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Folder Title: BTU TAX	

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FOIAed Under:

Energy Tax Talking Points

- **Broad-based energy tax** represents commitment to energy efficiency, national security, environmental protection and vigorous deficit reduction, fairly-shared, for long-term U.S. competitiveness.

- **Cheap energy** has been narrow competitive advantage for U.S. Our energy prices are lower that G7 competitors almost across the board. But this edge has come at considerable cost, in terms of import dependence, energy inefficiency, and environmental degradation. Unwillingness to raise prices through taxation, as major competitors have done, has been part of runaway deficit problem, raising interest rates and hurting trade balance.

- **Import dependence** costs us dearly and undermines both national security and trade balance. Cost includes trillion dollars spent to ensure free flow of oil from Persian Gulf since 1950s, and economic shocks when system failed in 1970s. With U.S. imports climbing toward 50% of domestic demand and persistent threats to Middle East stability, our security remains seriously compromised. Economically, oil imports represent nearly 65% of current U.S. trade deficit.

- **Energy inefficiency** is a fool's game -- like trying to build prosperity on debt. Our competitors use energy much more efficiently than we do, sparing themselves costs and risks. They have a better home market for energy-efficient technical innovation than we do, and are capturing global market share from us.

- **Environmental degradation** from excessive energy use imposes significant costs on economy and ecology that markets don't reflect. Includes CO_2 emissions, smog, acid rain, toxic waste, traffic congestion, transport accidents. Price increases improve signals to markets, recognizing true costs. Energy tax arrays these increases in proper rank order of environmental harm: coal, oil, gas.

- **Carbon reduction** is a U.S. goal under Climate Convention signed at Rio Summit. Energy tax will move U.S. toward this goal. U.S. economy currently more carbon intensive -- i.e. emits more CO_2 per unit of GDP -- than all other G7 countries except Canada. Coming from behind will give U.S. stature and leverage in global debate, and encourage movement by others who have endorsed contingent actions of their own (notably European Community BTU/carbon tax).

- Conservation and switching to cleaner fuels as a result of proper price signals are economic benefits. Conservation is still the cheapest additional source of energy supply to U.S. Energy tax configuration favors natural gas and renewables.

- Phasing of energy tax -- 1/3 installments on July 1, 1994 through July 1, 1996 -- will allow time for adjustment by businesses and households and meet desired time profile of stimulus/deficit reduction. Adjustment period is appropriate for individuals and economy as a whole, but message is clear: a change must come.

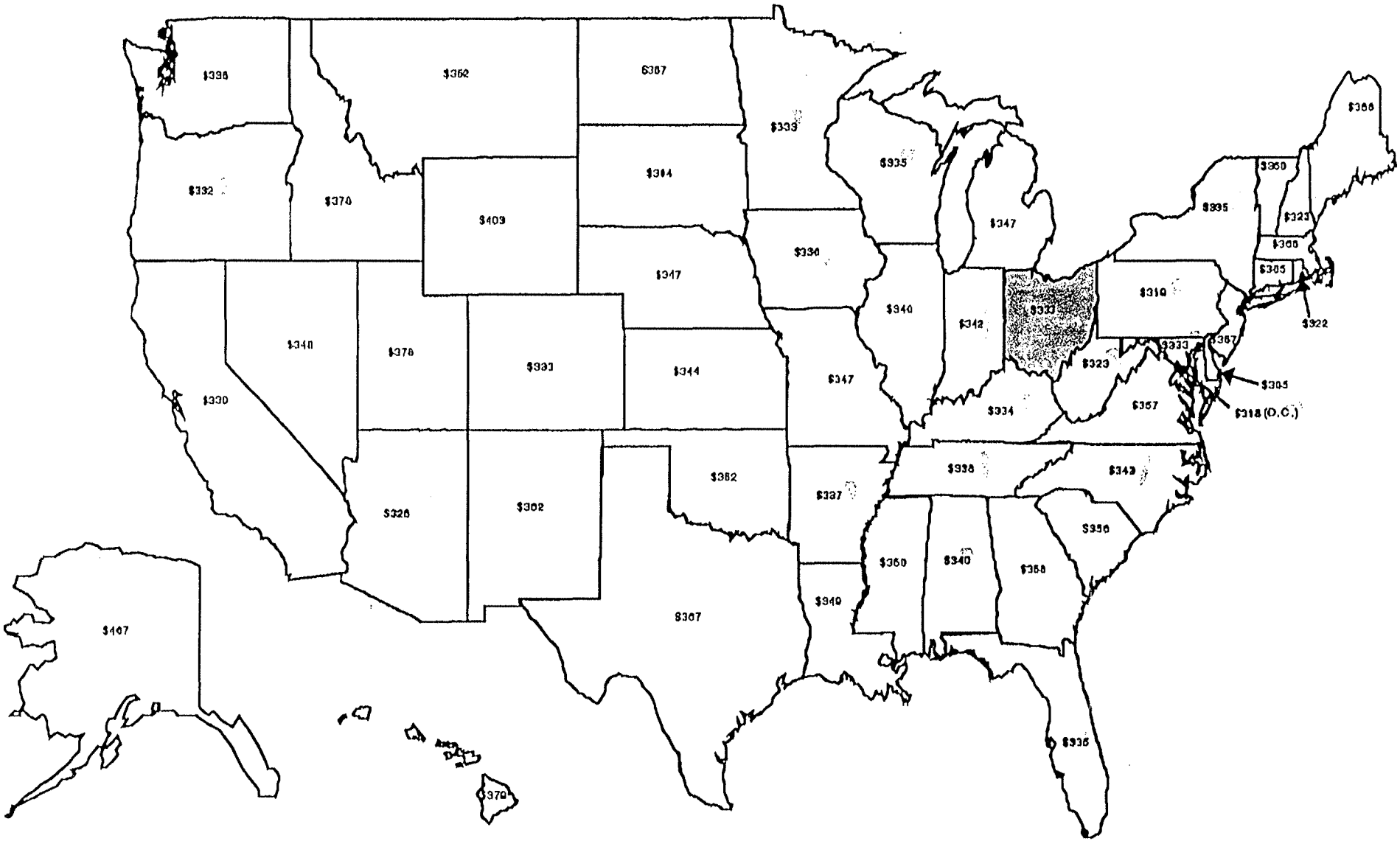
- Regional effects of broad energy tax are limited. Broad tax base allows lower rates than for more focussed taxes -- e.g. gasoline tax or oil import fee -- for equivalent revenue. Effects are spread broadly across U.S. Regional differential in heating oil use (concentrated in New England and Mid Atlantic states) is ameliorated through ~~first-year~~ PERMANENT exemption of heating oil from supplemental tax on oil, ~~allowing users greater time for adjustment~~.

- Income distribution effects are addressed within economic package as a whole, yielding a progressive overall result. Energy tax in isolation is regressive across reported income classes, although less so across expenditure classes, and much less so when embedded as well as direct tax effects (e.g. airfare increases as well as gasoline price increases) are considered. Other elements of the economic package -- EITC, Food Stamps, LIHEAP -- offset these effects, producing an overall progressive outcome.

- Competitiveness effects are limited by broad base and correspondingly low rate of tax. Intend to move economy away from high-energy-use processes and lifestyles, without uneven sectoral hits or overall shock. Phasing will help adjustment process, as will encouragement for energy-saving technology elsewhere in economic package. Favorable bond market reaction to deficit reduction will lower interest rates and the dollar, encouraging U.S. exports generally.

- Administration of energy tax will be upstream from retail level limiting number of taxpayers and opportunities for evasion. Much of tax can be collected through existing administrative structures, bringing only limited number of new taxpayers into system.

Energy Tax Burden on Households by State



Tax burden based on 1990 energy consumption levels and fully phased-in BTU tax rates of $0.599/mmbtu on oil, and $0.257/mmbtu on other fuels.

ABOVE AVERAGE
NATIONAL AVERAGE 343
BELOW AVERAGE

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DOE Estimate of Energy Tax Burden per Household by States

(Tax burden based on 1990 Energy Consumption levels and fully phased-in BTU tax rates of $0.599/mmbtu on oil, and $0.257/mmbtu on other fuels)

	Revenue-Direct* (Millions $current)	Revenue *** Direct + Indirect (Millions $current)	Revenue-Direct* Cost per household in 1990 ($current)	Direct + Indirect*** Cost per household in 1990 ($current)	Direct + Indirect*** Cost per household in 1997 ($current)
New England	**$630**	**$1,659**	**$128**	**$336**	**$361**
Connecticut	$163	$418	$132	$340	$365
Maine	$68	$167	$146	$359	$386
Massachusetts	$284	$764	$126	$340	$365
New Hampshire	$44	$124	$107	$301	$323
Rhode Island	$42	$113	$110	$300	$322
Vermont	$31	$72	$145	$344	$369
Middle Atlantic	**$1,722**	**$4,965**	**$108**	**$312**	**$335**
Delaware	$35	$88	$143	$358	$385
Maryland	$205	$542	$117	$310	$333
New Jersey	$329	$929	$118	$332	$357
New York	$661	$2,070	$100	$312	$335
Pennsylvania	$491	$1,336	$109	$297	$319
Midwest	**$2,173**	**$5,796**	**$119**	**$317**	**$340**
Illinois	$498	$1,355	$118	$322	$346
Indiana	$250	$657	$121	$318	$342
Iowa	$129	$332	$121	$312	$336
Michigan	$420	$1,104	$123	$323	$347
Minnesota	$193	$511	$117	$310	$333
Ohio	$470	$1,269	$115	$310	$333
Wisconsin	$213	$568	$117	$312	$335
South	**$3,620**	**$9,677**	**$121**	**$324**	**$349**
Alabama	$183	$477	$121	$316	$340
Arkansas	$108	$279	$121	$314	$337
District of Columbia	$18	$74	$73	$296	$318
Florida	$586	$1,601	$114	$312	$335
Georgia	$298	$788	$126	$333	$358
Kentucky	$160	$430	$116	$311	$334
Louisiana	$178	$487	$119	$325	$349
Mississippi	$113	$297	$124	$326	$350
North Carolina	$307	$803	$122	$319	$343
Oklahoma	$151	$395	$125	$328	$352
South Carolina	$159	$417	$126	$331	$356
Tennessee	$233	$584	$125	$315	$338
Texas	$768	$2,076	$126	$342	$367
Virginia	$283	$762	$123	$333	$357
West Virginia	$76	$207	$110	$300	$323
West	**$2,503**	**$7,255**	**$109**	**$316**	**$340**
Alaska	$30	$82	$159	$435	$467
Arizona	$140	$418	$103	$305	$328
California	$1,047	$3,192	$101	$307	$330
Colorado	$137	$398	$107	$310	$333
Hawaii	$35	$125	$97	$352	$379
Idaho	$46	$127	$128	$352	$378
Kansas	$110	$303	$117	$320	$344
Missouri	$243	$633	$124	$323	$347
Montana	$38	$100	$124	$328	$352
Nebraska	$70	$194	$117	$323	$347
Nevada	$55	$151	$118	$324	$348
New Mexico	$64	$183	$117	$337	$362
North Dakota	$31	$80	$130	$332	$357
Oregon	$121	$341	$110	$309	$332
South Dakota	$36	$88	$139	$338	$364
Utah	$63	$189	$118	$352	$378
Washington	$211	$588	$113	$314	$338
Wyoming	$24	$63	$143	$375	$403
U.S. Total	**$10,648**	**$29,352**	**$116**	**$319**	**$343**

* Calculation based on 1990 residential and motor gasoline (excluding fleet vehicles) energy consumption data published in the State Energy Data Report, DOE/EIA-0214(90).

*** Taxes on industrial and transportation energy uses are shared out to states based on national average tax burden.

**** Excludes industrial non-energy feedstock.

***** 1997 tax burden is estimated using the ratio of projected 1997 energy consumption (87.19 quads which exclude all renewable except hydro power) to 1990 energy consumption (81.15 quads).

3.

DESCRIPTION OF MODIFIED BTU TAX

Rates. A tax would be imposed on coal, natural gas, liquefied petroleum gases (whether produced from natural gas or crude oil), natural gasoline, nuclear-generated electricity, hydroelectricity, and imported electricity at a basic rate of $0.257 per million Btus. A tax would be imposed on refined petroleum products (other than liquefied petroleum gases and natural gasoline) at the basic rate plus a $0.342 per million Btus supplemental rate (a total rate of $0.599 per million Btus). Imported taxable products would be taxed at the same rate as equivalent domestic products. The tax rates would be indexed for general inflation on January 1 of each year beginning in 1998. Indexing would be based on the GDP deflator for the second quarter of the preceding year over the GDP deflator for the second quarter of 1996.

Btu Content. Actual Btu content would be used to determine the tax on coal. For all other fuels, the Btu content used to determine the tax would be the national average Btu content for that type of fuel. For this purpose, each of the petroleum products (e.g., motor gasoline, distillate fuel oil) would be treated as a separate type of fuel. The Btu content used to determine the tax on nuclear-generated electricity and hydroelectricity would be the national average of Btus required to produce fossil-fuel-generated electricity. In the case of imported electricity, the national average of Btus required to produce fossil-fuel-generated electricity would apply unless the importer establishes that the electricity was not generated by hydro- or nuclear power and the actual heat rate of the electricity is lower.

Exemptions. Tax would not be imposed on the following:

(1) Nonfuel uses (e.g., feedstock uses) of fossil fuels.

(2) Nonfuel products such as asphalt, lubricants, and waxes.

(3) Exported fuels and electricity (an appropriate refund or credit would be provided for fossil-fuel-generated electricity).

(4) Bunker and jet fuel used in international transportation.

(5) Coal used in the production of synthetic natural gas.

(6) Coal seam methane from operating mines.

(7) Hydroelectricity from pump storage.

(8) Natural gas used in enhanced oil recovery for heavy oil.

(9) Imported electricity if the importer establishes that an energy source other than fossil fuels, hydropower, or nuclear power was used to generate the electricity.

(10) Ethanol, methanol, ETBE, MTBE, and feedstocks used in their production.

(11) Biomass including landfill gas, wood waste, and bagasse (sugar cane biomass).

(12) Municipal solid waste and tires burned as fuel.

(13) Solar, wind, and geothermal energy.

In addition, home heating oil would be exempt from the supplemental rate for refined petroleum products (i.e., it would be taxed at the basic rate of $0.257 per million Btus). The tax would not include exemptions based on the character of the purchaser of an otherwise taxable product (e.g., fuel and electricity purchased by the U.S. Government would be subject to tax).

Collection Point. The tax on refined petroleum products (including liquefied petroleum gases and natural gasoline) would be imposed at the refinery (or processing or fractionation plant) tailgate; the refiner (or plant owner) would be liable for the tax and would remit the tax directly to the Government. The tax on natural gas would be imposed at the city gate (or equivalent in the case of end users that receive gas directly from the pipeline); the local distribution company (or end user receiving gas from the pipeline) would be liable for the tax, but the tax would be collected and remitted to the Government by the pipeline. The tax on coal would be imposed at the point of receipt by the end user; the end user would be liable for the tax and would remit the tax directly to the Government. The tax on hydro- and nuclear-generated electricity would be imposed at the utility (or other producer); the utility (or other producer) would be liable for the tax and would remit the tax directly to the Government. Special rules would apply to imported electricity and imported refined petroleum products: The tax on imported electricity would be imposed at the point of receipt by the importer, and the tax on imported refined petroleum products (including liquefied petroleum gases and natural gasoline) would be imposed at the point of importation; in both cases, the importer would be liable for the tax and would remit the tax directly to the Government.

Independent Power Producers. A special tax would be imposed on electricity that an independent power producer provides to a utility under a fixed-price contract entered into before the date of enactment. The tax would be equal to the tax on the fossil fuel used to generate the electricity (or, in the case of electricity from a source other than fossil fuel, to the tax generally applicable to electricity from that source). The tax would be imposed at the utility that receives the electricity; the utility would be liable for the tax and would remit the tax directly to the Government. The independent power producer would not be liable for any tax on the electricity and would receive a credit for any energy tax on fossil fuel used to generate the electricity.

Utility Passthrough. Utilities would be denied certain tax benefits for periods during which the energy tax is not completely passed through to end users. The Administration invites comments on the implementation of this proposal.

Tax-Free Transfers, Credits and Refunds. Tax-free transfers of exempt products would be permitted in appropriate circumstances. In all other cases, exemptions would be provided through downstream credits or refunds.

Use Tax. A use tax would be imposed on fuel uses of taxable products on which the energy tax has not been imposed and on fuel uses of crude oil. This tax would apply to fuel use of products that have not reached the point at which tax is normally imposed, to nonexempt use of products purchased under a claim of exemption, and to nonresidential fuel use of home heating oil. The use tax would not apply to crude oil or natural gas used, on the premises where it is extracted, to extract crude oil or natural gas. In addition, the use tax would not apply to crude oil used in a refinery or to natural gas used in a natural gas processing or fractionation plant. However, oil or natural gas consumed in a pipeline would be subject to the use tax. The person using the product would be liable for the tax and would remit the tax directly to the Government.

Effective Date. The tax would be imposed at one-third of the full rates beginning July 1, 1994; at two-thirds of the full rates beginning July 1, 1995; and at the full rates beginning July 1, 1996.

Floor Stocks Tax. Floor stocks taxes would be imposed on July 1, 1994, and on the date of each subsequent rate change (including an index change). The tax would apply to coal, natural gas, and refined petroleum products (including liquefied petroleum gases and natural gasoline); it would be imposed if the product is held, beyond the point at which the energy tax is normally imposed, for sale or for use as fuel. All exemptions from the energy tax would apply, and a reasonable de minimis rule would be provided. The person holding the taxable product on the date the tax is imposed would be liable for the tax and would remit the tax directly to the Government.

Office of Tax Policy
April 1993

SPECIFICATIONS OF THE ADMINISTRATION'S MODIFIED BTU ENERGY TAX PROPOSAL

Indexed Btu Tax with Oil Supplement

• Basic Tax Rate	25.7 cents/million Btu
• Oil Supplement Rate	34.2 cents/million Btu
• Index	GDP deflator

Tax Rate on Per-unit Basis

• Refined Petroleum Products (generally)	Average of $3.24 per barrel; based on average Btu content of class of product (basic and oil supplement rates apply)
• Home Heating Oil	$1.50 per barrel; based on average Btu content (basic rate applies)
• Natural Gas	$0.26 per mcf; based on average Btu content (basic rate applies)
• Liquefied Petroleum Gases and Natural Gasoline	$0.99 per barrel for propane, $1.11 per barrel for butane; based on average Btu content of class of product (basic rate applies)
• Coal	Average of $5.57 per short ton; based on actual Btu content (basic rate applies)
• Hydroelectricity	$2.66 per thousand kilowatt hours; based on national average of Btus required to produce fossil-fuel-generated electricity (basic rate applies)
• Nuclear-Generated Electricity	$2.66 per thousand kilowatt hours; based on national average of Btus required to produce fossil-fuel-generated electricity (basic rate applies)
• Electricity (imported)	Generally taxed at the same rate as hydro- and nuclear-generated electricity

Phased Introduction

• July 1, 1994	1/3 rates
• July 1, 1995	2/3 rates
• July 1, 1996	Full rates
• January 1, 1998	Indexation begins

Imposition and Collection Points

• Oil	Imposition on and direct payment by refiner at refinery tailgate
• Natural Gas	Imposition on local distribution company or industrial end user upon delivery from pipeline; collection by pipeline
• Liquefied Petroleum Gases and Natural Gasoline	Imposition on and direct payment by plant owner at the gas processing or fractionation plant tailgate
• Coal	Imposition on and direct payment by utility or industrial end user upon fuel delivery
• Imported Refined Products, Liquefied Petroleum Gases, and Natural Gasoline	Imposition on and direct payment by importer at point of importation
• Electricity (hydro and nuclear)	Imposition on and direct payment by utility (or other producer) at point of generation
• Electricity (independent power producers (IPP) with fixed-price contracts)	Imposition on and direct payment by utility upon delivery; credit to IPP for tax on fuel used
• Imported Electricity	Imposition on and direct payment by importer upon delivery

Exemptions	Downstream credits/refunds or initial tax-free sales provided
• Nonfuel Uses of Fossil Fuels	Feedstocks
• Nonfuel Products	Includes asphalt, lubricants and waxes
• Nonconventional Fuels	Solar, wind, geothermal, biomass (including landfill gas, wood waste, and bagasse (sugar cane biomass), municipal solid waste, and tires burned as fuel
• Alcohol Fuels	Ethanol, methanol, ETBE, MTBE, and feedstocks used in their production
• Exported Fuels and Electricity	Taxable products and electricity
• International Transportation	Bunker and jet fuel
• Fuel Produced On-Site and Used On-Site for Production or Generation of Other Fuel	
• Natural Gas for Enhanced Oil Recovery of Heavy Oil	Self-generated and purchased
• Coal for Gasification	Coal is exempt; synthetic natural gas is taxed
• Coal Seam Methane from Operating Mines	
• Hydroelectricity from Pump Storage	
• Imported Electricity	Electricity generated by nonconventional fuels
Floor Stocks Tax	Imposed on taxable inventory as of date of tax imposition or rate change (including index change); de minimis rule
Use Tax	Imposition on otherwise taxable fuel consumed upstream of regular imposition point (e.g., natural gas consumed in pipelines)
Normalization	Certain tax benefits denied to utilities if energy tax is not passed through to end user; Administration invites comments on implementation of this proposal

Office of Tax Policy
April 1993

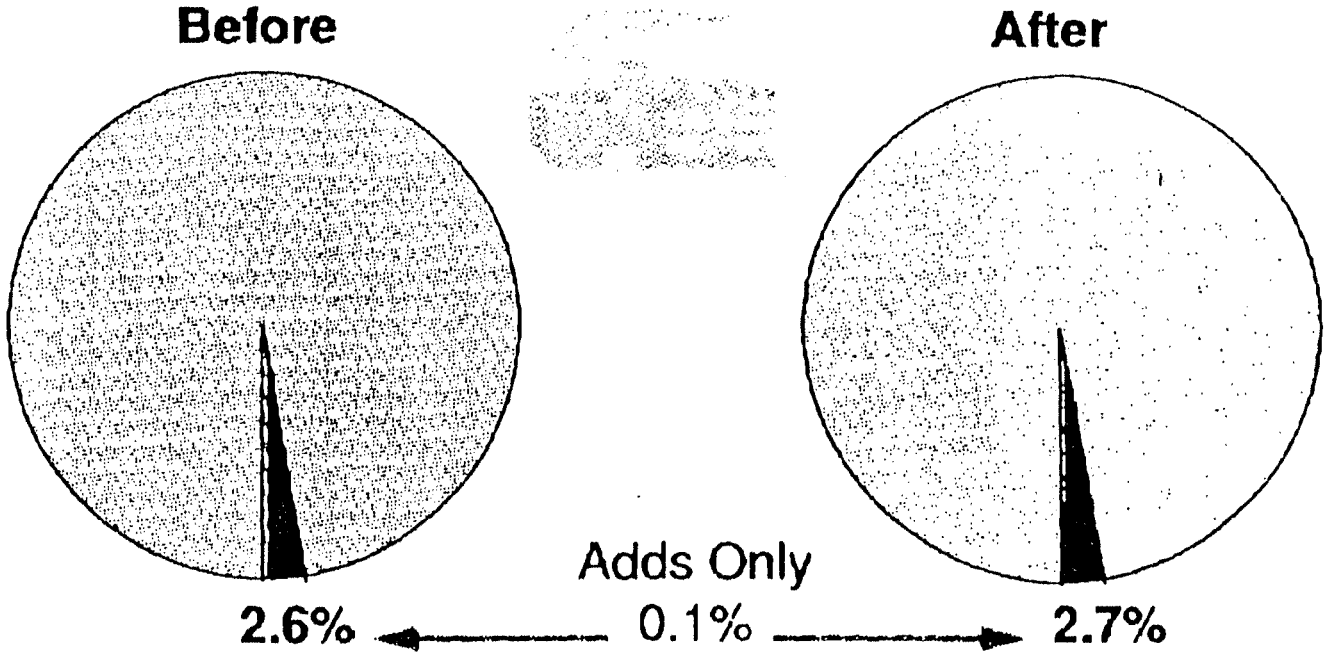
CHARTS TO ACCOMPANY
ENERGY TAX
BRIEFING SESSION

DEPARTMENT OF THE TREASURY

ENERGY TAX CONTRIBUTES TO NATIONAL GOALS

- ☑ Reduces Pollution
- ☑ Promotes Conservation
- ☑ Lessens Dependence on Foreign Oil
- ☑ Deficit Reduction

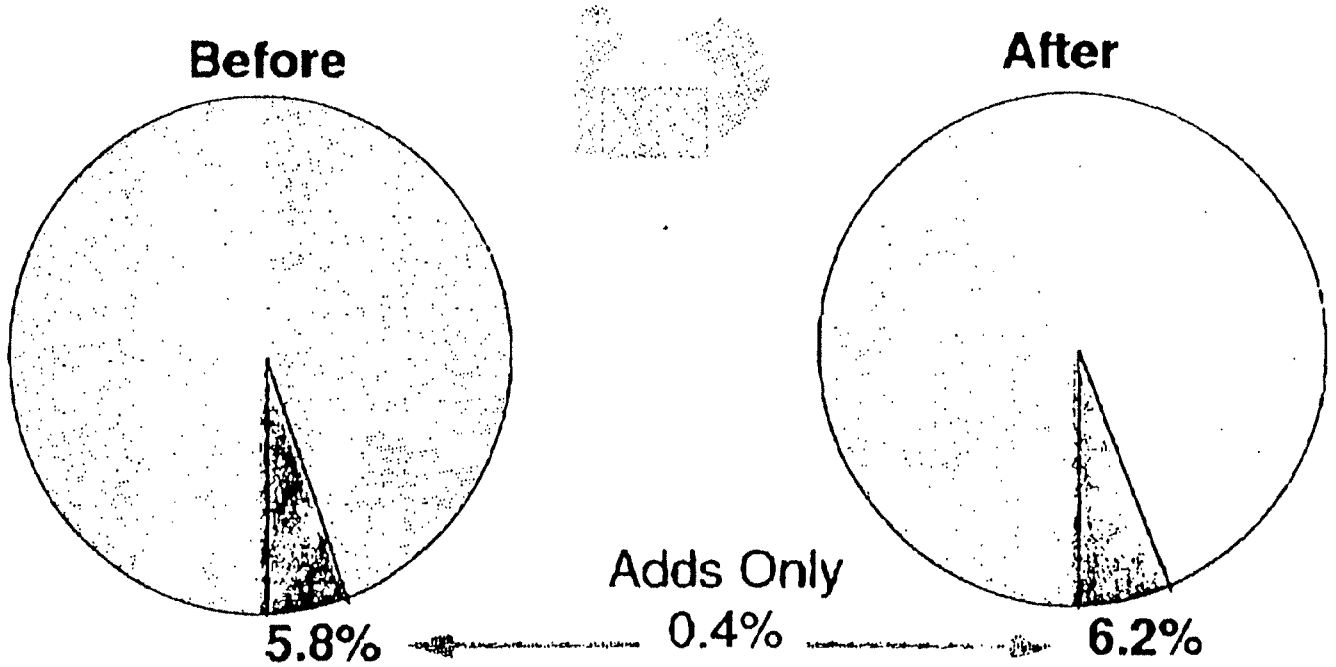
ENERGY TAX HAS SMALL EFFECT ON MANUFACTURERS



Manufacturers Production Costs

Source: Department of Commerce

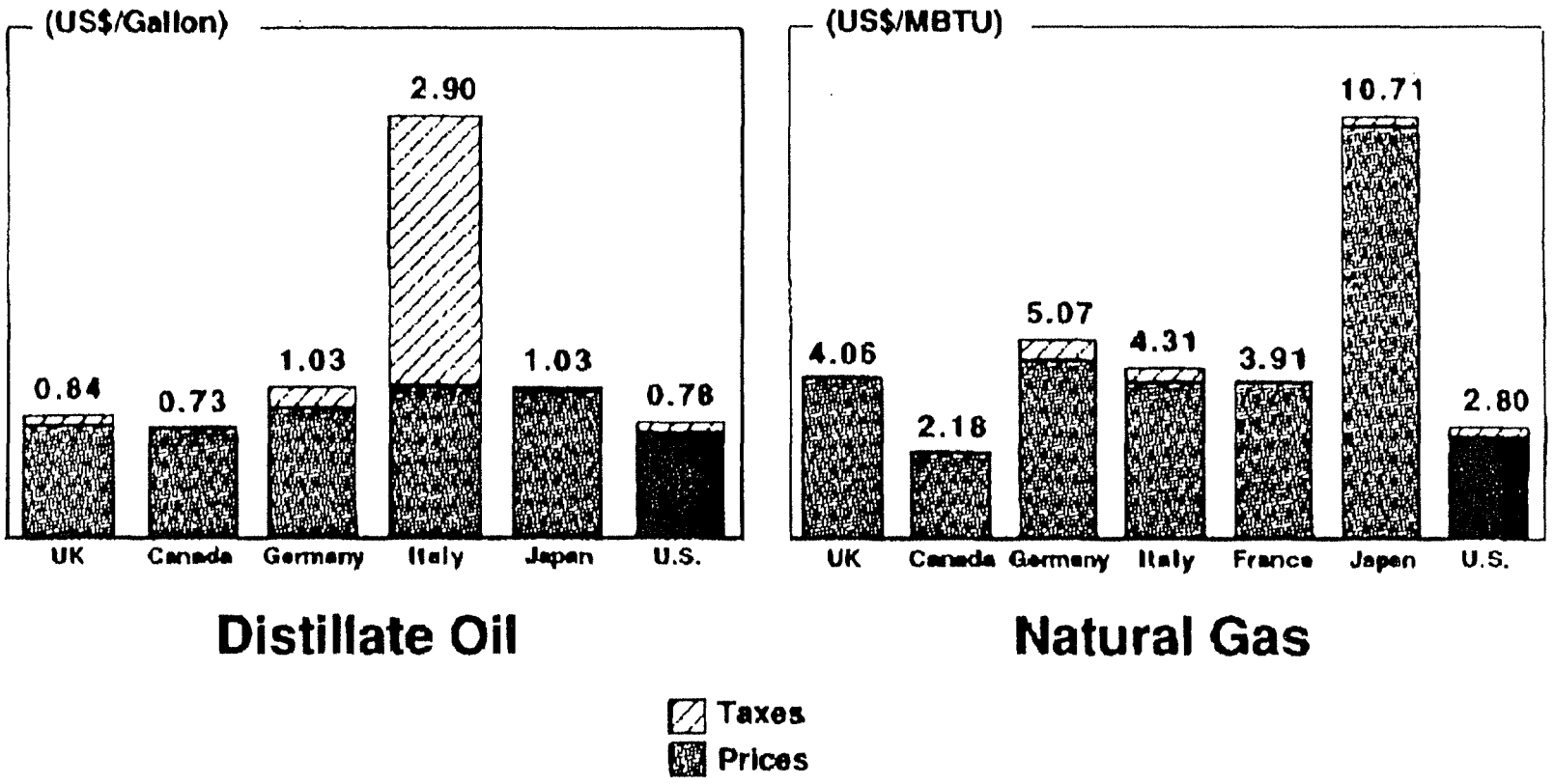
ENERGY TAX HAS SMALL EFFECT ON FARMERS



Agriculture Production Costs

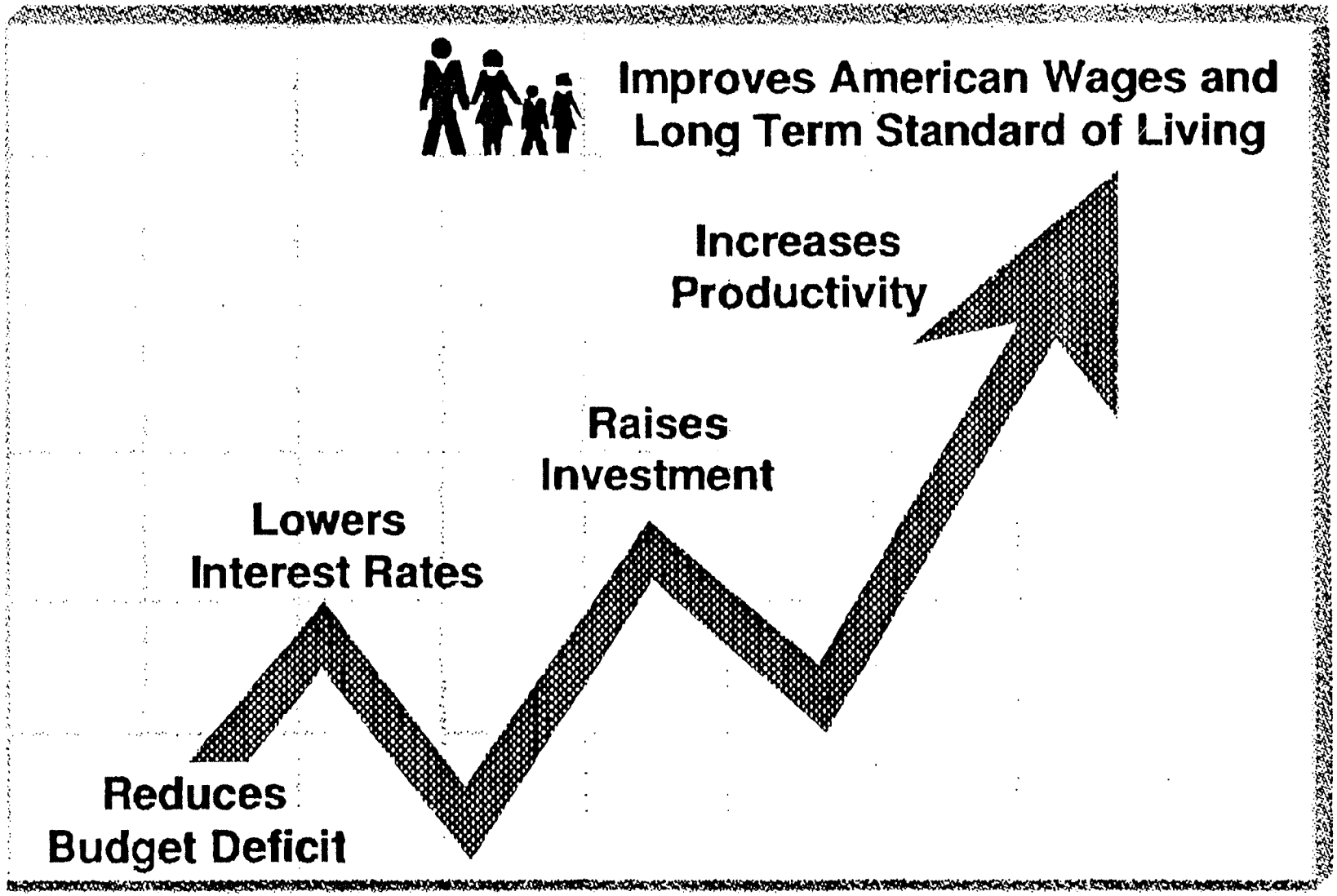
Source: Department of Agriculture

U.S. STILL HAS LOWER ENERGY PRICES THAN MOST G-7 COMPETITORS



Source: OECD

ENERGY TAX HELPS THE ECONOMY



End Users – Impact on Consumers by Region

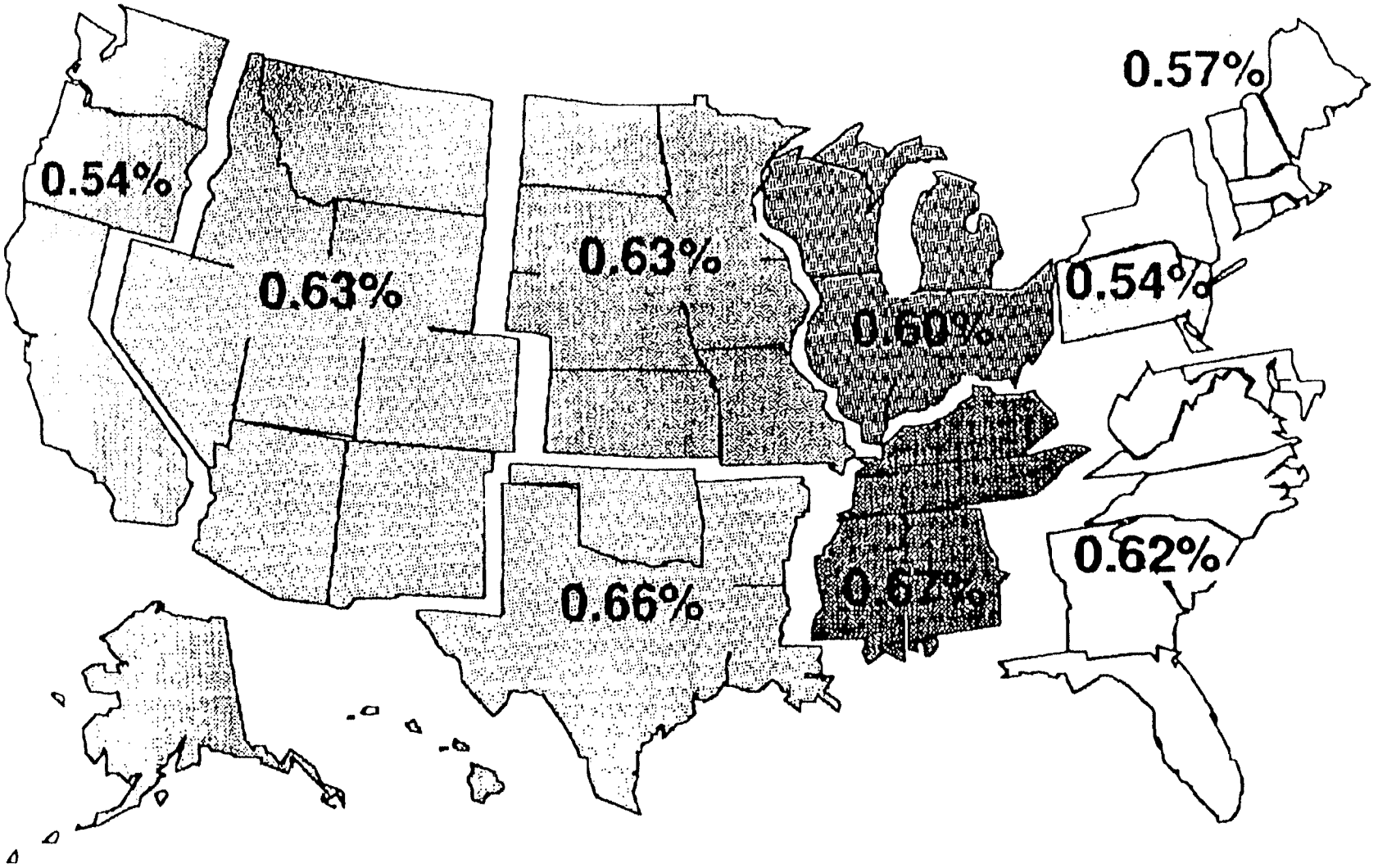
- The attached table provides information on the regional impacts of the Administration's proposed energy tax when the rates are fully phased in (beginning July 1, 1996). The first column of the table shows by census region the dollar amount of tax that would be paid on a per capita basis. The second column of the table expresses the tax as a percent of disposable personal income in each region. The third and fourth columns show the same information as the first two columns, but expressed as a percent of the national average. A map of census regions follows the table.

- The Administration's proposed energy tax is better balanced regionally than alternative energy taxes such as an increase in the gasoline tax or an oil import fee.

- Note that while the tax burden on a given region may be higher than the national average on a per capita basis, it is often lower than the national average as a percent of disposable personal income, and vice versa.

Office of Tax Analysis
April 1, 1993

ENERGY TAX AVERAGES ABOUT 1/2% OF CONSUMERS' INCOME* ACROSS THE COUNTRY



*Disposable Personal Income

Source: Derived from Department of Energy data.

Impact on Consumers of Energy Tax by Region

Census Region	Tax Increase		Percent of National Average	
	Amount Per Capita	As A Percent of Income	Amount Per Capita	As A Percent of Income
New England	$ 124	0.57%	112%	95%
Middle Atlantic	115	0.54	104	91
South Atlantic	113	0.62	102	104
East North Central	110	0.60	100	101
East South Central	102	0.67	92	113
West North Central	110	0.63	100	106
West South Central	106	0.66	96	111
Mountain	104	0.63	95	106
Pacific	108	0.54	98	91