

Middle Class Proposal #9

Easing the Sticker Shock of Energy Prices

The average American household is spending nearly three times as much on gasoline as it did only ten years ago—even adjusted for inflation. Compared to the 1990s, people have driven, cooked, cooled, heated and refrigerated away enough additional money in the last eight years to pay for one year's tuition at a public university. New tax breaks in the form of double credits for energy-efficient home improvements and employer-sponsored transportation FSAs can provide Americans with immediate relief from high energy costs and encourage consumer investments that will reduce energy consumption.

THE PROBLEM

Rapidly rising energy costs are holding families back

For the past eight years, the most apt word to describe typical American households is "stuck." They've been stuck in place when they want to get ahead. And there is no greater culprit in holding them back than energy costs.

Soaring gas prices are keeping Americans from getting ahead.

In 2000, it cost \$35.55 in 2007 dollars to fill up a Ford Explorer. In 2008, the cost is \$91.80.¹ From the time President Bush took office to the end of 2008, the typical American household will have spent a projected total of \$16,169 on gas—an increase of more than \$5,000 in real dollars from what the same family spent on the same amount of gas between 1993 and 2000.² The share of after-tax income that Americans spend on gasoline has more than doubled in the past ten years, from 1.9% in 1998 to 4.0% today.³

Families are also facing added pressure from rising home energy costs.

According to the Department of Energy, electricity prices nationwide are expected to spike by 9.8% in 2009, on top of an estimated 5.2% increase for 2008.⁴ Over the past eight years, American households will have spent \$2,793 more in real dollars on heating and cooling their homes than they did in the preceding eight years under President Clinton.⁵

High energy prices have meant big trade-offs for families trying to reach their aspirations.

All told, American households spent \$7,862 more on gas and energy over the most recent eight years than they did in the previous eight years in inflation-

adjusted 2007 dollars. That is more than enough money for a full year of tuition at a typical state university.⁶ Because of high gas and energy costs, too many middle-class Americans have made countless trade-offs in their lifestyle or deferred their aspirations.

THE SOLUTION

Tax breaks for energy price relief

We need to do many things to reduce our dependency on oil, lower energy costs and put more spending power into the hands of consumers. We need to continue on the path of increasing fuel economy standards, invest in new technologies, modernize the energy grid, drill in environmentally safe areas and encourage other nations to conserve.

But in the short-term, American families need immediate relief from high energy costs. Congress should offer the following new tax breaks that will give consumers both immediate relief and the incentive to afford near-term investments that will reduce consumption in the long run: (1) a doubling of the tax credit for energy-efficient home improvements; and (2) the ability of employers to create tax-preferred flexible spending accounts for transportation expenses.

A double credit for energy-efficient home improvements can help more families lower their heating and cooling costs while reducing consumption.

Current law provides homeowners with a small tax break for making energy-efficient home improvements such as by installing better windows and insulation. But the maximum credit is only \$500 per household,⁷ which as any family that has undergone a renovation knows is pocket change. Moreover, energy-efficient appliances and fixtures tend to be more expensive than their cheaper and less-efficient counterparts. Doubling the maximum credit from \$500 to \$1,000 and increasing the percentage of costs eligible for the credit from 10% to 20% of eligible purchases would encourage more energy-efficient choices.⁸

Transportation FSAs will let employers help workers while encouraging mass transit and carpools.

Under current law, employers can offer their workers flexible spending accounts (FSAs) in which pre-tax dollars can be used for health care costs or dependent care expenses.⁹ This proposal would allow employers to create an FSA for transportation costs to help ease the squeeze on commuting costs. Employers would be allowed to contribute up to \$2,500 a year in these FSAs for workers to use in buying mass transit passes and gas, parking and toll expenses for drivers who carpool with other company employees.

THE ROLLOUT

Tax breaks for energy price relief

- **Hold a press conference** with middle income families. For each one, ask them to create a wish list for what they would do with the \$7,862 they would have if gas and electricity prices had merely increased at the same rate as inflation. Some of the money would go to send children to college, purchase a new appliance, save for retirement, pay off bills or go on a vacation. Show how your energy plan is designed to put that money back into consumers' pockets.

CRITIQUES & RESPONSES

Tax breaks for energy price relief

Why don't you allow more drilling?

I am in favor of more exploration and more drilling in places that don't fundamentally change our environment. But any solution on drilling won't affect energy prices for years and years, and let's not let the fight over drilling stop us from helping energy consumers.

This is not a comprehensive energy plan.

This is one major plank in a comprehensive plan. This is the plank aimed at consumers. It gives them a deserved break for replacing old, expensive, inefficient products with those that will save energy and money.

This is expensive.

Whenever progressives propose a tax break for the middle class, conservatives say that it's expensive. And when conservatives pass multi-billion dollar tax breaks for millionaires, they call it necessary for the economy.

The fact is that energy prices have been an albatross around the necks of the middle class. And when they are weighed down, our economy is weighed down. This will spur purchases of energy-efficient products, and put more money in the hands of the middle class.

What kind of impact will this have?

It will have a major impact. People want to make the switch for the long term good of the country and for their own long term savings. But making the switch to better, more efficient products is expensive upfront. For example, people want to buy an energy-efficient appliance, but the extra cost may discourage some from doing so. This will make the trade much easier.

Endnotes

¹ Department of Energy, Energy Information Agency, (based on the average price of gasoline available at http://www.eia.doe.gov/oil_gas/petroleum/data_publications/wrgp/mogas_history.html; and the size of a gas tank for the Ford Explorer, available at <http://www.fueleconomy.gov/FEG/noframes/21393.shtml>).

² In 2007 dollars, the typical American household spent a total of \$11,100 on gas. Household expenses from 1993 to 2006 come from the Consumer Survey of Average Expenditures from the Department of Labor. Expenses from 2007 and 2008 are extrapolated using the average price of gasoline on a monthly basis.

³ Clifford Krauss, *The New York Times*, "Driving Less, Americans Finally React to Sting of Gas Prices, Study Says," June 18, 2008.

⁴ Lara Moscrip, CNNMoney.com, "U.S. sees 9.8% spike in '09 electric bills," July 8, 2008.

⁵ Household expenses from 1993 to 2006 come from the Consumer Survey of Average Expenditures from the Department of Labor. Expenses from 2007 and 2008 are extrapolated using the average price of electricity from the Department of Energy.

⁶ According to the College Board, the average price of tuition at a public college or university is \$6,185. "Trends in College Pricing—2007," available at www.collegeboard.com.

⁷ Tax Incentives Assistance Project, "Consumer Tax Incentives," available at http://www.energytaxincentives.org/consumers/insulation_etc.php.

⁸ Current law allows homeowners to calculate the credit as a percentage of the cost of a particular item—generally 10%. For example, homeowners can take a credit equal to 10% of the cost of installing energy-efficient windows, up to a maximum of \$200. Doubling this credit would mean allowing a credit based on 20% of costs, up to a maximum of \$400. For a description of all the available credits, see http://www.energystar.gov/index.cfm?c=products.pr_tax_credits

⁹ IRS Publication 969, "Health Savings Accounts and Other Tax-Favored Plans," available at <http://www.irs.gov/pub/irs-pdf/p969.pdf>.