

## [Energy Tax Policy: Issues in the 114th Congress](#)

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6/15/2016 (CRS) -- Current U.S. energy tax policy is a combination of long-standing provisions and relatively new incentives. Provisions supporting the oil and gas sector reflect desires for domestic energy production and energy security, long-standing cornerstones of U.S. energy policy. Incentives for renewable energy reflect the desire to have a diverse energy supply, also consistent with a desire for domestic energy security. Incentives for energy efficiency are designed to reduce use of energy from all energy sources. Incentives for renewable energy, energy efficiency, and alternative technology vehicles reflect environmental concerns related to the production and consumption of energy using fossil-based resources.

Many energy-related tax provisions are temporary, with a number scheduled to expire at the end of 2016. Most recently, expired energy tax incentives were extended as part of the Consolidated Appropriations Act, 2016 (P.L. 114-113). Most energy-related provisions were extended for two years, through the end of 2016. Incentives for wind and solar were given longer-term extensions, with credits scheduled to phase out over a multi-year period in the future. One issue is whether energy-related tax incentives currently scheduled to expire at the end of 2016 will be further extended.

Energy-related tax incentives reduce the amount of federal tax revenue collected. Between 2015 and 2019, it is estimated that incentives for fossil fuels will reduce revenues by \$21.5 billion. For renewables, the cost of energy-related tax incentives is an estimated \$46.5 billion over the same time period. The cost of tax incentives for energy efficiency is estimated to be \$3.1 billion in federal revenue loss between 2015 and 2019. These estimates reflect the recent extensions enacted in P.L. 114-113. However, further extensions of energy-related tax provisions currently scheduled to expire would increase the cost of these incentives.

The Obama Administration has also proposed a number of changes to energy tax policy as part of its annual budget proposal. Similar to past budgets, the FY2017 proposal suggests repealing a number of existing tax incentives for fossil fuels, while providing new or expanded incentives for carbon sequestration, alternative and advanced technology vehicles, renewable electricity, energy efficiency, and advanced energy manufacturing. The FY2017 budget also proposes a per-barrel fee on oil.

Energy tax policy involves the use of one of the government's main fiscal instruments, taxes (both as an incentive and as a disincentive) to alter the allocation or configuration of energy resources and their use. In theory, energy taxes and subsidies, like tax policy instruments in general, are intended either to correct a problem or distortion in the energy markets or to achieve some economic (efficiency, equity, or even macroeconomic) objective. The economic rationale for government intervention in energy markets is commonly based on the government's perceived ability to correct for market failures. To correct for these market failures governments can utilize several policy options, including taxes, subsidies, and regulation, in an effort to achieve policy goals. In practice, energy tax policy in the United States is made in a political setting, determined by fiscal dictates and the views and interests of the key players in this setting, including policymakers, special interest groups, and academic scholars. As a

result, enacted tax policy embodies compromises between economic and political goals, which could either mitigate or compound existing distortions.

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