CONGRESSIONAL BUDGET OFFICE
COST ESTIMATE

October 14, 2003

S. 1548

A bill to amend the Internal Revenue Code of 1986 to provide incentives for the production of renewable fuels and to simplify the administration of the Highway Trust Fund fuel excise taxes, and for other purposes

As ordered reported by the Senate Committee on Finance on September 17, 2003

SUMMARY

S. 1548 would temporarily extend the authority to use amounts deposited in the Highway Trust Fund (HTF) to liquidate obligations of related programs. The bill also would amend several provisions of tax law relating to alcohol fuels and would provide tax credits for the production of biodiesel fuels. Those changes would affect the cost of farm income support provided by the U.S. Department of Agriculture (USDA) for certain crops. The tax provisions of the bill would generally take effect beginning January 1, 2004.

The Congressional Budget Office (CBO) and the Joint Committee on Taxation (JCT) estimate that enacting the bill would increase governmental receipts by $28 million in 2004, by $277 million over the 2004-2008 period, and by about $4.3 billion over the 2004-2013 period. CBO estimates that the bill would increase direct spending by $16 million in 2004, by $108 million over the 2004-2008 period, and by $339 million over the 2004-2013 period. JCT has reviewed the provisions contained in S. 1548 and determined that the bill contains no private-sector or intergovernmental mandates as defined in the Unfunded Mandates Reform Act (UMRA), and would not affect the budgets of state, local, or tribal governments.

ESTIMATED COST TO THE FEDERAL GOVERNMENT

The estimated budgetary impact of S. 1548 is shown in the following table. The costs of the legislation fall within budget function 350 (agriculture).

	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
	By Fiscal Year, in Millions of Dollars									
CHANGES IN REVENUES										
Replacing Reduced Tax Rate on Alcohol Fuels with Excise Credit	29	46	49	48	45	43	40	36	33	30
Extending Alcohol Fuels Income Tax Credit	0	0	0	0	-6	-13	-15	-10	-3	0
Providing Tax Credit for Biodiesel	-22	-41	-12	0	0	0	0	0	0	0
Providing Direct Payments in Lieu of Expiring Excise Credit [a]	21	29	30	30	31	32	33	8 [b]	0 [b]	0 [b]
Expiring Ethanol Tax Credit -- Replacing Reduced Tax Rate on Alcohol Fuels with Excise Credit	0	0	0	0	0	0	0	1,005 [b]	1,368 [b]	1,386 [b]
Estimated Revenues	28	34	67	78	70	62	58	1,039	1,398	1,416
CHANGES IN DIRECT SPENDING [c]										
Providing Tax Credit for Biodiesel	-5	-22	-6	0	0	0	0	0	0	0
Providing Direct Payments in Lieu of Expiring Excise Credit	21	29	30	30	31	32	33	8 [b]	0 [b]	0 [b]
Replacing Reduced Tax Rate on Alcohol Fuels with Expiring Excise Credit	0	0	0	0	0	0	0	17 [b]	51 [b]	90 [b]
Total Changes in Direct Spending	16	7	24	30	31	32	33	25	51	90

SOURCES: CBO and the Joint Committee on Taxation.

NOTE: Positive (negative) changes in revenues correspond to decreases (increases) in budget deficits. Positive (negative) changes in direct spending correspond to increases (decreases) in budget deficits.

a. This estimate consists of three parts. JCT estimated an increase in revenues of $231 million over the 2004-2013 period from providing direct payments in lieu of excise tax credits. That estimate includes reductions in income and payroll taxes resulting from increased excise taxes. CBO estimated an increase in revenues of $54 million over the 2004-2013 period from the income and payroll tax effects of the increased direct spending. In addition, CBO estimated a reduction in revenues of $71 million over the 2011-2013 period to reflect the expiration of the excise credit.

b. These effects result from application of the budget law for constructing CBO's baseline in the case of expiring excise taxes dedicated to trust funds. Under current law, the taxes on motor fuels dedicated to the Highway Trust Fund (HTF) expire in 2005, and are assumed to be permanently extended in CBO's baseline under budget law. The lower excise tax rates on alcohol fuels, which reduce revenue to the HTF, expire in 2007 and are also assumed to be permanently extended in CBO's baseline. S. 1548 would replace the lower excise tax rates on alcohol fuels with an excise tax credit that does not reduce revenue to the HTF and that expires in 2010. If this bill is enacted, CBO's subsequent baseline would not assume extension of the excise tax credit beyond its expiration because the requirement to assume extension only applies to excise taxes dedicated to trust funds. For purposes of this cost estimate, therefore, CBO assumes that the credit would expire as scheduled. That treatment generates changes in revenues and outlays beyond 2010. See the description in the "Basis of Estimate" section for more details.

c. The estimated changes in budget authority equal the estimated changes in outlays for each provision.

BASIS OF ESTIMATE

Revenues

With the exception of two effects, JCT provided all the revenue estimates. The largest effect JCT estimated was for the provision repealing the existing exemptions from the gasoline tax rate for alcohol fuels and replacing those exemptions with an excise tax credit worth the same amount. JCT estimates the increased compliance from doing so would increase federal revenues by $29 million in 2004, by $217 million over the 2004-2008 period, and by $399 million over the 2004-2013 period. This estimate assumes the excise tax credit for alcohol fuels would be extended beyond the provision's 2010 expiration.

Budget law (the Balanced Budget and Emergency Deficit Control Act of 1985) requires CBO to treat excise taxes dedicated to trust funds as permanent, even if they expire during the projection period. CBO's baseline includes permanent extension of the reduced rates of taxation on alcohol fuels beyond their expiration because they reduce amounts credited to the HTF. However, the excise tax credit for alcohol fuels, as provided for in the bill, would not reduce amounts credited to the HTF. Therefore, CBO does not assume the credit would be extended and estimates that repealing the existing exemptions from the gasoline tax rate for alcohol fuels would increase governmental receipts by an additional $3.8 billion between 2011 and 2013, after the new tax credit would expire.

In addition, JCT estimates that extending the section 40 alcohol fuels income tax credit and providing a new excise tax credit for the production of biodiesel would decrease governmental receipts by $22 million in 2004, by $81 million over the 2004-2008 period, and by $122 million over the 2004-2013 period.

H.R. 1548 also would provide direct payments to recipients of the excise tax credits for both alcohol and biodiesel fuel mixtures who would have insufficient tax liability to use them otherwise. Under current law, the equivalent lower rates of taxation reduce revenues. As a result, JCT estimates that the provision would raise revenues by an estimated $106 million over the 2004-2008 period and $231 million over the 2004-2013 period. This estimate is net of reduced income and payroll taxes resulting from the higher excise taxes and assumes the excise tax credit for alcohol fuels would be extended beyond its 2010 expiration. CBO has estimated two additional revenue effects. First, CBO estimates an increase in revenues of $35 million over the 2004-2008 period and $54 million over the 2004-2013 period from increases in income and payroll taxes resulting from the increased direct spending. In addition, for conformity with budget law, CBO does not assume the extension of the excise credit beyond its scheduled 2010 expiration in S. 1548. CBO estimates that assuming the expiration of the credit in 2010 would result in $71 million less additional revenues from this provision over the 2011-2013 period than estimated by JCT. Overall, the provision providing direct payments in lieu of excise tax credits would increase revenues by $214 million over the 2004-2011 period, with no effect after 2011.

Direct Spending

Effect of Biodiesel Tax Credits on Farm Programs. Because of the bill's incentives to produce 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 number 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 sources of vegetable oils would reduce federal spending by about $33 million over the 2004-2006 period. This provision would expire after 2006.

Providing Direct Payments in Lieu of Excise Credits. The bill would provide for payments to recipients of the tax credits who have insufficient tax liability to use them otherwise. As a result of this provision, CBO estimates that outlays would increase by $141 million over the 2004-2008 period and $214 million over the 2004-2011 period. This amount exactly equals the increased revenues estimated for this provision.

Expiration of Special Tax Treatment for Ethanol. Expiration of the excise tax credit for alcohol fuels in the bill also would result in increased spending for farm income payments after 2010. Because the alcohol in such fuels is primarily derived from corn, demand for corn rises and falls with the demand for ethanol. The higher after-tax price of alcohol fuels resulting from expiration of the tax credit in 2010 would reduce ethanol demand and corn prices. As a result, CBO estimates that federal spending for farm price and income supports would rise by $158 million over the 2011-2013 period.

INTERGOVERNMENTAL AND PRIVATE SECTOR IMPACT

JCT has determined that S. 1548 contains no intergovernmental or private-sector mandates as defined in UMRA and would not affect the budgets of state, local, or tribal governments.

PREVIOUS CBO ESTIMATE

On June 10, 2003, CBO transmitted a cost estimate for S. 1149, the Energy Tax Incentives Act of 2003, as ordered reported by the Senate Committee on Finance on May 23, 2003. Like S. 1548, that bill also would provide for excise tax credits for biodiesel through December 31, 2005, and included excise tax credits that expire in 2010. CBO assumed that the biodiesel credits would be extended permanently and, therefore, estimated that enacting S. 1149 would reduce federal revenues by an additional $522 million from 2006 through 2013. It also did not include the additional revenues from applying the budget law rules to the expiring excise tax credit.

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