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Energy Tax Incentives: A Comparison of the Senate Finance Committee Bill (S. 1149) and the House Bill (H.R. 6)

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Energy Tax Incentives: A Comparison of the Senate Finance Committee Bill (S. 1149) and the House Bill (H.R. 6)

Summary

The 108th Congress is considering two major bills to provide tax incentives to increase the supply of, and reduce the demand for, fossil fuels and electricity: S. 1149, the Energy Tax Incentives Act of 2003, approved by the Senate Finance Committee (SFC) on April 2, 2003 (superseding S. 597), and H.R. 6, introduced as H.R. 1531 and approved by the House on April 11, 2003, by a vote of 247-175.

Both bills would provide a ten-year tax cut of about $18-$20 billion. However, the revenue losses in S. 1149 would be partially offset through additional curbs on corporate tax shelters, an extension of Internal Revenue Service user fees, and other provisions, which would raise about $4.9 billion over 10 years, so that the net energy tax cut is about $15.3 billion. In contrast, the House bill includes less than $100 million in general tax increases, so that its net energy tax cut is about $3 billion greater than the SFC bill.

In comparison with the Senate bill, H.R. 6 confers a larger tax cut, both in absolute and relative terms, for fossil fuels production and for electricity restructuring (or the production of electricity), and a smaller tax cut for energy efficiency and renewable/alternative fuels development. More specifically, H.R. 6 provides about $13.7 billion in tax incentives for increased fossil fuels supply and electricity generation (74% of the total gross tax cut), while S. 1149 provides about $10 billion (about half of the gross tax cut) for fossil fuels and electricity generation. S. 1149 also provides more than $5 billion (about one quarter of the gross tax cut) for alternative and renewable fuels supply, as compared to $3.6 billion under H.R. 6 (20% of the tax cut). For energy efficiency, the Senate committee bill would cut taxes by about $2 billion (about 10% of the gross total), while H.R. 6 would provide $1.3 billion (7%).

Other notable differences between the two bills are: 1) the Senate bill contains tax incentives for clean coal while the House bill does not; 2) the downstream tax incentives for oil and gas refining, distribution, and transportation are relatively larger in the House bill; 3) the tax incentives for electricity restructuring – basically incentives to increase the generation of electricity – are significantly larger in the House bill (both in absolute dollar terms and relative to the total tax cut); and 4) the Senate bill's incentives for alternative fuel vehicles (including advanced technology vehicles) and for alternative fuels production are much greater than in the House bill.

The President's FY2004 budget, released in February 2003, proposes a limited number of energy tax incentives – both new incentives and liberalization of existing energy tax subsidies – which would reduce energy taxes by about $9 billion over 10 years (about half of the size of the reductions in either S. 1149 or H.R. 6).

This report will be updated as events warrant.

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Energy Tax Incentives: A Comparison of the Senate Finance Committee Bill (S. 1149) and the House Bill (H.R. 6)

On March 11, 2003, a bipartisan group of four Senate committee leaders – Senator Grassley, chairman of the Committee on Finance; Senator Baucus, ranking Democrat of the Committee on Finance; Senator Domenici, chairman of the Committee on Energy and Natural Resources; and Senator Bingaman, Energy Committee ranking Democrat – introduced S. 597, the Energy Tax Incentives Act of 2003. This bill was approved by the Senate Finance Committee (SFC) on April 2, 2003, by a vote of 18-2; the committee reported it as an original measure May 23, 2003 (S. Rpt. 108-54), and it was placed on the Senate calendar as S. 1149. The Senate is expected to consider the SFC-approved bill during the ongoing debate on comprehensive energy legislation (S. 14).

On April 3, 2003, the House Ways and Means Committee (WMC) voted 24-12 for an energy tax incentives bill (H.R. 1531). The WMC bill was incorporated into H.R. 6, the House's comprehensive energy policy legislation, which was approved by the House, 247-175, on April 11, 2003. This report provides a summary of the provisions of each of these two bills, presented as a side-by-side comparison in tabular form. Note that this is a summary of complex and extensive tax code provisions. For brevity, much detail is necessarily omitted.

For purposes of this table, tax provisions are organized according to four topics, rather than by either Senate or House bill section number. Thus, a tax provision is classified according to whether it is an incentive 1) for fossil fuel supply (including coal output incentives), 2) to facilitate electricity industry restructuring (which is also an energy supply incentive), 3) to reduce fossil fuel demand through enhanced energy efficiency, or 4) to reduce fossil fuel demand through alternative and renewable fuels output. A miscellaneous category describes provisions that are not easily categorized according to this schema. The last section of the table compares revenue offset provisions in each of the two bills. Thus, the table has six major headings (four with several subheadings), while the House bill is subdivided into four titles, and the SFC bill has seven sections.

The fossil fuels supply category is further subdivided according to whether a particular provision affects oil/gas exploration and production, refining and distribution, or coal output. Similarly, the energy efficiency and renewable fuels tax incentives are further categorized, as closely as possible, according to the energy consuming sector that would be primarily affected, i.e., the business (including commercial and industry), residential, or transportation sectors.

Brief Summary of the Two Bills

Both bills provide a gross ten-year tax cut of about $18-$20 billion for energy conservation, and for production of oil, gas, and electricity (and coal in the Senate bill), reflecting a congressional goal of keeping any energy tax cut below $20 billion. However, the revenue losses in S. 1149 would be partially offset through additional curbs on the ability of companies to shelter corporate income through incorporating in low-tax countries, an extension of Internal Revenue Service user fees, and other provisions, which would raise about $4.9 billion over 10 years, so that the net energy tax cut is about $15.3 billion. In contrast, the House bill includes less than $100 million in general tax increases so that its net energy tax cut is about $3 billion greater than the SFC bill.

Both bills provide billions of dollars of tax cuts for fossil fuel supply and energy conservation, and incentives for renewable, alternative, and unconventional fuels. However, the mix of tax incentives – the distribution of the total dollars of cuts among these three broad categories – differs between the two bills. In general, H.R. 6 confers a larger tax cut, both in absolute and relative terms, for fossil fuels production and for electricity restructuring (or the production of electricity), and a smaller tax cut for energy efficiency and renewable/alternative fuels development.

More specifically, H.R. 6 provides about $13.7 billion in tax incentives for increased fossil fuels supply and electricity generation (74% of the total gross tax cut), while S. 1149 provides about $10 billion (about half of the gross tax cut) for fossil fuels and electricity generation. S. 1149 also provides more than $5 billion (about one quarter of the gross tax cut) for alternative and renewable fuels supply, as compared to $3.6 billion under H.R. 6 (20% of the tax cut). For energy efficiency, the Senate committee bill would cut taxes by about $2 billion (about 10% of the gross total), while H.R. 6 would provide $1.3 billion (7%).

Other notable differences between the two bills are: 1) the Senate bill contains tax incentives for clean coal while the House bill does not; 2) the downstream tax incentives for oil and gas refining, distribution, and transportation are relatively larger in the House bill; 3) the tax incentives for electricity restructuring – basically incentives to increase the generation of electricity – are significantly larger in the House bill (both in absolute dollar terms and relative to the total tax cut); and 4) the Senate bill's incentives for alternative fuel vehicles (including advanced technology vehicles) and for alternative fuels production are much greater than in the House bill.

Brief Comparison with Energy Tax Incentives Bills in the 107th Congress

In the 107th Congress, both the House and Senate approved energy tax incentives bills that were incorporated into H.R. 4. (For a comparison of the Senate and House versions of H.R. 4 see CRS Report RL31427, *Omnibus Energy Legislation: H.R. 4 Side-by-Side Comparison.*, Mark Holt and Carol Glover, coordinators.)

In the 107th Congress, on February 13, 2002, the Senate Finance Committee approved the Energy Tax Incentives Act of 2002 (S. 1979), which was added to S. 517, the Senate's energy policy bill, as Amendment #2917. S. 517 was formally renamed the Energy Policy Act of 2002 when the Senate approved the measure on April 25, 2002, as an amendment in the nature of a substitute to the House-passed H.R. 4. The House version of energy tax incentives in the 107th Congress was originally H.R. 2511. This bill was incorporated into H.R. 4, and approved by the House on August 2, 2001. In comparing House and Senate versions of H.R. 4 in the 107th Congress, the House bill proposed larger energy tax cuts, net of some energy tax increases. It reduced energy taxes by about $36.5 billion over 10 years, in contrast to the Senate version, which cut about $15.5 billion over 10 years. On November 13, 2002, the conference committee dropped its consideration of H.R. 4 after eight sessions failed to reconcile major differences.

With the exception of two deleted provisions, both relatively minor, and about $3 billion in corporate revenue increases, S. 1149 (108th Congress) is similar to the Senate energy tax incentives legislation in the 107th Congress (S. 1979).[1] The size of the tax cuts in S. 1149, however, is somewhat larger than in S. 1979, with the additional tax cuts allocated to oil and gas production and refining.

In comparison, the House energy tax incentives bill, H.R. 6 (108th Congress), is a substantially scaled-down version of H.R. 2511 (107th Congress), which would have reduced energy taxes by $36.5 billion. The apportionment of tax savings in H.R. 6 among the three categories – fossil fuel production, energy efficiency, and alternative/renewable fuels – is the same as the House bill in the last Congress, but the absolute amounts of the cuts are much smaller.

President Bush's Proposals

The President's FY2004 budget, released in February 2003, proposes a limited number of energy tax incentives – both new incentives and liberalization of existing energy tax subsidies, which would reduce energy taxes by about $9 billion over 10 years (about half of the size of either S. 1149 or H.R. 6). It would:

- **Extend and Liberalize the §45 Tax Credit for Electricity Produced From Wind, Biomass, and Poultry Waste.** The FY2004 budget proposes to extend the placed-in-service rule for wind and biomass facilities, for purposes of the §45 tax credit, by an additional two years through December 31, 2005. In addition, the definition of biomass would be liberalized to include some types of timber and agricultural waste. Other liberalizations are proposed.

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[1] Some energy tax provisions that were in the 107th Congress's Senate bill have been deleted from S. 1149, while relatively minor modifications were made to a few other tax provisions. For more information see CRS Report RL31828, *The Energy Tax Incentives Act of 2003 (S. 597): Summary of Provisions*, by Salvatore Lazzari.

- **Tax Credit for Residential Solar Energy Systems.** Homeowners purchasing solar energy heating or cooling equipment (including water heating equipment) would qualify for a 15% nonrefundable income tax credit.

- **Tax Credit for Hybrid and Fuel Cell Vehicles.** An income tax credit of up to $4,000 would be provided to taxpayers that purchase fuel-efficient hybrid vehicles; an income tax credit up to $8,000 would be provided to taxpayers that purchase a qualified fuel-cell vehicle.

- **Tax Credit for Production of Landfill Gas.** Production and sales of landfill gas from new facilities – those placed in service from January 1, 2003, through December 31, 2010 – would be permitted to qualify for the existing income tax credit for fuels produced from a non-conventional energy resource under §29 of the tax code.

- **Tax Credit for Combined Heat and Power Systems.** Combined heat and power systems – cogeneration systems that are more energy efficient than conventional generation and heating technologies – would be defined as energy property, thus qualifying for the 10% investment tax credit under current law (which is allowed for business investment in solar energy equipment). Qualifying systems would have to meet capacity, output, and efficiency criteria.

- **Extension of Excise Tax Exemption and Equivalent Income Tax Credit.** The current 5.2¢/gallon excise tax exemption for 10% alcohol-gasoline fuel blends (which generally expires on September 30, 2007) and the equivalent income tax credit of 52¢ *per gallon of ethanol* (which expires on December 31, 2007) would be extended through December 31, 2010.

- **Allocate 2.5¢ Portion of Gasohol Tax Rate to the Highway Trust Fund.** Motor fuel blends consisting of 90% gasoline and 10% ethanol are taxed at 13.2¢/gal (they are exempt from 5.2¢ of the 18.4¢ gas tax) with 10.6¢ going into the Highway Trust Fund, 2.5¢ going into the general fund, and 0.1¢ going into the Leaking Underground Storage Tank trust fund. For blends consisting of less than 10% ethanol the tax is pro-rated, but the same amount of 2.5¢ is allocated into the general fund. Under the President's proposal the 2.5¢ portion of the excise tax on ethanol-gasoline blends would be allocated from the general fund into the Highway Trust Fund.

- **Extension of Abandoned Mine Land Reclamation Fees.** The current fees on the amount of coal mined – which range from 10¢/ton to 35¢/ton, depending on the type of mine and coal – would be extended from September 30, 2004, until most significant abandoned mine land problems are fixed.

- **Reform the Current Tax Treatment of Nuclear Decommissioning Costs.** The FY2004 budget proposes to repeal some of the current-law restrictions to the deductions for nuclear decommissioning costs. In addition, the budget proposes more liberal treatment of such costs.

Fossil Fuels Supply

Oil/Gas Exploration, Development, and Production

Provision	Current Law	SFC Bill (S. 1149)	House Bill (H.R. 6)	Comments
MARGINAL OIL AND GAS WELLS	Independent producers can claim a higher depletion rate (up to 25%, rather than the normal 15%) for up to 15 barrels per day (bpd) of oil (or the equivalent amount of gas) from marginal wells ("stripper" oil/gas and heavy oil). [IRC§613A(c)(6)]	*Sec. 501.* A $3 tax credit is provided per barrel of oil ($0.50/thousand cubic feet (mcf) of gas) from marginal wells, and for heavy oil. The credit phases out as oil prices rise from $15 to $18 per barrel (and as gas prices rise from $1.67 to $2.00/thousand cubic feet.)	*Sec. 43001.* This provision is the same as the Senate bill with the exception of 1) the House bill has no carryback provision (while the Senate bill allows the credit to be carried back up to 10 years), and 2) the House bill goes into effect on January 1, 2004, while the Senate bill goes into effect on the date the bill is enacted.	The credit is limited to 25 bpd or equivalent amount of gas and to 1,095 barrels per year or equivalent.

Provision	Current Law	SFC Bill (S. 1149)	House Bill (H.R. 6)	Comments
ALASKAN NATURAL GAS	No special tax incentive is provided for natural gas produced from Alaska's North Slope.	*Sec. 511.* The Senate bill creates a new tax credit for the production of natural gas from Alaska's North Slope area. The credit would be $0.52 per million Btu of gas (about $0.50/mcf) and would phase out for wellhead prices between $0.83 and $1.35 per million Btu. The credit would be adjusted for inflation.	No provision.	In the 107th Congress's Senate energy tax bill (S. 1979) would have provided a credit equal to the difference between $3.25/mcf (adjusted for inflation) and the average monthly price for such gas sold in the Alberta, Canada, market. In effect, the tax provision would have established a price floor of $3.25 for such gas.
ENHANCED OIL RECOVERY	A 15% tax credit is provided for the costs of recovering oil by one of several selected tertiary recovery techniques. The credit is part of the general business credit and is limited by the minimum tax. [IRC§43]	No provision.	*Sec. 43008.* The House bill repeals the minimum tax limitation on the enhanced oil recovery credit, thus allowing more of it to be claimed.	Unlike the regular income tax, which may be reduced by whatever allowable corporate tax credits (e.g., the energy tax credits, or the R&D tax credit), no tax credits are allowed against the minimum liability. Further, the law states that the sum of allowable credits must be less than the difference between the regular tax and the minimum liability (it cannot be larger than the difference between the two).

Provision	Current Law	SFC Bill (S. 1149)	House Bill (H.R. 6)	Comments
PERCENTAGE DEPLETION: **a) 100% Net Income Limitation**	The percentage depletion allowance is limited to 100% of taxable income from *each property*, but this limitation is suspended through December 31, 2003, for marginal oil and gas. [IRC§613A(c)(6)(H), A(d)]	*Sec. 506.* The suspension for marginal oil and gas is extended through December 31, 2006.	*Sec. 4302.* Same as the Senate bill.	The Job Creation and Worker Assistance Act of 2002 (P.L. 107-147), enacted on March 9, 2002, retroactively extended the suspension for marginal oil and gas (which had expired on December 31, 2001) through December 31, 2003.
b) 65% Taxable Income Limitation	The percentage depletion allowance is also limited to 65% of taxpayer's overall taxable income from *all properties.* [IRC§613A(c)(6)(H), A(d)]	No provision.	*Sec. 4302.* The 65% limitation on percentage depletion for oil and gas is suspended through December 31, 2006.	The Senate bill liberalizes depletion only for incremental oil and gas output, while the House bill liberalizes depletion for all independent producers of oil and gas.
c) Independent Producer Status	For purposes of percentage depletion, an independent oil producer is a) one that, on any given day, does not refine more than 50,000 barrels of oil, and b) does not have a retail operation grossing more than $5 million/year. [IRC§613A(d)]	*Sec. 505.* The 50,000 barrel daily limit is raised to 60,000, and it applies to the average over an entire taxable year, rather than on any day during the taxable year.	*Sec. 42006.* This provision is generally the same as in the Senate bill, except that the limit is raised to 75,000.	These provisions are each the same as in the 107th Congress's tax bills.
INTANGIBLE DRILLING COSTS (IDCs)	Oil and gas producers are allowed to expense, rather than capitalize, certain intangible drilling and development costs. With certain limitations, this deduction is a tax preference item subject to the alternative minimum tax. [IRC§293(c), 57(a)(2)(e)]	No provision	*Sec.43007.* The alternative minimum tax on IDCs is repealed through December 31, 2004. Integrated oil companies are excluded from the repeal.	The provision in House Bill (H.R. 6) is the same as in the House version of H.R. 4, 107th Congress.

Provision	Current Law	SFC Bill (S. 1149)	House Bill (H.R. 6)	Comments
GEOLOGIC & GEOPHYSICAL COSTS (G&G)	G&G costs for retained properties must be capitalized (via depletion). Dry hole costs are expensed. [IRC§263]	*Sec. 508.* G&G costs for retained properties are amortizable (deducted evenly) over 2 years.	*Sec. 43004* G&G costs for retained properties are amortizable (deducted evenly) over 2 years.	The Senate's version of H.R. 4 in the 107th Congress specified 4 years; but the House version specified 1 year. Thus, each bill basically doubled the recovery period, which basically cut the tax benefits by about half. The tax treatment of G&G costs on properties that are abandoned did not change – these costs were fully deductible (expensed) in the year incurred.
DELAY RENTALS	Under the uniform capitalization rules, delay rental payments must be capitalized (via depletion). [IRC§263,263A	*Sec. 507.* Delay rental payments are deducted evenly (amortizable) over 2 years.	*Sec. 43003.* Same as the Senate bill.	The House version of H.R. 4 (107th Congress) specified payment deduction in one year, which means, expensing of delay rentals. Thus, H.R. 2511 yielded to the Senate provision.

Provision	Current Law	SFC Bill (S. 1149)	House Bill (H.R. 6)	Comments
§29 CREDIT FOR FUELS FROM UNCONVENTIONAL SOURCES	A $3 tax credit ($1979) is available for each barrel (or equivalent) of fuels produced from unconventional sources or mined from unconventional locations. For most fuels, the credit ended in 2002 for facilities & mines placed in service by 12-31-92; for biogases, the credit ends in 2007 for facilities placed in service by 6-30-98. No credit, which is phased out when oil prices exceed certain limits (currently $49.75/barrel), is available for facilities placed in service after these cut-off dates (which apply to different fuels). The credit in 2002 was $6.35/barrel of oil equivalent. [IRC §29]	*Sec. 509*. The placed-in-service date for most fuels is extended to 12-31-2006. The credit is rebaselined to $3 without further inflation adjustment. The list of qualifying fuels is expanded to include refined coal that meets emissions reduction targets.	*Sec. 43005*. The House bill also extends the credit and placed-in-service dates, and broadens the types of qualifying fuels, but these differ from the Senate bill. For new projects producing most types of the preexisting qualifying fuels, the credit is extended by 4 years for facilities placed in service through 12-31-2006. For existing "older" facilities, a lower credit is extended from 2002 to 12-31-2005 to build a facility. For any production that would qualify for a credit as a result of the broadening of the provision under this bill, the quantity of fuel qualifying for a tax credit would be limited to 200,000 cubic ft/.day of gas or equivalent.	House Bill (H.R. 6) differs from the House version of H.R. 4 (107th Congress) in one important respect: the credit is made part of the general business credit, thus potentially reducing the effective rate of credit. Although biogases, such as landfill gas, have qualified for the credit, most of the benefits from this tax credit have accrued to coalbed methane and to other unconventional fossil gases. (See CRS Report 97-679.) Also, it is important to note the similarities and differences between this tax credit and the §45 tax credit, both of which apply in part to certain renewable resources. The §29 credit is granted for the production and sale of the fuel, while the §45 tax credit is granted for the production of the electricity from the fuel. Coordination between the two credits prevents "double dipping."

Provision	Current Law	SFC Bill (S. 1149)	House Bill (H.R. 6)	Comments
TAX BENEFITS TO AMERICAN INDIANS	Present tax law provides accelerated depreciation of business property located on Indian reservations, and an employment tax credit for wages paid to American Indians. Both of these tax subsidies expire at the end of 2004. [IRC§45A, 168(j)]	*Sec. 701.* The Senate bill extends both subsidies through December 31, 2005.	No provision.	The Job Creation and Worker Assistance Act of 2002 (P.L. 107-147), enacted on March 9, 2002, extended the incentives through December 31, 2004. The House bill drops the 107th Congress's provision, which would have extended the subsidies, but only for energy-related businesses.

Refining and Distribution

Provision	Current Law	SFC Bill (S. 1149)	House Bill (H.R. 6)	Comments
OIL AND GAS PIPELINES	The recovery period for the depreciation of oil and gas pipelines is 15 years; for natural gas gathering lines, it could be either 7 or 15 years, depending upon whether they are classified as exploration or transportation equipment. [IRC§168(e)(3)]	*Sec. 502, 510, 512.* This provision clarifies the recovery periods by assigning natural gas gathering lines a 7 year recovery period, and natural gas distribution lines a 15 year recovery period. The proposed Alaska gas pipeline would treated as 7 year property.	*Sec. 42001,42002.* Natural gas gathering lines are assigned a 7 year recovery period, but natural gas distribution lines are assigned a 15 year recovery period.	The House version of H.R. 4 would have assigned a 10 year recovery period for natural gas distribution lines.

Provision	Current Law	SFC Bill (S. 1149)	House Bill (H.R. 6)	Comments
LOW SULFUR DIESEL FUEL	There are no special tax incentives for refining of low sulfur diesel fuel. Investments are recovered through depreciation, generally over 10 years. New, stricter Environmental Protection Agency (EPA) sulfur standards will go into effect in 2006. [IRC§168]	*Sec. 503 and 504.* Small refiners are permitted to expense (deduct in the year incurred), rather than depreciate, 3/4 of the costs of complying with the new EPA sulfur regulations. A tax credit of $2.10/barrel of low sulfur diesel fuel is also provided for small refiners, limited to 25% of the expensed capital costs.	*Sec.42004, 42005.* The House provision is generally the same as the Senate bill.	Both bills reduce the fraction of expensable costs for taxpayers refining between 155,000 and 205,000 barrels per day. A similar limitation is provided with respect to the per-barrel tax credit. S. 1149 would also (unlike the House bill) allow cooperatives to pass through the credits to patrons.
EXCISE TAX ON TRAIN DIESEL	Diesel used in train engines is taxed at 4.4¢/gal., comprising 4.3¢, which goes into the general fund, and 0.1¢, which goes into the LUST (Leaking Underground Storage Tank) trust fund. [IRC§4041(a)(d)]	*Sec. 703.* The 4.3¢ portion of the tax on train diesel fuel is repealed on 1-1-2004. The 0.1¢ LUST component is unchanged.	*Sec. 41008.* The 4.3¢ portion of the tax on train diesel would be repealed on 1-1-2004. Also, any fuel used in trains is not subject to the.	The House version of H.R. 4 (107th Congress) 1) would have phased out the excise tax over 8 years, and 2) did not include the gasoline LUST provision.
EXCISE TAX ON BARGE DIESEL	Diesel used in barges is taxed at 24.4¢/gal., comprising 1) 20.1¢ that goes into the Inland Waterways Trust Fund, 2) 4.3¢, which goes into the general fund, and 3) 0.1¢, which goes into the LUST trust fund. [IRC§4042]	*Sec. 703.* The 4.3¢ portion of the tax on barge diesel fuel is repealed on 1-1-2004. The 0.1¢ LUST component is unchanged.	*Sec. 41008.* The 4.3¢ portion of the tax on barge diesel would be repealed on 1-1-2004.	

Provision	Current Law	SFC Bill (S. 1149)	House Bill (H.R. 6)	Comments
BLEND OF DIESEL/WATER EMULSION FUEL	Diesel used in highway vehicles is generally taxed at 24.4¢/gal., comprising the 24.3¢ Highway Trust Fund (HTF) rate, and the 0.1¢ LUST trust fund rate. [IRC§4081]	No provision.	*Sec. 41009*. The 24.3¢ HTF component of the tax on emulsified blends of diesel and water fuels is reduced to 19.7¢, reflecting the lower Btu value of the blended fuel.	The Taxpayer Relief Act of 1997 (P.L. 105-34) introduced the practice of taxing alternative motor fuels (such as CNG, LPG, and LNG) on the basis of the Btu equivalence to a gallon of gasoline.
UTILITY PURCHASES OF NATURAL GAS	State and local governments cannot use the proceeds from tax-exempt bonds to profit from arbitrage on natural gas purchases. [IRC§148]	*Sec. 513*. Public power utilities are exempt from the arbitrage restrictions of the tax-exempt bond rules.	*Sec. 42010*. The House provision is the same as in the Senate bill.	The Senate bill in the 107th Congress did not include this provision, so essentially it adopted the provision that was in the 107th Congress's House bill.

Coal Provisions

Provision	Current Law	SFC Bill (S. 1149)	House Bill (H.R. 6)	Comments
CLEAN COAL TECHNOLOGIES	There are no special tax breaks for clean coal technologies, either for the investments nor the electricity produced therefrom. Conventional electricity generating equipment is generally depreciable over 15 or 20 years; renewable generally over 5 years. Pollution control equipment is amortizable over 5 years (rather than depreciated over 20 years). [IRC§169)	*Sec. 401, 411,412, 421.* Two new tax credits are created: 1) a 10% tax credit for investments in selected types of *advanced* clean coal technologies, and 2) a production tax credit for electricity generated from either *advanced* clean coal technologies, or existing coal-fired steam generators retrofitted with more energy efficient and cleaner coal technologies. Tax exempt entities would be allowed to sell, trade, or assign any of the credits.	No provision.	In the 107th Congress, in one of the major differences between the two bills, the House dropped the clean coal provisions that were in the House version of H.R. 4. (In the 107th Congress's Senate bill, clean coal technologies would essentially have been conventional systems retrofitted with pollution control equipment that would meet strict standards; *advanced* clean coal technologies are selected types that meet energy efficiency and emissions standards, which would vary by type of coal and increase over time.)

Electricity Restructuring Provisions

Provision	Current Law	SFC Bill (S. 1149)	House Bill (H.R. 6)	Comments
SALE OR DISPOSITION OF TRANSMISSION ASSETS	Under present tax law, the sale of electricity transmission or distribution facilities is generally not considered to be an involuntary conversion, thus such sales generally trigger a tax, which could inhibit pro-competitive sales of transmission and distribution lines and facilities to independent companies, for example to create regional transmission organizations (RTOs). Income is generally recognized in the year in which it is constructively received, unless there is an explicit exception or the taxpayer uses the accrual method of accounting [IRC§451, 1033, 1245, 1250]	*Sec. 603.* Under this section, gain from the sale or disposition of transmission assets is recognized over 8 years. Applies to sales through December 31, 2007.	*Sec. 42007.* Generally the same as in the Senate bill, but adds additional restrictions. Applies to sales through December 31, 2006.	The House bill scales back this provision from the 107th Congress's House version of H.R. 4, while the Senate's provision is basically the same as in the 107th Congress's bill.
RECOVERY PERIOD FOR TRANSMISSION PROPERTY UNDER DEPRECIATION PROVISIONS	The current law recovery period for transmission property is generally 20 years. [IRC §168(e)(3)]	No provision.	*Sec. 42003.* Shortens the recovery period for transmission property from 20 to 15 years.	This is the only new energy tax incentive in the House bill.

Provision	Current Law	SFC Bill (S. 1149)	House Bill (H.R. 6)	Comments
NUCLEAR DECOMMISSIONING FUNDS	Deductions into a nuclear decommissioning fund are limited to the lesser of the amounts relating to the cost of service regulations or the IRS's ruling amount. Funds may be transferred tax-free in connection with a change in ownership of the nuclear facility to which they relate, but the transferee generally has to be a regulated utility eligible to maintain such a fund. In a deregulated and restructured industry, ambiguity regarding the tax treatment of decommissioning fund transfers may make such transactions taxable. [IRC§468A]	*Sec. 601.* The Senate bill repeals provisions that limited the deduction to regulated utilities, thus liberalizing the deduction in the context of utility restructuring and deregulation. It clarifies that transfers of funds do not trigger a tax, and that the actual decommissioning costs are deductible when paid rather than when the actual decommissioning begins.	*Sec. 42008.* In addition to the amendments made by the Senate bill, the House provision further liberalizes the tax treatment of nuclear decommissioning costs. Unlike the Senate bill, the House provision allows a utility to make contributions into the fund in excess of the maximum amount established by the Internal Revenue Service in certain circumstances.	Each of these provisions is essentially the same as in the previous bills.
ELECTRIC COOPERATIVES	In general, cooperatives are exempt from tax although patrons must pay tax on any distributed profits as "patronage dividend." Rural electric cooperatives are also exempt from tax and patrons do not have to report dividends provided that no more than 15% of the cooperative's income is from services to nonmembers. [IRC§501,512]	*Sec. 602.* The income received by a rural electric cooperative from any open access (or nuclear decommissioning) transaction with a nonmember, and from certain other transactions, is excluded from the 15% test. Thus, participating in open access restructuring plans would not jeopardize cooperatives' tax exemption. Certain gross income from any electricity to be used to develop unconventional fuels is also excluded.	*Sec. 42009.* The provision in the House bill is generally the same as the Senate bill, except that it limits the types of income not counted against the 15% test.	The Senate bill is somewhat broader than in the 107th Congress's Senate bill, while the House bill is essentially the same.

Energy Efficiency

Business Sector

Provision	Current Law	SFC Bill (S. 1149)	House Bill (H.R. 6)	Comments
COMBINED HEAT AND POWER SYSTEMS	No special tax subsidies are provided to combined heat and power (cogeneration) systems; the recovery period for purposes of depreciation is generally 15 years.	*Sec. 308.* Combined heat and power systems larger than 50 kW would be treated as business energy property, thus qualifying for the 10% investment tax credit; the recovery period is increased to 22 years. Property using back-pressure steam turbines is also eligible.	*Sec. 41006.* Generally the same as the Senate bill.	Increasing the recovery period (slowing the depreciation deductions) reduces somewhat the incentive effects of the 10% investment tax credit. The extent of this effect is unclear without further analysis.
ENERGY EFFICIENCY IN COMMERCIAL BUILDINGS	Energy efficiency property that is installed as part of a structure is depreciable over 39 years – it has the same recovery period as the structure. [IRC§168(c)]	*Sec. 305.* Expenditures on energy efficiency property made with respect to a commercial building are tax deductible (rather than depreciable), subject to a limit equal to $2.25 x sq.ft. of the building. The property must reduce the building's annual energy costs by at least 50% as compared to a reference building. Commercial buildings include residential rental property.	No provision.	The Senate bill allows designers of commercial buildings to claim this deduction if the energy efficiency items are installed in the buildings of nontaxable entities. (It is not clear whether the deduction applies to the expenditures on the entire building, subject to the 50% limitation.) The House bill dropped the provision that was in the 107th Congress's House version of H.R. 4.

Residential Sector

Provision	Current Law	SFC Bill (S. 1149)	House Bill (H.R. 6)	Comments
ENERGY-EFFICIENCY ITEMS IN HOMES	No special tax treatment is accorded to homeowners for purchases of more energy efficient water heaters, furnaces, and air conditioners.	*Sec. 303, 309.* A 10% tax credit, up to $300 lifetime, is provided for the costs of energy efficiency improvements (insulation, windows/doors, and roofs) to existing homes, (which must be certified as meeting certain standards) and that reduce a home's heat loss or gain. Tax credits of 15%-30% are provided for certain renewable energy equipment, subject to limitations.	*Sec. 41004.* Generally the same as the Senate provision except that the credit is 20%, up to a lifetime credit of $2,000.	With respect to the Senate bill, there must be a certified reduction in heating and cooling costs of at least 30%.
ENERGY-EFFICIENT NEW HOMES	No special tax break is available to builders who construct more energy efficient new homes.	*Sec. 301.* A tax credit is provided to a builder for the costs of property which makes a new home from between 30-50% more energy efficient. The maximum credit is $1,000 for at least 30% efficiency improvements, and $2,000 for at least 50% improvements.	*Sec. 41005.* Conceptually the House provision is similar to the Senate's except that the maximum credit is $2,000 and the efficiency improvements must reduce annual energy consumption by at least 30% below a comparable reference dwelling.	Under each bill, energy efficiency improvements are insulation, windows/doors, new roofs, and other improvements, which must be certified as meeting certain standards and that reduce a home's heat loss or gain by the required fractions. Eligible property includes heating and cooling equipment.

Provision	Current Law	SFC Bill (S. 1149)	House Bill (H.R. 6)	Comments
HOME APPLIANCES	There is no special tax incentive for either the production or purchase of energy efficient appliances (although regulations set standards for energy use efficiency and labeling).	*Sec. 302.* A tax credit of either $50 or $100 is provided to manufacturers of more energy efficient washers, depending on energy efficiency rating of the washer and a $150 tax credit for energy efficient refrigerators, depending upon reduction in energy use over reference models. Which of the credits may be claimed depends on the degree of improvements in energy efficiency. The total credit for any manufacturer is subject to certain limitations, including an output annual gross receipts limitation, and a cumulative lifetime credit limit per manufacturer of $30 million for washers, and $60 million for both appliances.	No provision.	The provision from the 107th Congress's House energy tax bill (H.R. 4) was dropped.
ENERGY MANAGEMENT DEVICES	Current law provides no special tax incentives for meters, thermostats, and other energy management devices that allow utilities or consumers to monitor, control, and thereby possibly conserve electricity or natural gas. Such property is depreciable if used in a business.	*Sec. 306, 307.* Energy management and water submetering devices installed in residences or businesses are given a 3-year recovery period for depreciation purposes.	No provision.	The Senate dropped the $30 tax credit that would have been provided to such devices in H.R. 4 (107th Congress), and the House dropped its provision altogether (which was the same as in the 107th Congress's Senate bill).

Transportation Sector

Provision	Current Law	SFC Bill (S. 1149)	House Bill (H.R. 6)	Comments
NEW HYBRID VEHICLES	Under current law there is no tax credit for hybrid vehicles, but they may qualify for a deduction of up to $2,000 as clean-fuel vehicles. [IRC§179A]	*Sec. 201.* A base tax credit is provided to purchasers of hybrid vehicles, ranging from $250-$1,000 for cars and light trucks, and $1,000-$10,000 for heavy trucks. An additional tax credit ranging from $500-$3,000 for cars and light trucks is provided, depending on vehicle weight, power, and fuel efficiency. The credit is increased further for early adoption of extra-fuel efficient hybrid heavy trucks.	*Sec. 41010.* No additional tax incentives for hybrid vehicles, but existing clean-fuel vehicle tax deduction phase-out, which begins in 2004 and ends in 2006, is repealed. Thus, the tax credit would be made permanent	The House bill dropped its relatively generous tax credits for hybrid vehicles. The Senate bill reduced the amount of tax credits over in the 107th Congress's bill.

Renewable and Alternative Fuels

Business Sector

Provision	Current Law	SFC Bill (S. 1149)	House Bill (H.R. 6)	Comments
ELECTRICITY FROM RENEWABLE FUELS	Electricity producers may claim a tax credit of 1.5¢/kWh (in 1992 dollars) for electricity produced from wind energy, "closed-loop" biomass, or poultry waste. The credit for 2003 was 1.8¢/kWh. Investments have to be made and producing by December 31, 2003. A 10% tax credit is provided for investment in 1) solar and geothermal equipment used to generate electricity (including photovoltaic systems), 2) solar energy used to heat or cool a structure, and 3) solar energy used for process heat. Geothermal energy reservoirs qualify for a 15% percentage depletion allowance. The recovery period for renewable technologies is 5 years. [IRC§45,46,48, 613(e)] [IRC§45]	*Sec. 101.* The credit is raised to 1.8¢ for new production, with no inflation adjustment. The placed-in-service deadline is extended from 12-31-2003 to 12-31-2006 for currently allowed facilities and for most of the new facilities added by the bill. The bill expands the list of renewables that would qualify for the §45 credit to include six new types of "renewables:" closed-loop biomass, co-fired with coal, open-loop biomass (at 1¢/kWh. instead of 1.5¢), swine and bovine waste, geothermal, solar energy, small irrigation power facilities, municipal biosolids, and recycled sludge. The credit is to be available for ten years after a facility is placed in service (5 years for open loop biomass. Allows 1) lessee-operators (rather than owners) to qualify for the tax credit; 2) tax-exempt entities to sell or trade any unused tax credits; and 3) rural electric cooperatives to use the tax credits to pay back government subsidized loans. Other existing law limitations are also liberalized or repealed.	*Sec. 41002.* The House bill expands this credit more than the Senate bill. It expands the list of renewables to open-loop biomass, landfill gas, and trash combustion facilities. Extends placed-in-service deadline to 12-31-2006. The credit for open-loop biomass and landfill gas applies retroactively but the credit is 1.0¢/kWh. instead of 1.5¢, and is available for 5 years instead of the normal 10 years.	The Job Creation and Worker Relief Act of 2002 (P.L. 107-147) retroactively extended the placed-in-service deadline from 12-31-2001 to 12-31-2003. In the SFC markup of S. 1149, the 1.5¢ rate of credit was raised to 1.8¢/kWh. The provision in the House bill is essentially the same as in the House version of H.R. 4 (107th Congress), except that this year's bill allows the credit to be also claimed against the alternative minimum tax.

Provision	Current Law	SFC Bill (S. 1149)	House Bill (H.R. 6)	Comments
SMALL ETHANOL PRODUCER TAX CREDIT	Present law provides fuel ethanol 1) a 5.2¢ excise tax exemption (or a 52¢ blender's tax credit, and 2) 10¢/gal. tax credit for small ethanol producers (ones that produce less 15 mil. gal./year, and have less than 30 mil. gal. in production capacity). Any credit claimed must be reported as income subject to tax. Cooperatives are tax-exempt and therefore do not benefit from the producer credit, which cannot flow through to patrons. [IRC§40, 87, 4081]	*Sec. 205.* This provision 1) allows patrons of farmers' cooperatives to qualify for the 10¢ small producer credit; 2) defines a small producer as one with <60 mil. gal. capacity; 3) exempts the credit from the passive activity rules; 4) allows the credit against the alternative minimum tax; and 5) exempts the credit from the regular income tax under IRC§87.	No provision.	
FUEL ETHANOL AND THE HIGHWAY TRUST FUND	Present tax law on fuel ethanol blends results in revenue losses to the Highway Trust Fund (HTF) of 7.7¢/gal., comprising for 90/10 blends the 5.2¢ exemption, and the 2.5¢ of the 13.2¢ taxable portion that is allocated into the general fund. [IRC§4081, 9503 (b)(4)]	*Sec. 208.* Beginning on 10-1-2003, the 2.5¢ component of the tax on fuel ethanol blends will be allocated into the HTF. Reduced tax rates on most alcohol fuels are replaced with tax credits.	No provision.	
ETBE USED TO PRODUCE GASOHOL	The ether ETBE (ethyl tertiary butyl ether) blended with gasoline qualifies for the same tax advantages as ethanol blended with gasoline, but the blender's credit on ethanol used to produce ETBE can be claimed only by blenders. [IRC§40,4081]	*Sec. 206.* The Senate bill permits refiners to claim the blender's tax credit as a credit against excise taxes otherwise due on the ETBE blended fuel. The bill allows the transfer of such credit to any taxpayer with any gasoline excise tax liability.	No provision.	

Provision	Current Law	SFC Bill (S. 1149)	House Bill (H.R. 6)	Comments
BIODIESEL	Under present law, biodiesel has no special tax break, and, as a transportation fuel, it is taxed at the same rate as petroleum diesel: 4.4¢ for trains, and 24.4¢ for barges and trucks. [IRC§4041, 4042, 4081]	*Sec. 207.* The bill provides a tax credit – in the amount of 1¢ for each 1% of biodiesel made from virgin vegetable oil and blended with petroleum diesel. The maximum credit is 20¢/gal. The tax credit for recycled vegetable oil is ½ the credit for virgin biodiesel. The excise tax otherwise due on highway biodiesel is reduced by the amount of the tax credit.	No provision.	
BUSINESS USE OF RENEWABLE TECHNOLOGIES	A 10% tax credit is provided for investment in solar equipment used to 1) generate electricity (including photovoltaic systems), 2) used to heat or cool a structure, and 3) used for process heat. Geothermal energy reservoirs qualify for a 15% depletion allowance. Electricity from wind technologies receives the §45 tax credit. The recovery period for renewable technologies is 5 years. Fuel cells do not qualify for tax subsidies. [IRC§45,46,48, 613(e)]	*Sec. 304.* Business investments in fuel cells would qualify for a 30% tax credit subject to a limit of $1,000/kW of capacity; investments in stationary micro turbine power plants would qualify for a 10% tax credit and the limit would be $200/kW.	Sec. 41003. A 10% tax credit is provided for investments in stationary fuel cells, subject to a maximum credit of $1,000/kW of capacity.	Each of these provisions is similar to the 107th Congress's bills.

Residential Sector

Provision	Current Law	SFC Bill (S. 1149)	House Bill (H.R. 6)	Comments
RENEWABLE ENERGY TECHNOLOGIES	There are no tax subsidies for residential applications of solar, wind, and other renewable energy technologies.	*Sec. 303.* A tax credit is provided for residential applications of renewable technologies: 15% credit for solar (including photovoltaics), and 30% for wind and fuel cells. The maximum credit is $2,000 except for wind technologies, which are limited to $1,000/kW of capacity.	*Sec. 41001, 41003.* A10% tax credit (up to $2,000) is provided for residential solar (10% credit to residential fuel cells, up to $1,000/kW of capacity).	These provisions are very similar to the previous bills. Special rules enable expenditures made with respect to jointly occupied dwelling units and condominiums to qualify for the tax credits.

Transportation Sector

Provision	Current Law	SFC Bill (S. 1149)	House Bill (H.R. 6)	Comments
ALTERNATIVE-FUEL VEHICLES	The incremental costs of an alternative fuel vehicle are tax deductible, up to $2,000 for a car, $50,000 for a truck. This applies to vehicles powered by LPG, LNG, CNG, hydrogen, E85 and M85. The credit phases out beginning in 2004 and ending in 2006. [IRC§179A]	*Sec. 201.* A 40% tax credit is provided for the incremental costs of an alternative fuel vehicle. An additional 30% tax credit is available if the vehicle meets certain Clean Air Act standards. The maximum credit would be $5,000-$40,000 depending on vehicle weight.	*Sec. 41011.* Except for fuel cell vehicles (discussed above in this table) and "advanced clean-burn technology vehicles," which are not in the Senate bill, there are no other tax credits for alternative fuel vehicles.	The House bill dropped its larger tax credits from the 107th Congress's bill. Both S. 1149 and H.R. 6 would allow lessors (under safe harbor leasing rules) to qualify for the tax credit, thereby benefitting tax exempt entities such as state and local governments.

Provision	Current Law	SFC Bill (S. 1149)	House Bill (H.R. 6)	Comments
NEW FUEL CELL VEHICLES	Fuel cell vehicles may qualify for the $4,000 electric vehicle tax credit (discussed below). [IRC§30]	*Sec. 201.* A tax credit is provided to purchasers of fuel cell vehicles, ranging from $4,000-$40,000 depending upon vehicle weight. An additional credit for cars and light trucks powered by fuel cells is provided ranging from $1,000-$4,000 depending on percentage improvements in fuel efficiency relative to a reference conventional vehicle.	*Sec. 41011.* For fuel cell vehicles, the House provision is generally the same as the Senate bill, except for differences in the base (or reference vehicle) fuel economy for purposes of the additional tax credit. The House bill also covers "advanced clean-burn technology vehicles," which are not in the Senate bill.	The credits in the House bill for fuel cell and lean-burn vehicles may be carried forward for up to 20 years.
ALTERNATIVE-FUEL REFUELING STATIONS	A maximum lifetime tax deduction, up to $100,000, is provided for the costs of alternative fuel refueling property (excluding installation costs). This deduction expires on 2006. [IRC§179A]	*Sec. 203.* The Senate bill replaces the current deduction with a 50% tax credit, through 2007, for the costs of clean-fuel refueling equipment (subject to a maximum tax credit of $30,000). It adds "residential clean-refueling property" to qualifying property, subject to a maximum credit of $1,000. For hydrogen refueling stations, the credit is available through 2011.	No provision.	The Senate bill also would permit businesses that install refueling equipment on property owned by tax-exempt entities to qualify for the tax credit.

Provision	Current Law	SFC Bill (S. 1149)	House Bill (H.R. 6)	Comments
RETAIL SALE OF ALTERNATIVE FUELS	Fuel ethanol (and methanol) qualifies for an excise tax exemption. Fuel ethanol also qualifies for blender's and production tax credits. CNG and other alternative fuels are taxed at lower rates, as measured against the Btu equivalence of gasoline. Electricity used in vehicles is not taxed. There is a tax break for the retail sale of alternative motor fuels. [IRC§40, 4041, 4081]	*Sec. 204.* A 30¢/gal. tax credit (rising to 50¢/gal.) is provided for the retail sale of an alternative fuel (CNG, LNG, LPG, hydrogen, E85, and M85). The credit is based on the gasoline equivalent of alternative fuel, rated at 114,000 Btu/gal. of gasoline.	No provision.	
ELECTRIC VEHICLES	A 10% tax credit, up to $4,000, is available for the costs of an electric vehicle. The credit phases out from 2004-2006. [IRC§30]	*Sec. 202.* The Senate bill repeals the existing credit and provides a new tax credit ranging from $3,500-$40,000, depending on vehicle weight, payload capacity, and driving range. A smaller tax credit (10% of costs up to $1,500) is provided for electric vehicles with a maximum velocity of between 20-25 mph. Leases of electric vehicles would also qualify for the tax credit.	*Sec. 41010.* Repeals the phase-out of the existing tax credit. No additional incentives are provided.	The Job Creation and Worker Relief Act of 2002 (P.L. 107-147) retroactively extended the phase-out dates from 2002-2004 to 2004-2006. SFC Bill (S. 1149) does not change these dates.

Miscellaneous Provisions

Provision	Current Law	SFC Bill (S. 1149)	House Bill (H.R. 6)	Comments
STUDY OF COALBED METHANE	Coalbed methane is one of the unconventional fuels that qualify for the §29 tax credit. There is no provision in current law for the study of the effects of the §29 tax credit on coalbed methane.	*Sec. 509.* The Secretary of the Treasury shall study the effects of the §29 tax credit on the production of coalbed methane.	No provision.	CRS has analyzed the economic effects of the §29 tax credit, including the effects on coalbed methane, through 1997. See CRS Report 97-679, *An Economic Analysis of the §29 Tax Credit for Unconventional Fuels.*
STUDY OF CERTAIN TAX INCENTIVES	There is no provision in the Internal Revenue Code directing the General Accounting Office to study the effects of the tax incentives for alternative motor fuels and for energy efficiency.	*Sec. 702.* GAO is directed to undertake an analysis of the effectiveness of the tax incentives for alternative motor vehicles and energy efficiency investments proposed in the bill.	No provision.	
DUTY FREE SALES OF GASOLINE AND DIESEL	Customs duties are imposed on the importation of commodities into the United States The duty on gasoline and diesel imports is 52.5¢/barrel (1.25¢/gal.). Commodities sold in duty-free shops may be sold duty-free if the commodity is not entered into the United States. [Harmonized tariff schedules of the U.S.; 19 U.S.C. 1555(b)]	*Sec. 209.* The Senate bill provides that any gasoline or diesel sold in duty-free shops will be considered entered for consumption, and therefore subject to duty.	No provision.	

Provision	Current Law	SFC Bill (S. 1149)	House Bill (H.R. 6)	Comments
ENERGY CREDITS AND THE ALTERNATIVE MINIMUM TAX	Under current law, energy-related income tax credits, and many of the non-energy tax credits, are aggregated and claimed as one general business credit, which is also subject to several limitations, including the alternative minimum tax limitation. [IRC§38]	No provision	*Sec. 43006, 43007.* This section makes the minimum tax limitation inapplicable to several of the personal and business energy tax credits introduced by the bill.	
COAL MINER'S HEALTH BENEFITS FUND	In 1992 the Congress established a health benefits fund to pay for the medical expenses of retired miners and their dependents. Coal operators make annual contributions for each retired miner assigned to a particular operator. [IRC§9704]	No provision.	*Sec. 42011.* The proposal allows assigned coal operators to be relieved of their liability to make annual contributions, provided that the operator's parent company prepays the premiums.	
ENERGY RESEARCH CREDIT	A 20% research tax credit is available on the amount by which a taxpayer's qualified research expenses for a taxable year exceed its base amount for that year. The research tax credit is scheduled to expire and generally will not apply to amounts paid or incurred after June 30, 2004. [IRC §41]	*Sec. 704.* The 20% credit is to be available for all expenditures on qualified energy research undertaken by a research consortium.		

Revenue Offsets

Provision	Current Law	SFC Bill (S. 1149)	House Bill (H.R. 6)	Comments
TAX SHELTER CURTAILMENT	Various provisions related to tax shelters and enforcement.	*Secs. 801-807.* New enforcement and other provisions are designed to curtail tax shelters.	No provisions.	
TAX TREATMENT OF FOREIGN REINCORPORATIONS	The inversion of ownership from a U.S. corporation with a foreign subsidiary to a foreign corporation with a U.S. subsidiary has certain tax benefits for both the corporation and its shareholders when the parent corporation is established in a country with taxes lower than in the United States. [IRC§ 367]	*Sec. 821.* New tax consequences are established for each type of corporate inversion transaction.	*Sec. 44001,44002.* The House provision imposes a moratorium on corporate inversion transactions undertaken between March 4, 2003, and January 1, 2005, and expresses the sense of the Congress that this section of the tax code needs to be reformed.	Partial revenue offsets for the various energy tax provisions are new to the two bills.
EXCISE TAX ON STOCK COMPENSATION OF INSIDERS OF INVERTED REINCORPORATIONS	Shareholders generally are required to recognize any gain from a stock inversion transaction, but not for holders of stock options and other stock-based compensation.	*Sec. 822.* Holders of stock options and other stock-based compensation are subject to a 20% excise tax on the value of certain stock compensation if the corporation reincorporates as part of an inversion transaction.	No provision.	

Provision	Current Law	SFC Bill (S. 1149)	House Bill (H.R. 6)	Comments
REINSURANCE AGREEMENTS	In the case of a reinsurance agreement, the Treasury Secretary has the authority to make adjustments in order to more properly reflect income. In cross border transactions, this procedure is more difficult. [IRC§ 845]	*Sec. 823.* The Senate provision clarifies the rules relating to the Secretary's authority to make it easier to adjust reinsurance agreements in order to more properly reflect and measure income.	No provision.	
IRS USER FEES	The Internal Revenue Service charges taxpayers fees for certain services it renders: letter and revenue rulings, determination and opinion rulings, and other similar services. The fee amount depends upon the type of ruling and the section of the tax code it pertains to. The authority for these fees expires on September 30, 2003. [§10511, P.L. 100-203]	*Sec. 831.* The Senate bill extends the authority to impose these fees by 10 more years, through September 30, 2013.	No provision.	
TAXABLE VACCINES	Certain vaccine manufacturers must pay an excise tax of 75 cents per dose. [§4131]	*Sec. 832.* The vaccine for hepatitis A is added to the list of taxable vaccines.	No provision.	

Provision	**Current Law**	**SFC Bill (S. 1149)**	**House Bill (H.R. 6)**	**Comments**
INDIVIDUAL EXPATRIATION	Persons who relinquish U.S. citizenship or residency to avoid taxes must pay an alternative tax for 10 years. [§877]	*Sec. 843.* Objective standards are established for determining whether a person is subject to the alternative tax, plus other new rules.	No provision.	