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# Energy incentives: evaluating government's role

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**A**merica's increasing dependence on costly imported energy has prompted federal and state governments to take a hard look at developing alternative sources, including alcohol and other forms of biomass energy. As a result of initial government incentives and grassroots support in the Farm Belt, the production of fuel alcohol reached 120 million gallons in 1980.

Government support for alcohol production has come from the Energy Tax Act of 1978, the Windfall Profit Tax Act of 1980, and the Energy Security Act of 1980, as well as from various state laws and regulations. Strongest of the federal measures is the Energy Security Act, also known as the Synthetic Fuels Bill.

The majority of these title funds have been assigned to the development of synthetic fuels from coal and oil, but a sizable portion—about \$1.5 billion—is earmarked for biomass energy projects, in particular the biochemical production of alcohol additives. Key aspects of the biomass provision are:

- National production goals for biomass-derived alcohol of 900 million gallons by 1982, and 8.4 billion gallons or 10 percent of American gasoline consumption by 1990.
- Allocation of \$525 million to the Department of Energy for the two years beginning October 1, 1980, to be used as loan guarantees, price guarantees, and purchase agreements for plants which produce at least 15 million gallons of ethanol. At least \$500 million must be used to assist alcohol fuel projects.
- An equal allocation of \$525 million to the Department of Agriculture for plants which produce less than 15 million gallons of ethanol. No allocation for alcohol fuels was made, but small plants that produce under one million gallons of ethanol must

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## ENERGY INCENTIVES

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receive \$175 million in funding.

Further incentives are provided by the Energy Tax Act and the Windfall Profit Tax Act—both authored by the federal government. The Energy Tax Act supports alcohol producers by exempting the fuel from the 4-cent-per-gallon federal motor fuel excise tax until October, 1984. It also provides an additional 10 percent investment credit for alternative energy facilities. The 4 cents per gallon of Gasohol excise tax exemption is equivalent to a 40-cent-per-gallon alcohol subsidy. The Windfall Profit Tax Act extended the excise tax exemption through 1992 and extended the energy investment credit through 1985.

Help also has come from various state governments, which took the initiative several years ago in providing tax incentives for alcohol production. Iowa was one of the first states to offer an incentive in the form of a 6.5-cent-per-gallon Gasohol excise tax rebate. Other states soon followed suit, and, by July, 1980, 25 states had established subsidies ranging from 4 cents to 8 cents per gallon of Gasohol.

However, most syn-fuel and biomass experts see the dollar amounts and allocation deadlines as only a short-term commitment, at least from the federal government. Though the commitment is obviously sincere, there is apparently a wait-and-see attitude on government's part: waiting to see if the energy situation will indeed worsen, and also to see what the biomass industry will come up with for the money invested.

Both government and the industry realize that the long-run impact of alcohol fuels will depend on such factors as energy inflation (the production of alcohol now costs more than the production of gasoline), current technology (including the conversion of cellulose in a variety of materials), and the price and availability of feedstock (one study shows that using food for fuel will not have a significant impact on household food needs). For now, ethanol is competitive with fossil fuel only because of government subsidies, so there is little likelihood that biomass fuels will be universally acceptable until they are cheaper to produce or until there is no other alternative.

—James Hannon/Joseph Buchan

*Budget cuts proposed by the President and passed by Congress will affect some of the programs described in this article.*