EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF MANAGEMENT AND BUDGET
WASHINGTON, D.C. 20503

February 26, 2008
(House Rules)

STATEMENT OF ADMINISTRATION POLICY

H.R. 5351 - Renewable Energy and Energy Conservation Tax Act

(Rep. Rangel (D-NY) and 33 cosponsors)

The Administration has directly invested over $12 billion through fiscal year 2007 in clean, safe advanced energy resources and supported billions more in tax incentives, including the use of tax credits for both renewable energy and clean vehicles. The Administration recognizes that tax incentives for renewable energy can promote energy security and reduce impacts on the environment. In the past, the Administration has proposed the extension or expansion of tax incentives for wind, biomass, and landfill gas. However, the Administration must strongly oppose H.R. 5351, because the bill would use the tax code to target tax increases on a specific industry in a way that will lead to higher energy costs to U.S. consumers and businesses. <u>If this legislation is presented to the President in its current form, his senior advisors would recommend that he veto the bill.</u>

Specifically, the Administration strongly opposes the bill's repeal of the manufacturing deduction for a segment of a single industry. This targeted tax increase would reduce the Nation's energy security rather than improve it. Industries should be taxed on a level playing field, and that field should be leveled by lowering rates, not by raising them; such increases would create an even greater disadvantage with respect to foreign competitors.

In addition, the Administration strongly opposes changes to the foreign tax credit rules related to foreign oil and gas extraction income and foreign oil-related income. The changes in the bill would disadvantage U.S.-based companies by reducing their ability to compete for investments in foreign energy-related projects. Ensuring adequate supplies of oil and natural gas from both domestic and international sources is imperative to meet ever growing demand even as we work to diversify our portfolio of fuels. The Administration also has serious concerns that certain other tax provisions may prompt our trading partners to raise questions with regard to compliance with World Trade Organization rules.

The Administration also strongly opposes section 411, which would apply Davis-Bacon Act prevailing wage requirements for the first time to projects financed with the proceeds of any tax credit bond, as defined in section 54A of the Internal Revenue Code. This unacceptable provision is contrary to the Administration's long-standing policy of opposing any statutory attempt to expand or contract the applicability of Davis-Bacon Act prevailing wage requirements.

Finally, the Administration strongly opposes the bill's inclusion of $5.6 billion in expensive and highly inefficient tax credit bonds for renewable energy production and conservation efforts. Current law already provides sufficient Federal assistance to encourage these efforts. Such bonds also conceal the bill's true cost, since they can result in forgone Federal revenue outside the 10-year congressional enforcement window. The Administration has serious concerns about proposals to allow stripping and separate sales of Federal tax credit benefits, which would run counter to efforts to deter tax motivated transactions and improve tax compliance.

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