

Energy Tax Bill Should End Coal Liquids, Oil and Gas Tax Breaks and Not Extend the VEETC



May 11, 2010

Dear Committee on Ways and Means Member,

As the Ways and Means Committee drafts energy tax and green jobs legislation, Taxpayers for Common Sense Action urges you to protect taxpayers' interest and craft a bill that will trim unnecessary and wasteful tax incentives, while not adding any new or expanded subsidies. By eliminating wasteful and outdated tax breaks for mature energy industries, Congress can bring valuable revenue to the Treasury and begin chipping away at the trillion dollar deficit.

Do not Extend the VEETC

Congress began subsidizing ethanol in the 1970s. Over the years, layers of subsidies, as well as a renewable fuels mandate and import tariff on foreign ethanol have artificially propped up the industry and cost taxpayers billions. In addition to the long history of subsidies there several major reasons the Volumetric Ethanol Excise Tax Credit (VEETC) should be allowed to expire at the end of the year. First, it is outrageously expensive-- and extending this tax break just one year would cost taxpayers more than \$5 billion. Second, VEETC is unnecessary to promote ethanol production; in fact, the Government Accountability Office recently concluded VEETC is no longer needed to incentivize ethanol production. Finally, this subsidy does not go to corn farmers or ethanol refiners, but to fuel blenders, such as Shell Oil who are already raking in huge profits. In the last five years, U.S. taxpayers have given fuel blenders more than \$20 billion through the VEETC. Set to expire at the end of 2010, the VEETC should not be extended.

Eliminate the Coal Liquids Tax Break

Tax credits for coal liquids should not be included in the energy tax bill. Coal liquids are not a cost-effective solution for the nation's oil and gas dependence, and the federal government should not be providing generous tax breaks for its development. In addition to the high construction costs, the success of coal to liquids heavily depends on volatile oil prices. Taxpayers learned the hard way when we lost billions on failed coal liquids projects in the 1980's. The federal government invested billions in coal liquids production facilities, only to lose it when mismanagement and sinking oil prices devastated the industry, leaving taxpayers with the bill. The high risk and high cost of liquid coal make it a bottomless pit for subsidies. According to Standard & Poor's, without constant, long-term taxpayer support, CTL projects "are likely to be untenable."

A 50 cent tax credit for each gallon of liquid coal sold or used in a fuel mixture expired in December 2009 should not be extended (see sections 6426(d), 6426(e) and 6427(e) of the Internal Revenue Code).

Cut Fossil Fuel Tax Breaks

The FY2011 budget repeals several long-standing oil and gas subsidies, with proposed savings of more than \$35 billion over the next ten years. The FY2011 budget also proposes the elimination of more than

\$2 billion in coal subsidies. Many of these subsidies are in the form of tax breaks, including the *Percentage Depletion Allowance, Manufacturing Tax Deduction, and Expensing of Intangible Drilling Costs*. We urge the Committee to also eliminate these unnecessary and costly tax breaks for the oil and gas industry in any new tax legislation. For nearly a century, taxpayers have provided billions of dollars in subsidies to the fossil fuel industry; this proposal takes the first step toward reining in decades of giveaways.

Don't Create A New "Clean" Financing Entity

The Ways and Means package should not include the creation of a permanent financing entity to fund mature energy technologies, including fossil fuels, nuclear and renewable. Financing mature energy industries is not a role for the federal government. Federal financing would distort markets and could spend billions in taxpayer dollars on projects that are still too risky to attract private financial support. For the more viable projects, the Federal government would be in the business of "choosing winners" by effectively favoring some technologies for government support over others.

Energy tax legislation offers a great opportunity to reform outdated and unnecessary taxpayer giveaways – and put taxpayers on a more sustainable energy path. We urge you to support the above cuts and craft a bill that will save taxpayers billions and stop the century old flow of subsidies to the mature fossil fuel and ethanol industries. For more information please contact me or Autumn Hanna at (202) 546-8500.

Sincerely,

A handwritten signature in black ink, appearing to read "A. Ry Alexander". The signature is fluid and cursive, with the first name "A. Ry" and the last name "Alexander" clearly distinguishable.

Ryan Alexander
President