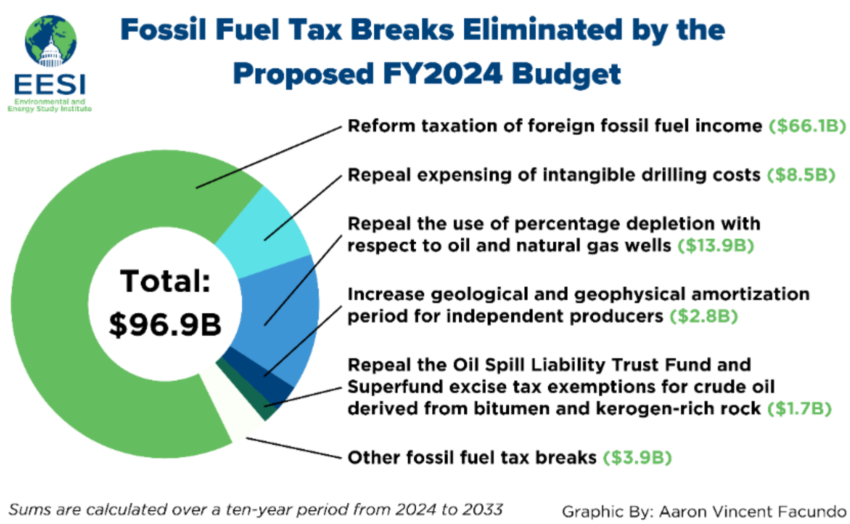
Fact Sheet

Proposals to Reduce Fossil Fuel Subsidies (January 2024)

In 2022, fossil fuel subsidies in the United States **totaled** $757 billion, according to the International Monetary Fund. This includes $3 billion in explicit subsidies and $754 billion in implicit subsidies, which are costs like negative health impacts and environmental degradation that are borne by society at large rather than producers (i.e., **negative externalities**). In fiscal year 2016 (FY 2016), the federal government's tax revenues from natural gas and petroleum exceeded its subsidies by **$1.1 billion**, according to the U.S. Energy Information Administration. But by FY 2022, subsidies exceeded revenue by **$2.1 billion**—a net loss for the government. Federal tax subsidies for coal, meanwhile, decreased from **$1.9 billion in FY 2016 to $590 million in 2022**.

States also subsidize fossil fuels, providing **support** through measures like sales tax exemptions, according to the Organization for Economic Co-operation and Development, a forum for free-market democracies.

In 2021, the United States **pledged** to cease funding new fossil fuel projects abroad. In response to President Biden's **Executive Order 14008**, the U.S. International Development Finance Corporation (DFC) set a **goal** to reach net-zero emissions from its investments in developing countries by 2040. However, the United States has already **committed** over $1.8 billion to fossil fuel projects abroad in 2023 via the DFC and the U.S. Export-Import Bank.



This fact sheet will discuss recent attempts to alter fossil fuel subsidies, including in the Biden-Harris Administration's **FY 2024 budget request** (see graphic), the *Inflation Reduction Act* (IRA) (**P.L. 117-169**), the *Infrastructure Investment and Jobs Act* (IIJA) (**P.L. 117-58**), and current Congressional proposals.

TAX EXPENDITURES

The Biden-Harris Administration's FY 2024 **budget request** would eliminate **13 fossil fuel tax preferences and credits**, such as the tax credit for oil and natural gas extracted from marginal wells and the treatment of coal royalties as long-term capital gains that benefit from lower tax rates. Over 10 years, these proposed changes would reduce the federal deficit by **almost** $31 billion. In addition, the budget proposes modifications to the taxation rules for the foreign income of U.S. oil and gas companies, which would save another $66 billion, for a total savings of $96.9 billion (see graphic above).

The IRA subsidizes fossil fuel companies, including by providing $1.55 billion for methane emission reductions. The IRA also extended and modified the **45Q tax credit** for carbon dioxide sequestration, which now **provides** an $85 credit per ton of permanently stored carbon dioxide and a $60 credit per ton of carbon dioxide used for enhanced oil recovery. These incentives increase to $180 per ton and $130 per ton, respectively, for direct air capture projects, which extract carbon dioxide directly from the atmosphere.

The **IIJA** included $12 billion for carbon capture, utilization, and storage, which generally occur at large **point sources**. As of 2022, carbon capture and sequestration projects are **planned** for at least 29 U.S. oil, gas, and petrochemical facilities.

LEASE AND ROYALTY RATES

When fossil fuel extraction occurs on federal land, artificially low lease prices and royalty rates **help subsidize costs**. In 2023, in compliance with the IRA, the Department of the Interior (DOI) released a **proposed rule** that would:

- **Increase** the lease royalty rate from 12.5% to 16.67%;
- **Increase** the minimum bid per acre of federal land from $2 to $10;
- **Increase** base rental rates by at least $1 per acre, up to $3, $5, or $15, based on time elapsed since the lease began;
- **Establish** an "expressions of interest" filing fee of $5 per acre when public land is requested for inclusion in a **lease sale**;
- **Increase** the minimum individual lease bond amount from $10,000 to $150,000, and increase the minimum bond for leasing multiple public lands statewide from $25,000 to $500,000 (these bonds are used to cover the costs of cleaning up abandoned oil and gas wells); and
- **Introduce** preference criteria for the selection of plots for leasing to divert interest away from areas with cultural, recreational, or wildlife-related significance.

The IRA **halted** noncompetitive leasing, preventing parcels from being leased below predicted market prices. However, the IRA also **mandates** that offshore oil and gas development leases of at least 60 million acres must be offered before DOI can offer offshore wind leases and that onshore gas and oil lease sales must be held before offering onshore wind and solar rights-of-way.

FOSSIL FUEL RESEARCH AND DEVELOPMENT

In FY 2022, the federal government **spent** $121 million on research and development (R&D) for natural gas and petroleum liquids, up slightly from $105 million in FY 2021 and $107 million in 2020. Meanwhile, federal funding for coal R&D **totaled** $280 million in FY 2022, compared to $500 million in 2021 and $338 million in 2020.

In 2023, Congress **allocated** $890 million to the Department of Energy's **Fossil Energy and Carbon Management** (FECM) office, a 7.9% increase. The FY 2024 budget requested $905 million for FECM. **Executive Order 14008** redefined FECM's mandate, **charging** its oil, gas, and coal research division with "minimizing the impacts" of such production.

CONGRESSIONAL EFFORTS TO REFORM FOSSIL FUEL SUBSIDIES

Legislation proposed in the 118th Congress (2023-2024) to reduce or reform fossil fuel subsidies includes:

- *End Oil and Gas Tax Subsidies Act of 2023* (**H.R.1483**), which would repeal fossil fuel **tax breaks** (like the FY 2024 budget).
- *People Over Petroleum Act* (**H.R.1743**), which would repeal the same tax credits as H.R.1483 and provide Americans a $500 **rebate** from the elimination of the subsidies.

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