



Insight

Taxes and Energy

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President Obama has failed to lead on tax reform, but when it comes to energy policy, that's just how he likes it. As it stands, our tax code is rife with handouts to the president's favorite energy technologies. If only he could demonize the oil industry enough to repeal \$4 billion in tax incentives they receive now, he'd have more money to heap on the Solyndras of the world.

Our federal tax code strongly reflects an incoherent, ad hoc energy policy. Rather than promoting predictable rules in the marketplace to enable energy choices aligned with the national interest, we have a disjointed and temporary series of incentives for everything from new residential windows to natural gas pipelines. Indeed, our government seems satisfied with itself as a wise and intelligent arbiter for the private energy market, supporting these subsidies through taxes on things we want more of – income, work, and investment.

In 2010, the government spent \$40 billion in energy-related subsidies and support; just over half was in the form of tax expenditures, and \$16 billion in the form of tax expenditures wholly dedicated to energy. (Some energy producers also qualify for the domestic manufacturing deduction and a credit for taxes paid to foreign governments.) While some of these incentives, like for geothermal production or pollution control facilities, never expire, the vast majority are temporary incentives to promote industries that curry favor in Congress. That's not to say that tax policy can't be a good tool for shaping investment, but tax incentives are extraordinarily imperfect, distortionary, and opaque when designed to pick winners in the market place.

Tax Expenditures by Energy Industry (Dollars in Millions)

	Beneficiary	2010	
	Coal	561	
	Natural Gas & Petroleum Liquids	2,690	
	Nuclear	908	

	Renewables	8,168	
	Electricity Transmission	58	
	Conservation	3,206	
	Other	693	
<i>This table does not include benefits from the domestic manufacturing deduction or the credit for taxes paid to foreign countries.</i>			

Many of our tax incentives, further, are inherently wasteful. Tax incentives often go to activities that would happen anyway: Like \$3.2 billion in Recovery Act funds to support energy efficiency improvements to homes in 2010, investments that are entirely justifiable on energy savings. On the other hand, tax incentives can keep struggling industries afloat: In 2007, we spent \$3 billion in tax incentives to support 59 coal synthetic plants that ceased operation when the tax credit sunset. And in the most perverse of distortions, tax subsidies for existing technologies disincentivize research and development activity that drives innovation – what if the resultant technology isn’t supported by the tax code and is unable to compete with incumbents?

Of course, the most discussed energy-related portion of our tax code is the \$4 billion in incentives that the five biggest oil companies – BP, Exxon Mobil, Shell, Chevron, and ConocoPhillips – claim. Democrats find this \$4 billion to be wasted on a wealthy industry that would do just fine without tax breaks, and would rather use it to “double down” on investments in their favorite renewables. Leaving aside that these tax breaks make US oil fields attractive for development – and that other industries receive these tax breaks in higher amounts – repeal amounts to a punitive action against an industry that is growing and creating jobs while the economy continues to languish. It’s a punitive step to attack an industry that has fallen from political grace.

Keep in mind that the president’s energy policies – or lack thereof – are [already imposing a burden of about \\$2 a gallon](#) on the American people.

It should be no surprise that Democrat proposals ignore sound economic advice; some juvenile passion for a tenuous and irrational idea of “equity” drives their policy decisions. In [remarks from the Rose Garden](#), President Obama said members of Congress have a choice to make in whether to repeal \$4 billion in subsidies for the oil industry, “they can stand with big oil companies, or they can stand with the American people.” With stark and false moral declarations like this, it’s no surprise our tax code makes little policy sense and is designed to support whatever technologies catch the eye of Congress.