Senate Budget Committee Republican Staff
BUDGET BULLETIN
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INFORMED BUDGETEER

TAX BRACKETS, DEDUCTIONS, AND CREDITS FOR 2004

- The Consumer Price Index for August 2003, released September 16, was the last piece of information needed to index next year's individual income tax brackets. For *Bulletin* readers who like to plan ahead, the following is CBO's approximation of the individual tax parameters for 2004.
- The personal exemption amount will increase by $50 in 2004, from $3,050 in 2003 to $3,100 in 2004. The standard deduction for individuals will increase by $100 to $4,850 in 2004. And, good news for married couples – thanks to the Jobs and Growth Tax Relief Reconciliation Act of 2003, the standard deduction for couples will jump $1,750 to $9,700 in 2004 due to the acceleration of marriage penalty relief.
- A taxable income of $319,100 will place you in the top marginal tax bracket of 35 percent in 2004.
- In 2004, the value of exemptions begins to phase out at $142,700 of taxable income for singles and at $214,050 of taxable income for couples. The value of itemized deductions begins to phase out at $142,700 of taxable income for both single and joint returns.
- The maximum Earned Income Credit (EIC) for families with one child will be $2,604 in 2004 -- $57 more than in 2003. The maximum credit for two or more children will rise by $96 in 2004, from $4,204 to $4,300.
- With one child the EIC is completely phased out at $30,338 of income (for a single parent) in 2004 (compared to $29,666 in 2003). With two or more children the EIC is completely phased out at $34,458 in 2004 (compared to $33,692 in 2003).

2004 TAX PARAMETERS

Personal Exemption $3,100			
SINGLE RETURN			
Rate Brackets: Taxable Income	Rate %	Standard Deduction	
$0 - $7,000	10	Regular	$4,850
$7,000 - $29,050	15	Elderly/Blind	$1,200
$29,050 - $70,350	25		
$70,350 - $146,750	28		
$146,750 - $319,100	33	Exemption Phase-out	$142,700
$319,100 and over	35	Itemized Phase-out	$142,700
JOINT RETURN			
Rate Brackets: Taxable Income	Rate %	Standard Deduction	
$0 - $14,000	10	Regular	$9,700
$14,000 - $58,100	15	Elderly/Blind (each)	$950
$58,100 - $117,250	25		
$117,250 - $178,650	28		
$178,650 - $319,100	33	Exemption Phase-out	$214,050
$319,100 and over	35	Itemized Phase-out	$142,700

EARNED INCOME CREDIT PARAMETERS

Type of Return	Maximum Eligible Earnings	Maximum Credit	Phase-out point
Childless	$5,100	$390	$11,490
One Child	$7,660	$2,604	$30,338
Two or more	$10,750	$4,300	$34,458

COST ESTIMATE ON THE ENERGY BILL

- On the same day (November 18) that the House passed the conference report on the Energy Bill (HR 6), CBO released a table of its preliminary estimate of the direct spending and revenue provisions of the bill. Over the next 10 years, CBO estimates that the bill would increase the deficit by $31 billion. Most of the deficit increase results from provisions that would reduce revenues by $25.7 billion over the 2004-2013 period.
- The remainder of the deficit increase results from provisions that increase direct spending. HR 6 would increase direct spending by $0.7 billion in 2004 and by $5.4 billion over 10 years. This is $0.6 billion more in 2004 and $3.4 billion more over 10 years than the bill as introduced in the House. It is $0.5 billion more in 2004 and $0.3 billion more over 10 years than the bill as introduced in the Senate. The following provisions account for most of the direct spending in this bill.
- <u>Energy conservation.</u> The conference report includes $3.0 billion over 10 years for Energy Savings Performance Contracts (ESPCs). Versions of this provision were in both the House- and Senate-passed versions of the bill (see June 9, 2003 *Bulletin* for longer discussion). The conference report would make the ESPC authority permanent, as well as expand the use of ESPCs to building construction. In addition, the conference report establishes a pilot program that would allow the Department of Defense or other interested federal agencies to use up to 10 ESPCs to improve the performance and fuel consumption of general purpose vehicles and defense weapons systems.
- <u>Oil and Gas.</u> The conference report includes royalty relief or credits to producers for marginal wells or deep water exploration and royalty reimbursement from the general treasury to exploration companies to pay for their National Environmental Protection Act analysis, costing $0.6 billion over 10 years.
- Beyond these provisions, the conference report includes numerous new direct spending items that were not in either the House- or Senate-passed energy bills. For example, the conference report includes $1.5 billion for a research and development program that will investigate how to extract oil and gas from ultra-deep water and unconventional sources.
- The conference report also would create new direct spending for coastal impact assistance for some areas affected by oil and gas exploration and production activities on the outer continental shelf (OCS). Again, this was not in either the House or the Senate bill. This provision would earmark a portion of OCS receipts to be spent on coastal impact assistance, including all receipts that come into the treasury over a certain level set out for each year in the conference report. CBO's estimate of the cost of this provision -- $1.1 billion over 10 years -- reflects the current OCS receipts baseline. However, this provision could cost significantly more if actual receipts from OCS exploration end up being higher than the current CBO baseline estimates. To compound this one-sided bet, this provision is front-end loaded, with 41% of its 10-year cost occurring in its first two years (2005 and 2006), with a hidden back-end load of $0.4 billion in 2014, just outside the budget window.
- Other last-minute spending includes $0.6 billion over 10 years for the Denali Commission and for a payment to states for oil drained from state oil fields by federal lessees.
- <u>Electricity.</u> The conference report would authorize the Federal Energy Regulatory Committee to exercise authority over the reliability of the nation's electricity transmission system through the establishment of electric reliability organizations (EROs).

These EROs would be able to collect fees and would then be able to spend them without further appropriations to insure the reliability of the nation's electricity grid. CBO assumes that spending by the EROs would total $1.1 billion over the 2004-2013 period. The fees that the EROs would be collecting are scored as revenues, which are estimated to be $0.8 billion over the 2004-2013 period.

- Power Administrations. The conference report would allow the power marketing administrations to pay the Corps of Engineers directly to provide maintenance on their dams in 2004 instead of the current practice of the Corps having to receive an annual appropriation. This would cost $150 million in 2004.

- The conference report provides $0.1 billion over 10 years for the Western Area Power Administration and the Southwestern Power Administration to design, develop, construct or operate an electric power transmission facility and related facilities to upgrade existing transmission capabilities if it is located in a national interest transmission corridor, or is necessary to accommodate an actual or projected increase in demand for electric transmission.

- Miscellaneous. The conference report would allow the Department of Energy to transfer up to 3,293 metric tons of uranium to the United States Enrichment Corporation to replace uranium that does not meet commercial specifications. CBO estimates that the government will forgo sales receipts of about $0.1 billion in 2004.

- Finally, the conference report includes ethanol provisions that will increase the use of ethanol. This would create more demand for corn, thereby raising the price of corn and lowering the cost of farm subsidies to corn producers. CBO estimates that this would reduce outlays by $2.9 billion over 10 years.

DEFICIT EFFECT OF THE ENERGY BILL (H.R. 6)
(Outlays or Revenues, in billions of $)

	2004	2004-2013
Direct Spending		
Energy Savings Performance Contracts	0.2	3.0
Ultra-deep Water & Unconventional Sources Research Program	/a	1.5
Domestic Offshore Energy Reinvestment	--	1.1
Oil & Gas Provisions	0.1	0.6
Other Provisions	0.1	0.6
Electric Reliability Standards	0.1	1.1
Third-party Financing of Power Marketing Administration Transmission Projects	--	0.1
Corps of Engineers Hydropower Funding	0.1	0.1
Uranium Sales	0.1	0.1
Renewable Content of Motor Fuels, Ag Program Savings	--	-2.9
Other Provisions	/a	0.1
Subtotal, Direct Spending	0.7	5.4
Revenues		
Oil & Gas	N/A	-10.5
Section 45	N/A	-3.0
Electricity Restructuring	N/A	-2.8
Alternative Motor Vehicles	N/A	-2.5
Clean Coal Technology	N/A	-2.5
Conservation & Energy Efficiency	N/A	-1.8
Miscellaneous	N/A	-0.4
Ethanol Mandate	--	-3.1
Tax policy interactions	0.1	0.9
Subtotal, Decrease in Revenues	-2.5	-25.7
Total Increase in Deficit	**3.1**	**31.1**

Source: CBO, JCT
a. Less than $50 million

NOTE: Totals may not add due to rounding.
N/A = Not Available

- The following provisions account for most of the revenue losses associated with the bill.

- Oil and Gas. The conference report includes $10.5 billion in tax incentives for domestic oil and gas production over 10 years, including an extension of the Section 29 non-conventional fuel source tax credit through 2006 and expansion of the credit to refined coal, coalmine gas and agricultural waste; amortization of geological and geophysical expenses over two years; reduction in the depreciation period for natural gas distribution pipelines from 20 years to 15 years; and a $3 per barrel tax credit for the production of oil from marginal wells and a 50 cent per 1,000 cubic feet tax credit for the production of natural gas from marginal wells.

- Section 45 tax credit. Extending the tax credit for electricity produced from renewable resources (such as wind and closed-loop biomass) for three years and expanding the credit to electricity produced from open-loop biomass, landfill gas, and livestock waste would cost $3 billion over 10 years. The credit amount is 1.8 cents per kilowatt hour of electricity produced from wind, closed-loop biomass, solar or geothermal, and is 1.2 cents per kilowatt hour of electricity produced from the other resources.

- Electric Industry Restructuring Provisions. The conference report contains $2.8 billion in tax incentives related to electricity restructuring, including a reduction in the depreciation period from 20 to 15 years for some new electricity transmission lines, and a modification of the rules governing nuclear decommissioning costs.

- Alternative Motor Vehicle Incentives. A tax credit to encourage incentives over 10 years for the purchase of alternative fuel vehicles would cost $2.5 billion. The credit ranges from $400 to $2,400 for the purchase of hybrid vehicles, from $1,600 to $28,000 for the purchase of dedicated alternative fuel vehicles (such as natural gas, methanol, or ethanol vehicles), and from $3,400 to $34,000 for fuel cell vehicles. The conference report also provides expensing of up to $150,000 of the cost of building a refueling station.

- Clean Coal Incentives. The conference report creates a 15 percent investment tax credit to retrofit, repower or replace electricity generation facilities with clean coal technology, and it contains a 17.5 percent investment tax credit for advanced clean coal technology. These provisions would result in a $2.5-billion revenue loss.

- Conservation and Energy Efficiency Incentives. The conference report contains $1.8 billion in tax incentives for conservation and energy efficiency initiatives, including a 15 percent tax credit up to a maximum of $2,000 for the purchase of residential solar and wind energy equipment; a 20 percent tax credit for the cost of installing residential fuel cells; a manufacturer's tax credit of $100 per washer and $150 per refrigerator for the manufacture of energy-efficient appliances; a 20 percent tax credit up to a maximum of $2,000 for energy efficient improvements to existing homes; and a tax credit to homebuilders of up to $1,000 for new homes that are 30 percent more energy efficient than the average home; and a credit of up to $2,000 for new homes that are 50 percent more efficient.

- Fuel Taxes. (The revenue loss from these provisions are reflected in the oil and gas category.) The conference report also contains a repeal of the 4.3 cents per gallon excise tax on diesel fuel used in trains and barges. It contains a tax credit and excise tax credit of $1.00 per gallon of agribiodiesel and 50 cents per gallon of biodiesel. It also establishes a new excise tax credit for blenders of ethanol and biodiesel as an alternative to the current law excise tax exemption for ethanol. However, the conference agreement does not repeal the 5.2 cents per gallon ethanol excise tax exemption, nor does it transfer to the Highway Trust Fund the 2.5 cents per gallon portion of the ethanol excise tax that is retained in the general fund. Any action on those proposals will wait until debate on the reauthorization of transportation programs in the next session of Congress.

Like Sand Through the Hour Glass...

Editor's Note: The *Bulletin* wishes good luck and congratulations to Jenny Winkler, frequent contributor to the *Bulletin* and the Budget Committee's budget review numbers-meister, par excellence, for the past four years. Last month, Jenny joined the Office of Management and Budget's Budget Review Division where she will still be keeping tabs on Congress' budgetary activities as well as keeping OMB's numbers straight.