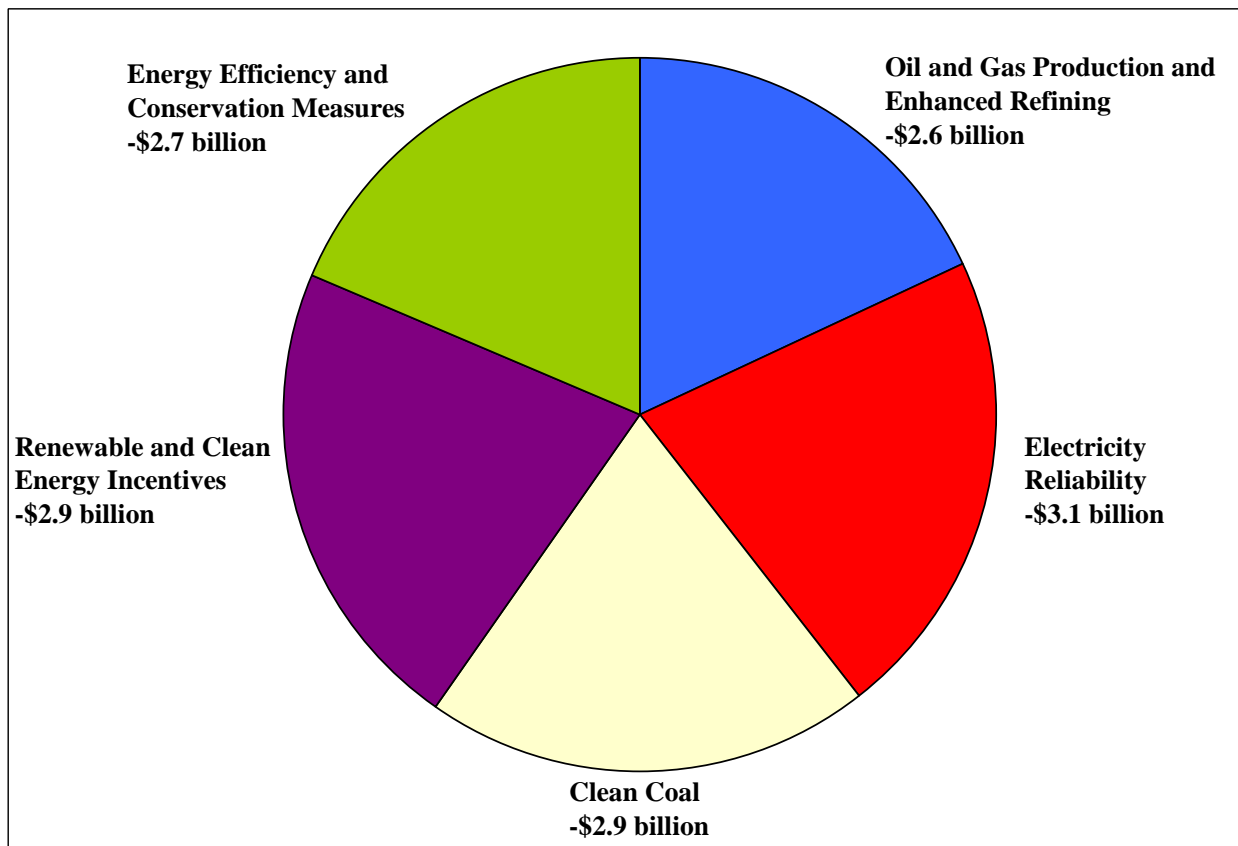


# Committee on Ways and Means

## H.R. 6, Energy Tax Incentives Act of 2005 *Tax Incentives for Production, Renewables and Conservation*

This balanced package includes \$14.5 billion in tax incentives to improve energy production, transportation and efficiency.

**Energy Tax Incentives in H.R. 6**  
Fiscal Years 2005 – 2015



## **OIL AND GAS PRODUCTION, DISTRIBUTION AND ENHANCED REFINING**

- Reduces the depreciation period for national gas distribution lines from 20 years to 15 years for lines placed in service through December 31, 2010.
- Allows two-year amortization of geological and geophysical costs incurred in connection with oil and gas exploration in the United States.
- Allows 50 percent expensing of the cost of refinery investments which increase the capacity of an existing refinery by at least 5 percent or increase the throughput of qualified fuels by at least 25 percent. Expires after December 31, 2011.
- Under present law, small refiners are eligible for percentage depletion deductions if their refinery runs do not exceed 50,000 barrels on any day of the year. The provision increases the 50,000 barrel limit to 75,000 barrels and bases the limit on average daily production.
- Creates a statutory safe harbor exception to the tax-exempt bond arbitrage rules, which allows public utilities to finance prepayments for natural gas with tax exempt bond proceeds if the natural gas is used to supply the utility's customers. This allows utilities to secure natural gas supplies for their customers at the best prices.
- Clarifies uncertainty under present law by providing that natural gas gathering lines are subject to seven-year depreciation (consistent with recent court cases).
- Allows the present-law deduction for costs incurred to comply with EPA low sulfur diesel regulations to be passed through to members of a cooperative.

## **ELECTRICITY RELIABILITY**

- Reduces the depreciation period for assets used in the transmission and distribution of electricity from 20 years to 15 years.
- Allows any taxpayer to deduct contributions to a qualified nuclear decommissioning fund and allows the fund to accumulate enough reserves to pay 100 percent of the plant's decommissioning costs. Additional contributions are allowed in limited circumstances.
- Permanently extends the present-law exception to the "85/15" for tax-exempt electric cooperatives. This test has made it difficult for cooperatives to participate in electricity market deregulation and open access transmission of electricity.
- Electric utilities that sell their transmission assets to a FERC-approved independent company can pay tax on the gains over eight years. The provision extends this rule through 2007.
- Creates a production tax credit for new nuclear power facilities at a rate of 1.8 cents per kWh for electricity produced over an eight-year period.
- Allows a five-year carryback of net operating losses of up to 20 percent of the cost of electric transmission capital and pollution control expenditures.

## **RENEWABLE AND CLEAN ENERGY INCENTIVES**

- Extends the renewable electricity production credit (section 45) through December 31, 2007 for the following qualified facilities: wind, closed-loop biomass, open-loop biomass, geothermal, small irrigation power, landfill gas, and trash combustion. Provides parity in duration of the credit (10 years) for all qualifying sources of energy. Expands credit to incremental hydropower. In addition, allows pass through of the credit to members of a cooperative.
- Authorizes the issuance of \$800 million of tax-credit bonds before December 31, 2007 to support renewable investment by municipal power authorities, rural cooperatives and others.

## **CLEAN COAL**

- Establishes three tax credits for investments in clean coal facilities producing electricity: (1) 20 percent credit for industrial gasification projects, (2) 20 percent credit for integrated gasification combined cycle (IGCC) projects, and (3) 15 percent credit for other advanced coal-based projects that produce electricity.
- Allows power plants to amortize the cost of air pollution control facilities over 84 months.
- Rationalizes the tax credit for fuel produced from non-conventional sources (section 29) by including it in the “general business credit.” As a result, unused credits may be carried back one year and carried forward for up to 20 years. In addition, the credit is extended to coke and coke gas. The credit expires in January 1, 2010 or four years after the facility was placed in service, whichever is later.

## **ENERGY EFFICIENCY AND CONSERVATION MEASURES**

- Provides tax credits for the purchase of hybrid, fuel cell, advanced lean burn diesel and other alternative power vehicles. The size of the credit varies depending on the weight class of the vehicle and the rated fuel economy.
- Provides a 30 percent credit (up to \$30,000) for investments in alternative fuel refueling stations. Qualifying fuels include E-85, natural gas, hydrogen, and biodiesel, among others. The credit expires after December 31, 2007.
- Expands the small ethanol producer credit to producers with annual production capacity of 60 million gallons (up from 30 million gallons under current law). In addition, creates an equivalent credit for producers of agri-biodiesel through December 31, 2008.
- Reduces the tax rate on qualifying diesel-water emulsions from 24.4 to 19.7 cents-per-gallon to reflect the lower Btu content resulting from the water.
- Extends the income and excise tax credits for biodiesel through December 31, 2008. Allows “renewable diesel” to claim similar income and excise tax credits at the \$1.00 rate applicable to agri-biodiesel.

- Creates a 30-percent tax credit for the purchase of residential solar water heating, photovoltaic equipment, and fuel cell property. The maximum credit is \$2,000 (for solar equipment) and \$500 for each kilowatt of capacity (for fuel cells). Expires after 12/31/2007.
- Creates a 30-percent business tax credit for the purchase of fuel cell power plants and a 10-percent credit for the purchase of stationary microturbine power plants. Expires after December 31, 2007.
- Creates a 10-percent personal tax credit for energy efficient improvements to existing homes. The maximum credit is \$500 (\$300 for windows). Expires after December 31, 2007.
- Creates a business tax credit for the construction of new energy efficient homes. The credit applies to manufactured homes meeting a 30 percent energy reduction standard and other homes meeting a 50 percent standard. Expires after December 31, 2007.
- Provides a deduction for energy efficient commercial buildings meeting a 50 percent energy reduction standard. The maximum deduction is \$1.60 per square foot of the building. Expires after December 31, 2007.
- Provides a manufacturers' tax credit for energy efficient dishwashers, clothes washers, and refrigerators manufactured in 2006 and 2007.
- Provides that expenditures to qualified research consortia with respect to energy-related research would be eligible for the 20 percent research and experimentation tax credit for one year.

## **OTHER PROVISIONS**

- Reinstates the Oil Spill Liability Trust Fund tax.
- Extends the Leaking Underground Storage Tank Trust (LUST ) tax through September 30, 2011 and applies the tax to dyed fuel.
- Clarifies that that the definition of a super single tire does not include tires to steer the vehicle super single tires is not designed to steer the vehicle.
- Modifies the recapture rules for amortizable section 197 intangibles. If multiple section 197 intangibles are sold or disposed of in a single transaction or series of transactions, the seller must calculate recapture as if all of the section 197 intangibles were a single asset.

**H.R. 6, ENERGY TAX INCENTIVES ACT OF 2005**  
**Fiscal Years 2005 - 2015, In Millions of Dollars**

**Oil and Gas Production and Enhanced Refining**

1. Natural gas distribution lines treated as 15-year property	-1,019
2. Geological and geophysical expenditures amortized over 2 years	-974
3. Expensing for refinery investments	-406
4. Definition of small refiner for purposes of oil depletion deduction	-158
5. Arbitrage rules not to apply to prepayment for natural gas	-53
6. Natural gas gathering pipelines treated as 7-year property	-16
7. Cooperative pass through of expensing for low sulfur compliance	<u>-7</u>
<b>Total Oil and Gas</b>	<b>-2,633</b>

**Electricity Reliability**

1. Transmission property treated as 15-year property	-1,239
2. Nuclear decommissioning	-1,293
3. Treatment of electric cooperative income (85/15 test)	-277
4. Sales of electricity transmission property to implement restructuring	19
5. Production tax credit for nuclear power facilities	-278
6. 5-Year NOL for electric transmission equipment	<u>-52</u>
<b>Total Electricity Reliability</b>	<b>-3,120</b>

**Renewable and Clean Energy Incentives**

1. Extension and expansion of renewable electricity production credit (sec. 45)	-2,747
2. Clean renewable energy bonds	<u>-411</u>
<b>Total Renewable and Clean Energy Incentives</b>	<b>-3,158</b>

**Clean Coal**

1. Credit for investment in clean coal facilities	-1,612
2. 84-month amortization for pollution control facilities	-1,147
3. Modification of credit for producing fuel from nonconventional sources	-88
4. Production tax credit for facilities producing coke or coke gas	<u>-101</u>
<b>Total Clean Coal</b>	<b>-2,948</b>

**Energy Efficiency and Conservation Measures**

1. Alternative technology vehicle credits	-874
2. Credit for installing alternative fuel refueling property	-71
3. Sunset deduction for clean-fuel vehicles and refueling property	2
4. Energy equivalent tax rate for diesel-water emulsions	negligible
5. Extend biodiesel tax incentives and expand to renewable diesel	-194
6. Small producer credits for biodiesel and ethanol	-181
7. Residential energy efficient property purchases	-31
8. Business installation of fuel cells, microturbines, and solar property	-246
9. Energy efficient existing homes	-556
10. Energy efficient new homes	-28
11. Energy efficient commercial buildings	-243
12. Energy efficient appliances	-180
13. Research and development credit for energy research	-92
14. Studies: Recycling and National Sciences Academy	<u>0</u>
<b>Total Energy Efficiency and Conservation Measures</b>	<b>-2,694</b>

**TOTAL ENERGY TAX INCENTIVES -14,553**

**Other Provisions**

1. Extension of Oil Spill Liability Trust Fund tax	2,508
2. Extension of Leaking Underground Storage Tank Trust Fund tax	349
3. Section 197 modification	171
4. Clarification of tire excise tax	<u>negligible</u>
<b>Total Other Provisions</b>	<b>3,028</b>

**NET ENERGY INCENTIVES -11,525**