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Energy Policy of
the Presidential
Candidates

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The bottom line...

- Plans change. As noted in a June 20 Tax Policy Center (TPC) report on the presidential candidates' tax plans, "one challenge facing anyone who wants to estimate the effects of candidates' tax plans is that no one—not even inside the campaigns—knows exactly what the proposals are."
- Obama and McCain generally follow the political orthodoxy of their parties. Obama offers a more progressive tax plan that primarily benefits low and middle-income taxpayers while the centerpiece of McCain's tax plan is reducing individual and corporate taxes. According to the TPC, the McCain plan (fully phased in) would cut taxes by \$596 billion over ten years as compared to present law assuming extension of the Bush tax cuts and permanent, indexed extension of current AMT relief. The Obama plan would increase taxes by \$627 billion, given the same assumptions.
- Both candidates have indicated that a portion of the cost of their tax plans would be offset with base-broadening measures and the elimination of tax loopholes. Obama's plan anticipates \$76 billion a year from such measures while McCain targets \$30 billion. Although few specifics have been offered by either candidate, both have proposed measures targeting the oil and gas industry.
- Both candidates would eliminate oil and gas subsidies and regulate the oil futures market. Obama's proposal also calls for a windfall profits tax to be imposed on oil and gas companies.
- With regard to the other elements of their energy policy, the differences between the candidates are more apparent than real.
 - Both candidates agree on implementing a cap-and-trade program for carbon emissions. Obama has a more aggressive program that is intended to reduce emissions to 80% lower than 1990 levels by 2050. McCain's program would reduce emissions to 60% below 1990 levels by 2050.
 - Obama appears more inclined toward using regulations to achieve his policy objectives while McCain uses tax and other financial incentives.
- Neither candidate has fully addressed the issue of expiring business tax provisions. Both support permanent extension of the research and development (R&D) credit, and Obama has indicated that he supports making the renewable energy production credits permanent.

Where the candidates stand on Energy...

	Obama	McCain
Oil and Gas Tax Policy		
Windfall Profits Tax	Supports tax	A July 7 press release on his economic plan says he does not support the tax. However, in an earlier speech he said that he was willing to consider it.
Repeal of Section 199 for O&G.	Supports repeal	Supports overall repeal in the context of cutting the corporate tax rate to 25%.
Repeal of other industry incentives.	Supports repeal. In January '07, he introduced the Oil Sense Act which would have eliminated tax breaks for the industry (repeal amortization of G&G, 15-year natural gas distribution lines, 7-year natural gas gathering line, modify small refiner exception). The Act also would suspend royalty relief and mandate renegotiation of federal land leases.	Supports repeal of expensing of exploration and development costs, the 15% tax credit for enhanced oil recovery costs for tertiary wells; the exception to uniform capitalization rules for intangible drilling costs; and, the special depreciable lifetimes for select oil company assets.
Revenue raisers targeting O&G (that were included but dropped from the Energy Advancement and Investment Act of 2007) such as imposing an excise tax on oil or gas extracted from the Gulf of Mexico; on finished gasoline on its removal from the refinery or entry into the U.S.; and, on fuel removed by refineries and terminals in trade zones. Another important revenue raising option in the 2007 bill would modify the application of the FTC rules to foreign oil and gas extraction income (FOGEI) and foreign oil related income (FORI).	No indication of whether Obama supports these provisions. He did not include them in the Oil Sense Act.	McCain has not stated a position

	Obama	McCain
Oil and Gas Nontax Proposals		
Regulation of the oil futures market.	Supports regulation	Supports regulation
Domestic Oil Drilling/ Exploration	Voted against opening Alaskan reserves for drilling. However, Obama has recently indicated that he is willing to support an energy package that includes some offshore drilling.	Supports new exploration. McCain has also voted in favor of allowing drilling in Alaskan reserves
Other Energy Proposals		
Renewable and Alternative	<p>Tax proposals:</p> <ul style="list-style-type: none"> • Make renewable energy credits permanent. • Tax incentives, cash prizes and government contracts to encourage cellulosic ethanol production. • Incentives for farmer-owned biofuel refineries. <p>Nontax proposals:</p> <ul style="list-style-type: none"> • A renewable portfolio standard of 25% by 2025. • Renewable fuel supply mandate (36 billion gallons by 2022) 	<p>Tax proposals:</p> <ul style="list-style-type: none"> • None offered <p>Nontax proposals:</p> <ul style="list-style-type: none"> • Construct new nuclear reactors – 45 by 2030. • Establish a federal standard for flex-fuel vehicles
Clean Coal	<p>Tax proposals:</p> <ul style="list-style-type: none"> • None offered <p>Nontax proposals:</p> <ul style="list-style-type: none"> • Ban new traditional coal facilities 	<p>Tax proposals:</p> <ul style="list-style-type: none"> • None offered <p>Nontax proposals:</p> <ul style="list-style-type: none"> • Fund clean coal technology
Conservation and Energy Efficiency	<p>Tax proposals:</p> <ul style="list-style-type: none"> • None offered <p>Nontax proposals:</p> <ul style="list-style-type: none"> • Increase CAFÉ standards • Set energy efficiency standards for new buildings. • Invest in digital smart grid 	<p>Tax proposals:</p> <ul style="list-style-type: none"> • Penalties to enforce existing CAFÉ standards. <p>Nontax proposals:</p> <ul style="list-style-type: none"> • A \$300 million prize for the development of an improved battery for plug-in hybrid and electric vehicles.

The information presented was obtained from reports prepared by the Tax Policy Center, McCain and Obama campaign materials, and statements made by the candidates or their representatives. It is current as of September 5, 2008.

	Obama	McCain
Carbon Emissions	Tax proposals: <ul style="list-style-type: none"> • None offered Nontax proposals: <ul style="list-style-type: none"> • A cap-and-trade program to reduce carbon emissions 80% below 1990 levels by 2050. • Establish a low carbon fuel standard. 	Tax proposals: <ul style="list-style-type: none"> • A \$5,000 tax credit for purchasers of low carbon emission vehicles Nontax proposals: <ul style="list-style-type: none"> • A cap-and-trade program to reduce carbon emissions 60% below 1990 levels by 2050.

Tax Proposals That are Not Energy Specific

Incentives

Corporate Tax Rate	Campaign has suggested an undefined reduction in this rate.	Phased-in reduction of the rate from 35% to 25%.
R&D	Make R&D credit permanent.	Replace the current credit with a permanent credit for 10% of wages spent on R&D.
Expensing for 3- and 5-year property		Allow expensing of all 3-year and 5-year business equipment. Deny interest deductions for expensed equipment.

Revenue Raisers

Both candidates have indicated that they will use unspecified revenue offsets and corporate base broadening proposals to offset some of the cost of their tax plans. Obama expects to raise \$76 billion a year from such measures while McCain expects his proposals to raise \$30 billion. Specific proposals identified by the candidates are listed below.

Section 199		Repeal domestic production activities deduction.
Last In, First Out (LIFO) Inventory Accounting Method		In July, a campaign representative indicated that McCain would repeal LIFO.
Economic substance	Codify the economic substance doctrine.	
Publicly Traded Partnerships	Require publicly traded financial partnerships to pay the corporate income tax.	
CEO Pay	Close loopholes in the corporate tax deductibility of CEO pay.	

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