WASHINGTON'S NEW ENERGY TAX?

By TERRY BARNICH

As the House and Senate try to reconcile their differences over the president's tax package, the administration is eyeing another opportunity to capture most of the money the failed Btu tax would have yielded. Some administration officials suggest a compromise would marry the Senate's gasoline tax to a "national residential energy utility tax" that will exempt manufacturers but levy a federal tax on residential electric and natural gas utility bills. Although Budget Director Leon Panetta seemed to move away from the idea over the weekend, it remains a possibility as the administration and Congress search for ways to meet their revenue targets. If so, Washington once again will be "putting people first"—first in line for the tax man, anyway.

The Senate pulled the plug on the proposed Btu tax because business leaders showed the tax would, by inflating the cost of producing everything from milk to steel, stifle the economic recovery and frustrate our international competitiveness. The loss of the entire Btu tax denied the Treasury its estimated yield of $72 billion over five years. But a compromise that imposes it at the same level on residential utility bills alone should recapture about $30 billion over the same period. Couple that with the $22 billion from the gasoline tax and the administration could recoup the lion's share of the lost Btu tax revenues.

The administration has yet to offer a principled rationale for taxing residential utility bills. So far, its spokesmen only voice vague desire for the money. But this justification does not square with the president's steadfastly held principle of not hurting the little guy. In fact, the effects of a federal utility tax will be borne in large part by those least able to afford it—the low income residential utility customer. And if a national residential energy utility tax is set at the same rate as was the failed Btu tax (4%), the administration's low income policy initiatives contained elsewhere in the budget won't mitigate the "rate shock" felt by these consumers.

Research done at Illinois' public utility commission shows that in Illinois, which is a fairly representative state, an energy utility tax of 4% will increase residential electric and natural gas utility bills by about $225 million a year. That is the dollar equivalent of paying for the construction of one new $2 billion nuclear power plant, with the obvious exception that paying this bill will not generate a single new electron. Nationally, the tax would represent the dollar equivalent of paying for 12 new nuclear power plants.

In Illinois, about $244 million will be charged to the 600,000 utility-paying households that qualify as "low income"—that is, households with annual incomes at or below 125% of the national poverty level. On average the poor live in older dwellings, with fewer modern appliances and little insulation. Therefore, they tend to consume more energy per square foot than do more affluent people. In fact, studies suggest that households with annual incomes below $20,000 get about 17% less end-use energy value for their utility dollar than households earning $50,000. Furthermore, utility bills eat up three times the amount of low income household budgets than they do the budgets of average income families and up to five times those of upper income families.

The president originally pointed to three mitigating benefits in his budget plan to offset utility rate shock for the poor: an increase in funding for the Low Income Home Energy Assistance Program, an increase in the earned income tax credit and lower mortgage interest rates resulting from a lower federal deficit. But close scrutiny of the facts reveals that the offsets will not cushion the tax burden for low income households.

The energy assistance program is a federal effort that provides grants to low income households to pay a portion of their winter home heating bills. In Illinois last year, $61 million was available for program grants, but that was only enough to help 35% of those eligible for it. The president's budget calls for a $23 million increase in Illinois' share of energy assistance grant funding. Yet, a 4% utility tax will increase the utility bills of eligible low income people by $24 million, thus worsening the underfunding of the program by $3 million.

Unfortunately it gets worse. For example, if grant dollar levels under the assistance program remain the same as last year, less than 50% of the poor will get help before the funds run out. And if the dollar level of each grant made is increased by the amount of the tax, only 40% of the eligible poor will get assistance before the fund is depleted. In either case, well over 50% of the eligible poor will receive no assistance from the program to pay their heating bills because of continued underfunding; to add insult to injury, they will be liable for the increased energy tax, too.

The president also has proposed increasing the earned income tax credit. Under the federal tax code, taxpayers earning less than about $22,000 may take additional deductions for children and health-care expenses. The president proposes to increase the qualifying ceiling to $25,000. That's all well and good, but households already making less than $20,000 won't get any additional benefit from the administration's proposal. Thus, it will have absolutely no offsetting effect on low income household energy tax increases.

Finally, the president claims his overall tax plan will lower mortgage interest rates by reducing the federal deficit. Again, the proposal misses the reality of everyday low income life. Less than 25% of low income people—those with incomes less than $15,000 a year—own their own homes. Therefore, any offset from lower mortgage rates that result from federal deficit reductions will elude the grasp of poor people as surely as does the dream of owning a home. The poor also should not hold their breath waiting for rents to take a dive.

For those who are fortunate to be homeowners, a reduction in their mortgage rates from 7% to 6% on a $50,000, 30-year mortgage will still shortchange them by about $100 because of the utility tax. While a federal residential energy utility tax may not devastate the national economy as the Btu tax might have, it will further expose the poor to the "disconnect" between the administration's intentions and the real-world effects of its ill-conceived policy.

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