# Tax Reform and the Planet:

## Three reasons why environmentalists should care

**Contact:** Lukas Ross, Climate and Energy Campaigner **E-mail:** lross@foe.org **Phone:** 202-222-0724

With Donald Trump in the White House and Republicans in control of both houses of Congress, billionaires and giant corporations have an opportunity to achieve the tax reform package of their dreams. This is a dangerous prospect for progressive priorities across the board—and protections for the environment are no exception.

Both Trump and Republican Congressional leaders are promising deep cuts to corporate and individual tax rates as well as the repeal of provisions like the estate tax—all reforms that would disproportionately benefit Big Business and the super rich.

In order to advance legislation to implement their morally bankrupt tax plan, Republican leaders are planning to use a procedural tool known as reconciliation. This allows certain types of tax and spending bills to bypass the filibuster and pass the Senate with only a simple majority. This is a powerful and dangerous tool that would effectively allow the GOP: (1) to push ahead with fundamental changes to the tax code without securing support from a single Senate Democrat, and (2) to fund these changes by regressively shifting taxes to the poor, shredding essential pieces of the social safety net, and/or increasing the national debt.[1]

There are limits to what reconciliation can accomplish. It can only advance bills that are either revenue neutral or not expected to increase the deficit beyond a 10-year window. It also cannot advance bills that would make changes to social security, although other pieces of the social safety net are fair game.

The process begins when Congress passes a budget resolution containing reconciliation instructions. These are basically directions to individual committees in the House and Senate to write legislation generating a minimum amount of revenue —and like the budget resolution itself, the legislation written under reconciliation cannot be filibustered in the Senate.

A reconciliation-led tax reform strategy poses immeasurably high risks both to bedrock progressive principles of equality and tax fairness, as well as to vital protections for our environment. Government programs that millions rely upon for essential services like education and nutrition could soon be in danger, but there are three unique threats that the GOP tax reform agenda poses to our air, water, and climate.

### NUMBER 1: PLUNDERING PUBLIC LANDS

Activities on our public lands like logging, coal mining, grazing, and oil drilling all generate revenue. Although these activities do not come close to producing enough cash to pay for tax cuts, the reconciliation process represents the legislative path of least resistance for Trump and the GOP to advance legislation supporting the interests of polluters. Attacks on public lands could thus be swept up in filibuster-proof bills under reconciliation.

The public lands agenda that could conceivably be fast-tracked through the Senate with only 51-votes is disturbing:

- Opening waters off the Atlantic coast to oil drilling, reversing President Obama's protections.
- Opening new onshore areas for oil and coal extraction and reducing or waiving royalties on new leases.
- Forcing timber sales from ecologically sensitive areas like the Tongass National Forest.
- Mandating the sale of public lands to private corporations

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## NUMBER 2: RAIDING RENEWABLES

The Trump administration is pushing a pro-fossil fuel agenda designed to obstruct the renewable energy revolution—and one of the most dangerous weapons at its disposal is fiscal policy. Deep cuts to federal programs supporting renewable energy, like those telegraphed in Trump's initial budget, are one line of attack; repealing the tax credits for wind and solar is another.

Federal tax support for renewable electricity comes from two main sources: the production tax credit (PTC) for wind and the investment tax credit (ITC) for solar. Renewed and extended most recently in late 2015, these incentives have never been permanent parts of the tax code. This is in sharp contrast to the tax subsidies enjoyed by the fossil fuel industry, which have been on the books in some cases for over a hundred years.

The importance of these incentives for the growth of renewables cannot be overstated. Since the PTC was first established in 1992, wind power has grown exponentially, rising from just over 4,100 megawatts of cumulative capacity in 2001 to over 82,000 megawatts in 2016.[2] The growth of solar has been similarly explosive. Since the ITC was established in 2005, annual solar installations have risen by over 18,000 percent.[3] In 2016, it beat both wind and natural gas as the largest single source of new electrical capacity.[4]

What's more, leveraging our tax dollars to underwrite the growth of carbon-free power is not particularly expensive. The cost of extending the PTC for wind for four years as part of a gradual phase-out was $14.5 billion. The cost of extending the ITC for solar for five years as part of a gradual phase-out was $9 billion.[5] This is peanuts compared to fossil fuel subsidies (see below), and an excellent return on investment considering that the tax credits are expected to produce an additional $110 billion worth of GDP over the next decade and reduce carbon dioxide emissions by as much as 2.2 percent by 2020.[6]

Nevertheless, these incentives represent enough revenue to make tax reform doubly dangerous for wind and solar: firstly, as a potential source of revenue to offset the cost of lowering tax rates, and secondly, as a target for climate deniers in Congress looking to protect the market share of fossil fuels.

## NUMBER 3: PROTECTING POLLUTERS

More fossil fuel reserves have been discovered at active production sites around the world than can be safely burned under a scenario that gives the world a decent chance at keeping global temperature rise to no more than 2 degrees Celsius. Even if coal extraction were to end immediately, there would still be enough oil and gas in active fields to push the world beyond the 1.5 degree Celsius threshold.[7]

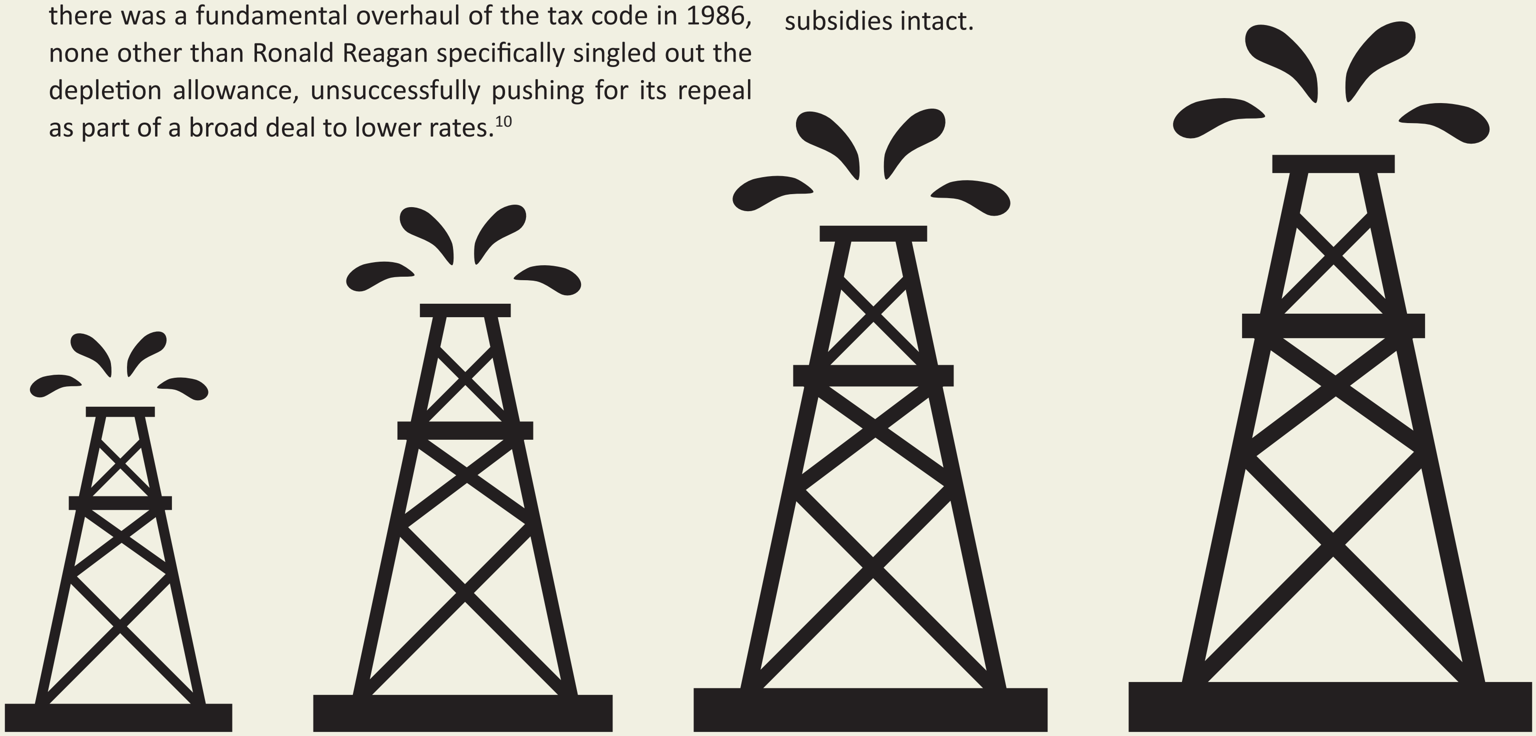
The future of the U.S. oil industry, a top driver of climate change, hinges on preferential tax treatment. A recent report from the Stockholm Environment Institute indicates that an estimated 45 percent of future oil production would become unprofitable without subsidies. If prices remain relatively stable then subsidies will push 20 billion barrels of domestic crude over the threshold into economic viability.[8] In effect, subsidies are incentivizing the climate crisis, making fossil fuels that might otherwise be kept in the ground economical to extract.

One of the most egregious giveaways is a tax break called the percentage depletion allowance. Instead of slowly deducting the value of an asset over its useful life, which is the standard accounting procedure, the depletion allowance allows independent oil producers to deduct a gross 15 percent of income from a given well. This special treatment often means that the value of the deduction exceeds the cost of the original investment. Adjusted for inflation, this measure is not cheap, costing taxpayers $111 billion between 1968 and 2010.[9] In fact, the last time there was a fundamental overhaul of the tax code in 1986, none other than Ronald Reagan specifically singled out the depletion allowance, unsuccessfully pushing for its repeal as part of a broad deal to lower rates.[10]

And polluters enjoy many other such giveaways. An estimated $135 billion in subsidies is expected to pass from taxpayers to the fossil fuel industry over the next decade.[11] This dwarfs the modest commitment to renewables, both in numerical terms and because subsidies for fossil fuels are permanent parts of the tax code. Here are some of the most prominent subsidies:

- **Intangible drilling costs** allow oil companies to immediately deduct costs like wages, fuel, and hauling that go towards the preparation to drill for oil, as opposed to slowly deducting them over the life of the asset ($13.05 billion over ten years).
- **The percentage depletion allowance** applies to oil and gas as well as hardrock minerals like coal and copper ($12.94 billion over ten years).
- **The domestic manufacturing tax credit** was signed into law by George W. Bush to protect manufacturers from the pressures of offshoring. However, oil, coal, and other hardrock mineral companies are eligible for this credit, despite not being traditional parts of the manufacturing economy ($11.12 billion over ten years).[12]

These and other incentives represent a sizable chunk of revenue that could help fund deep tax cuts—much as Reagan proposed for the depletion allowance in 1986. The issue is a GOP-led tax deal is all but certain to leave polluter subsidies intact.



## CONCLUSION

We need a tax system where corporations and the rich pay their fair share, and where polluter subsidies do not take precedence over clean air and a livable climate.

This is not the agenda that will emerge from negotiations between Donald Trump's White House and Mitch McConnell's Senate. The push to advance tax reform using reconciliation is a danger not only to basic protections for our environment, but also to bedrock progressive principles of equality and tax fairness. It must be resisted at every step of the way.

## ENDNOTES

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Friends of the Earth

**Contact:** Lukas Ross, Climate and Energy Campaigner **E-mail:** lross@foe.org **Phone:** 202-222-0724