# Conference Committee Energy Bill Rewards Corporate Tax Avoiders, Creates Conflicting Incentives

The energy bill agreed upon by a conference committee this week would create a host of expensive new corporate tax breaks, mostly targeted toward the oil and gas industry. The bill, HR 6, includes $14.5 billion in new tax breaks over the next ten years. Specifically:

- The bill provides special accelerated depreciation rules allowing certain natural gas and electricity properties to be written off even faster than other capital investments, which are already allowed to be written off considerably faster than the assets actually wear out. For example, the bill would allow natural gas distribution pipelines to be completely depreciated over 15 years—far less than the actual useful life of such pipelines. The bill would also allow oil companies to immediately write off costs associated with expanding the capacity of existing refineries. **Ten-year cost: $3.8 billion.**

> "I will tell you with $55 oil we don't need incentives to oil and gas companies to explore. There are plenty of incentives. What we need is to put a strategy in place that will help this country over time become less dependent."
> *-President George W. Bush*

- Companies that generate electricity from wind, garbage and chicken waste would see an extension of tax breaks that date back to the Carter administration. The cost of propping up an "infant industry" that refuses to grow up **$2.7 billion over ten years**.
- The bill also allows "geological and geophysical" costs associated with oil exploration to be written off faster. **Ten-year cost: $1 billion**.
- A much smaller part of the bill's overall cost would encourage alternative energy policies such as energy-efficient home improvements and solar energy. **Ten-year cost: $3 billion**.

## Regressive Offsets: $3 Billion in Tax Hikes

The energy bill's $14.5 billion in new tax breaks would be partially offset by $3 billion in tax increases. The biggest of these tax hikes, at $2.5 billion over ten years, is a 5 cents-per-barrel tax on crude oil imports. The bill would also raise $350 million by extending an expiring federal 0.1-cents-per-gallon excise tax on gasoline. These tax hikes will likely be passed through to consumers in the form of higher gasoline prices. "It's a welcome change to see Congress paying for some of its tax cuts," noted CTJ Director Robert S. McIntyre, "but these tax hikes would shift the costs of these corporate tax breaks directly onto the backs of American consumers."

## Conflicting Incentives?

Since Congress first introduced accelerated depreciation provisions for oil and gas companies, many lawmakers have recognized that these tax breaks have a impact that is not in the national interest: encouraging the long-run dependence of the U.S. economy on fossil-fuel energy. But rather than paring back these existing tax breaks, the conference committee bill makes matters worse by increasing them—and providing additional, conflicting subsidies for alternative fuels and conservation.

## An Under-Taxed Industry

The oil and gas producers who are the main beneficiaries of these tax breaks already pay federal taxes well below the legal 35 percent rate. A September 2004 CTJ/ITEP study found that profitable Fortune 500 companies in the **petroleum and pipeline industry collectively paid an average of only 13.3 percent of their profits in federal taxes** during the three-year period between 2001 and 2003.

The study also found that the petroleum industry was among the biggest beneficiaries of the existing accelerated depreciation tax breaks between 2001 and 2003, reaping over $13 billion in accelerated depreciation tax breaks during this period —and that the **companies benefitting from these tax breaks actually reduced their overall investments by 5 percent during this period**.

"The failure of the Bush administration's accelerated depreciation tax breaks in 2002 and 2003 shows that business investment decisions are driven primarily by supply and demand, not by government attempts to micro-manage the economy," said McIntyre. "Unfortunately, the conference committee seems intent on ignoring this basic lesson."

*For more information on the federal taxes paid by the petroleum industry, see Corporate Income Taxes in the Bush Years at http://www.ctj.org/corpfed04pr.pdf .*

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