Terminations, Reductions, and Savings

Budget of the U.S. Government
Fiscal Year 2011

Office of Management and Budget
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TERMINATION: COAL TAX PREFERENCES (4 TERMINATIONS)

Department of Energy

To foster the development of a clean energy economy and reduce our dependence on fossil fuels that contribute to climate change, the Administration proposes to repeal tax provisions that preferentially benefit fossil fuel production. Coal subsidies are costly to the American taxpayer and do little to incentivize production or reduce energy prices. Removing these subsidies would reduce greenhouse gas emissions and generate $2.3 billion of additional revenue over the next 10 years, an amount that represents only a small percentage of annual domestic coal revenues -- about one percent over the coming decade.

Funding Summary
(In millions of dollars)

.	2011	2012	2013	2014	2015	2011-2015	2011-2020
Total, Proposed Changes from Current Law	-110	-183	-204	-223	-238	-958	-2,283
Expensing of Exploration and Development Costs	-32	-55	-49	-45	-45	-226	-413
Domestic Manufacturing Deduction for Hard Mineral Fossil Fuels	-3	-5	-5	-5	-6	-24	-57
Percent Depletion for Hard Mineral Fossil Fuels	-57	-98	-102	-106	-109	-472	-1,062
Royalty Taxation	-18	-25	-48	-67	-78	-236	-751

Justification

Repealing fossil fuel tax preferences helps eliminate market distortions, strengthening incentives for investments in clean, renewable, and more energy efficient technologies. This proposal would take effect beginning January 1, 2011.

In 2009, member states at the G-20 summit committed to phase-out fossil fuel subsidies in the medium term.[1] A recent Organization for Economic Co-Operation and Development analysis indicates that commitment from all G-20 member states to phase-out fossil fuel subsidies could reduce global greenhouse gas emissions by 10 percent.[2] In addition, removal of market distortions created by fossil fuel subsidies will lead to a more efficient allocation within the energy sector as well as across sectors, likely with positive impacts on national output and gross domestic product.

Citations

[1] G-20. 2009. Group Statement on Pittsburgh G-20 Summit. Leaders' Statement. The Pittsburgh Summit. September 24–25, 2009. *http://www.pittsburghsummit.gov/mediacenter/129639.htm* (Accessed January 2010).

[2] OECD. 2009. The Economics of Climate Change Mitigation: Policies and Options for Global Action beyond 2012. Paris, France: Organization for Economic Co-operation and Development.