United States Senate
Committee on Finance

Sen. Chuck Grassley · Iowa
Ranking Member

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M E M O R A N D U M

To: Reporters and Editors
Re: Energy tax package
Da: Thursday, June 14, 2007

Sen. Chuck Grassley, ranking member of the Committee on Finance, is a long-time proponent of alternative energy tax incentives. He made the following comment on the energy tax package released by the Finance Committee chairman tonight. The Finance Committee is scheduled to consider the bill on Tuesday.

"This bill reflects energy needs in the 21st Century. Americans need clean, green, domestic energy for their homes and cars. I'm glad to see the extension of key renewable energy provisions for ethanol, wind, and biodiesel. People need tax certainty to invest in infrastructure and keep production moving. Production has to meet demand, and alternative energy has never been in such demand. It's also important to recognize cutting-edge technology, like what's used in scellulosic ethanol production. Sometimes policy is slow to catch up with technology. In this case, policy is keeping up."

A summary of the chairman's bill follows here. For more technical details, please see finance.senate.gov.

Finance Committee Staff Summary
Energy Advancement and Investment Act of 2007
June 14, 2007

I. Advanced Electricity Infrastructure

Extension and modification of Section 45. The proposal extends the placed-in-service date for two years (through December 31, 2010) for qualifying facilities: wind, closed-loop biomass; open-loop biomass; geothermal; small irrigation hydro; landfill gas; and trash combustion facilities. Also extends the placed-in-service deadline (through December 31, 2010) for refined coal and eliminates the market value test while increasing the emissions requirements for sulfur dioxide and mercury. *The proposal is estimated to cost $5.593 billion over 10 years.*

Clean Renewable Energy Bonds. The proposal authorizes $750 million in each of calendar years

2008 and 2009. The maximum allocation available to governmental bodies is $470 million, and at least one-half of the $470 million must go to projects exceeding $10 million in expected capital expenditures. The proposal also modifies the amortization requirement such that amortization is not required until the first 12-month period the bonds are outstanding, and allows electric transmission property eligible for CREBs financing. *The proposal is estimated to cost $580 million over 10 years.*

Clean Coal Bonds. The proposal creates a new category of tax credit bonds for advanced coal facilities. There is a national limitation of $1.5 billion, limited to $930 million for governmental bodies. *The proposal is estimated to cost $567 million over 10 years.*

Business solar, fuel cell, and microturbine investment tax credit. The proposal extends the 30% investment tax credit for solar and fuel cells, and the 10% credit for microturbines for two years (through December 31, 2010). *The proposal is estimated to cost $215 million over 10 years.*

Expensing for electric transmission investments. The proposal allows taxpayers to expense (depreciate immediately) 50% of the cost of transmission investments used in the United States solely to transmit electricity from renewable generating facilities, as defined by Section 45(d) and Section 48(a)(3), for facilities placed in service before January 1, 2011. *The proposal is estimated to cost $262 million over 10 years.*

Sales of electricity transmission property. The proposal extends the present-law deferral on sales of transmission property from electric utilities to a FERC-approved independent transmission company. Rather than paying tax on any gain from the sale in the year the sale is completed, utilities will have 8 years to pay the tax on any gain from the sale. The rule expires January 1, 2010. *The proposal is revenue neutral over 10 years.*

Residential energy efficient property. The proposal extends for two years (through December 31, 2010) and modifies the personal tax credit for residential solar electric, solar water heating, and fuel cell property. The modification raises the cap on the credit for solar electric property to $4,000. *The proposal is estimated to cost $106 million over 10 years.*

Residential wind credit. The proposal creates a new 30% personal credit for residential wind property. The credit is $500 for each half kilowatt of capacity, not to exceed $4,000. Qualifying wind property is property which uses a qualified wind turbine of not more than 100 kilowatts of rated capacity. *The proposal is estimated to cost $11 million over 10 years.*

Business credit for clean coal facilities. The proposal expands the investment tax credit for clean coal facilities. The proposal provides an additional $562.5 million for qualifying IGCC electricity generation projects and $375 million for advanced coal-based electricity generation projects. The proposal also provides $562.5 million for qualifying coal gasification projects. To qualify, a facility must capture and sequester at least 70 percent of the total carbon dioxide emissions from the facility built using the credits. *The proposal is estimated to cost $1.346 billion over 10 years.*

II. Domestic Fuel Security

Cellulosic alcohol production credit. The proposal creates a new production tax credit of 50 cents per gallon for up to 60 million gallons of cellulosic fuel production in a taxable year (in addition to the current 51 cents/gallon ethanol credit and 10 cent/gallon small producer credit). The credit terminates at the end of the calendar year when one billion gallons of cellulosic alcohol has been produced. *The proposal is estimated to cost $357 million over 10 years.*

Expansion of expensing for cellulosic ethanol facility. The proposal expands the eligible property qualifying for the 50% expensing to include any process directly employing any lignocellulosic or hemicellulosic matter available on a renewable or recurring basis. *The proposal is expected to cost $1 million over 10 years.*

Modification to ethanol tax credit. The proposal would reduce the 51-cent-per-gallon tax credit for ethanol by 5 cents beginning with the first calendar year after the year in which 7.5 billion gallons of ethanol (including cellulosic ethanol) has been produced. *The proposal is expected to raise $854 million over 10 years.*

Alternative refueling stations tax credit. The proposal extends the 30% alternative refueling property credit (capped at $30,000) for non-hydrogen property for three years (through December 31, 2012). *The proposal is estimated to cost $314 million over 10 years.*

Biodiesel production tax credit. The proposal extend for two years (through December 31, 2010) the $1.00 and 50 cent production tax credits for biodiesel and extends for four years the small biodiesel producer credit of 10 cents per gallon on the first 15 million gallons of production, provided that the producer does not exceed an annual capacity of 60 million gallons. *This proposal is estimated to cost $267 million over 10 years.*

Renewable diesel tax credit. The proposal extends for two years (through December 31, 2010) the $1 tax credit for diesel created through a thermal depolymerization process and makes the following modifications: the proposal caps the $1 credit at 60 million gallons per taxpayer per year; after 60 million gallons the credit drops to 50 cents per gallon. *The proposal is estimated to cost $359 million over 10 years.*

Small ethanol producer credit. The proposal extends for two years (through December 31, 2012) the 10 cent per gallon tax credit on the first 15 million gallons of ethanol production for producers with annual capacity of not more than 60 million gallons. *The proposal is estimated to cost $172 million over 10 years.*

Alternative fuels credit. The proposal extends for 15 months (through December 31, 2010) the alternative fuel tax credit including liquid fuel derived from coal. The proposal modifies the credit to include biomass gas-based versions of liquefied petroleum gas and liquefied or compressed natural gas. *The proposal is estimated to cost $332 million over 10 years.*

Percentage depletion for marginal wells. The proposal extends for two years (through December 31, 2009) the suspension on the taxable income limit for purposes of depreciating a marginal oil or gas well. *The proposal is estimated to cost $198 million over 10 years.*

Refinery expensing. The proposal extends for three years (through January 1, 2016) the placed-in-service requirement and the building construction contract requirement through 2010, the 50% bonus depreciation for costs incurred for a new refinery or an existing refinery to process nonconventional feedstocks at a rate equal or greater to 25% of the total throughput of the refinery. *The proposal is estimated to cost $878 million over 10 years.*

Extension of tariff on ethanol. The proposal extends the tariff on imported ethanol for two years (through December 31, 2010). *The proposal raises $25 million over 10 years.*

Duty drawback on imported ethanol. Present law allows duties paid upon import to be reclaimed at a later date if the same or similar product is exported. Current law treats ethanol blended with gasoline the same as jet fuel. The proposal terminates that treatment. Any drawback for ethanol blended with gasoline is still allowed. *The proposal is estimated to raise $44 million over 10 years.*

III. Advanced Technology Vehicles

Plug-in hybrid vehicle credit. The proposal establishes a new credit for each qualified plug-in vehicle placed in service during each taxable year by a taxpayer. The base amount of the credit is $2,500. If the qualified vehicle draws propulsion from a battery with at least 5 kilowatt-hours of capacity, the credit amount is increased by $400, plus another $400 for each kilowatt-hour of battery capacity in excess of 5 kilowatt-hours up to 16 kilowatt-hours. The maximum credit available for qualified plug-in vehicles is limited based on gross vehicle weight. Taxpayers may claim the full amount of the allowable credit up to the end of the first calendar quarter after the quarter in which the manufacturer records 60,000 sales. The credit ramps down in the following quarters. *The proposal is estimated to cost $678 million over 10 years.*

Extension of alternative vehicle credit. The proposal extends the advanced lean burn technology vehicle credit through 2012 and through 2016 for qualified fuel cell vehicles. The proposal also clarifies that a new qualified alternative fuel vehicle which weighs more than 14,000 pounds is eligible for the additional credit available to vehicles meeting certain emissions standards so long as the vehicle is certified as exceeding the most stringent standard applicable to the model year in which such vehicle was produced. *The proposal is expected to cost $759 million over 10 years.*

IV. Conservation and Energy Efficiency

Energy efficient existing homes credit. The proposal extends and modifies the 10% investment tax credit for two years (through December 31, 2009) for expenditures to improve the energy efficiency of an existing home. For existing homes, natural gas fired heat pumps are added to the list of qualified energy efficient building property eligible for a $300 credit if it has a heating coefficient of performance of at least 1.1. *The proposal is estimated to cost $1.063 billion over 10 years.*

New energy efficient homes credit. The proposal extends for two years (through December 31, 2010) the energy efficient new homes credit, and permits the eligible contractor to claim the credit on a home built for personal use as a residence. *The proposal is estimated to cost $110 million over 10 years.*

Energy efficient commercial buildings. The proposal extends the energy efficient commercial buildings deduction for two years (through December 31, 2010) and the deduction amount is increased to $2.25 per square foot ($0.75 in the case of subsystems). *This proposal is estimated to cost $465 million over 10 years.*

V. Accountability Studies

Cost benefit analysis of energy tax incentives. The proposal directs the Secretary to undertake a cost-benefit analysis of provisions enacted as part of the current legislation that use tax incentives to reduce the use of imported oil and to reduce the emissions of carbon dioxide and harmful air pollutants.

Effect of tax incentives on consumer goods. The proposal directs the Secretary to study the changes in the price of consumer goods that may result from the provisions enacted as part of the current legislation. Areas of study would include the effect on the price of foodstuffs, soaps, automobiles, and motor fuels.

VI. Revenue Raising Proposals

Modification to Section 199. The proposal excludes gross receipts of major integrated oil companies derived from the sale, exchange or other disposition of oil, natural gas, or any primary product thereof from the domestic production deduction for purposes of Section 199. Primary products do not include petrochemicals, medicinal products, insecticides, and alcohols. *The proposal is estimated to raise $9.433 billion over 10 years.*

Modification of Section 907. The proposal eliminates the distinction between foreign oil and gas extraction income ("FOGEI") and foreign oil related income ("FORI"). FOGEI relates to upstream production to the point the oil leaves the wellhead. FORI is defined as all downstream processes once the oil leaves the wellhead (i.e. transportation, refining). Currently, FOGEI and FORI have separate foreign tax credit limitations. This proposal combines FOGEI and FORI into one foreign oil basket and applies the existing FOGEI limitation. *The proposal is estimated to raise $3.187 billion over 10 years.*

Oil spill liability trust fund. The proposal extends the oil spill tax through December 31, 2017 and repeals the requirement that the tax be suspended when the unobligated balance exceeds $2.7 billion. *The proposal is estimated to raise $786 million over 10 years.*

Tax treatment of fuel leaving a foreign trade zone. The proposal would require excise tax be paid upon removal of fuel from a foreign trade zone. Refineries and terminals in trade zones will now be treated, for tax purposes, identical to refineries and terminals outside of trade zones. If the fuel is later exported, a credit or refund may be claimed. *The proposal is estimated to raise $29 million over 10 years.*

Clarify penalty for sale of fuel failing EPA regulations. The proposal expands the penalty to include any fuel which does not meet Environmental Protection Agency standards and reaffirms that the Secretary is authorized to make the determination that the fuel does not comply with the applicable Environmental Protection Agency regulations and standards for purposes of asserting the penalty. *The proposal is estimated to raise less than $500,000 over 10 years.*

Tax treatment of alcohol and biodiesel fuel mixtures. The proposal adds qualified alcohol fuel mixtures and qualified biodiesel fuel mixtures to the definition of taxable fuel as a type of diesel fuel. *The proposal is estimated to raise $15 million over 10 years.*

Exclude denaturant from alcohol fuels credit. The proposal excludes the volume of denaturant in the fuel for purposes of calculating the volume of alcohol eligible for the alcohol fuels credit. *The proposal is estimated to raise $284 million over 10 years.*

Limit fuel credits to fuels consumed or sold for consumption in the U.S. The proposal requires, on a prospective basis, that the per-gallon tax incentives for alcohol fuels, biodiesel, renewable diesel, and alternative fuels be consumed or sold for consumption in the United States. *The proposal is estimated to raise $62 million over 10 years.*

Tax finished gasoline at the refinery gate. The proposal imposes a tax on finished gasoline upon removal from the refinery or entry into the United States and eliminates the bulk transfer exception. *The proposal is estimated to raise $824 million over 10 years.*