

ENERGY TAXATION:
ENERGY TRUST FUND

STUDY No. 5

PREPARED FOR THE USE OF THE
COMMITTEE ON WAYS AND MEANS
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TAXATION



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It is likely that solving America's energy problems will require increased Federal expenditures for research and development of alternative energy sources and Federal subsidies for local transit. If the Committee decides that taxes should be increased on either energy producers or users, it may also wish to establish an energy trust fund to link up the tax and expenditure programs. Such a trust fund would make it clear that energy producers and relatively large energy users are paying for the programs that benefit them either by increasing knowledge or encouraging conservation. In this manner the energy program would be a transfer of funds within the energy sector of the economy rather than a drain on general revenues.

1. EXPENDITURE PROGRAMS FOR THE TRUST FUND

Research and development.—In fiscal year 1974, \$942 million is budgeted for energy research. Most of this is research into nuclear power, although there is also a significant amount of research into ways of mining coal more efficiently. The administration proposes to increase this level of spending substantially in the next few years. The report recently submitted to President Nixon by Dr. Dixy Lee Ray, the Chairman of the Atomic Energy Commission, entitled "The Nation's Energy Future," proposes a 5-year program of research and development of alternative energy sources, energy conservation and reduction of environmental damage that may result from the new energy sources. The Ray proposal suggests that \$10 billion be spent in the next 5 years, including \$1.6 billion in fiscal year 1975. The budget recently submitted by the administration asks \$1.6 billion for energy research in fiscal 1975.

Mr. Vanik, in H.R. 12621 (February 5, 1974),¹ proposed annual research and development expenditures of \$6 billion per year from a trust fund.

Local transit subsidies.—Several issues are involved in the debate over Federal assistance to local transit. One issue is whether any assistance should be given to what is essentially a State or local function. Advocates of Federal aid argue that it serves several national purposes, including maintaining air quality standards and, now, conserving energy.

Assuming that some amount of Federal aid is desirable, the next issue is whether the aid should be in the form of capital facilities grants, operating subsidies, or in a program in which the States and localities are able to use their block grants for any transit-related expenditures. Currently, all Federal aid to mass transit consists of capital grants; however, this tends to encourage large rapid-rail systems, like BART in San Francisco and Metro in the District of Columbia, instead of other types of transit with lower capital and higher operating costs. Operating subsidies would tend to have the opposite effect. Thus, a program set up so that the funds could be

¹ Sources of revenue for the trust fund provided by Mr. Vanik's bill would be a 4-cent-a-gallon tax on gasoline and excise taxes on natural gas, electricity and fuel oil, with rebates to small users.

used for either capital or operating costs, depending on the needs of the individual States and localities, might be more appropriate.

Another issue is whether the highway trust fund should be used as a source of funds for aid to local transit.

Finally, there are questions whether the aid should be allocated among States and localities on the basis of population, transit ridership, passenger-miles traveled, or some combination of these and whether Federal aid to local transit should be limited to urban areas, as at present, or extended to the whole country.

In the fiscal year 1974, \$872 million was set aside for capital facilities grants to local transit, and \$1.225 billion is set aside for fiscal year 1975, under the provisions of the Urban Mass Transportation Act, as amended. Expenditures for capital facilities under the grant program are estimated at \$489 million in fiscal year 1974 and \$700 million in fiscal year 1975. In addition, the Federal-Aid Highway Act of 1973 will permit \$200 million from the highway trust fund to be spent for buses in fiscal 1975 and authorizes \$800 million to be spent in fiscal year 1976 for rail transit as well as buses. Thus, under present law and the administration's budget, \$1.425 billion is authorized to help local transit in fiscal year 1975, and all of the money has to be used for capital expenditures. All of the money is allocated to urban areas. The 1973 Act further provides that, if State and local officials decide not to build a controversial interstate highway project, they can receive an equivalent sum from general revenues for mass transit capital facilities.

The Emergency Urban Mass Transportation Assistance Act of 1974 (S. 386) has passed both the House and Senate, and a conference report (H. Rep. No. 93-813) has been submitted. This bill would authorize \$800 million in either operating subsidies or capital grants for urban transit systems in fiscal years 1974 and 1975. If it is enacted, it should raise Federal aid to urban transit to as much as \$1.3 billion in fiscal 1974. The bill requires 20 percent matching grants from State and local governments, and it distributes funds by a formula based on population, transit ridership and vehicle-miles traveled.

In his message to Congress on national transportation on February 13, 1974, President Nixon proposed a Unified Transportation Assistance Program. This program would provide \$15.9 billion to urbanized areas over a 6-year period, or roughly \$2.6 billion per year, and \$3.4 billion to small urban and rural areas over a 3-year period. It would not provide any significant amount of new funds to State and local governments. In fiscal year 1975, the \$1.4 billion that is currently scheduled to be spent on the capital grants program would be pooled with \$1.1 billion from the highway trust fund. Of this total, \$1.8 billion would be distributed under a population-based formula to States and localities, which would be free to spend their allotments on any transit needs, and \$700 million would be left to the discretion of the Department of Transportation for individual projects. The proposal to provide funds for rural transit is new.

It is estimated that in 1972 the transit industry carried 5.3 billion paid passengers. Under these circumstances, a Federal program for local transit amounting to \$1.8 billion annually would amount to approximately 33 cents per trip, although it is likely that such a program would also increase the number of riders. It is estimated that in 1973, local transit deficits totaled approximately \$500 million.

Another approach to the question of Federal aid to local transit is provided in H.R. 6765, introduced by Mr. Broyhill. This bill would appropriate money to the revenue-sharing fund and distribute it to urbanized areas for public mass transportation expenditures. The money would be distributed to each local government in proportion to its share of revenue-sharing funds received by local governments in all urbanized areas.

Estimated spending on energy development and local transit in fiscal years 1974 and 1975 under various proposals is summarized in Table 1.

2. SOURCES OF REVENUE FOR THE TRUST FUND

The initial source of revenue for an energy trust fund could be an excess or windfall profits tax levied on the oil and gas industry plus any revenue derived from adjustments made to percentage depletion. Similarly, any revenue raised from changes in the tax treatment of foreign income of oil and gas companies or from energy conservation taxes could be put into the energy trust fund.

TABLE 1.—ESTIMATED SPENDING ON ENERGY DEVELOPMENT AND TRANSIT IN FISCAL YEARS 1974 AND 1975
(In millions of dollars)

Function	Fiscal year		Average 1975-79
	1974	1975	
Energy research and development:			
Budget recommendations (Ray proposal).....	942	1,592	2,000
Vanik proposal.....		6,000	
Aid to local transit:			
Budget recommendations:			
Capitol facilities grants:			
Contract authority.....	872	1,225	
Estimated spending.....	489	700	
Highway trust fund for buses ¹		200	
Emergency Mass Transportation Assistance Act (S. 386) Unified transportation assistance program (Presidential message Feb. 13, 1974).....	800	2,500	2,650
Special revenue sharing (allocation by formula).....		1,800	
Project grants (Department of Transportation).....		700	
Aid to nonurban areas.....		1,100	

¹ In addition localities can receive appropriations from general revenues when they decide not to build a controversial interstate highway project.

² The \$2,500,000,000 replaces funds spent under the existing programs for aid to local transit.

Other sources of revenue for the energy trust fund could include funds from the highway trust fund and funds raised through sale of offshore oil and gas leases.

The excess or windfall profits tax could only be a temporary source of revenue for the trust fund, since it would have to be phased out after several years. This probably would not be true, however, of an adjustment to percentage depletion. A further permanent source of revenue for the trust fund could be a Btu tax. This would be an excise tax on all types of energy consumed in the United States based on the Btu rating of the particular type of energy involved. Certain kinds of energy, such as strip-mined coal when the land is reclaimed satisfactorily, solar energy, and geothermal energy, could be exempted from the tax. The advantage of the Btu tax over a tax on just oil and gas is that it is neutral among the different sources of energy, except those that are to be specifically encouraged by exemption from the tax, and that it spreads a relatively light tax burden on the users of energy.

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