[COMMITTEE PRINT]

ANALYSIS OF ENERGY SUPPLY, CONSERVATION, AND CONVERSION

HOUSE BILL (H.R. 6860) AND POSSIBLE ALTERNATIVES

DEREGULATION PROFITS TAX AND RELIEF TO CONSUMERS

PREPARED FOR THE USE OF THE

COMMITTEE ON FINANCE

BY THE STAFF OF THE

JOINT COMMITTEE ON INTERNAL REVENUE TAXATION

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ANALYSIS OF ENERGY SUPPLY, CONSERVATION AND CONVERSION—DEREGULATION PROFITS TAX AND RELIEF TO CONSUMERS

The regulatory background

At this time, about 42 percent of domestic consumption is price-controlled at about $5.25 per barrel, under authority of the Emergency Petroleum Allocation Act of 1973. The remaining 58 percent of our oil (37 percent imported and 21 percent domestically produced) is uncontrolled and is selling at about $13.50 per barrel. Present price-control authority expires August 31, 1975, unless it is extended by new legislation.

FEA regulation of oil prices at the producer level operates on a two-tier system. So-called "old oil" (discussed below) must be sold at a price not in excess of the December 1, 1973, posted field price, plus $1 a barrel. The actual field price varies considerably from barrel to barrel, depending on the grade, quality, and location of the oil. On December 1, 1973, posted prices on domestic oil generally ranged from a low of about $2.00 per barrel, to a high of about $6.00. The average posted field price was about $4.00 per barrel.

"Old oil" for purposes of price control for any month is the amount of oil produced on a lease in the corresponding month of 1972. "New oil" (which is not subject to control) is any additional amount produced on 1972 leases, plus all amounts produced on new leases; in addition, each barrel of new oil "releases" from price control a barrel of old oil from that lease. For example, if a lease produced 1,000 barrels of oil per month in the 1972 base period, and produces 1,500 barrels in June 1975, 500 barrels of the 1,000 barrels of "old oil" production is released, leaving only 500 barrels subject to price control. In addition, stripper well production, i.e., production on a lease where the average production is not more than 10 barrels per day per well, is exempt from price control.[1]

H.R. 5005

The House-passed energy bill contains no provisions with respect to deregulation profits. However, the bill which the Ways and Means Committee used as the starting point of its consideration, H.R. 5005, contained a deregulation profits tax. The Ways and Means Committee did not act on that tax primarily because of uncertainty as to what, if any, oil price decontrol might be recommended by the House Committee on Interstate and Foreign Commerce.

[1] Under proposed FEA regulations, once production is classified as stripper well production, it retains that status, even if average production later increases to a level of more than 10 barrels per day. The purpose of this rule is to encourage the use of secondary and tertiary recovery techniques to increase production.

H.R. 5005,[2] would have imposed an excise tax on the deregulation profits portion of the price of each barrel of "old oil" produced domestically. For this purpose, "old oil" which would be subject to the tax was defined in terms of the average monthly 1972 base period production. (This is basically the same standard which is used by the FEA for purposes of price control.) Under this approach, any additional oil which is produced in excess of this base period amount, as well as any oil developed on new leases, is not subject to the tax.

To phase out the tax, the base period production is reduced (in effect, converted to new oil for purposes of the tax) at the rate of one percent a month, beginning in the first month after the tax becomes effective. This would phase the tax out after a period of eight and one-third years.

The deregulation profits subject to tax equals the excess of the price of each barrel of oil at the wellhead over the adjusted base price. The base price for the oil is generally the field price in effect on December 1, 1973, under Cost of Living Council regulations. As indicated above, this averaged about $4.00 per barrel. The initial adjustment to this base price was $1.38. In other words, in the average case, the price in excess of $5.38 per barrel would be defined as "deregulation profit" and be subject to tax.

In addition, beginning in 1976, there is a further adjustment to the adjusted base price, called an "inflation adjustment," equal to 6 percent a year (one-half percent per month). The measure also provided that in no event were the deregulation profits subject to the tax to exceed 75 percent of the net income from the property. A further adjustment was allowed for any increases in State or local severance taxes which occur after December 1, 1973.

The deregulation profits tax rates are graduated, ranging from 20 percent of the first 25 cents of deregulation profits, to 90 percent of all deregulation profits over $2.00 per barrel. No part of the tax is forgiven as a result of plowback investments.

Amendment No. 691 to H.R. 6860, H.R. 7686

Senator Dole has also introduced Amendment No. 691 to H.R. 6860, proposing a deregulation profits tax which becomes applicable to the extent oil subject to price control is decontrolled. Congressman Conable has introduced a similar bill, H.R. 7686.

Under this amendment, an oil deregulation tax also is imposed on a gradually declining base, referred to as the "adjusted base price control quantity." The initial "base price control quantity" is the average number of barrels of crude oil on a lease during the three months ending June 30, 1975, which were subject to price control. This "base price control quantity" is reduced at the rate of 2 percent per month to determine the "adjusted base price control quantity." This monthly adjustment of 2 percent has the effect of phasing out the tax over a 50-month period.

The deregulation profits tax is imposed at a flat rate of 90 percent on the excess of the well head price ("removal price") for the oil over the base price (as determined under FEA regulations in effect on

[2] There were several versions of this bill at various stages of Ways and Means Committee consideration. References here are to the latest version which contained a windfall profits tax proposal.

June 30, 1975). However, in no event are the "deregulation profits" subject to tax to exceed 75 percent of the net income from a barrel.

Under this amendment the deregulation tax could be 90-percent forgiven (completely forgiven under the Conable bill) as a result of credits against tax if the taxpayer plows back the tax into prescribed energy-related investments. However, to receive the plowback credits, the taxpayer's qualified investments would have to exceed a threshold equal to $3.00 multiplied by his base price control quantity (or his total barrels of production, if smaller).

Qualified plowback investments were divided into four categories:[3]

(1) Intangible drilling costs and geological and geophysical exploratory costs.

(2) The cost of depreciable property used to develop or produce oil or gas, including tangible property used in drilling, property used to produce oil from oil shale; assets to convert oil shale, coal, or liquid hydrocarbons into oil or gas; refineries to produce primary oil or gas products (but not secondary products such as plastics); and pipelines. (Certain storage facilities used in connection with the property are also qualified investments.)

(3) The operating expenses of secondary or tertiary oil or gas recovery.

(4) Leasehold costs incurred to acquire leases. (Qualified investment in this category cannot exceed one-third of the qualified plowback investment.)

For purposes of the plowback credit, investments, in effect, are averaged over the entire period the deregulation tax is in effect through a procedure referred to as the "recomputation method."

S. 1112

Senator Gravel has introduced a bill, S. 1112, which would impose a tax on excess fossil fuel profits. Under this bill, a tax of 80 percent would be imposed on the profits of a corporation from the business of extracting, processing, or refining gas, coal, petroleum, or petroleum products to the extent that such profits exceeded the larger of (1) the average profits of the corporation from such activities during a base period consisting of the first four taxable years of the corporation beginning after December 31, 1969, or (2) a rate of return of 15 percent on the capital invested by the corporation in fossil fuel activities. The amount of tax imposed under these provisions could be completely forgiven as a result of qualified plowback investments (in a manner generally similar to that provided under the Dole amendment).

Amendment by Senator Pearson

Senator Pearson has submitted an amendment (No. 676) which incorporates the deregulation tax on old oil proposed by Senator Dole and adds to it a deregulation profits tax and a plowback credit for decontrolled natural gas. For natural gas from old wells (i.e., wells in production before 1975), the proposal taxes 90 percent of all reve-

[3] Items of expense (other than lease acquisition costs) required to be capitalized for income tax purposes are eligible for the plowback credit on a 2-for-1 basis. Also, if the taxpayer does not derive a tax benefit from the deduction of intangible drilling costs (because he was in a loss situation) these expenses are eligible for the 2-for-1 plowback credit.

nues in excess of 51¢ per 1,000 cubic feet (the current FPC ceiling price) received by producers on sales in interstate commerce; however, a full credit against that tax is allowed if the revenues are reinvested in a new energy production. For natural gas from new wells, the amendment imposes a 90-percent tax to the extent that the rate of return on any well exceeds 20 percent of investment; a full credit is also allowed against this tax if the profits are reinvested in specified types of new energy production.

Staff analysis

At present, about two-thirds of all domestically produced oil (about 40 percent of total U.S. consumption) is subject to price controls, at an average price of about $5.00 per barrel. If the price of this oil is decontrolled over a relatively short period of time, oil producers will realize substantial windfall profits which would not occur in a free market situation (i.e., if it were not for the actions of the OPEC cartel, the free market price of oil would be far less than $13.50 per barrel).

The President presented the Congress with a plan for deregulating oil prices over a 30-month period. This plan was vetoed by the House on Tuesday. It is anticipated that later this week the President will present a new plan for decontrol of oil prices over at least a 3-year period. Under this plan it is anticipated, in general, that oil initially subject to price controls would equal the average amount of oil produced on a lease during the three month period ended June 30, 1975, which was subject to price controls, and that this base would be reduced at a rate of up to 2.8 percent per month. This plan will go into effect if not vetoed by either House. However, even if the plan is vetoed, the basic law under which oil prices are regulated expires on August 31 if not extended before the congressional recess scheduled to begin at the end of this month.

If deregulation is to occur there are two basic considerations which the committee may want to take into account in considering the imposition of a temporary tax on deregulation profits.

First, many will argue that if the price of "old oil" is to be decontrolled, the windfall element in the "deregulation profits" should be subject to a special tax (in addition to the regular Federal income tax) so these profits, which come from the pockets of the oil-consuming public, will go to the Government, rather than to the oil producers. However, it is widely recognized that there is a need for substantial investment in the energy area, if the nation is to achieve its objective of energy independence. Thus, a deregulation tax which failed to encourage substantial investment in the energy field would be self-defeating in the long run.

Second, but equally important, is the probable impact of relatively rapid decontrol of oil prices on the economy. A rapid rise in energy prices can be expected to slow down the process of economic recovery by draining purchasing power from consumers, reducing auto sales, and increasing the rate of inflation. A recent study by the Congressional Budget Office concludes that immediate decontrol, together with a $2.25 price increase by OPEC, would raise the unem-

ployment rate by 0.6 percent by the end of 1976. These problems could be significantly mitigated if a substantial portion of the increased cost of energy resulting from decontrol were to be returned to the public in the form of tax credits against the individual income tax financed by revenues from a deregulation profits tax and by the increases in the Federal income tax resulting from decontrol.

Should the committee decide to impose a deregulation profits tax there are a number of specific issues to be considered. These include the rate and duration of any such tax, the extent of any "plowback," and any credit against income tax (along the lines just outlined) to minimize the impact of increased energy costs on the economy. These issues are discussed below.

The tax base.—Both H.R. 5005 and the Dole amendment follow the same basic approach in imposing a deregulation profits tax only on "old oil" which is decontrolled.

Theoretical arguments could be made in favor of a broader tax base which would include new oil (all of which is presently decontrolled) as well. There is little doubt that the price which may be obtained for new oil has been artificially increased by the actions of the OPEC cartel, and to this extent there is a "windfall" element in the price which producers receive for this oil. However, there is a serious possibility that the imposition of a special excise tax on the production of new oil would discourage the production of new oil, and would cause producers to postpone exploration and development activities until such time as the tax had been lifted. This is particularly true in the case of an excise tax which is price-related (rather than income-related).

In general, the costs of exploration and development of new oil resources are tending to rise rapidly, partly due to inflation, and partly due to the increasing need to rely on high-cost oil sources of oil as low-cost oil sources are used up. Thus, in the case of new oil, testimony received by the committee indicated that high decontrolled prices are to some extent offset by relatively high costs of production. By contrast, in the case of old oil, most of the expenditures necessary for exploration and development have already been made; thus, in the case of decontrol of old oil, low-cost production would tend to be matched against high prices.[4]

One approach which might be followed in this area would be to take, as a starting point, the average monthly production from the property during the period from May through December 1972.[5] This base might then be reduced at a rate of 1 percent a month, beginning in January 1973, so that the tax would be fully phased out a little more than 5 years from the probable effective date. In addition, the committee might want to provide that stripper well production (oil from

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[4] There have been a number of recent proposals to "cap" the price at which new oil may be sold, perhaps at a level of $11.50 or $13.50 per barrel, subject to certain adjustments. Some have suggested that if the price of new oil is not capped in this manner, that a deregulation profits tax might be applied at this level.

[5] There was excess domestic capacity with respect to oil during the first four months of 1972, and a substantial number of mineral properties were not producing at full capacity during this period.

property where the average production is not more than 10 barrels per well per day) would be exempt from the tax in order not to discourage this type of production.[6]

For example, assume that a property produced 1,000 barrels of oil per month during the 1972 base period. Under this approach, on July 1, 1975, the deregulation profits tax base for this property would be 700 barrels (since thirty months have elapsed since December 1972, this would reduce the 1,000 barrel base period production by 30 percent). To the extent that this 700 barrels were decontrolled, it would be subject to tax.

One advantage to this approach is that it takes account of the natural decline rate for oil fields in the United States. The natural tendency of oil fields is to produce less oil each year. The decline rate for oil fields in the United States averages about 12 percent annually. Thus, to use the example just discussed, if the field was producing in excess of 700 barrels in July 1975, this would exceed the average natural decline rate for the field. In many cases, this would be because of efforts which the producer had made to keep production at a high level (such as the use of secondary and teritary recovery techniques). Under the approach just outlined, continued use of these techniques would be encouraged because production in excess of the natural decline factor for the field would not be subject to the windfall profits tax.[7]

Another approach which might be followed in this area might be to take the 1972 base period production as the starting point, but reduce this base at the rate of 1.4 percent per month, beginning in September 1975. Thus, the phasing out of the tax base would begin later than under the first approach, but would occur at a faster rate, so that the tax would be completely phased out over a 6-year period. One advantage to this aproach is that if the President's proposed plan for decontrol should go into effect (gradual decontrol over something like a three year period), this approach would still raise a substantial amount of revenue which could be rebated to consumers to ease the burden of increased energy costs (see discussion below). This is because the phasing down of the tax base (old oil subject to deregulation profits tax) would be approximately half as fast as the phasing down of the base of "old oil" which was still subject to price controls. However, somewhat less revenue would be raised under the first approach (with a phasing down of one percent a month the tax base beginning in January 1973) because, in the case of many producers, their base of oil subject to deregulation profits tax would be lower than their base of old oil which remained subject to price controls. Of course, either approach would raise substantial revenue in the event that the President's proposal (or some similar plan) does not go into effect, and there is total decontrol of oil prices on September 1, 1975.

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[6] As indicated above, under proposed FEA regulations, once a property is classified as stripper well property, it remains in that category even if average production later increases, in order not to discourage the use of secondary and tertiary recovery techniques which increase production.

[7] To some extent, the same effect is achieved under present law, for purposes of price control, by FEA regulations concerning relased oil. Under these rules, if a producer increases production from a property over the 1972 base period amount (1,000 barrels), this "releases" a barrel of old oil from controls.

The tax rate.—If a deregulation profits tax is to be imposed only with respect to old oil, as discussed above, this suggests that a fairly high rate of tax may be appropriate with respect to the deregulation profits on that oil when it is decontrolled. Most producers of old oil are presumably making a profit on that oil even at the current controlled price. To the extent that this old oil is decontrolled at a rate more rapid than the natural decline rate, there will be added revenues which will represent added profit. Even if some of this additional profit must be paid over to the Government in the form of a deregulation profits tax, many of these producers will still realize "windfall" (or unanticipated) profits from decontrol from the balance not taken in tax. The effect of the tax would be relieved still further by any "plowback credit" allowed. Moreover, there was no reason to anticipate the especially high prices which are now being paid for uncontrolled oil (due to the actions of the OPEC cartel) at the time the producers invested in and developed these old oil fields, prior to 1973.

Nor does it appear that a high rate of tax imposed only on the deregulation profits on "old oil" will deter needed exploration and development of new oil resources. The high uncontrolled prices which may be received for new oil, coupled with the fact that the profits from this production would not be subject to the deregulation tax, should provide a substantial incentive for continued exploration and development at a high level. (In addition, the profits from the sale of new oil can serve as a source of capital for many producers.) Moreover, a further incentive can be provided in this area through the means of a "plowback credit" against the deregulation tax.

One approach which has been suggested in this area, under the Dole amendment, is to impose the tax at a flat rate of 90 percent on the difference between the price received for the oil (the "removal price") and the base price. The base price would be the controlled price for the oil under FEA regulations.

As a safeguard, to prevent a situation where the deregulation profits tax might be unreasonably high in relation to actual income from production, it could be provided that the "deregulation profits" which were subject to tax would not exceed 75 percent of the net income from production (computed without regard to the deregulation profits tax, depletion, or intangible drilling costs other than those incurred in drilling a nonproductive well)). A further adjustment could be made by subtracting from the removal price received for the oil by the producer the amount of any increases in State or local severance taxes which have occurred after December 1, 1973, and prior to July 1, 1975 (or which occur after that date due to decontrol).[8]

As an additional adjustment, it might be desirable to add an inflation factor of perhaps 6 percent a year (one-half percent per month) to the base price, to take account of increased production costs. As indicated above, in the case of old oil, most of the exploration and development costs have already been incurred. However, there will be

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[8] If an adjustment is given with respect to changes in State or local severence tax rates which occur after that date, State and local governments would be encouraged to increase the rate of their severence taxes dramatically, thus absorbing the revenues which would otherwise be paid to the Federal Government from the deregulation tax.

some increase in such items as lifting costs and thus an inflation adjustment along these lines might be considered.[9]

Plowback.—Many believe that to impose a deregulation profits tax without some plowback provision would siphon off needed capital which could be used for energy exploration and development. This problem becomes less serious, if, as discussed above, the tax is imposed only in the case of old oil. This is because, in the future, it may be anticipated that the major expenditures which will occur for oil production will be incurred in connection with the discovery and exploration of "new oil" reserves, which are not price controlled, and which would not be subject to the deregulation tax.

However, while a full plowback may not be necessary if the deregulation tax is to be limited to decontrolled old oil, nonetheless a limited plowback, of perhaps 25 percent, could serve as an important stimulus to continued high levels of domestic production. Even a limited plowback would make available very large amounts of capital to those producers who wished to continue energy-related activities. For example, it is estimated that a deregulation profits tax, imposed only on old oil, with a 1-percent-per-month phase down, at a 90-percent rate of tax, would total $7.8 billion for 1976, and $25 billion over the life of the tax, if there were no plowback provision. Thus, a 25-percent plowback, if fully utilized, represents $1.9 billion of investment in 1976, and $6.3 billion over the life of the tax. Under the alternative approach, using a 1.4-percent-per-month phasedown beginning in September 1975, this would raise $11 billion for 1976, and $36.8 billion over the life of the tax. A 25-percent plowback would represent $2.7 billion of investment in 1976, and $9.2 billion of investment over the life of the tax. (This is in addition to the approximately $18 billion per year of estimated net before-tax income which will be available to producers from sales of decontrolled new oil and from the sale of old oil at current controlled prices.)[10]

While the major oil-producing companies can be expected to maintain a reasonably high level of investment in energy resources even in the absence of a plowback credit, this is much less certain in the case of smaller producers. As a result, it seems probable that a limited plowback credit will stimulate some investment for oil exploration and development which would not otherwise occur.

Perhaps the best method of ensuring that the plowback credit does stimulate the production of oil or other energy resources is through a carefully tailored list of qualified plowback investments, so that the credit would only be allowed with respect to investments which lead directly to the discovery of new oil or gas, or to the development of new oil or gas resources.

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[9] Of course, where the taxpayer engages in high-cost recovery techniques, such as secondary and tertiary processes, this generally will result in a situation where the production of the field will be increased above the decline rate, in which case the additional oil recovered would not be subject to the deregulation profits tax.

[10] The figures cited in the test assume total price decontrol as of September 1, 1975, and an additional $1 increase in the OPEC price for oil in September. Under a 3-year gradual decontrol, the 1-percent-per-month phasedown approach would raise (before plowback) $1.5 billion for 1976, and $12.2 billion over the life of the tax. The 1.4-percent phasedown approach would raise $3.6 billion for 1976, and $22.5 billion over the life of the tax.

Certain items, such as intangible drilling costs, geological and geophysical expenditures, and depreciable property used in extracting oil and gas, clearly meet these criteria. Also included might be the operating costs of secondary or tertiary recovery processes.

There are also other expenditures, however, which, although less directly related to new production, still have some connection with the development of oil and gas resources. One such item, for example, is pipeline used to transport extracted oil and gas to the point of local distribution. Another possible category would be expenditures for refineries which produce primary petroleum products. Neither of these expenditures relate directly to the discovery or extraction of mineral resources, but both categories of expenditure are obviously related to the development and utilization of those resources. On the other hand, it could be argued, particularly with respect to refineries, that to allow a plowback credit in this case might encourage vertical integration and would primarily benefit major oil producers as opposed to independents.

Another category of expenditure which is included under the Dole amendment is leasehold acquisition costs incurred in connection with leases. Under that bill, such expenditures do qualify for the plowback credit, subject to the limitation that the credit for leasehold acquisition costs cannot exceed one-third of the credit allowable for plowback investments made in other categories. The argument for allowing a limited credit in the case of onshore leasehold acquisition costs is that this may tend to promote competition by helping independent producers.

Such expenditures obviously bear some relationship to the development of energy resources, since one cannot drill without a lease. On the other hand, allowing credits for the acquisition of leaseholds may tend to bid up the prices of leases for potentially good tracts without increasing the volume of oil found. In any event, there is no assurance that the acquisition of a leasehold will lead to immediate efforts to explore for oil needed to meet the nation's energy demands in the near future. Thus, to the extent that the plowback credit is designed to stimulate production to help meet short-term or middle-term national needs, it is not clear that allowing a plowback credit for leasehold acquisition costs meets those objectives.

Another problem which should be considered in connection with the plowback provisions is the question of threshold, or the level of investment which must occur before a plowback credit is allowed. The concept of the plowback credit is to reward a producer for increased or incremental investment. This can be provided by requiring the taxpayer to satisfy a "threshold" investment level, before he is entitled to receive a plowback credit. Under the Dole amendment, the threshold requirement is $3.00 multiplied by the taxpayer's base period production (i.e., the amount of production initially subject to deregulation profits tax), or his actual production, if less.

Assuming that the base price for an average barrel of controlled oil is approximately $5.00 per barrel, this approach assumes a positive cash flow of about 60 percent for that barrel, and assumes that this is available for investment even in the absence of decontrol. In general, this appears to be a sound approach. However, as previously noted, the

actual control price for oil ranges from about $3.00 to about $7.00 per barrel. It is clear that barrels at the lower end of the spectrum do not generate a $3.00 cash flow available now for investment, and it appears that those at the upper end generate more than a $3.00 cash flow. For this reason, it might be preferable to state the threshold requirement in terms of a percentage of the base price (perhaps 60 percent) rather than in terms of a flat dollar amount.

In order to ensure that producers receive full credit for their plowback investments, carryforwards and carrybacks should be provided, so that qualified investments made throughout the period when the tax is in effect can be used by the taxpayer to offset his deregulation profits tax liability. Unless carryovers are permitted, taxpayers will be tempted to postpone investments which would otherwise be made, once the plowback credit for the current year had been fully utilized. This, in turn, would tend to delay the development of domestic energy reserves.

Relief for consumers.—One effect of rapid decontrol of oil prices will be a steep short-run increase in the cost of consumer products. This could have an adverse effect on the economy, thus delaying the economic recovery which is now in progress.

One way to reduce this effect would be to return to consumers, in the form of a refundable tax credit, the revenue raised by the deregulation profits tax, as well as the revenue raised by increased Federal income taxes which result from decontrol. This is quite similar to the proposal made by the President in his State of the Union message, wherein he proposed relief to offset increased energy prices occurring under his program by various tax reductions, including a provision to pay $80 to each adult who has no income tax liability.

This is also very similar to the approach taken by the House Ways and Means Committee in connection with its proposed gasoline tax. The gasoline tax, like decontrol, would have had the effect of encouraging energy conservation. However, to avoid hardship and economic dislocations, the Ways and Means Committee proposed to return the revenues raised by the tax to the public, in the form of a refundable credit which would have been payable to every individual who is 16 years of age or more and resides in the United States at the close of the taxable year.

Under this approach, the amount of the credit would gradually decline over the 5-year life of the deregulation tax because the revenues raised by the tax would decline each year. However, the credit would minimize the adverse effect of rapid decontrol by providing individuals with extra revenue to pay the increased costs of petroleum products. In other words, the credit would provide a period of adjustment with respect to the new higher prices, similar to that which would have been achieved under a more gradual decontrol process.

It is suggested that the credit be made available to all individuals sixteen and over, whether or not they are taxpayers, because the increased cost of consumption will fall most heavily on this group, regardless of their tax paying status.

Under this approach, if there were to be complete decontrol as of September 1, 1975, and if the committee adopted the 1-percent phase-

down approach with a 25-percent plowback credit, and if all the estimated revenue from this tax (plus the increase in Federal income taxes resulting from decontrol) were to be returned in the form of credits, it is estimated that the credit for 1975 would equal $30 per person. (The deregulation tax and decontrol would be in effect only for the period after August 31, 1975.) For 1976 this amount would be $80. For 1977 the credit would be about $69 and for 1978 the credit would be about $58.

Under the 1.4-percent phasedown approach, the credit for 1975 would be about $34. For 1976 the credit would be $95, with a credit of $82 for 1977 and $68 for 1978.

On the other hand, if a proposal for gradual 3-year decontrol were to be adopted, the credit would be substantially lower, because the amount raised through the deregulation profits tax would be lower. However, the increased energy costs to consumers would also be lower if there were gradual decontrol, so it would not be necessary to provide as large a credit. Thus, under the 1.4-percent phasedown approach, the credit for 1975 would be about $4; $30 for 1976; $52 for 1977; and $63 for 1978.

Of course, if decontrol were to occur gradually, but over a less than 3-year period, the amount of the credit would fall between these amounts. If decontrol occurs over more than a 3 year period, the amount of the credit would be proportionately less, but the increased cost of energy to consumers would also be less, due to the more gradual decontrol.

Revenue estimates

The revenue estimates with respect to the various proposals discussed above are shown on the following table:

REVENUE ESTIMATES OF DEREGULATION TAXES AND INCREASES IN CORPORATE AND INDIVIDUAL TAX RECEIPTS ARISING UNDER 2 ALTERNATIVE VARIATIONS OF OIL DEREGULATION

[In billions]

Tax	Complete deregulation, Sept. 1, 1975		Deregulation over 3 yr, beginning Sept. 1, 1975	
	Tax—1 percent per month phase-down over remaining 5 yr	Tax—1.4 percent per month phase-down over 6 yr	Tax—1 percent per month phase-down over remaining 5 yr	Tax—1.4 percent per month phase-down over 6 yr
Deregulation tax:[1]				
1975	2.3	2.9	0.1	0.5
1976	5.8	8.2	1.1	2.7
Over next 6 yr	18.8	27.6	9.2	16.9
Corporate and individual income taxes:				
1975	2.4	2.4	.2	.2
1976	6.9	6.9	2.0	2.0
Over next 6 yr	36.1	36.1	26.1	26.1
Combined tax effect:				
1975	4.7	5.3	.3	.7
1976	12.7	15.1	3.1	4.7
Over next 6 yr	54.9	63.7	35.3	43.0

[1] Deregulation tax amounts are net figures, taking account of the fact that deregulation profits taxes would be deductible for Federal income tax purposes.

Note: These revenues would be offset if credits, as described above, are to be allowed against individual income tax.

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