Chart of the Week 2022-02
Foregone Tax Revenues from U.S. Fossil Fuel Development

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Through 2024 and with no change to existing legislation, the U.S. Congressional Joint Committee on Taxation (JCT) projects that foregone tax revenues from various fossil fuel programs will be $57.4 billion.
The U.S. government provides eight categories of fossil fuel investment and production tax credits (foregone revenues). Some are indefinite, but most are scheduled to lapse if not renewed.

From 2009 and projected through 2024, the U.S. Congressional Joint Committee on Taxation (JCT) projects that foregone tax revenues for U.S. fossil fuel development will be $57.4 billion.

There are five subcategories that are critical beneficiaries: oil & gas depletion costs ($12.7 billion), expensing of oil & gas exploration and development costs ($12.5 billion), publicly traded limited partnerships ($9.1 billion), alternative fuel mixture credits ($7.8 billion), and amortization of air pollution control facilities ($6.2 billion). Together, these five total to $48.3 billion for the period from 2009 to 2024.

It is noteworthy that foregone tax revenues peaked in 2015 at $5.5 billion and have declined to $2.4 in 2021. Two of the subcategories contributed significantly to the decline: oil & gas depletion costs declined from $1.8 billion to $0.4 (on the heels of the 2014 drop in crude oil prices); MLPs declined from $1.1 billion to $0.3 (many MLPs reverted to traditional business models because of MLP business challenges).

From 2009 to the present, U.S. fossil fuel production has risen from 56.6 quadrillion BTUs to 75.7 in 2020, or at an annualized rate of 2.7%. During this period, it has averaged 78.6% of total U.S. primary energy production. While tax credits are a very small percentage of total revenues, at the margin they impact producers’ production costs. Any downward adjustment to these can impact reductions in domestic production, and thereby increase imports.

The U.S. Congressional Joint Committee on Taxation (JCT) stresses that these are estimates. In addition, the JCT advises that various categories of foregone tax revenues should not be summed due to potential interaction effects. These interaction effects could lead to significant discrepancies in tax revenue loss estimates.

This slide deck is available at: https://eprinc.org/chart-of-the-week/

For more information on this chart, please contact Max Pyziur (maxp@eprinc.org).