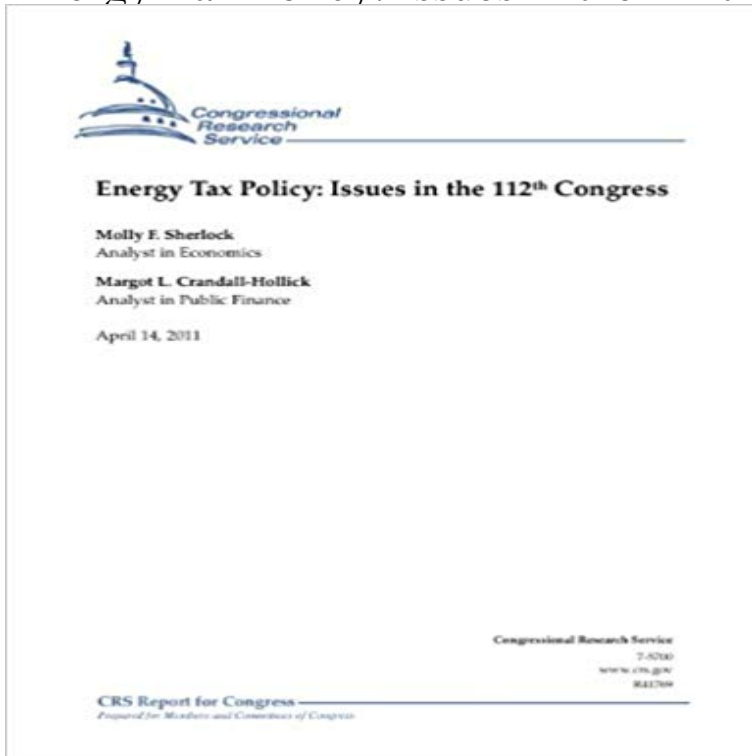


# Energy Tax Policy: Issues in the 112th Congress



As in most Congresses, energy tax policy is expected to be actively debated in the 112th Congress. At the beginning of the 112th Congress, the debate may center on the Presidents FY2012 Budget. This budget proposes a number of changes in energy tax policy with the intent of correcting perceived distortions in the market and encouraging conservation and the use of renewable energy. Specifically, the proposal seeks to eliminate a number of existing tax incentives for fossil fuels, while expanding select incentives for commercial building energy efficiency and promoting manufacturing of advanced energy technologies. Later in the first session of the 112th Congress, the debate may shift to the evaluation of a number of temporary energy tax provisions scheduled to expire at the end of 2011. Many of the provisions scheduled to expire were granted a temporary extension as part of the Tax Relief, Unemployment Reauthorization, and Job Creation Act (P.L. 111-312), enacted in December 2010. Energy tax policy involves the use of one of the governments main fiscal instruments, taxes (both as an incentive and as a disincentive) to alter the allocation or configuration of energy resources and their use. In theory, energy taxes and subsidies, like tax policy instruments in general, are intended either to correct a problem or distortion in the energy markets or to achieve some economic (efficiency, equity, or even macroeconomic) objective. In practice, however, energy tax policy in the United States is made in a political setting, determined by fiscal dictates and the views and interests of the key players in this setting, including policymakers, special interest groups, and academic scholars. As a result, enacted tax policy embodies compromises between economic and political goals, which could either mitigate or compound existing distortions. The economic rationale for government

intervention in energy markets is commonly based on the governments perceived ability to correct for market failures. Market failures, such as externalities, principal-agent problems, and informational asymmetries, result in an economically inefficient allocation of resources in which society does not maximize well-being. To correct for these market failures governments can utilize several policy options, including taxes, subsidies, and regulation, in an effort to achieve policy goals. Current energy policy reflects efforts to achieve both current and past policy objectives. Recent legislative efforts have primarily focused on renewable energy production and conservation to address environmental concerns. In contrast, past efforts attempted to reduce reliance on foreign energy sources through increased domestic production of fossil fuels. Legislation enacted in the 111th Congress focusing on encouraging renewable energy production and conservation reduces reliance on imported, foreign oil, while also addressing environmental concerns by reducing the use of fossil fuels. Favorable tax preferences given to domestic fossil fuel energy sources also promote domestic energy production, reducing the demand for imported oil.

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