CHAIRMAN'S MARK OF THE REVENUE-RELATED PROVISIONS OF H.R. 776 ("COMPREHENSIVE NATIONAL ENERGY ACT")

Scheduled for Markup

by the

SENATE COMMITTEE ON FINANCE

on June 16, 1992

Prepared by the Staff

of the

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CONTENTS

Page

INTRODUCTION 1

I. LEGISLATIVE BACKGROUND 2

II. DESCRIPTION OF PROVISIONS 3

1. Exclusion for employer-provided transportation benefits 3
2. Exclusion for certain energy conservation measures provided by public utilities 5
3. Deduction for clean-fuel vehicles and certain refueling property 7
4. Income tax credit for electricity generated using certain renewable resources 11
5. Repeal of certain minimum tax preferences relating to oil and gas production 13
6. Business energy tax credits for solar, geothermal, and ocean thermal property 15
7. Treatment of nuclear decommissioning funds 16
8. Deny deduction for club dues 17
9. Increase excise tax on certain ozone-depleting chemicals 18

INTRODUCTION

The Senate Committee on Finance has scheduled a markup on June 16, 1992, on the revenue-related provisions included in Title XIX of H.R. 776 ("Comprehensive National Energy Policy Act"), as passed by the House on May 27, 1992. The bill was referred to the Committee on Finance on June 4, 1992.

This document,[1] prepared by the staff of the Joint Committee on Taxation, provides a description of the Chairman's proposed mark for the revenue-related provisions of H.R. 776. Part I of the document is a legislative background on H.R. 776. Part II is a description of the Chairman's mark for the revenue-related provisions of the bill. The description includes a reference to whether the proposal is included in H.R. 776 as passed by the House or in H.R. 4210 as passed by the House and the Senate.

The Chairman's mark is proposed as a substitute for the revenue provisions of Title XIX of H.R. 776 as passed by the House.

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1 This document may be cited as follows: Joint Committee on Taxation, Chairman's Mark of the Revenue-Related Provisions of H.R. 776 ("Comprehensive National Energy Policy Act") (JCX-22-92), June 16, 1992.

I. LEGISLATIVE BACKGROUND

H.R. 776 ("Comprehensive National Energy Policy Act") was passed by the House of Representatives on May 27, 1992. The bill was referred to the Senate Committee on Finance on June 4, 1992, for consideration of the revenue-related provisions. On February 19, 1992, the Senate passed S. 2166 ("National Energy Security Act of 1992"), which did not include tax provisions. S. 2166 was debated by the Senate on February 5-7 and 18-19, 1992.

The Subcommittee on Energy and Agricultural Taxation of the Committee on Finance held hearings on June 13-14, 1991, on proposals relating to renewable energy and energy conservation tax incentives. The Subcommittee hearings included the following energy-related tax bills: (1) S. 26 (exclusion for certain employer-provided transportation); (2) S. 83 (exclusion for public utility payments for energy or water conservation measures); (3) S. 129 (exclusion for certain employer-provided transportation); (4) S. 141 (extension of business energy tax credits); (5) S. 201 (increase in gas guzzler excise tax and tax credit for purchase of fuel-efficient automobiles); (6) S. 326 (exclusion for public utility payments for energy conservation measures, tax credit for retrofit of residential oil heaters, and employer deduction for employer parking); (7) S. 466 (tax credit for production of qualified electricity and extension of business energy tax credits); (8) S. 661 (tax credit for production of qualified electricity, extension of business energy tax credits, and tax credit for telecommuting); (9) S. 679 (exclusion for public utility payments for residential energy conservation measures); and (10) S. 731 (extension of business energy tax credits).[2]

The Subcommittee on Taxation held a hearing on February 19, 1992, on the effects of the alternative minimum tax.

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[2] S. 1220 was the predecessor bill to S. 2166. S. 1220 was reported by the Senate Committee on Energy and Natural Resources on June 5, 1991 (S. Rept. 102-72).

II. DESCRIPTION OF PROVISIONS

1. Exclusion for Employer-Provided Transportation Benefits

Present Law

Under Treasury regulations, transit passes, tokens, fare cards, vouchers, and cash reimbursements provided by an employer to defray an employee's costs of commuting on a public transit system are excludable from the employee's income (for both income and payroll tax purposes) as a de minimis fringe benefit if the total value of the benefit does not exceed $21. If the total value of the benefits exceeds $21 per month, the full value of the benefits is includible in income.

Parking at or near the employer's business premises that is paid for by the employer is excludable from the gross income of the employee (for both income and payroll tax purposes) as a working condition fringe benefit, regardless of the value of the parking. This exclusion does not apply to parking at the employee's residence.

Description of Proposal

Under the proposal, gross income and wages (for both income and payroll tax purposes) would not include qualified transportation fringe benefits. In general, a qualified transportation fringe would be (1) transportation in a commuter highway vehicle if such transportation is in connection with travel between the employee's residence and place of employment, (2) a transit pass, or (3) qualified parking. The maximum amount of qualified parking that would be excludable from an employee's gross income and wages would be $155 per month (regardless of the total value of the parking). Other qualified transportation fringes would be excludable from gross income to the extent that the aggregate value of the benefits does not exceed $60 per month (regardless of the total value of the benefits). The $60 and $155 limits would be indexed for inflation in $5 increments.

A commuter highway vehicle would be a highway vehicle the seating capacity of which is at least 6 adults (not including the driver) and at least 80 percent of the mileage use of which can reasonably be expected to be for purposes of transporting employees between their residences and their place of employment on trips during which the number of employees transported for such purpose is at least one-half of the adult seating capacity of the vehicle (not including the driver). Transportation furnished in a commuter highway vehicle operated by or for the employer would be considered provided by the employer. Cash reimbursements made by an employer to an employee to cover the cost of commuting in a

commuter highway vehicle also would qualify for the exclusion, provided the reimbursements were made under a bona fide reimbursement arrangement.

A transit pass would include any pass, token, fare card, voucher, or similar item entitling a person to transportation on mass transit facilities (whether publicly or privately owned). Types of transit facilities that could qualify for the exclusion would include, for example, rail, bus, and ferry. Cash reimbursements made by an employer to an employee to cover the cost of purchasing a transit pass generally would not qualify for the exclusion, unless vouchers or similar items are not readily available to the employer, in which case reimbursements could be made under a bona fide reimbursement arrangement.

Qualified parking would be parking provided to an employee on or near the business premises of the employer or on or near a location from which the employee commutes to work by mass transit, in a commuter highway vehicle, or by carpool. However, as under present law, the exclusion would not apply to any parking facility or space located on property owned or leased by the employee for residential purposes. Cash reimbursements made by an employer to an employee to cover the cost of qualified parking would qualify for the exclusion, provided the reimbursements were made under a bona fide reimbursement arrangement.

A similar proposal is included in H.R. 776 as passed by the House, and in H.R. 4210 as passed by the House and Senate.

Effective Date

The proposal would apply to benefits provided by the employer on or after January 1, 1993.

2. Exclusion for Certain Conservation Measures Provided by Public Utilities

Present Law

Section 8217(i) of the National Energy Conservation Policy Act provided that the value of any subsidy provided by a utility to a residential customer for the purchase or installation of a residential energy conservation measure was excluded from gross income. That exclusion expired on June 30, 1989.

In Technical Advice Memorandum 8924002, the IRS ruled that cash payments by a utility to induce customers to encourage the installation of alternative heating systems were includible in the gross income of the recipients. The heating systems were installed by third-party vendors. In the ruling, the IRS distinguished the taxable utility rebates from nontaxable automobile manufacturer rebates (which are treated as adjustments to the purchase price of the automobile). However, in Rev. Rul. 91-36, 1991-26 I.R.B. 14, the IRS held that if a customer of an electric utility company participates in an energy conservation program for which the customer receives a rate reduction or nonrefundable credit on the customer's bill, the amount of the rate reduction or nonrefundable credit is not included in the customer's gross income. In the ruling, the IRS reasoned that the rate reduction or nonrefundable credit represented a reduction in the purchase price of electricity and, therefore, did not constitute taxable income.

Description of Proposal

The proposal would provide an exclusion from the gross income of a customer of a public utility for the value of any subsidy provided by a utility for the purchase or installation of an energy conservation measure in a residential building.

In addition, for taxable years beginning after 1993, the proposal would provide an exclusion from the gross income of a commercial or industrial customer of a public utility for 80 percent of the value of any subsidy provided by the utility for the purchase or installation of an energy conservation measure.

For purposes of the proposal, regulated public utilities, rural electric cooperatives, state- and municipality-owned utilities, and certain Federally-operated utilities would be considered to be public utilities. In addition, the proposal would apply to certain payments made by public utilities to third party contractors and to certain payments received pursuant to state-sponsored conservation

programs.

The proposal would not apply to payments made to or from a qualified cogeneration facility or a qualifying small power production facility pursuant to section 210 of the Public Utility Regulatory Policy Act of 1978.

The proposal would deny a deduction or credit, or in appropriate cases require a reduction in adjusted basis of property, for any expenditure to the extent that a subsidy related to that expenditure was excluded from the gross income of the recipient.

Effective Date

The proposal would be effective with respect to amounts received after December 31, 1992.

3. Deduction for Clean-Fuel Vehicles and Certain Refueling Property

Present Law

Present law does not provide a special deduction or other income tax benefit for investing in a motor vehicle that may be propelled by a clean-burning fuel or for investing in property that is used to refuel a vehicle that may be propelled by a clean-burning fuel.

Description of Proposal

In general

A deduction would be allowed for the cost of qualified clean-fuel vehicle property and qualified clean-fuel vehicle refueling property that is placed in service during any taxable year. The amount of the deduction for qualified clean-fuel vehicle property would be limited based on the type of the motor vehicle of which the property is a part. The amount of the deduction for qualified clean-fuel vehicle refueling property generally would be limited to $100,000 for each refueling location.

Definition of qualified clean-fuel vehicle property

Qualified clean-fuel vehicle property would be defined as a motor vehicle that is produced by an original equipment manufacturer and designed so that the vehicle may be propelled by a clean-burning fuel, but only to the extent of the portion of the basis of the vehicle that is attributable to: (1) an engine which may use the clean-burning fuel; or (2) any property which may be used in the storage or delivery to the engine of the clean-burning fuel or the exhaust of gases from the combustion of the clean-burning fuel.

In addition, qualified clean-fuel vehicle property would be defined as any property that is installed on a motor vehicle which is propelled by a fuel that is not a clean-burning fuel for purposes of permitting the vehicle to be propelled by a clean-burning fuel, but only to the extent that: (1) the property is an engine (or modification thereof) which may use the clean-burning fuel; or (2) the property may be used in the storage or delivery to the engine of the clean-burning fuel or the exhaust of gases from the combustion of the clean-burning fuel.

In order for property to qualify as qualified clean-fuel vehicle property, the property must be acquired for use by the taxpayer (and not for resale) and the original use of the property must commence with the taxpayer. In addition, the motor vehicle of which the property is a part must satisfy

any applicable Federal or State emissions standards with respect to each fuel by which the vehicle is designed to be propelled.

In the case of any motor vehicle that may be propelled by both a clean-burning fuel and any other fuel, the cost of any qualified clean-fuel vehicle property that may be used by both the clean-burning fuel and the other fuel would be taken into account in determining the amount of the deduction only to the extent that the cost of such property exceeds the cost of the property which would have been used had the vehicle been propelled solely by the fuel that is not a clean-burning fuel.

Definition of qualified clean-fuel vehicle refueling property

Qualified clean-fuel vehicle refueling property would be defined as any property (other than a building or its structural components) that is used for the storage or dispensing of a clean-burning fuel into the fuel tank of motor vehicles propelled by the fuel, but only if the storage or dispensing (as the case may be) of the fuel is at the point where the fuel is delivered into the fuel tank of the motor vehicles. For this purpose, qualified clean-fuel vehicle refueling property would include property (other than a building or its structural components) that is dedicated to the recharging of motor vehicles propelled by electricity but only if the property is located at the point where the motor vehicles are recharged.

In order for property to qualify as qualified clean-fuel vehicle refueling property, the original use of the property must commence with the taxpayer and the property must be of a character that is subject to the allowance for depreciation (i.e., unlike qualified clean-fuel vehicle property, qualified clean-fuel vehicle refueling property would be required to be used in a trade or business of the taxpayer).

Definition of clean-burning fuel and motor vehicle

Clean-burning fuel would be defined as natural gas, liquefied natural gas, liquefied petroleum gas, hydrogen, electricity, and any other fuel if at least 85 percent of the fuel is methanol, ethanol, any other alcohol, ether, or any combination of the foregoing. A motor vehicle would be defined as any vehicle with at least four wheels that is manufactured primarily for use on public streets, roads, and highways (but not including a vehicle operated exclusively on a rail or rails).

Limitations on deduction

The cost that may be taken into account in determining the amount of the deduction with respect to any motor vehicle

would be limited based on the type of the motor vehicle. In the case of a truck or van with a gross vehicle weight rating that is greater than 26,000 pounds or a bus which has a seating capacity of at least 20 adults (not including the driver), the limitation would be $50,000. In the case of a truck or van with a gross vehicle weight rating that is greater than 10,000 but not greater than 26,000 pounds, the limitation would be $5,000. In the case of any other motor vehicle, the limitation would be $2,000.

The aggregate cost that may be taken into account in determining the amount of the deduction with respect to qualified clean-fuel vehicle refueling property that is placed in service at any location could not exceed the excess (if any) of (1) $100,000, over (2) the aggregate amount taken into account under the provision by the taxpayer (or any related person or predecessor) with respect to property placed in service at such location for all preceding taxable years.

Other rules

The basis of any property with respect to which a deduction is allowed would be reduced by the portion of the cost of the property that is taken into account in determining the deduction. In addition, the Treasury Department would be required to promulgate regulations that provide for the recapture of the benefit of the deduction if the property ceases to be qualified property.

The deduction for qualified clean-fuel vehicle property and qualified clean-fuel vehicle refueling property generally would not be allowed with respect to property that is used predominantly outside the United States or property that is used by governmental units or certain tax-exempt organizations. In addition, the deduction for qualified clean-fuel vehicle property would be allowed as an adjustment to gross income rather than as an itemized deduction. Consequently, the deduction would not be subject to the 2-percent adjusted gross income floor that otherwise applies to miscellaneous itemized deductions or to the limitation on itemized deductions that applies to taxpayers with adjusted gross income in excess of a specified amount ($105,250 for taxable years beginning in 1992).

The proposal is included in H.R. 776 as passed by the House.

Effective Date

The proposal would apply to qualified property that is placed in service after June 30, 1993, and before January 1, 2005. The cost limitations that apply to qualified clean-fuel vehicle property would be reduced for property

placed in service after December 31, 2001. The otherwise applicable limitations would be reduced by: (1) 25 percent for property that is placed in service during 2002; (2) 50 percent for property that is placed in service during 2003; and (3) 75 percent for property that is placed in service during 2004.

4. Income Tax Credit for Electricity Generated Using Certain Renewable Resources

Present Law

An investment-type tax credit against income tax liability is allowed for investments in property producing energy from certain specified renewable sources (sec. 48). The nonrefundable credit, which is referred to as the business energy credit, equals 10 percent of the cost of qualified solar or geothermal energy property. Solar energy property that qualifies for this tax credit includes any equipment that uses solar energy to generate electricity, to heat or cool (or provide hot water for use in) a structure, or to provide solar process heat. Qualifying geothermal property includes equipment that produces, distributes, or uses energy derived from a geothermal deposit, but in the case of electricity generated by geothermal power, only property used up to (but not including) the transmission stage.[3]

A production-type tax credit is allowed against income tax liability for the production of certain nonconventional fuels (sec. 29). For 1991, the credit amount is equal to $5.35 per barrel of oil or BTU oil equivalent. (This credit amount is adjusted for inflation.) Qualified fuels must be produced from a well drilled, or facility placed in service, before January 1, 1993, and must be sold before January 1, 2003. Qualified fuels include: (1) oil produced from shale and tar sands; (2) gas produced from geopressurized brine, Devonian shale, coal seams, a tight formation, or biomass; and (3) liquid, gaseous, or solid synthetic fuels produced from coal (including lignite), including such fuels when used as feedstocks.

Description of Proposal

A production-type credit against income tax liability would be provided for electricity produced from either qualified wind energy or qualified "closed-loop biomass" facilities. The credit would equal 1.5 cents (adjusted for inflation) per kilowatt hour of electricity produced from these qualified sources during the 10-year period after the facility is placed in service. This production credit would be part of the general business credit, subject to the

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[3] For purposes of the business energy credit, a geothermal energy deposit is defined as a domestic geothermal reservoir of natural heat which is stored in rocks or in an aqueous liquid or vapor, whether or not under pressure (sec. 613(e)(2)).

carryforward, carryback, and the limitation rules of the general business credit (except that the production credit from closed-loop biomass facilities could not be carried back to a taxable year ending before January 1, 1993 and the production credit from qualified wind energy facilities could not be carried back to a taxable year ending before January 1, 1994).

Closed-loop biomass would be defined as the use of plant matter on a renewable basis as an energy source to generate electricity, where the plants are grown for the sole purpose of being used to generate electricity. Accordingly, the credit would not be available for the use of waste materials (including, but not limited to, scrap wood, manure, and municipal or agricultural waste) to generate electricity. Moreover, the credit would not be available to a taxpayer who uses standing timber to produce electricity.

The credit would be proportionately phased out over a three cent per kilowatt hour range if the national average price of electricity from the renewable source sold in accordance with contracts entered into after December 31, 1989, exceeds a threshold price of 8 cents per kilowatt hour. (This threshold is adjusted for inflation.) Thus, the credit would not be available if the national average price of electricity from the renewable source is greater than three cents per kilowatt hour above the threshold price.

A facility which has received the business energy credit or the investment credit would not be eligible for the production credit. In addition, the credit would be reduced proportionately for any governmental grants or subsidized financing received (including the use of tax-exempt bonds).

The proposal is similar to the tax credit for the generation of electricity from renewable energy sources included in H.R. 776 as passed by the House, except for the computation of the phaseout reference price.

Effective Date

The credit would apply to electricity produced by a qualified closed-loop biomass facility placed in service after December 31, 1992 and before July 1, 1999, and to electricity produced by a qualified wind energy facility placed in service after December 31, 1993, and before July 1, 1999.

5. Repeal of Certain Minimum Tax Preferences Relating to Oil and Gas Production

Present Law

The difference between the amount of a taxpayer's deductions for intangible drilling costs (IDCs) and the amount which would have been currently deductible had IDCs been capitalized and recovered over a 10-year period is an item of tax preference for the alternative minimum tax ("AMT") to the extent that this amount exceeds 65 percent of the taxpayer's net income from oil and gas properties for the taxable year (the "excess IDC preference"). In addition, for purposes of computing the adjusted current earnings ("ACE") adjustment of the corporate AMT, IDCs are capitalized and amortized over the 60-month period beginning with the month in which they are paid or incurred.

Independent producers and royalty owners generally are allowed a deduction for percentage depletion in computing their taxable income. A taxpayer's overall deduction for percentage depletion is limited to an amount that is equal to 65 percent of the taxpayer's pre-depletion taxable income for the taxable year. The amount by which the depletion deduction exceeds the adjusted basis of the property is an AMT preference (the "excess percentage depletion preference"). Corporations must use cost depletion in computing their ACE adjustment.

A taxpayer other than an integrated oil company is entitled to an "energy deduction" for certain IDC and depletion items. The energy deduction is the sum of 75 percent of the portion of the IDC preference attributable to qualified exploratory costs and 15 percent of the remaining IDC preference plus 50 percent of the marginal production depletion preference. The energy deduction may not reduce the taxpayer's alternative minimum taxable income by more than 40 percent.

Description of Proposal

The proposal is similar to the provision included in H.R. 776 as passed by the House. For taxpayers other than integrated oil companies, the proposal would repeal (1) the excess IDC preference and (2) the excess percentage depletion preference for oil and gas. The repeal of the excess IDC preference may not result in the reduction of the amount of the taxpayer's alternative minimum taxable income by more than 40 percent (30 percent for taxable years beginning in 1993) of the amount that the taxpayer's alternative minimum taxable income would have been had the present-law excess IDC preference not been repealed.

In addition, for corporations other than integrated oil companies, the proposal would repeal the ACE adjustments for (1) IDCs paid or incurred in taxable years beginning after December 31, 1992, and (2) percentage depletion for oil and gas.

As a conforming amendment, the proposal would also repeal the AMT energy deduction.

Effective Date

Except as provided above regarding the repeal of the ACE treatment of IDCs, the proposal would apply to taxable years beginning after December 31, 1992.

6. Business Energy Tax Credits for Solar, Geothermal, and Ocean Thermal Property

Present Law

Nonrefundable business energy tax credits are allowed for 10 percent of the cost of qualified solar and geothermal energy property (Code sec. 48(a)). Solar energy property that qualifies for the credit includes any equipment that uses solar energy to generate electricity, to heat or cool (or provide hot water for use in) a structure, or to provide solar process heat. Qualifying geothermal property includes equipment that produces, distributes, or uses energy derived from a geothermal deposit, but, in the case of electricity generated by geothermal power, only up to (but not including) the electrical transmission stage.

The business energy tax credits currently are scheduled to expire with respect to property placed in service after June 30, 1992.

The business energy tax credits are components of the general business credit (sec. 38(b)(1)). The business energy tax credits, when combined with all other components of the general business credit, generally may not exceed for any taxable year the excess of the taxpayer's net income tax over the greater of (1) 25 percent of net regular tax liability above $25,000 or (2) the tentative minimum tax. An unused general business credit generally may be carried back 3 years and carried forward 15 years.

Description of Proposal

The proposal is similar to the provision in H.R. 776 as passed by the House. Under the proposal, the business credits for qualified investments in solar and geothermal property would be permanently extended. In addition, the proposal would add a credit equal to 10 percent of qualified ocean thermal property placed in service by a taxpayer after June 30, 1992. For this purpose, qualified ocean thermal property would be equipment which converts ocean thermal energy to usable energy. Qualified ocean thermal property would be located at either of two locations designated by the Secretary of Treasury after consultation with the Secretary of Energy.

Effective Date

The proposal would be effective after June 30, 1992.

7. Treatment of Nuclear Decommissioning Funds

Present Law

A taxpayer that is required to decommission a nuclear power plant may elect to deduct certain contributions that are made to a nuclear decommissioning fund. A nuclear decommissioning fund is a segregated fund the assets of which are to be used exclusively to pay nuclear decommissioning costs, taxes on fund income, and certain administrative costs. The assets of a nuclear decommissioning fund that are not currently required for these purposes must be invested in (1) public debt securities of the United States, (2) obligations of a State or local government that are not in default as to principal or interest, or (3) time or demand deposits in a bank or an insured credit union located in the United States. These investment restrictions are the same restrictions which apply to Black Lung trusts that are established under section 501(c)(21) of the Code.

Description of Proposal

The present-law investment restrictions that apply to nuclear decommissioning funds would be repealed. The proposal was included in H.R. 4210 as passed by the House and Senate.

Effective Date

The investment restrictions would be repealed for taxable years beginning after December 31, 1992.

8. Deny Deduction for Club Dues

Present Law

No deduction is permitted for club dues unless the taxpayer establishes that his or her use of the club was primarily for the furtherance of the taxpayer's trade or business and the specific expense was directly related to the active conduct of that trade or business. Luncheon club dues are deductible to the same extent and subject to the same rules as business meals in a restaurant and are not subject to these special rules for club dues. No deduction is permitted for an initiation or similar fee that is payable only upon joining a club if the useful life of the fee extends over more than one year. Such initiation fees are nondeductible capital expenditures.

Description of Proposal

No deduction would be permitted for club dues. This rule would apply to all types of clubs: business, social, athletic, luncheon, or sporting clubs. Specific business expenses (e.g. meals) incurred at a club would be deductible only to the extent they otherwise satisfy present-law standards for deductibility.

The proposal was included in H.R. 4210 as passed by the House and the Senate.

Effective Date

The proposal would be effective for club dues paid on or after the date of enactment.

9. Increase Excise Tax on Certain Ozone-Depleting Chemicals

Present Law

An excise tax is imposed on certain ozone-depleting chemicals. The amount of tax generally is determined by multiplying the base tax rate applicable for the calendar year by an ozone-depleting factor assigned to the chemical. Certain chemicals are subject to a reduced rate of tax for years prior to 1994.

Between 1992 and 1995 there are two base tax rates applicable, depending upon whether the chemicals were initially listed in the Omnibus Budget Reconciliation Act of 1989 or whether they were newly listed in the Omnibus Budget Reconciliation Act of 1990. The base tax rate applicable to initially listed chemicals is $1.67 per pound for 1992, $2.65 per pound for 1993 and 1994, and an additional 45 cents per pound per year for each year thereafter. The base tax rate applicable to newly listed chemicals is $1.37 per pound for 1992, $1.67 per pound for 1993, $3.00 per pound for 1994, $3.10 per pound for 1995, and an additional 45 cents per pound per year for each year thereafter.

Description of Proposal

The proposal would increase and conform the base tax rate of both initially listed chemicals and newly listed chemicals. The base tax rate of originally listed chemicals would be increased by $0.18 per pound in 1992, by $0.10 per pound in 1993, by $1.00 per pound in 1994, and by $1.45 per pound in 1995 and every year thereafter. The base tax rate of newly listed chemicals would be increased by $0.48 per pound in 1992, by $1.08 per pound in 1993, by $0.65 per pound in 1994, and by $1.45 per pound in 1995 and every year thereafter. These increases in the base tax amount would be in addition to those currently scheduled under present law.

In addition, the proposal would reduce the applicable percentage used in the computation of the tax applied to chemicals used in rigid foam insulation in 1992 and 1993. The provision would reduce the applicable percentage from 15 percent to 13.5 percent for 1992 and would reduce the applicable percentage from 10 percent to 9.6 percent for 1993. Similarly, the proposal would reduce the applicable percentage applied to Halon-1211, Halon-1301, and Halon-2402 in 1992 and 1993. The following table contains the new applicable percentages.

	Applicable Percentage--	
	1992	1993
Halon-1211	4.5	3.0
Halon-1301	1.4	0.9
Halon-2402	2.3	1.5

The effect of this provision is to continue present-law rates on these chemicals for 1992 and 1993.

The proposal also would provide for a reduced rate of tax for certain ozone-depleting chemicals used as medical sterilants for 1992 (for sale or use on or after October 1, 1992) and 1993.

A similar proposal is included in H.R. 776.

Effective Date

The proposal would be effective for taxable chemicals sold or used on or after October 1, 1992. Floor stocks taxes are imposed on taxed chemicals held on the effective dates of changes in the base tax rate.