 and 831 of the bill contain no new private-sector mandates as defined in UMRA.

ESTIMATED COST TO THE FEDERAL GOVERNMENT

The estimated budgetary impact of S.1149 is shown in the table on the following page. These estimates are based on an assumption that the bill will be enacted on July 1, 2003; however, if the bill is enacted after this date, the revenue effects could be smaller. All revenue estimates were provided by JCT except for two provisions. For the years after 2006, CBO estimated the revenue effects of the provision providing income and excise tax credits for biodiesel fuel mixtures. In addition, CBO estimated the effect of the provision extending IRS user fees.

BASIS OF ESTIMATE

Revenues

Several 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 allow geological and geophysical expenditures to be amortized over two years, 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, provide credits for biodiesel fuel purchases, and modify the rules governing certain requirements for contributions to, and transfers of, qualified nuclear decommissioning funds. The bill also contains several provisions relating to tax shelters and reportable transactions. JCT estimates that these provisions would, if enacted, reduce revenues by $457 million in 2002, about $15.8 billion over the 2003-2008 period, and by about $15.5 billion over the 2003-2013 period.

	By Fiscal Year, in Millions of Dollars					
	2003	2004	2005	2006	2007	2008
CHANGES IN REVENUES						
Estimated Revenues	-457	-2,187	-3,619	-4,519	-3,692	-1,299
CHANGES IN DIRECT SPENDING						
Tax Credits for TVA						
Estimated Budget Authority	0	0	10	10	10	10
Estimated Outlays	0	0	10	10	10	10
Tax Credits for Rural Electric Cooperatives						
Estimated Budget Authority	20	0	0	0	0	0
Estimated Outlays	20	0	0	0	0	0
Biodiesel Farm Program Savings						
Estimated Budget Authority	0	-2	-4	-11	-14	-18
Estimated Outlays	0	-2	-4	-11	-14	-18
Total Changes in Direct Spending						
Estimated Budget Authority	20	-2	6	-1	-4	-8
Estimated Outlays	20	-2	6	-1	-4	-8
SPENDING SUBJECT TO APPROPRIATION [a]						
Extension of IRS User Fees						
Estimated Authorization Level	0	3	3	4	4	4
Estimated Outlays	0	3	3	4	4	4

SOURCES: CBO and the Joint Committee on Taxation.

a. S. 1149 would also require the preparation of certain annual reports by GAO and the Department of the Treasury, which CBO estimates would cost less than $500,000 per year.

The bill would provide income and excise tax credits for purchases of biodiesel fuel mixtures (a combination of diesel fuel and vegetable oil or animal fat). The provision would expire on December 31, 2005, and JCT estimated the effects of the provision assuming that expiration date. However, budget law requires CBO to treat excise taxes dedicated to trust funds as permanent, even if they expire during the projection period. Thus, CBO estimates that the provision would reduce revenues by an additional $522 million from 2006 through 2013.

In addition, the bill would extend the period during which IRS may charge fees on businesses for providing ruling, opinion, and determination letters. Under current law, IRS's authority to charge such fees will expire at the end of fiscal year 2003. The bill would extend the authority to charge such fees until September 30, 2013. Based on the amount of fees collected in recent years and on information from IRS, CBO estimates that extending the fees would increase governmental receipts by $176 million over the 2004-2008 period and $386 million over the 2004-2013 period.

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 USDA. CBO estimates these changes in the demand for soybeans and other and other sources of vegetable oils would reduce federal spending by about $50 million over the 2004-2008 period, and by $190 million over the 2004-2013 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 2003, $100 million over the 2003-2008 period, and $110 million over the 2003-2013 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 2005, 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 2003-2013 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 Federal 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 2003, the assumed year of enactment.

Spending Subject to Appropriation

Section 831 would adjust and extend the authority of the IRS to charge taxpayers fees for certain rulings, opinion letters, and determinations through September 30, 2013. The bill would authorize the IRS to retain and spend a small portion of the fees collected, subject to appropriation. CBO estimates that implementing this provision would cost $18 million over the 2004-2008 period and $39 million over the 2004-2013 period, subject to the appropriation of the estimated amounts.

The bill also would require GAO 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 availability of appropriated funds.

SUMMARY OF THE EFFECT ON REVENUES AND DIRECT SPENDING

The overall effects of the bill on revenues and direct spending over the 2003-2013 period are shown in the following table.

	By Fiscal Year, in Millions of Dollars										
	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Changes in receipts	-457	-2,187	-3,619	-4,519	-3,692	-1,299	-275	177	283	82	-147
Changes in outlays	20	-2	6	-1	-4	-8	-12	-15	-18	-22	-24

SOURCES: CBO and the Joint Committee on Taxation.

IMPACT ON STATE, LOCAL, AND TRIBAL GOVERNMENTS

CBO has reviewed section 702 and found no intergovernmental mandates as defined in UMRA. That section would require GAO to analyze the effectiveness of alternative vehicle and fuel credits and would impose no costs on state, local, or tribal governments. JCT has determined that the remaining provisions contain no intergovernmental mandates as defined in UMRA.

IMPACT ON THE PRIVATE SECTOR

JCT has determined that the provisions relating to the tax treatment of corporate inversion transactions, tax shelters, the alternative tax regime for individuals who expatriate, agreements, the excise tax on stock compensation of insiders of inverted corporations, reinsurance, and the excise tax on vaccines against hepatitis A all contain private-sector mandates as defined in UMRA. The cost of complying with the mandates would not exceed the threshold established by UMRA ($117 million in 2003, adjusted annually for inflation). CBO has determined that sections 702 and 831 of the bill contain no new private-sector mandates as defined in UMRA.

PREVIOUS CBO ESTIMATE

On May 23, 2003, CBO transmitted a cost estimate for an unnumbered version of the Energy Tax Incentives Act of 2003, as ordered reported by the Senate Committee on Finance on April 2, 2003. This revised cost estimate supersedes that previous estimate, and it reflects a change in the estimated effect on federal revenues for the provision pertaining to the sale of gasoline and diesel fuel at duty-free sales enterprises as provided by JCT on June 6, 2003. The previous estimate included a $9 million increase in federal revenues over the 2003-2013 period resulting from this provision; however, JCT now estimates this provision to have a negligible effect on revenues. In addition, this estimate reflects a revision to CBO's estimate of direct spending. The previous estimate included a $39 million increase in direct spending over the 2003-2013 period as a result of the provision extending IRS user fees. This revised estimate shows that spending as subject to appropriation.

ESTIMATE PREPARED BY:

Federal Revenues: Annie Bartsch
Federal Spending: Lisa Cash Driskill, Dave Hull, and Matthew Pickford
Impact on State, Local, and Tribal Governments: Greg Waring
Impact on the Private Sector: Paige Piper/Bach

ESTIMATE APPROVED BY:

G. Thomas Woodward
Assistant Director for Tax Analysis

Peter H. Fontaine
Deputy Assistant Director for Budget Analysis