

MEMORANDUM

To: Senate Energy and Natural Resources Committee

Subject: Oil Fee Issues

This memorandum responds to your request for a summary of unaddressed issues concerning the Obama Administration's recently proposed \$10.25 per barrel fee on oil and petroleum products. Implementing the fee would require Congressional action. Some of the issues that remain unaddressed with respect to the fee include the following.

- 1) Revenue estimates for the \$10.25 per barrel oil fee appear in the President's FY2017 Budget Proposal.¹ Tax revenues are determined by the tax base and the tax rate. The revenue estimates extend out to 2026, and as a result, are based on projections of U.S. oil use. The basis of the oil quantity estimates, as well as how they are related to Energy Information Administration projections, are not disclosed in the budget.
- 2) While the proposal suggests that oil producers and importers would be responsible for the statutory burden of the tax, it is not known whether any differential treatment of firms based on size, or level of diversification, will be allowed.
- 3) The oil fee would be adjusted for inflation and phased in evenly over a five-year period beginning October 1, 2016.² However, the method for inflation adjustment is not specified in the Budget Proposal. Adjustments for inflation can be based on several different price indices, potentially giving somewhat different measured inflation estimates.
- 4) A U.S. Treasury Department analysis of the oil fee identifies the fee as being imposed on "a per barrel equivalent of crude oil," and "collected on domestically produced, as well as imported, petroleum products."³ This explanation does not specify the point of collection of the oil fee, whether at the wellhead, point of entry into the United States, the refinery, or at some other point. The point of collection might be important because the ownership of oil can change at different points in the production and distribution process, transferring the tax payment liability.
- 5) Home heating oil would be exempted from the fee on an unspecified, temporary basis. It is proposed that 15% of the revenues from the fee would be used to aid households that experience burdensome

¹ Fiscal Year 2017 Budget Proposal, Summary Tables, Table S-9, p.154.

² U.S. Department of the Treasury, "General Explanations of the Administration's Fiscal Year 2017 Revenue Proposals," February 2016, pp. 190-191.

³ Ibid.

energy costs.⁴ These households are largely located in the Northeast where home heating oil is used more extensively.⁵ The details of administering this program are unspecified.

6) It is uncertain whether the realized revenues earned from the oil fee would be sufficient to cover the costs of the 21st Century Clean Transportation System, providing aid for families experiencing burdensome energy costs, as well as insuring the long-term solvency of the Highway Trust Fund, all goals stated in the President's Budget Proposal.⁶

7) The sunset provisions, if any, of the proposed fee after 2026 have not been specified.

8) No legislative language has emerged to implement the fee. Many questions exist concerning the form of the legislative language.

⁴ Ibid.

⁵ Ibid.

⁶ Ibid.
