Budget Reconciliation

Don't Double Down on Past Mistakes

TAXPAYERS *for* COMMON SENSE

Ways & Means

The budget reconciliation process outlined by S. Con. Res. 14 – the FY2022 budget resolution – enables Congress to spend significant sums and implement sweeping reforms. To protect taxpayers, Congress must ensure the reconciliation package furthers legitimate public needs, includes only fiscally sustainable policies, and avoids creating liabilities for taxpayers down the line. Allocating federal dollars alone, however, would limit what the reconciliation package can accomplish. Congress must capitalize on this opportunity to implement overdue reforms that will align revenue with spending, improve the grave budget outlook, and foster resilience instead of dependence on federal subsidies.

Below are brief descriptions of **energy-related tax provisions** of the reconciliation package that are of concern to taxpayers.

Avoid Past Mistakes with Bioenergy

The U.S. biofuels industry has benefited from federal subsidies – particularly through the tax code – for more than four decades. While the largest biofuel tax credit – the $6 billion-per-year Volumetric Ethanol Excise Tax Credit (VEETC) – expired at the end of 2011, other tax breaks for biodiesel, cellulosic biofuels, alternative fuels, biofuels infrastructure projects, and others have been extended routinely over the past decade. Proposals within the budget reconciliation package would further extend – and even expand - these tax breaks through 2031. New tax credits for so-called sustainable aviation fuel are also being proposed. Biogas energy derived from biomass would also benefit from tax carve-outs, in addition to expanded renewable fuel and carbon sequestration eligibility for publicly traded partnerships. While the bioenergy industry was once intended to greatly reduce greenhouse gas (GHG) emissions, independent experts have concluded that federal tax credits have done more harm than good for the climate. The Committee should tread carefully when considering future tax incentives for the industry to ensure that new or continued subsidies do not distort markets, create unintended consequences, and/or increase long-term liabilities for taxpayers. Instead, Congress should invest in real, lasting climate solutions.

Additional Incentives for Electric Vehicles and Related Infrastructure

The federal government has already subsidized electric vehicles and electric vehicle charging infrastructure, in addition to other related tax incentives. New proposals within the reconciliation package would expand incentives for electric vehicles and charging infrastructure, in addition to other tax credits for fuel cells, hydrogen, and other forms of energy that could work at cross-purposes or carry unintended consequences for taxpayers and the climate. With the automotive industry shifting toward electric vehicles on its own, Congress must ensure that any future spending is fiscally responsible and in pursuit of legitimate public needs that could not otherwise be met by the private sector. Congress should also avoid past mistakes with picking winners and losers, subsidizing normal costs of doing business, and distorting markets, instead prioritizing climate investments that promote resilience, equity, and innovation.

Expansion of Renewable Energy Tax Breaks

As a whole, the expansion of existing renewable energy tax breaks in addition to the creation of new credits within the House Ways and Means Committee's reconciliation proposal is expected to cost taxpayers more than $270 billion over the next ten years, according to the Joint Committee on Taxation. Not only would this be fiscally unsustainable, but certain proposals may promote environmentally harmful policies, undermine climate goals, and further distort energy markets.

Fossil Fuel Subsidies Untouched

Cutting longstanding subsidies for fossil fuels would have paired naturally with the committee's support for low-carbon energy and recouped some lost revenue, but the package conspicuously leaves most fossil fuel tax breaks untouched. Thankfully, the package does clamp down on "dual capacity taxpayers" claiming foreign tax credits, which are mostly oil and gas companies, and thereby reclaims $5.7 billion in revenue over 10 years. But tax breaks like the intangible drilling costs deduction, Last-In First-Out Accounting, and the percentage depletion allowance that benefit oil, gas, and coal companies would remain on the books costing taxpayers more than $40 billion over the next decade.

Making Carbon Capture Credits Costlier

Under section 45Q of the current tax code, companies can collect millions of dollars in tax credits for capturing carbon by the ton with the goal of keeping it out of the atmosphere and then either using the carbon or storing it underground. Though a laudable goal, most often, the tax credit is claimed when captured carbon is injected into wells to extract more oil, undermining the goal of decreasing overall carbon dioxide emissions from the air. Qualifying facilities can claim the credit for their first 12 years of operations if they begin construction before 2026. The reconciliation package would increase the subsidy's cost by extending the deadline to break ground by six years, expanding which facilities qualify, and simply increasing the value of available credits. But without increased transparency and accountability, the credit's benefits will remain uncertain given the extensive fraud in claiming the credit in recent years and loose requirements to guarantee permanent carbon storage. With questionable results, the credit may end up being more of an industry giveaway than a true climate solution while carrying a high price tag. Reforms within the current Ways and Means proposal are expected to cost taxpayers an additional $1 billion over the next ten years, and much more beyond the budget window.

Another Nuclear Subsidy

The U.S. nuclear power industry has been heavily subsidized by federal taxpayers since its inception. Recent waves of new nuclear supports have failed to foster widespread construction of new nuclear generation capacity. Any new nuclear plants that do come online can benefit from the Nuclear Production Tax Credit that could cost taxpayers up to $6 billion. But existing nuclear plants are struggling to remain economic, prompting numerous proposals to bail out the industry in recent years. In the reconciliation package, the committee proposes creating a new tax credit for every kilowatt hour of electricity produced from qualifying nuclear plants. The credit would bail out the struggling nuclear power industry through 2026 and could cost taxpayers $16 billion, if Congress does not later extend the credit beyond the current five-year proposal.