CONGRESSIONAL BUDGET OFFICE
COST ESTIMATE

April 7, 2003

H.R. 1531
Energy Tax Policy Act of 2003

As ordered reported by the House Committee on Ways and Means on April 3, 2003

SUMMARY

H.R. 1531 would amend existing tax law and establish new laws relating to energy production and consumption. The bill also would alter the tax treatment of inversion transactions undertaken by certain expatriating entities and allow certain coal companies to prepay liabilities to the United Mine Workers of America Combined Benefit Fund (CBF).

The Congressional Budget Office (CBO) and the Joint Committee on Taxation (JCT) estimate that H.R. 1531 would decrease governmental receipts by $474 million in 2003, by about $14.5 billion over the 2003-2008 period, and by about $18.7 billion over the 2003-2013 period. CBO estimates that the bill would increase direct spending by $10 million over the 2004-2013 period.

CBO has reviewed section 211 of H.R. 1531 and determined that this section contains no intergovernmental mandates as defined in the Unfunded Mandates Reform Act (UMRA), and would impose no costs on state, local, or tribal governments. JCT has determined that the other provisions of H.R. 1531 contain no intergovernmental mandates as defined in UMRA and would impose no costs on state, local, or tribal governments.

JCT has determined that the provision of the bill relating to the tax treatment of inversion transactions contains a private-sector mandate. The total cost of complying with the mandate would not exceed the threshold established by UMRA ($117 million in 2003, adjusted annually for inflation).

ESTIMATED COST TO THE FEDERAL GOVERNMENT

The following table summarizes the estimated budgetary impact of H.R. 1531.

	By Fiscal Year, in Millions of Dollars					
	2003	2004	2005	2006	2007	2008
CHANGES IN REVENUES						
Extend and modify Section 45 credit	-34	-162	-275	-302	-396	-393
Extend and modify credit for non-conventional fuels	-64	-178	-324	-504	-603	-540
Allow amortizing of geological expenses	0	67	-168	-452	-449	-331
Modify depreciation rules for electric transmission property	-10	-36	-69	-119	-162	-202
Repeal general fund excise taxes on railroad and certain barge fuel	0	-107	-156	-161	-166	-171
Modify deductibility of nuclear decommissioning costs	0	-86	-181	-198	-186	-167
Modify depreciation rules for gas distribution pipelines	-5	-23	-50	-79	-109	-136
Modify capital gain recognition on sale of certain electric transmission property	-403	-1,368	-1,592	-1,312	185	952
Provide other energy incentives	-2	-457	-923	-1,209	-600	-138
Allow prepayment of Combined Benefit Fund premiums	44	-6	-6	-2	-5	-5
Modify treatment of inversions	0	6	62	12	3	0
Total Changes in Revenues	-474	-2,350	-3,682	-4,326	-2,488	-1,131
CHANGES IN DIRECT SPENDING						
Combined Benefit Fund Outlays	0	1	1	1	1	1

SOURCES: CBO and the Joint Committee on Taxation.

Revenues

All estimates, with the exception of that for the provision allowing the prepayment of premiums to the Combined Benefit Fund, were provided by JCT.

H.R. 1531 contains numerous provisions altering existing laws and establishing new laws relating to energy production and consumption. CBO and JCT estimate that, together, the provisions contained in H.R. 1531 would decrease federal revenues by $474 million in 2003 by about $14.5 billion over the 2003-2008 period, and by about $18.7 billion over the 2003-2013 period.

The following provisions in the bill would have the most significant effects on the collection of governmental receipts:

- H.R. 1531 would extend and modify the Section 45 credit for producing electricity from certain sources including wind, open- and closed-loop biomass, and trash-to-energy facilities. JCT estimates that this provision would reduce governmental receipts by $34 million in 2003, by about $1.6 billion over the 2003-2008 period, and by about $3.2 billion over the 2003-2013 period.

- H.R. 1531 would also extend and modify the tax credit for the production of certain non-conventional fuels. JCT estimates that enacting this provision would reduce federal revenues by $64 million in 2003, by about $2.2 billion over the 2003-2008 period, and by about $3.0 billion over the 2003-2013 period.

- The bill would allow certain geological exploration expenditures to be amortized over a two-year period. JCT estimates that enacting this provision would reduced governmental receipts by about $1.3 billion over the 2004-2008 period and $2.4 billion over the 2004-2013 period.

- The bill would also repeal general fund excise taxes on railroad diesel fuel and inland waterway barge fuel. JCT estimates that enacting this provision would reduce governmental receipts by $761 million over the 2004-2008 period, and by about $1.7 billion over the 2004-2013 period.

- H.R. 1531 would modify the depreciation rules pertaining to certain electricity transmission property and certain gas distribution pipelines. JCT estimates that these provisions would reduce federal revenues by about $2.2 billion and $1.5 billion over the 2003-2013 period, respectively.

- JCT estimates that modifying special rules for nuclear decommissioning costs would also reduce governmental receipts by $1.5 billion over the 2003-2013 period.

- The bill would also allow taxpayers to elect to recognize certain gains from the sale or disposition of electric transmission property over an eight-year period. JCT estimates that this provision would decrease governmental receipts by $403 million in 2003 and by about $3.5 billion over the 2003-2008 period, and that it would increase governmental receipts by $403 million over the 2003-2013 period.

In addition, H.R. 1531 contains several other provisions also relating to energy production and consumption that, if enacted, would affect governmental receipts. JCT estimates that, together, these provisions would decrease governmental receipts by $2 million in 2003, by about $3.3 billion over the 2003-2008 period, and by about $3.8 billion over the 2004-2013 period. The bill would also allow certain assigned operators of coal facilities and related companies to prepay their premium liability to the United Mine Workers of America Combined Benefit Fund. Such premiums are considered federal revenues and are used to cover medical care expenses for certain retired miners and their dependents. CBO estimates that allowing prepayment would increase federal revenues by $44 million in 2004, but would decrease revenues in later years, for a net increase of only $1 million over the 2004-2013 period.

Lastly, H.R. 1531 would modify the tax treatment of expatriating entities. The provisions would apply to inversion transactions undertaken between March 4, 2003, and December 31, 2004. JCT estimates that enacting this provision would increase federal revenues by $83 million over the 2004-2007 period, but would have no effect thereafter.

Direct Spending

As noted above, H.R. 1531 would allow certain coal companies with liabilities to the Combined Benefit Fund to prefund those liabilities. CBO assumes that over the 2004-2013 period, companies representing about 10 percent of retirees would choose to prefund. Prefunding would increase revenues into the fund over the 2004-2013 period, but would reduce revenues over the life of the fund. This would occur because the premium liability calculation would be based on the present value of that liability. CBO assumes that the CBF would buy Treasury notes with prefunded amounts and earn interest on those notes. This interest would be used to pay for health care for retirees, and would supplement the reduced premium income over the life of the fund from the private sector. CBO estimates that the CBF would receive $75 million in premiums from companies choosing to prefund, which is $5 million more than we estimate the fund would receive under current law over the 2004-2013 period. Under H.R. 1531, CBO estimates that the CBF would spend an additional $10 million over the 2004-2013 period on health care benefits.

SUMMARY OF THE EFFECT ON REVENUES AND DIRECT SPENDING

The overall effect of H.R. 1531 on revenues and direct spending is 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	-474	-2,350	-3,682	-4,326	-2,488	-1,131	-852	-647	-625	-919	-1,174
Changes in outlays	0	1	1	1	1	1	1	1	1	1	1

SOURCES: CBO and the Joint Committee on Taxation.

ESTIMATED IMPACT ON STATE, LOCAL, AND TRIBAL GOVERNMENTS

CBO and JCT have determined that H.R. 1531 contains no intergovernmental mandates as defined in UMRA and would impose no costs on state, local, or tribal governments.

ESTIMATED IMPACT ON THE PRIVATE SECTOR

JCT has determined that the provision of the bill relating to the tax treatment of inversion transactions contains a private-sector mandate, however, the mandate would not exceed the threshold established by UMRA ($117 million in 2003, adjusted annually for inflation.)

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