SUMMARY OF

ENERGY CONSERVATION AND CONVERSION ACT OF 1975

(H.R. 6860)

AS PASSED BY THE HOUSE

PREPARED FOR THE USE OF THE

COMMITTEE ON FINANCE
UNITED STATES SENATE

BY THE STAFF OF THE

JOINT COMMITTEE ON INTERNAL REVENUE TAXATION

JUNE 24, 1975

JCS-12-75

U.S. GOVERNMENT PRINTING OFFICE
WASHINGTON : 1975

SUMMARY OF H.R. 6860, AS PASSED BY THE HOUSE

Title I—Import Restrictions

1. The bill imposes mandatory oil import quotas. These are set at 6.0 million barrels per day (mbd) in 1975 and 1976, 6.5 mbd in 1977, 6.0 mbd in 1978 and 1979, and 6.5 mbd thereafter.[1] The President can vary the quota by 1.0 mbd in 1975–77, 1.5 mbd in 1978 and 1979 and 2.0 mbd in 1980 and future years. The President is to further reduce import quotas to the extent necessary to be sure that savings in U.S. oil consumption are reflected in reduced imports. Imports of petrochemical feedstocks, and imports for strategic oil reserves, are exempt from the quota system; and imports of residual oil and heating oil (out of the quotas set above) are guaranteed at 2.0 mbd for 1975–77 (of which no more than 400,000 barrels per day are to be heating oil).

2. The FEA is to distribute the import licenses by public auction, and there is to be a separate auction for small refiners and independent marketers. This system is to be established before December 31, 1975; the 1975 quotas (No. 1, above) begin to apply the day the license system goes into effect.

3. The President's existing authority to impose import restrictions on oil under the national security provisions of the Trade Expansion Act of 1962 is ended except in time of war, etc., and the existing license fees on oil ($2.21 on crude oil and $1.23 on petroleum products) that the President has imposed under this provision are repealed (but see new duties set forth in No. 4, below).

4. The bill establishes (instead of the existing license fees described in No. 3 above) a new ad valorem tariff of 2 percent (approximately 21 cents) for crude oil and 5 percent (ranges around 60 cents) for petroleum products. The President is given the authority to raise these tariffs to 10 percent (between $1.00 and $1.20 at current prices) or $1 a barrel, whichever is higher, except that the tariff on imports of residual oil and heating oil is not to exceed 5 percent for 2 years. (The 10-percent tariff approximates the $1 license fee that the President imposed on crude oil in January 1975 plus the 21-cent import license fee that was first imposed in 1973.)

[1] The quotas were increased from 5.5 mbd in 1979 and subsequent years to 6.0 mbd in 1979 and 6.5 mbd in 1980 and subsequent years as a result of a floor amendment by Congressman Waggonner.

Title II[1]—Other Energy Conservation Programs

1. The bill establishes a set of auto efficiency standards, which are 18.5 miles per gallon (mpg) for the 1978 model year, 19.5 mpg for 1979, 20.5 mpg for 1980, and 28.0 mpg for 1985 and thereafter.[2] Companies must meet the standards (or pay the penalties, discussed below) on their U.S. and foreign car production separately, with domestic production defined to include Canada.[3] The Secretary of Transportation is to establish standards for the years 1981–84, and the 1985 standard can be changed by the Secretary subject to a one-House congressional veto. The bill imposes on any manufacturer who fails to meet these standards a civil penalty of $50 per car for each mile per gallon by which the manufacturer's sales-weighted "harmonic" fleet average gas mileage is below the standard.[4] This penalty is not deductible under the Federal income tax. (The Secretary of Transportation is also to establish separate standards for light-duty trucks, multipurpose passenger vehicles, and vehicles manufactured by companies that manufacture fewer than 10,000 vehicles per year. The civil penalty rules described above are also to apply to vehicles failing to meet these standards.) The Secretary of Transportation also is to reduce the mileage standards to the extent necessary to take account of any more stringent auto emissions standards that are imposed in the future. Any manufacturer that exceeds the mileage standards by more than 0.5 mpg for any one model year may carry back or carry over this excess for one year (thereby reducing the mileage standard for the year to which the excess is carried).

---

[1] In the bill reported to the House of Representatives, title II provided for taxes on gasoline and special motor fuels, together with a series of credits against income tax. That title was stricken by a floor amendment by Congressman Alexander, and subsequent titles and sections have been renumbered.

[2] The bill reported by the Ways and Means Committee included a tax on auto companies that fell below a similar set of fuel economy standards for the years 1978 to 1980, but this was replaced with the standards as a result of a floor amendment by Congressman Sharp.

[3] This provision was added in a floor amendment by Congressman Dingell.

2. The bill repeals the excise tax on buses used in intercity public transportation, effective on date of enactment.

3. The bill repeals the excise tax on radial tires (and tread rubber for such tires), effective on March 18, 1975.

4. The bill repeals the excise tax on new oil used in a mixture with rerefined lubricating oil, effective on March 18, 1975.

5. The bill includes a tax credit for home insulation equal to 30 percent of insulation expenditures, up to a maximum expenditure of $500 (maximum credit of $150). The credit is available for the period March 18, 1975, through December 31, 1977.

6. The bill provides a tax credit for solar energy equipment installed in, on, or connected to a residence.[5] The credit is 25 percent of the first $8,000 of qualified expenditures (maximum credit of $2,000).[6] The solar energy equipment must meet definitive or interim performance criteria prescribed by the Secretary of Housing and Urban Development.[7] The credit is available for the period March 18, 1975, through December 31, 1980.

7. The bill provides a 25-percent tax credit for the purchase of electric cars for personal use on highways, up to a maximum $3,000 of expenditures ($750 maximum credit).[8] The credit is available for the period June 4, 1975, through December 31, 1978.

---

[4] No civil penalty is to be incurred by a manufacturer merely because it falls below the standard by less than 0.5 mpg.

[5] A floor amendment by Congressman Goldwater added the clarifying language "or connected to."

[6] In the committee bill the credit was 40 percent of the first $1,000 of expenditures and 20 percent of the second $1,000. This was changed in a floor amendments by Congressman Wylie.

[7] The addition of interim performance standards was made in a floor amendment by Congressman Ottinger.

[8] This was added in a floor amendment by Congressman McCormack.

Title III—Energy Trust Fund

1. There is established an Energy Conservation and Conversion Trust Fund.

2. The revenue from the import tariff and the tax on business use of oil and gas as fuel (described under Title IV below) goes into this trust fund. (The trust fund is also to receive proceeds, e.g., royalties, from U.S. oil and gas properties, but only to the extent provided by future statutes.)

3. No more than $5 billion of receipts in any of the fiscal years through September 30, 1983, and no more than $2½ billion in 1984 may go into the trust fund (with any excess going into the general fund.) Also, the unobligated balance in the trust fund through September 30, 1984, may not exceed $10 billion, and in fiscal 1985 this balance may not exceed $5 billion. The trust fund terminates on October 1, 1985.

4. Subject to annual authorizations and appropriations,[1] these revenues can be used for (1) basic and applied research on new energy technologies, (2) development and demonstration of new energy technologies, (3) development of energy resources from U.S. lands, and (4) research projects and for capital expenditures for demonstration projects relating to more efficient public transportation.

5. The Trust Fund Review Board, within 270 days after date of enactment, is to recommend to Congress how it believes the funds should be divided among the four expenditure categories. Board members may not have significant interests in energy-related industries.

6. Duties imposed under title I on imports into Puerto Rico are to be paid over to the Puerto Rican Treasury.[2]

---

[1] Clarified in a floor amendment by Congressman Hechler (W. Va.).

[2] Clarified in a floor amendment by Resident Commissioner Benitez.

Title IV—Business Conservation and Conversion Measures[1]

1. The bill includes an excise tax on oil and gas used in business as fuel. The tax is phased in between 1977 and 1980 for natural gas, and between 1977 and 1982 for oil. When fully effective, the rates will be $1 per barrel for oil and 18 cents per thousand cubic feet for gas. There are exemptions for vehicles, vessels, aircraft, apartments, and other residential facilities, mining, textiles, glass, farming, existing facilities for generating electrical power (in this latter case only until 1982), and tax-exempt educational, charitable, or religious organizations (but not for these organization's unrelated trades or businesses).[2] By June 1, 1976, FEA is to make a report as to factors bearing on uses which should be exempt from this tax.

2. The bill provides 5-year amortization for waste-burning and recycling equipment, solar energy equipment (if no investment credit is claimed), coal slurry pipelines, oil shale and coal gasification and liquefaction facilities, solar energy equipment, equipment used in deep-mining coal, and certain railroad equipment and rolling stock.[3] The railroad provisions apply for 1975 through 1979; the other provisions apply for the period March 18, 1975, through December 31, 1980.

3. The bill extends the regular investment credit (now 10 percent, scheduled to return to 7 percent in 1977) to insulation and solar energy equipment [4] in the case of businesses.

4. The bill denies the investment tax credit for oil and gas burning electrical generating equipment (with an exemption for property placed in service in the future pursuant to existing contracts or certain types of existing commitments [5]) and for room air conditioners and space heaters.

---

[1] A floor amendment by Congressman Green struck a section which would have provided an additional investment credit for recycling equipment under certain circumstances.

[2] The exemption for glass was added in a floor amendment by Congressman Waggonner, and the exemption for textiles was added in a floor amendment by Congressman Derrick. Also, the electric power exemption was broadened in a floor amendment by Congressman Foley to include firms that generate thier own electricity.

[3] Rapid amortization for solar energy equipment was added in a floor amendment by Congressman Gude, and equipment for deep-mining coal was added in a floor amendment by Congressman Pepper. A floor amendment by Congressman Ashley expanded the waste-burning category to include equipment to burn waste alone, as well as a combination of waste alone.

[4] A floor amendment by Congressman Devine requires the Secretary of the Treasury to set performance standards for solar energy equipment.

[5] Transitional rules for certain leaseback agreements were provided in a floor amendment by Congressman Green.

TABLE 1.—ESTIMATED REVENUE EFFECT OF THE ENERGY CONSERVATION AND CONVERSION ACT OF 1975 (H.R. 6860) AS PASSED BY THE HOUSE, TAX AND TARIFF LIABILITY, CALENDAR YEARS 1975–1980

[In millions of dollars]

Title and Section	1975	1976	1977	1978	1979	1980
Title I—Import treatment of oil:						
112 Revenue from import licensing auctions [1]	470	1,351	1,480	1,464	1,554	1,632
121 Ad valorem duty on oil [2]	786	2,257	2,624	2,888	3,069	3,224
Repeal of the existing license fee system [3]	–1,156	–3,214	–3,791	–3,849	–4,169	–4,672
Net effect of Title I	100	394	313	503	454	184
Title II—Other energy conservation programs:						
216 Mandatory fuel efficiency standards [4]			([5])	([5])	([5])	([5])
221 Repeal of excise tax on intercity buses [6]	–5	–9	–8	–5	–5	–5
222 Repeal of excise tax on radial tires [6]	–75	–75	–70	–43	–45	–48
223 Exemption from excise tax for virgin oil used in producing rerefined lubricating oil	–3	–3	–3	–3	–3	–3
231 Credit for insulation of principal residence	–190	–260	–260			
232 Credit for residential solar energy equipment	([5])	([5])	([5])	([5])	–20	–30
233 Credit for qualified electric motor vehicles	([5])	([5])	–10	–20		
Net effect of Title II	–273	–347	–351	–71	–73	–86
Title IV—Encouraging business conversion for greater energy saving:						
411 Excise tax on business use of petroleum and petroleum products [7]			400	810	1,210	1,780
421 Amortization of qualified energy use property	([5])	([5])	([5])	–25	–50	–85
422 Amortization of qualified railroad equipment	([5])	([5])	([5])	([5])	([5])	([5])
423 Extension of period during which railroad rolling stock may qualify for 5-year amortization	([5])	([5])	([5])	([5])	([5])	([5])

See footnotes at end of table.

TABLE 1.—ESTIMATED REVENUE EFFECT OF THE ENERGY CONSERVATION AND CONVERSION ACT OF 1975 (H.R. 6860) AS PASSED BY THE HOUSE, TAX AND TARIFF LIABILITY, CALENDAR YEARS 1975–1980—Continued

[In millions of dollars]

Title and Section	1975	1976	1977	1978	1979	1980
431 Changes in investment credit relating to insulation, solar energy, and air-conditioning....	−20	−25	−25	([5])	([5])	([5])
432 Repeal of investment credit for electrical generating facilities powered by petroleum and petroleum products....................	([5])	20	30	35	40	45
Net effect of Title IV..	−20	−5	405	820	1,200	1,740
Total.................	−193	42	367	1,252	1,581	1,838

[1] It is assumed that the revenue from the license fee auctions will be equal to 5 percent of the value of the imports.

[2] It is assumed that the rate of duty in general will be adjusted to 10 percent, effective Sept. 1, 1975; the rate of duty on distillate fuel and residual fuel will be 5 percent from Sept. 1, 1975, through Aug. 31, 1977, and 10 percent thereafter.

[3] These estimates reflect the increases in the import fees which were imposed by the President as of June 1, 1975. The estimates shown in the Report of the Committee on Ways and Means, dated May 15, 1975, took into account only those fees which were in effect then.

[4] It is assumed that only a small amount in penalties will be collected because all the domestic automobile manufacturers and almost all the foreign automobile manufacturers are expected to meet the fuel standards specified in the bill. However, if the three largest domestic automobile manufacturers all failed to meet the fuel standards on their domestic production by one mile per gallon, the penalty is estimated at about $400 million.

[5] Less than $5 million.

[6] Under the present law, the rate of tax is reduced on Oct. 1, 1977, to one-half of the current rate.

[7] This does not take into account any possible reductions in income tax collections resulting from the deductibility of the excise tax. If the excise tax is passed on, which many believe is usually the case, the deduction would be offset by the additional income resulting from the tax.

TABLE 2.—ESTIMATED EFFECT OF THE ENERGY CONSERVATION AND CONVERSION ACT OF 1975 (H.R. 6860) ON FISCAL YEAR RECEIPTS BY FUND, FISCAL YEARS 1976–80 AND THE TRANSITION QUARTER [1]

[In millions of dollars]

	Fiscal Year					
	1976	Transition Quarter	1977	1978	1979	1980
Energy Conservation and Conversion Trust Fund:						
Ad valorem duty on oil [2]	1,824	564	2,518	2,811	3,017	3,179
Excise tax on business use of petroleum and petroleum products			284	691	1,094	1,615
Total	1,824	564	2,802	3,502	4,111	4,794
Highway Trust Fund	−124	−21	−82			
General Fund	−1,494	−466	−2,404	−2,689	−2,604	−2,997
Total	206	77	316	813	1,507	1,797

[1] The transition quarter, July 1, 1976, through Sept. 30, 1976, reflects the change in the fiscal year of the Federal Government under the Congressional Budget and Impoundment Act of 1974. Under this Act, the fiscal year 1977 begins on October 1, 1976, and ends on Sept. 30, 1977.

[2] It is assumed that the rate of duty in general will be adjusted to 10 percent, effective Sept. 1, 1975; the rate of duty on distillate fuel and residual fuel will be 5 percent from Sept. 1, 1975, through Aug. 31, 1977, and 10 percent thereafter.

TABLE 3.—ESTIMATED IMPORT REDUCTIONS FROM H.R. 6860, AS PASSED BY THE HOUSE

[Barrels per day]

Provision	1977	1985
Home insulation credit	100,000	100,000
10-percent tariff [1]	250,000	750,000
Auto efficiency penalties	0	500,000
Tax on business use of oil as fuel	0	100,000
Import quota [2]	125,000	375,000
Coal conversion [3]	100,000	200,000
Total	575,000	2,025,000

[1] This measures the energy saving from the increase in the oil import duties or license fees over those prevailing in January 1975, before the President imposed increases in the license fees.

[2] This assumes that the President uses the flexibility given to him to set the quota at the level that results in a 5-percent license fee.

[3] Various tax incentives in the bill encourage electric utilities to convert from oil and gas to coal, but these conversions may also be ordered by administrative action. The estimate of oil saving from coal conversion includes the entire conversion program and does not try to estimate the separate effect of the tax provisions.