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Folder Title:
Climate Change Budget/Finance End Tax

Stack:	Row:	Section:	Shelf:	Position:
S	61	7	11	2

FAX COVER SHEET

GENE SPERLING
DIRECTOR, NATIONAL ECONOMIC COUNCIL
THE WHITE HOUSE
WASHINGTON, DC 20502
PHONE: 202/456-2807 FAX: 202/456-2878

DATE: 10/30 NUMBER OF PAGES (INCL. COVER): 7

FROM: Sarah-Rosen-Wartell

TO: Roger Ballentine

FAX: 6-1736

COMMENTS: Oct 25th & 26th letters from Potus to Republicans on tax bill taxes

THE WHITE HOUSE

WASHINGTON

October 25, 2000

The Honorable J. Dennis Hastert
Speaker of the
House of Representatives
Washington, D.C. 20515

Dear Mr. Speaker:

We are well beyond the time when Congress should have finished its work, with many of our most important issues still left unresolved. It is crucial that we now take all possible steps to find common ground.

In that spirit, I would like to put forward a consensus tax offer to help resolve the impasse on taxes. This offer does not contain everything that my Administration and Congressional Democrats would prefer; nor does it contain all that Congressional Republicans hope to see. Rather, it recognizes that both sides need to give a little in order to accomplish bipartisan tax legislation this year and that we should keep the overall tax cut size to an amount that ensures we continue on our path of debt reduction and fiscal discipline.

First, we can raise the minimum wage without eroding traditional worker protections, while at the same time providing reasonable and targeted tax relief for small businesses. Accordingly, in exchange for my proposed minimum wage increase, I would accept the core elements of Speaker Hastert's offer on a small business tax package, costing approximately $30 billion over 10 years, provided that the FLSA and FUTA provisions are eliminated, the welfare-to-work tax credit is extended, and modifications are made to the meals and entertainment deduction and amortization of reforestation expenses. I discuss your health care proposal later in this letter.

Second, it is essential that the Labor/HHS bill include the Rangel/Johnson proposal to build and modernize 6000 schools through $24.8 billion in school construction financing, costing $8.5 billion over 10 years. Considering the estimated need for $125 billion to meet our nation's demand for safe and modern schools, this proposal is the least we should do for our children.

Third, the offer includes pension legislation adopted by the House and Senate, costing about $50-60 billion over 10 years, provided that certain modifications that the Treasury Department has discussed with the tax-writing committees are made to ensure that employer-provided pensions for workers are not harmed, to provide meaningful protections for workers affected by cash balance conversions, and to provide progressive savings incentives for low- and moderate-income workers.

Fourth, the package includes the tax and other incentives from the bipartisan New Markets/Community Renewal legislation, at a cost of about $25 billion over 10 years, with some changes that we have previously discussed and other associated items upon which we can agree. This will be an historic commitment to expand the promise of free enterprise and entrepreneurship to our nation's poor and underserved urban and rural areas.

It is also important that we provide the bipartisan credit for vaccine research and purchases, which will save lives and advance public health, costing about $1.5 billion over 10 years.

Finally, it is essential for our commitment to economic growth to include the replacement of the Foreign Sales Corporation regime, which has passed the House and Senate with broad bipartisan support, costing about $4.5 billion over 10 years.

I believe the package I have outlined above can be the basis for bipartisan consensus on a tax package.

While Congress has failed to send me a strong, enforceable Patients' Bill of Rights and a voluntary Medicare prescription drug plan for all seniors, I believe it is possible to forge a bipartisan agreement that would expand health care coverage for uninsured working Americans. The best way to do this is through the FamilyCare plan that builds on the successful Children's Health Insurance Program and expands affordable insurance to over four million parents. A deduction for the purchase of private health insurance in the individual nongroup market is an inefficient and costly way to do coverage, is far less equitable than other options that use refundable tax credits, and could lead to private employers dropping health coverage. However, in the spirit of bipartisanship and breaking gridlock, I propose that your deduction be modified to a credit with necessary consumer protections in the individual insurance markets and that the credit be coupled with the bipartisan FamilyCare proposal.

I further believe we should find a common agreement to ease the burden of long-term care on American families. The best means to accomplish this goal is through our proposal to provide a $3,000 tax credit for people with long-term care needs or the families who care for them. This tax credit would provide immediate assistance to those burdened by these long-term care costs today. While I cannot support your proposal to turn this into a deduction, on grounds of both equity and effectiveness, if you are willing to support our $3,000 tax credit, I would be willing to agree to your proposal to provide an enhanced deduction for the purchase of private long-term care insurance provided there are appropriate consumer protections. This bipartisan, long-term care package has already been endorsed by the AARP, the Alzheimer's Association, and the Health Insurance Association of America.

In the spirit of compromise, I believe we can work together quickly to pass this balanced legislation that I can sign into law and that can benefit the American people.

Sincerely,

Bill Clinton

THE WHITE HOUSE

WASHINGTON

October 26, 2000

Dear Mr. Speaker:

Thank you for your letter yesterday responding to my proposed consensus tax package. As I said yesterday, I believe we all have a responsibility to make every possible effort to come together on a bipartisan agreement on tax relief and Medicare/ Medicaid that will maintain fiscal discipline and serve the interests of all the American people. That is why I put forward a good faith offer yesterday that sought to reflect our differing priorities in a balanced manner. I was disappointed, however, that, without any consultation with me or Congressional Democrats, you chose to put forward a partisan legislative package that ignores our key concerns on school construction, health care, and pensions policy. If this current tax and Medicare/Medicaid package is presented to me, I will have no choice but to veto it.

While we have already reached substantial agreement in important areas, such as replacement of the Foreign Sales Corporations regime, your legislation has substantial flaws in several key areas.

As I stated yesterday, I believe it is absolutely essential that we do as much as possible to meet America's need for safe and modern schools. It is estimated that there may be as much as a $125 billion dollar financing gap in meeting the school construction and modernization needs of our children. The bipartisan Rangel-Johnson proposal to finance $25 billion in bonds to construct and modernize 6,000 schools is, quite frankly, the very least we should do, given the magnitude of this problem and its importance to America's future. Unfortunately, your proposal falls far short of the mark. We should not sacrifice thousands of modernized schools to pay for inefficient tax incentives that help only a few. For example, the arbitrage provision encourages delay in urgently needed school construction and would disproportionately help wealthy school districts.

On health care, my offer sought to lay a path to common ground by coupling both of our priorities on health and long-term care. Unfortunately, your health care proposal completely ignores our proposal to cover millions of uninsured, working Americans. Instead you put forward a series of tax cuts that, particularly when standing alone, would be inequitable, inefficient, and even potentially counterproductive health care policy. For example, while our FamilyCare proposal would expand coverage to 4 million uninsured parents at a cost of slightly over $3,000 per person, your proposal would provide additional coverage to one-seventh the people at six times the cost per person. Moreover, your proposal would give the least assistance to moderate-income families that need help the most, while even raising concerns that those with employer-based coverage today could lose their insurance.

Similarly, on long-term care, I offered to embrace your proposed deduction for long-term care insurance in exchange for inclusion of my proposal to give families, who are burdened today by long-term care needs, a $3,000 tax credit. Unfortunately, your legislation ignores the bipartisan package I suggested and instead would provide half the benefits of my proposal for financially pressed families trying to provide long-term care for elderly and sick family members. Surely we can agree on this bipartisan compromise that has already been endorsed by a broad array of members of Congress, advocates for seniors and people with disabilities, and insurers. Similarly, I am perplexed that we cannot agree to include the bipartisan credit for vaccine research and purchases that is essential to save lives and advance public health.

I also am disappointed that you have made virtually no attempt to address the concerns my Administration has expressed to you about the pension provisions of your bill. By dropping the progressive savings incentives from the Senate Finance Committee bill, you have failed to address the lack of pension coverage for over 70 million people. Moreover, employers may have new incentives to drop pension coverage for some of the low- and moderate-income workers lucky enough to have pension plans today.

Finally, I remain deeply concerned that your Medicare and Medicaid refinement proposal continues to fail to attach accountability provisions to excessive payment increases to health maintenance organizations (HMOs) while rejecting critical investments in beneficiaries and vulnerable health care providers. Specifically, you insist on an unjustifiable spending increase for HMOs at the same time as you exclude bipartisan policies such as health insurance options for children with disabilities, legal immigrant pregnant women and children, and enrolling uninsured children in schools, as well as needed payment increases to hospitals, academic health centers, home health agencies, and other vulnerable providers. Congress should not go home without responding to the urgent health needs of our seniors, people with disabilities, and children and the health care providers who serve them.

A far better path than the current one is for Congressional Republicans, Democrats, and my Administration to come together in a bipartisan process to find common ground on both tax relief and Medicare/Medicaid refinements.

Sincerely,

Bill Clinton

The Honorable J. Dennis Hastert
Speaker of the
House of Representatives
Washington, D.C. 20515

THE WHITE HOUSE

WASHINGTON

October 26, 2000

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A far better path than the current one is for Congressional Republicans, Democrats, and my Administration to come together in a bipartisan process to find common ground on both tax relief and Medicare/Medicaid refinements.

Sincerely,

Bill Clinton

The Honorable J. Dennis Hastert
Speaker of the
House of Representatives
Washington, D.C. 20515

CEA CALIFORNIA ENVIRONMENTAL ASSOCIATES

For Janet

URGENT

cc: Jack Lew
George Frampton

Roger

FAX MEMORANDUM

To: John Podesta

From: Kirk Marckwald KM

Re: Biomass Tax Credit

Date: October 10, 2000

Pages: 2 (including this one)

John-

Hope this finds you well. Please come for a visit in San Francisco when you have a chance for a little R & R.

I write to bring an important energy/environmental issue to your attention with the hope that you can facilitate its passage in end-of-session negotiations.

The issue is a production tax credit for the nation's existing biomass power industry, 30% of which is located here in California. This much-needed tax credit would ensure the sustained operations of major renewable energy technology, would provide electricity system reliability at a time when it is desperately needed, and would generate a range of environmental benefits that DOE estimates are worth many times more than the modest cost of the tax credit itself.

I understand from my partner, Bob Judd, that the Clinton Administration has placed a high priority on enactment of the biomass tax credit this year. Roger Ballentine, Janet Anderson of the Climate Change Task Force, and others have been terrific with their support and assistance. Importantly, the Administration included such a provision earlier this year in the FY 2001 Budget Proposal. Now, as Treasury officials negotiate an end-of-the-year tax package with Congressional leaders, it is vital that they identify this provision as a "must-have" for the Administration.

The biomass tax credit - in a form that only helps about half of the industry - is included in *The Community Renewal and New Markets Act* (S. 3152) just introduced by

423 Washington Street, 3rd Floor. San Francisco, CA 94111. Ph: 415/421-4213. Fax: 415/982-7989

Chairman Roth and a bipartisan coalition of his Senate Finance colleagues. I assume the Senate will use this bill as the basis for negotiations with House conferees and the Administration in the very near future.

To obtain this important part of the Administration's environmental/energy policy, we could really use your assistance. First, the Senate's biomass tax credit needs to be amended in conference negotiations to make the credit available to the entire industry. Three corrections need to be supported and negotiated by the Administration. These will have little cost impact but are essential if an equitable and functional tax credit is the goal. Roger Ballentine knows the changes that are needed. Second, it would be extremely helpful to have a clear communication from you to the Treasury that the biomass tax credit, with the three necessary changes, is a must-have item for the Administration.

I hope this isn't asking too much. I wouldn't bring this to you unless it was important. The tax credit has solid Senate support, but Chairman Archer's well-known resistance to the Administration's energy proposals on the House side make a strong Administration play an absolute necessity. Success is clearly within reach this year if the Administration pushes for it.

Thanks for any help you might give on this issue.

Janet - what do I know?

NATURAL RESOURCES DEFENSE COUNCIL • U.S. PUBLIC INTEREST RESEARCH GROUP • NATIONAL ENVIRONMENTAL TRUST • AMERICAN RIVERS • PHYSICIANS FOR SOCIAL RESPONSIBILITY • DEFENDERS OF WILDLIFE • POPULATION ACTION INTERNATIONAL • UNION OF CONCERNED SCIENTISTS

October 18, 2000

President William J. Clinton
The White House
Washington, DC 20500

Dear Mr. President:

On behalf of millions of our members nationwide, we are writing respectfully to urge you to support S. 2718 and H.R. 5345, the "Energy Efficient Buildings Incentives Act of 2000," by including it as part of any final tax legislation enacted this year. S. 2718/H.R. 5345 is the environmental community's highest legislative priority for global warming policy this session. Passage of these incentives this year is crucial. A delay, even until February 2001, sacrifices one tenth of the climate benefits of the bill, and puts the nation at greater risk of blackouts next summer. Furthermore, we are also concerned that a final tax package not include new incentives for increased air pollution and anti-environmental activities, such as additional tax breaks proposed for the fossil fuel industry.

The "Energy Efficient Buildings Incentives Act" provides tax incentives for advanced energy-efficient residential and commercial buildings, including schools. Energy use in buildings is a major, if indirect, source of pollution that causes smog, acid rain, and global warming. It is also the primary draw on peak energy loads, and represents the greatest opportunity for improving reliability of the energy grid and saving consumers from ever rising energy costs.

New technologies for efficient buildings implemented as a result of the bill could cut energy use by half, reducing overall U.S. air emissions by some 3% by the year 2010 - equivalent to removing 20% of the cars from the road, and achieving 10% of the U.S. emissions reduction goals under the Kyoto Protocol. These new technologies and designs would also save money for consumers and increase economic prosperity and jobs. The benefits of these measures will continue to increase for decades into the future.

A number of powerful market barriers retard the use of energy efficient technology, causing unnecessary pollution and reducing American economic competitiveness. Fortunately, past experience with utility-sponsored incentives for efficiency in a few states has shown that these barriers can be overcome. Markets can be transformed to encourage efficient products with carefully structured incentives of limited duration. S. 2718/H.R. 5345 builds on the experience of these successful programs.

Energy efficiency in buildings is a critical piece of our nation's environmental strategy. S. 2718/H.R. 5345 has support from leaders in the business community, including Enron, TRANE, and the California Building Industry Association, state energy officials, as well as bipartisan congressional support. We therefore urge you to support efforts to enact this significant environmental bill before the end of Congress so that taxpayers can benefit from these energy efficiency tax incentives beginning January 1, 2001.

Sincerely,

John H Adams
President
Natural Resources Defense Council

Philip Clapp
President
National Environmental Trust

Robert K. Musil
Executive Director, CEO
Physicians for Social Responsibility

Amy Coen
CEO
Population Action International

Gene Karpinsky
Executive Director
U.S. Public Interest Group

Rebecca Wodder
President
American Rivers

Rodger O. Schlickeisen
President
Defenders of Wildlife

Howard Rif
Executive Director
Union of Concerned Scientists

Ronald Minsk 10/23/2000 06:03

Record Type: Record

To: Roger S. Ballentine/WHO/EOP@EOP

cc:

Subject: Re: Smith

you should call Ernie at 586-3500 on this energy efficiency thing. he has a meeting on this issue with some interest groups tomorrow

The concerns with this bill are that it would be very expensive and creates a situation where DoE must write regs to implement that could be VERY contentious (difficult to enact) because of conflict between electric and n.gas sectors. The use of 30/50% less cost (within a fuel type) is an attempt to avoid this problem, but in meetings held to resolve issues in the Admin.'s bill, gas industry said it wasn't good enough (they'd still fight). A similar issue likely exists for commercial property. I have no estimate from JCT, but Admin.'s bill with no commercial title and only 3yrs of the 30% credit and 5 yrs. of the 50% credit was costed at $633 (5 years).

Smith bill S. 2718 Energy Efficient Buildings Incentive Act – applies 2001 thru 2006

Incentive for certain energy efficient property used in business (deductions)

Solar hot water and pv systems
Natural gas heat pumps
HIGHLY efficient central ACs and n.gas heat pumps
Energy efficient bldg property (50% better than code)

Equipment gets set $ amount (as yet unspecified); property gets up to $2.25 per sq. ft

Credit for certain nonbusiness energy property

Solar hot water and pv systems
Natural gas heat pump
30% less cost than reference house: $750
50% less cost than reference house: $2000

JMA
23 October 2000

Janet Anderson

10/23/2000 04:07:48 PM

Record Type: Record

To: Roger S. Ballentine/WHO/EOP@EOP, Debra Reed/CEQ/EOP@EOP

cc: Angela C. Mizeur/WHO/EOP@EOP
Subject: latest on tax

FYI: Reports are there will be a Republican ONLY bill; maybe tomorrow with potential vote on Wednesday. Would be attached to the Medicare Add-back (?) bill; only energy provision is hybrids; also community redevelopment (House) and minimum wage plus the small business and pension provisions that were with m.w. earlier. If all this is so and POTUS vetos, Gephardt says they could sustain (because labor will be strong against the sm. business/pension provisions).

ENERGY PROVISIONS INCLUDED
IN
JOINT LETTER TO LEADERSHIP

- **Common Conventional Energy Tax Incentives (as included in S. 2557 (Lott, Abraham, Allard, Craig, Hutchison, Murkowski, Santorum, Voinovich) and in S. 2904 (Bingaman, Akaka, Baucus, Bayh, Byrd, Daschle, Johnson, Levin, Rockefeller)):**

    - Tax credit for marginal domestic oil and gas well production;
    - Election to expense geological and geophysical expenditures and delay rental payments;
    - Full expensing of home heating oil and propane storage facilities.

- **Alternative Energy Tax Incentives:**
- S. 2591, the Alternative Fuels Tax Incentive Act (Jeffords, Hatch, Bryan, Rockefeller, Robb, Kerry, Chafee, Inouye, Bennett):
    - Provides an income tax credit for individuals and businesses that purchase dedicated alternative fuels vehicles;
    - 50 percent credit on the incremental cost, limited to a range from $5,000 to $50,000, based on the gross vehicle weight;
    - An additional 35 percent credit is available for vehicles meeting the most stringent emissions standards under the Clean Air Act;
    - For electric vehicles, a 10 percent credit up to $4,250.
    - 25 cent credit per gallon equivalent of alternative fuel;
    - Extension of current-law provisions allowing immediate expensing of clean-fuel vehicle refueling property.

- S. 2685, the Advanced Technology Motor Vehicle Fuel Economy Act of 2000 (Levin, Ashcroft, Abraham):
    - Provides tax credit for hybrid electric vehicles.

October 12, 2000

The Honorable Trent Lott
Majority Leader
United States Senate
Washington, D.C. 20510

The Honorable Tom Daschle
Minority Leader
United States Senate
Washington, D.C. 20510

Dear Senator Lott and Senator Daschle:

In the next few days you will sit down with your counterparts from the House and with the President to discuss which tax provisions may be included in a year-end legislative package. We believe that with the recent increases in energy prices, Americans cannot afford for Congress to ignore common-sense provisions to decrease our dependency on foreign energy sources.

We believe the year-end package should include a set of bipartisan tax provisions designed to both increase the production of conventional domestic energy resources <u>and</u> provisions designed to help develop and bring into the market alternative energy sources. Specifically, we urge you to include, for the conventional incentives, the common tax provisions from S. 2557, the Republican leadership energy bill and S. 2904, the Democratic leadership energy bill. For the alternative incentives, we ask that you include S. 2591, the bipartisan Alternative Fuels Incentive Act, supplemented by the hybrid electric vehicle provisions of S. 2685, the bipartisan Advanced Technology Motor Vehicle Fuel Economy Act.

American consumers this year will pay an extra $50 billion or more in the form of higher gasoline and home heating oil prices. The nation's economic growth already is projected to slow because of the increase in the nation's energy bill. This tax on consumers is the direct result of our dependence on oil and the ability of the oil producing nations to work collusively in setting prices. Until we take specific action, America will continue to be an energy hostage.

The United States uses and imports a significantly larger share of its petroleum today than it did in 1992 when the Congress last addressed comprehensive energy policy in the Energy Policy Act. Since that time, net imports are up more than 2.5 million barrels a day while domestic production has declined by 1.24 million barrels a day. The increased U.S. reliance on foreign oil already is having a significant negative impact on the economy, as can be seen in the reactions to the attack on a U.S. naval vessel in Yemen. Fears over oil supply disruptions led to a sharp rise in the price of oil futures. In turn, stock markets tumbled because of concerns that higher energy prices harm the economy. Clearly, we must act now.

The short-term and the longer-term solution to this crisis is to increase the production of domestic energy resources, develop and bring into the market alternatives to petroleum, and decrease energy use by increasing efficiency. The bipartisan measures indicated above will accomplish all three of these objectives and immediately move our nation in the right direction.

While some may say that these final days before the election are too politically charged to allow us to accomplish much, we believe we can significantly increase our energy security if we all focus our efforts on the real needs of our nation. Please add these bipartisan common-sense tax incentives in the final legislation.

Sincerely,

October 12, 2000

BIOMASS TAX CREDIT AMENDMENT

Vote Results: Chairman's Mark

Senate Finance Committee
Wednesday, July 21, 1999

Republicans	Democrats
William V. Roth Jr., DE (Chair)	Daniel Patrick Moynihan, NY
John H. Chafee, RI	***Max Baucus, MT**
***Charles E. Grassley, IA**	***John D. Rockefeller, WV**
***Orrin G. Hatch, UT**	***John B. Breaux, LA**
***Frank H. Murkowski, AK**	***Kent Conrad, ND**
Don Nickles, OK	***Bob Graham, FL**
Phil Gramm, TX	***Richard H. Bryan, NV**
***Trent Lott, MS**	***J. Robert Kerrey, NE**
***Jim M. Jeffords, VT**	***Charles S. Robb, VA**
***Connie Mack, FL**	
Fred Thompson, TN	

Republicans in support = 6	Democrats in support = 8
Republicans opposed = 5	Democrats opposed = 1

Final Vote: 14 - 6 in support

Congress of the United States

Washington, DC 20515
January 5, 2000

The President
The White House
Washington, D.C. 20500

Dear Mr. President:

We urge you to include in your FY 2001 budget submission to the Congress a tax credit for existing "open-loop" biomass facilities. This credit would be consistent with the Administration's energy and tax policy goals of combatting global warming and reducing greenhouse gas emissions. In addition, the biomass industry provides crucial domestic energy, waste management and rural employment benefits that should be an integral part of the nation's energy policy.

Since the Energy Policy Act of 1992, only "closed-loop" biomass facilities – those biomass facilities that use crops produced specifically for energy generation – have been eligible to receive a tax credit for electricity production. However, no taxpayer has ever claimed a tax credit for closed-loop biomass electricity production.

As you know, while your FY 2000 budget request proposed to eliminate the closed loop restriction and allow tax credits for electricity production from open-loop biomass materials, the tax credit was limited to new open-loop biomass facilities. Importantly, there are no open-loop biomass plants under construction and the industry does not contemplate any new construction. It is of the utmost importance, therefore, that the credit be extended to existing open-loop facilities.

Again, we urge you to include a tax credit for existing "open-loop" biomass plants in your upcoming Budget. Thank you for your consideration of this letter. We look forward to working with you in the upcoming year on this and other important issues.

Sincerely,

Robert T. Matsui　　Karen L. Thurman　　Richard E. Neal

ROBERT T. MATSUI　　KAREN L. THURMAN　　RICHARD E. NEAL

Congress of the United States
House of Representatives
Washington, DC 20515

November 16, 1999

The Honorable William Jefferson Clinton
President of the United States
The White House
1600 Pennsylvania Avenue, N.W.
Washington, D.C. 20500

Dear Mr. President:

We are writing to encourage your support of an open-loop biomass tax credit in the final negotiations of the tax extenders bill. This credit is vital to promote future environmental and economic contributions by the US biomass industry and agricultural producers.

As you are aware, the Senate unanimously passed Chairman William Roth's tax extender package that included an expansion of the biomass provision. As defined in Senate bill (S. 1792), tax credits would be eligible to those who generate open-loop biomass energy from orchard, crop, forest, or poultry litter wastes. Promoting biomass energy will encourage an environmentally-friendly use of high cellulose waste that would normally be composted, burned, spread in an open field, or dumped into landfills. Increasing biomass energy opportunities will offer new economic opportunities to American farmers and, potentially, a cheaper source of electricity for rural areas.

Your support of an open-loop tax credit is entirely consistent with the Administration's objectives as expressed in Executive Order 13134 on Developing and Promoting Biobased Products and Bioenergy in August 1999. Current law allows for a closed-loop biomass tax credit. However, this narrow definition extends tax incentives only to those who use crops produced specifically for energy generation. No agricultural and biomass energy industries have been able to benefit from this provision since its enactment in 1992, because closed-loop biomass production is too costly. Expanding this tax provision will encourage viable utilization of waste products and promote compliance with the Clean Air Act.

Again, we urge your support of open-loop biomass energy provisions in current tax extender legislation.

Sincerely,

GARY A. CONDIT

DAVID MINGE

JOHN E. BALDACCI

SANFORD BISHOP, Jr.

CALVIN DOOLEY

EARL HILLIARD

SHERWOOD L. BOEHLERT

MIKE THOMPSON

MARK UDALL

GAC/lr

United States Senate

WASHINGTON, DC 20510

November 2, 1999

The Honorable William Jefferson Clinton
President of the United States
The White House
1600 Pennsylvania Avenue N.W.
Washington, D.C. 20500

Dear Mr. President:

We write to encourage your support of the Senate passed open-looped biomass tax credit which is critical to sustain the environmental and economic contributions of the nation's existing biomass energy industry. This bill would remedy defects in the biomass portion of current IRC Section 45 which, since its enactment in 1992, has not been able to be used by the biomass energy sector due to its overly narrow definition of biomass.

Support of the biomass industry is clearly justified by its non-electric public benefits, including notable greenhouse gas reductions, essential waste management services to the agricultural and forestry sectors, major air quality benefits, and wildfire protection. The benefits of the industry clearly exceed its modest revenue loss. It is my understanding that in an analysis soon to be released by DOE, the monetized value of the industry's benefits is estimated to exceed $500 million per year. This is in contrast to the estimated revenue loss of only $28 million per year over a five-year period set forth in a recent Joint Committee on Taxation report.

Moreover, support of the biomass industry is entirely consistent with the objectives of the Administration as expressed in your Climate Change Technology Initiative in February 1999 and, more recently, in your Executive Order on BioBased Products and BioEnergy, dated August 12, 1999.

We encourage the Administration and the Department of the Treasury to support the Senate passed open-loop biomass energy tax credit.

We ask that this issue be given a high priority as you negotiate a year-end agreement on tax extenders. With your support, Congress and the Administration can obtain a meaningful and timely success on an important national environmental issue.

Respectfully,

Ron Wyden   John F. Kerry   Tom Daschle

TO: DEBBIE
FR: CHRIS

PROPOSED HATCH-BAUCUS AMENDMENT TO RETIREMENT SECURITY AND SAVINGS ACT OF 2000

Energy Provisions:

- S. 2591, the Alternative Fuels Tax Incentive Act (Jeffords, Hatch, Bryan, Rockefeller, Robb)
  - Provides an income tax credit for individuals and businesses that purchase dedicated alternative fuels vehicles
    - 50 percent credit on the incremental cost, limited to a range from $5,000 to $50,000, based on the gross vehicle weight
    - An additional 35 percent credit is available for vehicles meeting the most stringent emissions standards under the Clean Air Act
    - For electric vehicles, a 10 percent credit, up to $4,250
  - 25 cent credit per gallon equivalent of alternative fuel
  - Extension of current-law provision allowing immediate expensing of clean-fuel vehicle refueling property
- Tax credit for marginal domestic oil and gas well production (section 802 of S. 2557 - Lott, Murkowski and section 702 of S. 2904 - Bingaman, Baucus, Rockefeller, Daschle)
- Election to expense geological and geophysical expenditures and delay rental payments (section 803 of S. 2557 and sections 703 and 704 of S. 2904)
- Extension of credit for electricity produced from steel cogeneration (section 903 of S. 2557 and section 901 of S. 2904)
- Full expensing of home heating oil storage facilities (section 904 of S. 2557)
- S. 2884 (Grams), allow allocation of small ethanol producer credit to [redacted]ns of a cooperative (also included in S. 2904)

Conservation Provisions:

- S. 808, the Conservation Tax Incentives Act (Jeffords, Grassley, Graham, Kerrey, Robb)
  - Excludes from gross income 50 percent of any gain from the sale of land or an interest in land or water to an eligible conservation entity
- A provision to exclude from gross income cost sharing payments under the Partners for Wildlife Program (section 2 of S. 1392)
- A provision to expand the estate tax exclusion for real property subject to a qualified conservation easement (section 5 of S. 1392)
- S. 1558, the Community Open Space Bonds Act (Baucus, Hatch, Bryan, Robb)
  - Provides a tax credit to holders of Community Open Space bonds for qualified open space projects while maintaining local control
- S. 2344, the Conservation Reserve Program Tax Fairness Act (Gramm, Conrad, Grassley, Jeffords, Kerrey, Baucus)
  - Treats conservation reserve program payments as real estate rentals for self-employment earnings purposes

For our info

Alliance for Resource Efficient Appliances

1111 19th Street, N.W., Suite 402, Washington, D.C. 20036 (202) 872-6838; Fax (202) 872-9354

TO: Rachael Goldfarb @ 202-456-1907

FROM: Dick Meltzer @ 202-293-7474

RE: Request for meeting with John Podesta on behalf of the Alliance for Resource Efficient Appliances (AREA)

DATE: Tuesday, October 03, 2000

AREA consists of the members of the Association of Home Appliance Manufacturers (Amana, Frigidaire, General Electric, Maytag, and Whirlpool, among others) and a number of environmental and energy efficiency organizations such as the Alliance to Save Energy (ASE), the American Council for an Energy-Efficient Economy (ACEEE) and the Natural Resources Defense Council (NRDC).

The top tax priority for AREA has been and continues to be the appliance tax credit proposal introduced by Senators Grassley and Rockefeller in the Senate (S. 2939) and Reps. Nussle and Tanner in the House (H.R. 4977). The legislation provides a tax credit to super energy-efficient clothes washers and refrigerators that substantially exceed the new energy efficiency standards promulgated by the Department of Energy.

The appliance tax credit, if enacted, will produce energy savings of more than 200 trillion BTUs of energy over the life of the super energy-efficient appliances. These energy savings are the equivalent of taking 2.3 million cars off the road or closing six coal-fired power plants for a year. In addition, the super energy-efficient clothes washers will reduce the amount of water needed to wash clothes by 870 billion gallons or approximately the amount of water used by every household in Phoenix, Arizona for two years.

Attached to this memorandum are letters recently sent to President Clinton by the Chief Executive Officers of Amana, General Electric, Maytag and Whirlpool. The CEOs would like to meet with John personally to follow up on the letters and urge the Administration's support for the appliance tax credit in any energy tax credit legislation that emerges from the Congress this year. In addition, the CEOs would like to invite the Presidents of the ASE, the ACEEE and the NRDC to join the meeting to demonstrate to John the unanimity of support for the appliance tax credit among industry and the environmental, energy-efficiency and consumer community.

Thank you for your consideration, and I look forward to talking to you about our request. I can be reached at 202-293-7474 or by fax at 202-293-8811.

THE WHITE HOUSE

WASHINGTON

August 11, 2000

MEMORANDUM FOR JOHN PODESTA

CC: JACK LEW
GEORGE FRAMPTON
SYLVIA MATHEWS
GENE SPERLING
DAVID BEIER

FROM: ROGER BALLENTINE

RE: End Game Energy Tax Priorities

As you know, we have made our energy/climate change tax proposals a key part of both our domestic climate change policy and our response to claims that this Administration lacks a coherent energy policy. Treasury scored our total FY01 tax package at more than $4 billion over five years.

If there is a vehicle for some sort of tax package this year, and assuming that we could not add the entire energy tax package, I have attached two fallback scenarios. The first is a small package which scores at about $1.028 billion (over five years), and a second package which scores at about $2.228 billion. The only difference in the two is that the latter contains the consumer auto tax credit – perhaps the most politically relevant of all. These proposals are either our exact proposals, or versions reflected in bipartisan bills pending in the Congress. For the latter, the scoring is done by the JTC.

Note that these two packages address our two most pressing energy issues. The smaller package is all about expanding capacity and forms of electricity generation. The autos package deals directly (albeit long term) with gas prices.

I designed these smaller packages by weighing the cost, the political support, and the environmental benefit of each. I believe it is critical that any larger tax deal that includes more than one discreet issue includes some portion of our energy/climate package. Such credits will be lasting and transformational, and would help significantly with our international negotiations.

Close Hold. Not Administration Policy.

Possible Elements for Energy Related Tax Credits Package

Tax Proposal	FY01 5 yr. est.
Credit for Purchase of Fuel Cells	.010
Electricity Production from Biomass (including existing facilities)	.294
Credit for Purchases of Solar Energy Systems	.132
Consumer Credit for Purchases of Super Efficient Appliances (clotheswashers and refrigerators)	.272* (JTC)
Electricity Production from Landfill Methane	.320
Total (without Cars)	**1.028**
Consumer Tax Credit for Purchase of Efficient Vehicles	1.2* (JTC)
Total with Cars	**2.228**

This table represents the tax credits most likely to have traction with Congress this year. These packages differ significantly from the Administration's proposed package. Left out are: wind ($62 million; doesn't expire until 6/02); solar ($132 million; expands existing credit); energy efficient homes ($633 million; some interest on the Hill, but complicated and controversial); combined heat and power facilities ($10 million); co-firing biomass w/ coal ($300 million).

There are pending bills that contain similar or identical provisions for each of these items, including: biomass (Grassley); super energy efficient appliances (Grassley, Rockefeller, Nussle, Tanner); autos credit (the entire Michigan House delegation, and Democratic Senate Leadership bill); landfill methane (Camp, Johnson (CT) et al); solar energy systems (Allard and Salmon).

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* This assumes we would include the proposal supported by the auto industry and introduced by the Mich. Delegation. The scoring, therefore, is JTC scoring. The structure of the credit is identical to the Administration's except that theirs runs from 2000 to 2008, and ours runs from 2003 to 2008.

Close Hold. Not Administration Policy.

Julie M. Anderson
09/20/2000 06:02:28 PM

Record Type: Record

To: Roger S. Ballentine/WHO/EOP@EOP, Debra Reed/CEQ/EOP@EOP
cc:
Subject: revenue estimate on Hatch/Baucus amd

---------------------- Forwarded by Julie M. Anderson/WHO/EOP on 09/20/2000 06:02 PM ---------------------------

Chris_Miller@epw.senate.gov (Chris Miller)
09/20/2000 05:50:58 PM

Record Type: Record

To: Shirley_Neff@energy.senate.gov (Shirley Neff) , Eric_Washburn_at_DASCHLE-DC@mailexc2.senate.gov (Eric Washburn)
cc:
Subject: revenue estimate on Hatch/Baucus amd

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fyi

______________________________ Forward Header ________________________________
Subject: revenue estimate on Hatch/Baucus amd
Author: Maria Freese at BAUCUS-DC
Date: 9/20/2000 5:43 PM

Alt fuels isn't available yet and neither is the home heating oil storage expensing, but the rest of the package costs just over $9 billion/10years. The pieces we care about:

Partners: $12m/5 yrs $26m/10yrs
easement: $115m/5yrs $306m/10yrs
COSBs: $549m/5yrs $2.3b/10yrs

Of Hatch's stuff, the oil and gas stuff came in at $2.6b/10yrs, steel cogen at $1.7b/10yrs, and ethanol at $512m/10 yrs.
CRP payments, which is a farm issue, came in more expensive than I had thought -- $879m/10yrs.

THREE OVERALL TAX STRATEGY OPTIONS

Should we propose: 1) a top-line agreement incorporating selected current bills and fight under the number for our priorities, 2) a message offer, or 3) no offer?

Top-Line Agreement

The top-line approach would generate the following likely outcome.

Likely outcome	Low range	High range
Pension: Portman-Cardin	$60	$100
New markets	20	27
Telephone excise tax	54	54
Minimum wage	35	80
Patients bill-of-rights (PBOR)	0	40
Total	**$169**	**$301**

Conditions to a top-line agreement:

- **Keep the Republican tax cut to $180-200 billion.** This is workable only if we can keep the Republican package in the $180-200 billion range.
- **Agree to a higher number if the extra room is reserved only for Clinton priorities.** Agree to a top-line figure of $250-$275 billion if $50 to $70 billion is made available for Clinton tax priorities, such as long-term care, school construction, EITC/marriage penalty, vaccines, climate change, etc.

Pros of strategy:

- If Republican agree to top line approach, we could prevent the tax cuts from spiraling uncontrollably upwards to the $350-400 billion range.
- It provides us a framework to push for Clinton priorities without the fear that it would lead to a bidding war.

Cons of strategy:

- Fighting each bill individually might lead to a less overall tax cut total than the top-line agreement strategy.
- The top-line strategy might allow them to claim to the public that the Administration is embracing their "debt-reduction and moderate tax cut strategy". In addition, it takes away our position as defenders of "fiscal discipline" by stopping the Republican's irresponsible $2 trillion tax cut plan.

Unified Democratic Offer

Propose a $250 billion net offer by Clinton and Democrats. Below is a net $250 billion scenario that is being put forth for discussion. It is a revised "Podesta envelop" without the telephone tax. It includes a Social Security provision and several smaller Clinton priorities with up to $75 billion in tax loophole closures and eliminating unnecessary subsidies.

Possible Unified Offer	(billions)
Senate Democrat estate tax	$60
House Democrat marriage penalty	82
Clinton Social Security benefits offer—eliminating 50% tax bracket	43
Pension and savings	45
New markets	20
School construction	8
Long-term care	26
Vaccines	1.5
Climate change	8.5
EITC reform or child care tax credit	21
Misc. (open pot)	10
Gross total	**325**
Loophole closures	**75**
Net Total	**$250**

Pros of unified offer:

- This would place President and Congressional Democrats in a position of proposing a "working family" tax cut plan and put the Republicans in the position of saying no.
- It may help Congressional Democrats who feel they need to get "healthy" on the issues of the marriage penalty, Social Security and the estate tax.

Cons of unified offer:

- It would move the President away from the fiscal discipline posture on Medicare and Social Security solvency. *(This could be partially addressed with moving the Medicare off-budget package.)*
- It may serve as a floor for Republican tax cuts and could re-ignite tax cut efforts. The President may be seen as reviving the tax-cut debate when tax cuts as an issue is beginning to recede in Congress.

No Offer

Fight each bill separately. Under this strategy, we would fight every bill one by one to keep the overall total down. This strategy would allow us to pursue only relatively small Clinton tax priorities, for example, fighting for school construction in the Labor-HHS appropriations bill and fighting for the long-term care tax credit in the event of a "patients bill-of-rights" legislation.

Pros of no-offer strategy:

- Republican tax-cutting efforts appear to be fading and we should not be pushing for tax cuts.
- We can focus on fighting for school construction in Labor-HHS bill. In the event of a "patients bill-of-rights" bill, we will have significant leverage to add the long-term care tax credit.

Cons of no-offer strategy:

- The public may perceive us as opposing tax cuts.
- We are less likely to get at a high number for Clinton's tax cut priorities.

PROPOSED HATCH-BAUCUS AMENDMENT
TO
COMMUNITY RENEWAL AND NEW MARKETS ACT OF 2000

Add the following provisions to the Chairman's mark:

Energy Provisions:

- S. 2591, the Alternative Fuels Tax Incentive Act (Jeffords, Hatch, Bryan, Rockefeller, Robb), supplemented by section 101 of S. 2685 (Levin, Abraham, Ashcroft):
    - Provides an income tax credit for individuals and businesses that purchase dedicated alternative fuels vehicles:
        - 50 percent credit on the incremental cost, limited to a range from $5,000 to $50,000, based on the gross vehicle weight;
        - An additional 35 percent credit is available for vehicles meeting the most stringent emissions standards under the Clean Air Act;
        - For electric vehicles, a 10 percent credit, up to $4,250;
    - 25 cent credit per gallon equivalent of alternative fuel;
    - Extension of current-law provision allowing immediate expensing of clean-fuel vehicle refueling property.;
    - Provides a credit of up to $3,000 for qualified hybrid vehicles;
- Tax credit for marginal domestic oil and gas well production, as in section 802 of S. 2557- Lott, Murkowski. (Similar to section 702 of S. 2904 - Bingaman, Baucus, Rockefeller, Daschle);
- Election to expense geological and geophysical expenditures and delay rental payments, as in section 803 of S. 2557. (Similar to sections 703 and 704 of S. 2904);
- Extension of credit for electricity produced from steel cogeneration, as attached. (Similar to section 903 of S. 2557 and section 901 of S. 2904);
- Full expensing of home heating oil and propane storage facilities, as in section 1008 of S. 2904;
- S. 2884 (Grams-Hatch), allow allocation of small ethanol producer credit to patrons of a cooperative (similar provision also included in S. 2904).

Conservation Provisions:

- S. 808, the Conservation Tax Incentives Act (Jeffords, Grassley, Graham, Kerrey, Robb):
    - Excludes from gross income 50 percent of any gain from the sale of land or an interest in land or water to an eligible conservation entity;
- A provision to exclude from gross income cost sharing payments under the Partners for Wildlife Program (section 2 of S. 1392 - Baucus);
- A provision to expand the estate tax exclusion for real property subject to a qualified conservation easement (section 5 of S. 1392 - Baucus);
- S. 1558, the Community Open Space Bonds Act (Baucus, Hatch, Bryan, Robb):
    - Provides a tax credit to holders of Community Open Space bonds for qualified open space projects while maintaining local control;
- S. 2344, the Conservation Reserve Program Tax Fairness Act (Gramm, Conrad, Grassley, Jeffords, Kerrey, Baucus):
    - Treats conservation reserve program payments as real estate rentals for self-employment earnings purposes.

Janet Anderson

09/15/2000 06:15:49 PM

Record Type: Record

To: Roger S. Ballentine/WHO/EOP@EOP

cc: Angela C. Mizeur/WHO/EOP@EOP
Subject: CA biomass

I got some #s from Dick and using them and EIA data on CA electricity generation I calculated the following (I have used conservative assumptions):

If the biomass power generation levels were returned to the levels of the early '90s,

- CA could generate 1.7% more power a year.
- This is enough to supply nearly 400,000 homes.
- The extra would be 3.2 billion kWh/year.
- Peak capacity of CA generation would increase by 0.65% (this is a lot when demand is tight)
- Lost capacity 330 MW
- CA is a net power importer, but these sources are in state and could also help with transmission constraints.

Let me know what else you need.

Janet Anderson

09/15/2000 06:31:51 PM

Record Type: Record

To: Roger S. Ballentine/WHO/EOP@EOP

cc:

Subject: Re: CA biomass

It's not the '70s -- the '90s. The reason the plants have shut down is because they've lost their PURPA subsidies. The tax credit would replace the PURPA support. These benefits are in addition to ghg and local air quality benefits (much of this fuel would be open burned).

CLEAN ENERGY TAX INCENTIVES
CORE PACKAGE

Proposed credit	Who benefits or what problem is solved?	What is the level of support?	What bills have already been introduced?	What is the cost of this credit?
Production tax credit for electricity generated from open loop biomass (1.5¢/kwh) and co-fired biomass (0.5¢/kwh).	Utilities, independent power producers, foresters, farmers (anyone with biomass waste) seeking to use biomass to generate electricity; Addresses air quality, nutrient management, and global warming issues.	Widely supported by industry: American Bioenergy Assoc.; National BioEnergy Industries Assoc. Included in FY 01 Administration budget; Biomass open loop and co-firing enacted by Senate in H.R. 2488 in 1999.	Administration -- open loop 1.5¢, co-firing .5¢; H.R.1731 (Herger + 29) -- open loop 1.5¢; H.R.2380 (Matsui + 30) -- open loop 1.5¢, co-firing 1¢; S.1833 (Daschle + 6) -- open loop 1.5¢, co-firing 1¢; S.2904 (Bingaman + 7) – open loop 1.5¢, co-firing 1¢.	$254 over 5 years for new plant open loop and biomass co-firing (JCT).
Wind and closed loop biomass production tax credit extension	Incentives encourage additional production of electric power from clean renewable sources of energy. (no existing)	Included in FY 01 Administration budget.	Administration H.R.2380 (Matsui + 30) S.2904 (Bingaman + 7)	Approximately $100 million for the additional 2.5 years.
Electric and fuel cell vehicle investment tax credit extension	Fleet vehicle operators directly benefit; Incentives encourage technical innovation on zero emission vehicles.	Electric Vehicle Coalition; Auto industry; Included in FY 01 Administration budget.	Administration H.R. 1108 (Collins + 25) H.R.2380 (Matsui + 30) H.R.4270 (Kildee + 8) S.2685 (Levin + 2) S.2904 (Bingaman + 7)	Approximately $150 million.
Energy-efficient building equipment investment tax credit	Incentives encourage commercialization of advanced high-efficiency equipment, specifically fuel cells, natural gas heat pumps, and electric heat pump hot water heaters.	Included in FY 01 Administration budget; Fuel cell manufacturers are actively supporting.	Administration H.R.2380 (Matsui + 30)	$201 million over 5 years.

1.7/5

Proposed credit	Who benefits or what problem is solved?	What is the level of support?	What bills have already been introduced?	What is the cost of this credit?
Residential solar energy systems investment tax credit	Incentives support market entry and scale-up of solar PV and water heating systems.	Solar Energy Industries Association; Included in Administration's FY01 budget	S. 1634 (Allard) H.R.1465 (Salmon + 11)	$92 million over 5 years.
Energy-efficient new homes investment tax credit (Administration proposal)	Homeowners will realize energy savings of 30 to 50 % over current model codes. Increased production, reduced costs, and further technical innovation are likely for high efficiency building components, as well as innovative housing designs.	Credits for new single-family residences included in the Administration's FY01 budget; Substantial support from the building products industry, regional builder associations, state energy officials, and environmental organizations.	H.R.1358 (Thomas + 58) H.R.2380 (Matsui + 30) S.2718 (Bob Smith + 7)	Administration proposal for new homes estimated at $633 million over 5 years.
Production tax credit for the manufacture of extra-high efficiency refrigerators and clothes washers	Manufacturers receive incentives for producing appliances that are substantially more efficient than minimum requirements. Consumers benefit from new extra-high efficiency appliances, saving energy, water, and detergent costs. Water savings from new highly efficient clothes washers is substantial.	Appliance manufacturers are strongly in support; Environmental and energy efficiency advocates, along with some state and local representatives, also support these credits.	S.2939 (Grassley + 5) H.R.4977 (Nussle + 23)	An estimated $275 million over five years; total tax credit per manufacturer is capped.

September 18, 2000

DESCRIPTION OF COMMUNITY RENEWAL AND NEW MARKETS ACT OF 2000

Scheduled for Markup

By the

SENATE COMMITTEE ON FINANCE

on September 20, 2000

Prepared by the Staff

of the

JOINT COMMITTEE ON TAXATION

September 18, 2000

JCX-99-00

CONTENTS

INTRODUCTION

This document,[1] prepared by the staff of the Joint Committee on Taxation, provides a description of the Chairman's Mark of an original bill, the "Community Renewal and New Markets Act of 2000", scheduled for markup by the Senate Committee on Finance on September 20, 2000.

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[1] This document may be cited as follows: Joint Committee on Taxation, *Description of the Chairman's Mark of the "Community Renewal and New Markets of 2000"* (JCX-99-00), September 18, 2000.

DESCRIPTION OF PROPOSALS

A. Tax Incentives for Distressed Areas

Present Law

In recent years, provisions have been added to the Internal Revenue Code that target specific geographic areas for special Federal income tax treatment. As described in greater detail below, empowerment zones and enterprise communities generally provide tax incentives for businesses that locate within certain geographic areas designated by the Secretaries of Housing and Urban Development ("HUD") and Agriculture.

Round I empowerment zones

The Omnibus Budget Reconciliation Act of 1993 ("OBRA 1993") authorized the designation of nine empowerment zones ("Round I empowerment zones") to provide tax incentives for businesses to locate within targeted areas designated by the Secretaries of HUD and Agriculture. The Taxpayer Relief Act of 1997 ("1997 Act") authorized the designation of two additional Round I urban empowerment zones.

Businesses in the 11 Round I empowerment zones qualify for the following tax incentives: (1) a 20-percent wage credit for the first $15,000 of wages paid to a zone resident who works in the empowerment zone,[2] (2) an additional $20,000 of section 179 expensing for qualifying zone property, and (3) tax-exempt financing for certain qualifying zone facilities. The tax incentives with respect to the empowerment zones designated by OBRA 1993 generally are available during the 10-year period of 1995 through 2004. The tax incentives with respect to the two additional Round I empowerment zones generally are available during the 10-year period of 2000 through 2009.[3]

Round II empowerment zones

The 1997 Act also authorized the designation of 20 additional empowerment zones ("Round II empowerment zones"), of which 15 are located in urban areas and five are located in rural areas. Businesses in the Round II empowerment zones are not eligible for the wage credit, but are eligible to receive up to $20,000 of additional section 179 expensing. Businesses in the

---

[2] For wages paid in calendar years during the period 1994 through 2001, the credit rate is 20 percent. The credit rate is reduced to 15 percent for calendar year 2002, 10 percent for calendar year 2003, and 5 percent for calendar year 2004. No wage credit is available after 2004 in the original nine empowerment zones.

[3] The wage credit, however, is reduced to 15 percent for calendar year 2005, and then reduced by five percentage points in each year in 2006 and 2007. No wage credit is available after 2007.

Round II empowerment zones also are eligible for more generous tax-exempt financing benefits than those available in the Round I empowerment zones. Specifically, the tax-exempt financing benefits for the Round II empowerment zones are not subject to the State private activity bond volume caps (but are subject to separate per-zone volume limitations), and the per-business size limitations that apply to the Round I empowerment zones and enterprise communities (i.e., $3 million for each qualified enterprise zone business with a maximum of $20 million for each principal user for all zones and communities) do not apply to qualifying bonds issued for Round II empowerment zones. The tax incentives with respect to the Round II empowerment zones generally are available during the 10-year period of 1999 through 2008.

District of Columbia Enterprise Zone

The 1997 Act also designated certain economically depressed census tracts within the District of Columbia as the "D.C. Enterprise Zone," within which businesses and individual residents are eligible for special tax incentives. The D.C. Enterprise Zone designation remains in effect for the period from January 1, 1998, through December 31, 2002. In addition to the tax incentives available with respect to a Round I empowerment zone, the D.C. Enterprise Zone also has a zero-percent capital gains rate that applies to gain from the sale of certain qualified D.C. zone assets acquired after December 31, 1997 and held for more than five years.

With respect to the tax-exempt financing incentives, the D.C. Enterprise Zone generally is treated like a Round I empowerment zone;[4] therefore, the issuance of such bonds is subject to the District of Columbia's annual private activity bond volume limitation. However, the aggregate face amount of all outstanding qualified enterprise zone facility bonds per qualified D.C. Zone business may not exceed $15 million (rather than $3 million, as is the case for Round I empowerment zones).[5]

Description of Proposal

Overview

As described in detail below, the proposal would conform the wage credit and tax-exempt bond incentives for the Round I and Round II empowerment zones and extend their designations through December 31, 2009. The proposal also would increase the incentives to existing empowerment zones by (1) increasing the additional section 179 deduction to $35,000, and (2) providing a zero-percent capital gain rate for qualifying assets held for more than five years.

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[4] Portions of the District of Columbia were designated as an enterprise community under section 1391 in 1994. Accordingly, the District of Columbia was entitled to issue tax-exempt enterprise zone facility bonds.

[5] Section 1400A(a).

In addition, the proposal would authorize the Secretaries of HUD and Agriculture to designate 30 new "renewal zones" that would have the same tax incentives as empowerment zones. The designations of the new renewal zones would take effect on January 1, 2002, and terminate on December 31, 2009.

Thus, once the 30 new renewal zones have been designated, there will exist a total of 61 zones providing similar tax incentives for distressed areas, all of whose designations would terminate on December 31, 2009. The renewal zones would be treated as empowerment zones for all purposes of the Code.[6] After taking into account existing empowerment zones, each State would have at least one zone.

The proposal also would extend the D.C. Enterprise Zone designation through December 31, 2009.

Existing zones

Conforming and enhancing incentives for Round I and Round II empowerment zones.--The proposal would extend the designation of empowerment zone status for Round I and II empowerment zones through December 31, 2009. In addition, a 15-percent wage credit would be made available in all Round I and II empowerment zones, effective in 2002 (except in the case of the two additional Round I empowerment zones, for which the 15-percent wage credit would take effect in 2005 as scheduled under present law). For all the empowerment zones, the 15-percent wage credit would expire on December 31, 2009.

In addition, $35,000 (rather than $20,000) of additional section 179 expensing would be available for qualified zone property placed in service in taxable years beginning after December 31, 2001, by a qualified business in any of the empowerment zones.[7]

Businesses located in Round I empowerment zones would be eligible for the more generous tax-exempt bond rules that apply under present law to businesses in the Round II empowerment zones (sec. 1394(f)). The proposal would apply to tax-exempt bonds issued after December 31, 2001. Bonds that have been issued by businesses in Round I zones before January 1, 2002, would not be taken into account in applying the limitations on the amount of new empowerment zone facility bonds that can be issued under the proposal.

Businesses located in any empowerment zone also would qualify for a zero-percent capital gains rate for gain from the sale of a qualifying zone assets acquired after date of enactment and

[6] This would include, for example, the proposals relating to the historic homes credit and the broadband Internet access tax credit described below.

[7] The additional $35,000 of section 179 expensing is available throughout all areas that are part of a designated empowerment zone, including the non-contiguous "developable sites" that were allowed to be part of the designated Round II empowerment zones under the 1997 Act.

before January 1, 2010, and held for more than five years. Assets that would qualify for this incentive would be similar to the types of assets that qualify for the present-law zero percent capital gains rate for qualifying D.C. Zone assets. The zero-percent capital gains rate would be limited to an aggregate amount not to exceed $25 million of gain per taxpayer. Any gain attributable to the period before the date of enactment or after December 31, 2014, would not be eligible for the zero-percent capital gains rate.

D.C. Enterprise Zone.--The proposal would extend the D.C. Enterprise Zone designation through December 31, 2009. The proposal also would conform the D.C. wage credit to the wage credit to the other zones, so that there would be a 15-percent wage credit with respect to qualifying wages beginning in 2003 (and ending on December 31, 2009).

Renewal zones

Designation of 30 renewal zones.--The Secretaries of HUD and Agriculture would be authorized to designate up to 30 renewal zones from areas nominated by States and local governments. At least six of the designated renewal zones must be in rural areas. The Secretary of HUD is required to publish (within four months after enactment) regulations describing the nomination and selection process. Designations of renewal zones would be made before January 1, 2002, and the designation (and tax incentives) would be effective for the period beginning on January 1, 2002 through December 31, 2009.

Eligibility criteria.--To be designated as a renewal zone, a nominated area must meet the following criteria: (1) each census tract must have a poverty rate of at least 20 percent; (2) in the case of an urban area, at least 70 percent of the households have incomes below 80 percent of the median income of households within the local government jurisdiction; (3) the unemployment rate is at least 1.5 times the national unemployment rate; and (4) the area is one of pervasive poverty, unemployment, and general distress.[8] In general, the areas with the highest average ranking of eligibility factors (1), (2) and (3), above would be designated as renewal zones. States without an empowerment zone would be given priority in the designation process. Moreover, after taking into account existing empowerment zones, each State would have at least one zone designation (empowerment or renewal zone).

There would be no geographic size limitations placed on renewal zones. Instead, the boundary of a renewal zone must be continuous. In addition, a renewal zone must have a minimum population of 4,000 if the area is located within a metropolitan statistical area (at least 1,000 in all other cases), and a maximum population of not more than 200,000. The population limitations would not apply to any renewal zone that is entirely within an Indian reservation.

[8] For areas not within census tracts, the equivalent county division (as defined by the Bureau of the Census for purposes of defining poverty areas) shall be used for purposes of defining poverty rates and median family income.

Required State and local commitments.--In order for an area to be designated as a renewal zone, State and local governments are required to submit a written course of action in which the State and local governments promise to take at least four of the following governmental actions: (1) a reduction of tax rates or fees; (2) an increase in the level of efficiency of local services; (3) crime reduction strategies; (4) actions to remove or streamline governmental requirements; (5) involvement by private entities and community groups, such as to provide jobs and job training and financial assistance; and (6) the gift (or sale at below fair market value) of surplus realty by the State or local government to community organizations or private companies.

Enterprise community seeking designation as renewal zones.--An enterprise community could apply for designation as a renewal zone. In making selections of renewal zones, the Secretary shall take into account the status of a nominated area as an enterprise community. If a renewal zone designation is granted, then an area's designation as an enterprise community would cease as of the date the area's designation as a renewal zone takes effect.

Tax incentives for renewal zones.--Businesses in renewal zones would have the same tax incentives as businesses in existing empowerment zones (as modified by this proposal), which would be available during the period beginning January 1, 2002 and ending December 31, 2009 (i.e., a zero percent capital gains rate for qualifying assets;[9] a 15-percent wage credit with respect to qualifying wages; $35,000 in additional 179 expensing for qualifying property; and the enhanced tax-exempt bond rules that currently are available to businesses in the Round II empowerment zones).

Effective Date

The extension of the existing empowerment zone designations (including the D.C. Enterprise Zone) would be effective after the date of enactment.

The additional section 179 expensing and the more generous tax-exempt bond rules for the existing empowerment zones generally would be effective after December 31, 2001. The zero-percent capital gains rate would apply to qualifying property purchased after the date of enactment.

The 15-percent wage credit generally would be effective for qualifying wages paid after December 31, 2001. With respect to the two additional Round I empowerment zones, however, the wage credit would be effective for qualifying wages paid after December 31, 2004. For the D.C. Enterprise Zone, the 15-percent wage credit would be effective for qualifying wages paid after December 31, 2002.

The 30 new renewal zones would be designated by January 1, 2002, and the resulting tax benefits would be available for the period beginning January 1, 2002, and ending December 31, 2009.

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[9] Any gain attributable to the period before January 1, 2002, or after December 31, 2014, would not be eligible for the zero-percent capital gains rate.

B. New Markets Tax Credit

Present Law

Some tax incentives are available to taxpayers making investments and loans in low-income communities. For example, tax incentives are available to taxpayers that invest in specialized small business investment companies licensed by the Small Business Administration to make loans to, or equity investments in, small businesses owned by persons who are socially or economically disadvantaged.

Description of Proposal

The proposal would create a new tax credit for qualified equity investments made to acquire stock in a selected community development entity ("CDE"). The maximum annual amount of qualifying equity investments would be capped as follows:

Calendar Year	Maximum Qualifying Equity Investment
2002	$1.0 billion
2003-2006	$1.5 billion per year

The amount of the new tax credit to the investor (either the original purchaser or a subsequent holder) would be (1) a five-percent credit for the year in which the equity interest is purchased from the CDE and the first two anniversary dates after the interest is purchased from the CDE, and (2) a six percent credit on each anniversary date thereafter for the following four years.[10] The taxpayer's basis in the investment would be reduced by the amount of the credit (other than for purposes of calculating the zero-percent capital gains rules and section 1202). The credit would be subject to the general business credit rules.

A CDE is any domestic corporation or partnership (1) whose primary mission is serving or providing investment capital for low-income communities or low-income persons, (2) that maintains accountability to residents of low-income communities through representation on governing or advisory boards of the CDE, and (3) is certified by the Treasury Department as an eligible CDE.[11] No later than 120 days after enactment, the Treasury Department shall issue guidance that specifies objective criteria to be used by the Treasury to allocate the credits among eligible CDEs. In allocating the credits, the Treasury Department will give priority to entities

[10] Thus, a credit would be available on the date on which the investment is made and for each of the six anniversary dates thereafter.

[11] A specialized small business investment company and a community development financial institution are treated as satisfying the requirements for a CDE.

with records of having successfully provided capital or technical assistance to disadvantaged businesses or communities.

If a CDE fails to sell equity interests to investors up to the amount authorized within five years of the authorization, then the remaining authorization is canceled. The Treasury Department can authorize another CDE to issue equity interests for the unused portion. No authorization can be made after 2015.

A "qualified equity investment" is defined as stock or a similar equity interest acquired directly from a CDE in exchange for cash. Substantially all of the investment proceeds must be used by the CDE to make "qualified low-income community investments." Qualified low-income community investments include: (1) equity investments in, or loans to, qualified active businesses located in low-income communities, (2) certain financial counseling and other services specified in regulations to businesses and residents in low-income communities, (3) the purchase from another CDE of any loan made by such entity that is a qualified low income community investment, or (4) an equity investment in, or loans to, another CDE if substantially all of the investment or loan by such entity is used to make the qualified low-income community investments described in (1), (2) or (3).[12]

The stock or equity interest cannot be redeemed (or otherwise cashed out) by the CDE for at least seven years. If the entity ceases to be a qualified CDE during the seven-year period following the taxpayer's investment, or if the equity interest is redeemed by the issuing CDE during that seven-year period, then any credits claimed with respect to the equity interest are recaptured (with interest) and no further credits are allowed.

A "low-income community" is defined as census tracts with: (1) poverty rates of at least 20 percent (based on the most recent census data), or (2) median family income which does not exceed 80 percent of the greater of metropolitan area income or statewide median family income (for a non-metropolitan census tract, 80 percent of non-metropolitan statewide median family income).[13] Pursuant to regulations to be prescribed by the Secretary, a "low-income community" also could be defined as a targeted population of low-income persons who satisfy the poverty rate and median income requirements set forth above within the targeted area and who otherwise lack adequate access to loans or equity investments.

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[12] If at least 85 percent of the aggregate gross assets of the CDE are invested (directly or indirectly) in equity interests in, or loans to, qualified active businesses located in low-income communities, then there would be no need to trace the use of the proceeds from the particular stock (or other equity ownership) issuance with respect to which the credit is claimed.

[13] For areas not within census tracts, the equivalent county division (as defined by the Bureau of the Census for purposes of defining poverty areas) shall be used for purposes of defining poverty rates and median family income.

A "qualified active business" is defined as a business which satisfies the following requirements: (1) at least 50 percent of the total gross income of the business is derived from the active conduct of trade or business activities in low-income communities; (2) a substantial portion of the use of the tangible property of such business is used within low-income communities; (3) a substantial portion of the services performed for such business by its employees is performed in low-income communities; and (4) less than 5 percent of the average aggregate of unadjusted bases of the property of such business is attributable to certain financial property or to collectibles (other than collectibles held for sale to customers). There is no requirement that employees of the business be residents of the low-income community.

Rental of improved commercial real estate located in a low-income community is a qualified active business, regardless of the characteristics of the commercial tenants of the property. The purchase and holding of unimproved real estate is not a qualified active business. In addition, a qualified active business does not include (a) any business consisting predominantly of the development or holding of intangibles for sale or license; (b) operation of any facility described in sec. 144(c)(6)(B); or (c) any business if a significant equity interest in such business is held by a person who also holds a significant equity interest in the CDE. A qualified active business can include an organization that is organized on a non-profit basis.

Effective Date

The proposal would be effective for qualified investments made after December 31, 2001.

C. Low-Income Housing Tax Credit Cap and Related Program Modifications

Present Law

In general

The low-income housing tax credit may be claimed annually over a 10-year period for the cost of rental housing occupied by tenants having incomes below specified levels. The credit percentage for newly constructed or substantially rehabilitated housing that is not Federally subsidized is adjusted monthly by the IRS so that the 10 annual installments have a present value of 70 percent of the total qualified expenditures. The credit percentage for new substantially rehabilitated housing also receiving most other Federal subsidies and for existing housing is calculated to have a present value of 30 percent of the total qualified expenditures. The new credit authority provided annually is $1.25 per resident of each State. Projects that receive financing with proceeds of tax-exempt bonds issued subject to the private activity bond volume limit and receive the low income housing credit are outside the State's credit cap.

Stacking rule

The present-law stacking rule provides that a State is treated as using its annual allocation of credit authority ($1.25 per State resident) and any returns during the calendar year followed by any unused credits carried forward from the preceding year's credit ceiling and finally any applicable allocations from the National pool.

Description of Proposal

The proposal would increase the annual State credit caps from be $1.25 to $1.75 per resident beginning in 2001. Also beginning in 2001, the per capita cap would modified so that small population states are given a minimum of $2 million of annual credit cap. The $1.75 per capita credit cap and the $2 million amount are indexed for inflation beginning in calendar year 2002.

The proposal also would make two programmatic changes to the credit. First, the proposal would modify the stacking rule so that each State would be treated as using its allocation of the unused State housing credit ceiling (if any) from the preceding calendar before the current year's allocation of credit (including any credits returned to the State) and then finally any National pool allocations. Second, the proposal would provide that assistance received under the Native American Housing Assistance and Self-Determination Act of 1986 would not be taken into account in determining whether a building is Federally subsidized for purposes of the credit.

Effective Date

The proposals generally would be effective for calender years after December 31, 2000, and buildings placed in service after such date in the case of projects that also receive financing with proceeds of tax-exempt bonds which are issued after such date subject to the private activity bond volume limit.

D. Private Activity Bond State Volume Limits

Present Law

Interest on bonds issued by States and local governments is excluded from income if the proceeds of the bonds are used to finance activities conducted or paid for by the governmental units. Interest on bonds issued by these governmental units to finance activities carried out and paid for by private persons ("private activity bonds") is taxable unless the activities are specified in the Code. Private activity bonds on which interest may be tax exempt include bonds for privately-operated transportation facilities (airports, docks and wharves, mass transit, and high speed rail facilities), privately-owned or privately-provided municipal services (water, sewer, solid waste disposal, and certain electric and heating facilities), economic development (small manufacturing facilities and redevelopment in economically depressed areas), and certain social programs (low-income rental housing, qualified mortgage bonds, student loan bonds, and exempt activities of charitable organizations described in Code sec. 501(c)(3)).

The volume of tax-exempt private activity bonds that States and local governments may issue in each calendar year is limited by State-wide volume limits. The volume limits do not apply to private activity bonds to finance airports, docks and wharves, certain governmentally owned, but privately operated, solid waste disposal facilities, certain high speed rail facilities, and certain types of private activity tax-exempt bonds that are subject to other limits on their volume (qualified veterans' mortgage bonds and certain empowerment zone and enterprise community bonds). The current annual volume limits are $50 per resident of the State or $150 million (if greater). An increase in these volume limits to $75 per resident or $225 million (if greater) is scheduled to be phased-in during calender years 2003-2007.

Description of Proposal

The bill accelerates the currently scheduled phased increase in the present-law annual State private activity bond volume limits to $75 per resident of each State or $225 million (if greater) beginning in calendar year 2001. In addition, the $75 per resident limit and the $225 million State limit would be indexed for inflation beginning in calendar year 2002.

Effective Date

The proposal would be effective for calendar years after December 31, 2000.

E. Mortgage Revenue Bonds

Present Law

Qualified mortgage bonds (QMBs) are tax-exempt bonds, the proceeds of which generally must be used to make mortgage loans to first-time homebuyers. The recipients of QMB-financed loans must meet purchase price, income, and other restrictions. Generally, the purchase price of an assisted home may not exceed 90 percent (110 percent in targeted areas) of the average area purchase price.

Description of Proposal

The proposal would modify the purchase price rule for QMB financing. Specifically, QMB financing would be allowable to qualified residences the purchase price of which does not exceed the greater of (1) 90 percent of the average area purchase price; or (2) 3.5 times the applicable median family income. The applicable median family income would be defined as under the present-law QMB income restriction. The purchase price requirement applicable to targeted areas (i.e., 110 percent) would not be changed.

Effective Date

The proposal would be effective for bonds issued after the date of enactment.

F. Tax Credit for Renovating Historic Homes

Present Law

Present law provides an income tax credit for certain expenditures incurred in rehabilitating certified historic structures and certain nonresidential buildings placed in service before 1936 (sec. 47). The amount of the credit is determined by multiplying the applicable rehabilitation percentage by the basis of the property that is attributable to qualified rehabilitation expenditures. The applicable rehabilitation percentage is 20 percent for certified historic structures and 10 percent for qualified rehabilitated buildings (other than certified historic structures) that were originally placed in service before 1936.

A nonresidential building is eligible for the 10-percent credit only if the building is substantially rehabilitated and a specific portion of the existing structure of the building is retained in place upon completion of the rehabilitation. A residential or nonresidential building is eligible for the 20-percent credit that applies to certified historic structures only if the building is substantially rehabilitated (as determined under the eligibility rules for the 10-percent credit). In addition, the building must be listed in the National Register or the building must be located in a registered historic district and must be certified by the Secretary of the Interior as being of historical significance to the district.

Description of Proposal

The proposal would permit a taxpayer to claim a 20-percent credit for qualified rehabilitation expenditures made with respect to a qualified historic home which the taxpayer subsequently occupies as his or her principal residence for at least five years. The total credit which could be claimed by the taxpayer would be limited to $20,000. Any eligible credit not claimed by the taxpayer in the year in which the qualified rehabilitation expenditures are made may be carried forward to each of the succeeding 10 years.

The proposal would apply to (1) structures listed in the National Register; (2) structures located in a registered national, State, or local historic district, and certified by the Secretary of the Interior as being of historic significance to the district, but only if the median income of the census tract within which the building is located is less than twice the State median income; (3) any structure designated as being of historic significance under a State or local statute, if such statute is certified by the Secretary of the Interior as achieving the purpose of preserving and rehabilitating buildings of historic significance.

A building generally would be considered substantially rehabilitated if the qualified rehabilitation expenditures incurred during a 24-month measuring period exceed the greater of (1) the adjusted basis of the building as of the later of the first day of the 24-month period or the beginning of the taxpayer's holding period for the building, or (2) $5,000. In the case of structures in empowerment zones, in enterprise communities, in a census tract in which 70 percent of families have income which is 80 percent or less of the State median family income, and areas of chronic distress as designated by the State and approved by the Secretary of Housing and Urban Development, only the $5,000 expenditure requirement would apply. In addition, for all structures, at least 5 percent of the rehabilitation expenditures would have to be allocable to the exterior of the structure.

To qualify for the credit, the rehabilitation must be certified by a State or local government subject to conditions specified by the Secretary of the Interior.

A taxpayer who purchases a structure on which qualified rehabilitation expenditures have been made may claim credit for such expenditures if the taxpayer is the first purchaser of the structure within five years of the date the rehabilitation was completed and if no credit was allowed to the seller with respect to the qualified expenditures. Alternatively, a taxpayer may elect to receive a historic rehabilitation mortgage credit certificate in lieu of the credit otherwise allowable. A historic rehabilitation mortgage credit certificate may be transferred to a lending institution in exchange for which the lending institution provides the taxpayer with a reduction in interest rate on a mortgage on a qualifying structure. The lending institution would then claim the allowable credits against its tax liability. In the case of a targeted area or enterprise community or empowerment zone, the taxpayer may elect to allocate all or a portion of the mortgage credit certificate to reduce the down payment required for purchase of the structure.

If a taxpayer ceases to maintain the structure as his or her personal residence within five years from the date of the rehabilitation, the credit would be recaptured on a pro rata basis.

Effective Date

The proposal would be effective for expenditures paid or incurred beginning after December 31, 2001.

G. Expensing of Environmental Remediation Expenditures and Expansion of Qualifying Sites ("Brownfields")

Present Law

Taxpayers can elect to treat certain environmental remediation expenditures that would otherwise be chargeable to capital account as deductible in the year paid or incurred (sec. 198). The deduction applies for both regular and alternative minimum tax purposes. The expenditure must be incurred in connection with the abatement or control of hazardous substances at a qualified contaminated site.

A "qualified contaminated site" generally is any property that (1) is held for use in a trade or business, for the production of income, or as inventory; (2) is certified by the appropriate State environmental agency to be located within a targeted area; and (3) contains (or potentially contains) a hazardous substance (so-called "brownfields"). Targeted areas are defined as: (1) empowerment zones and enterprise communities as designated under present law; (2) sites announced before February 1997, as being subject to one of the 76 Environmental Protection Agency ("EPA") Brownfields Pilots; (3) any population census tract with a poverty rate of 20 percent or more; and (4) certain industrial and commercial areas that are adjacent to tracts described in (3) above. However, sites that are identified on the national priorities list under the Comprehensive Environmental Response, Compensation, and Liability Act of 1980 cannot qualify as targeted areas.

Eligible expenditures are those paid or incurred before January 1, 2002.

Description of Proposal

The proposal would extend the expiration date for eligible expenditures to include those paid or incurred before January 1, 2004.

In addition, the proposal would eliminate the targeted area requirement, thereby, expanding eligible sites to include any site containing (or potentially containing) a hazardous substance that is certified by the appropriate State environmental agency. However, expenditures undertaken at sites that are identified on the national priorities list under the Comprehensive Environmental Response, Compensation, and Liability Act of 1980 would continue to not qualify as eligible expenditures.

Effective Date

The proposal to extend the expiration date would be effective upon the date of enactment. The proposal to expand the class of eligible sites would be effective for expenditures paid or incurred after the date of enactment.

H. Tax Credit Bonds for the National Railroad Passenger Corporation ("Amtrak")

Present Law

Present law does not authorize the issuance by any private, for-profit corporation of bonds the interest on which is tax-exempt or eligible for an income tax credit. Tax-exempt bonds may be issued by States or local governments to finance their governmental activities or to finance certain capital expenditures of private businesses or loans to individuals. Additionally, States or local governments may issue tax-credit bonds to finance the operation of "qualified zone academies."

Tax-exempt bonds

Interest on bonds issued by States or local governments to finance direct activities of those governmental units is excluded from tax (sec. 103). In addition, interest on certain bonds ("private activity bonds") issued by States or local governments acting as conduits to provide financing for private businesses or individuals is excluded from income if the purpose of the borrowing is specifically approved in the Code (sec. 141). Examples of approved private activities for which States or local governments may provide tax-exempt financing include transportation facilities (airports, ports, mass commuting facilities, and certain high speed intercity rail facilities); public works facilities such as water, sewer, and solid waste disposal; and certain social welfare programs such as low-income rental housing, student loans, and mortgage loans to certain first-time homebuyers. High speed intercity rail facilities eligible for tax-exempt financing include land, rail, and stations (but not rolling stock) for fixed guideway rail transportation of passengers and their baggage using vehicles that are reasonably expected to operate at speeds in excess of 150 miles per hour between scheduled stops.

Issuance of most private activity bonds is subject to annual State volume limits of $50 per resident ($150 million if greater). These volume limits are scheduled to increase to $75 per resident ($225 million if greater) over the period 2003 through 2007.

Investment earnings on all tax-exempt bonds, including earnings on invested sinking funds associated with such bonds is restricted by the Code to prevent the issuance of bonds earlier or in a greater amount than necessary for the purpose of the borrowing. In general, all profits on investment of such proceeds must be rebated to the Federal Government. Interest on bonds associated with invested sinking funds is taxable.

Tax credit bonds for qualified zone academies

As an alternative to traditional tax-exempt bonds, certain States or local governments are given authority to issue "qualified zone academy bonds." A total of $400 million of qualified zone academy bonds is authorized to be issued in each year of 1998 through 2001. The $400 million is allocated to States according to their respective populations of individuals below the poverty line.

Qualified zone academy bonds are taxable bonds with respect to which the investor receives an income tax credit equal to an assumed interest rate set by the Treasury Department to allow issuance of the bonds without discount and without interest cost to the issuer. The bonds may be used for renovating, providing equipment to, developing course materials for, or training teachers in eligible schools. Eligible schools are elementary and secondary schools with respect to which private entities make contributions equaling at least 10 percent of the bond proceeds.

Only financial institutions are eligible to claim the credits on qualified zone academy bonds. The amount of the credit is taken into income. The credit may be claimed against both regular income tax and AMT liability.

There are no arbitrage restrictions applicable to investment earnings on qualified zone academy bond proceeds.

Description of Proposal

The proposal would authorize the National Railroad Passenger Corporation ("Amtrak") to issue an aggregate amount of $10 billion of tax credit bonds to finance its capital projects.[14] Annual issuance of the bonds could not exceed $1 billion per year (plus any authorized amount that was not issued in previous years) during the ten Federal fiscal year period, 2001-2010. Unused bond authority could be carried forward to succeeding years until used, subject to a limitation that no tax credit bonds could be issued after fiscal year 2015.

Projects eligible for tax-credit bond financing would be defined as the acquisition, financing, or refinancing of equipment, rolling stock, and other capital improvements for (1) the northeast rail corridor between Washington, D.C. and Boston, Massachusetts;[15] (2) high-speed rail corridors designated under section 104(d)(2) of Title 23 of the United States Code; and (3) non-designated high-speed rail corridors, including station rehabilitation, track or signal improvements, or grade crossing elimination. The last purpose would be limited to a maximum of 10 percent of the proceeds of any bond issue. At least 70 percent of the tax credit bonds would be required to be issued for the purposes described in (2) and (3).

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[14] The Secretary of Transportation could allocate a portion of Amtrak's tax credit bond authority in any year to the Alaska Railroad for use in financing projects of that railroad that would qualify under the restrictions applicable to Amtrak.

[15] $92 million of Amtrak's tax credit bond authority for Northeast corridor projects would be set aside for the acquisition and installation of platform facilities, performance of railroad force account work necessary to complete improvements below street grade, and any other necessary improvements related to construction at the new railroad station at the James A. Farley Post Office Building in New York City. Projects financed with this $92 million of tax credit bonds would not be subject to the State contribution requirement, described below.

As with qualified zone academy bonds, the interest rate on Amtrak tax credit bonds would be set to allow issuance of the bonds at par, i.e., without any interest cost to Amtrak. In general, proceeds of Amtrak tax credit bonds would have to be spent within 36 months after the bonds were issued.

Amtrak tax credit bonds could only be issued for projects that were approved by the Department of Transportation and with respect to which Amtrak had binding commitments from one or more States to make matching contributions of at least 20 percent of the project cost.[16] The State matching contributions, along with earnings on investment of the tax-credit bond proceeds would be invested in a trust account (i.e., an sinking fund) and used along with earnings on the trust account for repayment of the principal amount of the bonds.

Amtrak tax credit bonds could be owned (and income tax credits claimed) by any taxpayer. The amount of the credit would be includable in the bondholder's income. Additionally, provisions are included in the proposal to allow the credits to be stripped and sold to different investors than the investors in the bond principal.

The proposal requires Amtrak to issue a multi-year capital plan to Congress and the Administration. It also includes provisions for independent project management oversight by a professional non-Amtrak entity (similar to the Federal Transit Administration); provisions for vertification by the DOT Inspector General that the funds deposited in the escrow account are sufficient to ensure full repayment of the bond principal; and criteria to evaluate and select capital projects in order to optimize the investments made.

Effective Date

The proposal would be effective for tax credit bonds issued by Amtrak after September 30, 2000.

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[16] The required State matching contributions could not be derived from Federal monies. Any Federal Highway Trust Fund monies transferred to the States would be treated as Federal monies for this purpose.

I. Tax Treatment of Alaska Native Settlement Trusts

Present Law

An Alaska Native Settlement Corporation ("ANC") may establish a Settlement Trust ("Trust") under section 39 of the Alaska Native Claims Settlement Act ("ANCSA") [17] and transfer money or other property to such Trust for the benefit of beneficiaries who constitute all or a class of the shareholders of the ANC, to promote the health, education and welfare of the beneficiaries and preserve the heritage and culture of Alaska Natives.

With certain exceptions, once an ANC has made a conveyance to a Trust, the assets conveyed shall not be subject to attachment, distraint, or sale or execution of judgement, except with respect to the lawful debts and obligations of the Trust.

The Internal Revenue Service has indicated that contributions to a Trust constitute distributions to the beneficiary-shareholders at the time of the contribution and are treated as dividends to the extent of earnings and profits as provided under section 301 of the Code. The Trust and its beneficiaries are taxed in accordance with trust rules.

Description of Proposal

An Alaska Native Corporation may establish a Trust under section 39 of ANCSA and if the Trust makes an election for its first taxable year ending after the date of enactment of the proposal, no amount will be included in the gross income of a beneficiary of such Trust by reason of a contribution to the Trust. In addition, unless the Trust fails to meet the transferability requirements of the provision, income of the Trust, whether accumulated or distributed, will be taxed only to the Trust (and not to beneficiaries) at the lowest individual tax rates of 15 percent for ordinary income (and the capital gains rate applicable to individuals subject to such 15 percent rate), rather than at the higher rates generally applicable to trusts or to higher tax bracket beneficiaries.

The earnings and profits of the ANC would not be reduced by the amount of contributions to the Trust at the time of the contributions. However, the ANC earnings and profits would be reduced (up to the amount of the contributions) as distributions are thereafter made by the Trust that would exceed the Trusts's total undistributed net income (less taxes paid) plus tax-exempt income for all prior years during which an election is in effect plus for the current year, computed under Subchapter J. In addition, such distributions that exceed such amounts would be reported and taxed to beneficiaries as if distributed by the ANC in the year of the distribution by the Trust, and would be treated as dividends to beneficiaries to the extent the ANC then has current or accumulated earnings and profits.

If the beneficial interests in the Trust or the shares of the ANC may be sold or exchanged to a person in a manner that would not be permitted under ANCSA if the interests were Settlement

[17] 43 U.S.C. 1601 et. seq.

Common Stock (generally, to a person other than an Alaska Native), then all assets of the Trust that had not been distributed as of the beginning of that taxable year of the Trust are taxed to the extent they would be if they were distributed at that time. Thereafter, the Trust and its beneficiaries are generally subject to the rules of subchapter J and to the generally applicable trust income tax rates.

Effective Date

The provision would be effective for taxable years of electing Settlement Trusts, their beneficiaries, and sponsoring Native Corporations ending after the date of enactment, and to contributions made to electing Settlement Trusts during such year and thereafter.

J. Treatment of Indian Tribes as Non-Profit Organizations and State or Local Governments for Purposes of the Federal Unemployment Tax ("FUTA")

Present Law

Present law imposes a net tax on employers equal to 0.8 percent of the first $7,000 paid annually to each employee. The current gross FUTA tax is 6.2 percent, but employers in States meeting certain requirements and having no delinquent loans are eligible for a 5.4 percent credit making the net Federal tax rate 0.8 percent. Both non-profit organizations and State and local governments are not required to pay FUTA taxes. Instead they may elect to reimburse the unemployment compensation system for unemployment compensation benefits actually paid to their former employees. Generally, Indian tribes are not eligible for the reimbursement treatment allowable to non-profit organizations and State and local governments.

Description of Proposal

The proposal would provide that an Indian tribe (including any subdivision, subsidiary, or business enterprise chartered and wholly owned by an Indian tribe) would be treated like a non-profit organization or State or local government for FUTA purposes (i.e., given an election to choose the reimbursement treatment).

Effective Date

The proposal would be effective with respect to service performed in calendar years beginning after the date of enactment.

K. Elimination of the Tax on Awards Under National Health Service Corps Scholarship Program and F. Edward Hebert Armed Forces Health Professions Scholarship and Financial Assistance Program

Present Law

The National Health Service Corps Scholarship Program (the "NHSC Scholarship Program") and the F. Edward Hebert Armed Forces Health Professions Scholarship and Financial Assistance Program (the "Armed Forces Scholarship Program") provide education awards to participants on condition that the participants provide certain services. In the case of the NHSC Scholarship Program, the recipient of the scholarship is obligated to provide medical services in a geographic area (or to an underserved population group or designated facility) identified by the Public Health Service as having a shortage of health-care professionals. In the case of the Armed Forces Scholarship Program, the recipient of the scholarship is obligated to serve a certain number of years in the military at an armed forces medical facility. Because the recipients are required to perform services in exchange for the education awards, the awards used to pay higher education expenses are taxable income to the recipient.

Section 117 excludes from gross income amounts received as a qualified scholarship by an individual who is a candidate for a degree and used for tuition and fees required for the enrollment or attendance (or for fees, books, supplies, and equipment required for courses of instruction) at a primary, secondary, or post-secondary educational institution. The tax-free treatment provided by section 117 does not extend to scholarship amounts covering regular living expenses, such as room and board. In addition to the exclusion for qualified scholarships, section 117 provides an exclusion from gross income for qualified tuition reductions for certain education provided to employees (and their spouses and dependents) of certain educational organizations.

Section 117(c) specifically provides that the exclusion for qualified scholarships and qualified tuition reductions does not apply to any amount received by a student that represents payment for teaching, research, or other services by the student required as a condition for receiving the scholarship or tuition reduction.

Section 134 provides that any "qualified military benefit," which includes any allowance, is excluded from gross income if received by a member or former member of the uniformed services if such benefit was excludable from gross income on September 9, 1986.

Description of Proposal

The proposal would provide that amounts received by an individual under the NHSC Scholarship Program or the Armed Forces Scholarship Program are eligible for tax-free treatment as qualified scholarships under section 117, without regard to any service obligation by the recipient.

Effective Date

The proposal would be effective for education awards received after December 31, 1993.

L. Broadband Internet Access Tax Credit

Present Law

Present law does not provide a credit for investments in telecommunications infrastructure.

Description of Proposal

The proposal would provide a 10 percent credit of the qualified expenditures incurred by the taxpayer with respect to qualified equipment with which the taxpayer offers "current generation" broadband services to subscribers in rural and underserved areas. In the addition, the proposal would provide a 20 percent credit of the qualified expenditures incurred by the taxpayer with respect to qualified equipment with which the taxpayer offers "next generation" broadband services to subscribers in rural areas, underserved areas, and to residential subscribers. Current generation broadband services would be defined as the transmission of signals at a rate of at least 1.5 million bits per second to the subscriber and at a rate of at least 200,000 bits per second from the subscriber. Next generation broadband services would be defined as the transmission of signals at a rate of at least 22 million bits per second to the subscriber and at a rate of at least 10 million bits per second from the subscriber.

Qualified expenditures would be those amounts otherwise chargeable to the capital account with respect to the purchase and installation of qualified equipment for which depreciation is allowable under section 168.[18] In the case of current generation broadband services, qualified expenditures would be those which are incurred by the taxpayer before January 1, 2003. In the case of next generation broadband services, qualified expenditures would be those which are incurred by the taxpayer after December 31, 2001, and before January 1, 2005. The expenditures would be taken into account for purposes of claiming the credit in the first taxable year in which the taxpayer provides broadband service to at least 10 percent of the potential subscribers. In the case of a taxpayer who incurs expenditures for equipment capable of serving both subscribers in qualifying areas and other areas, qualifying expenditures are determined by multiplying otherwise qualifying expenditures by the ratio of the number of potential qualifying subscribers to all potential subscribers the qualifying equipment would be capable of serving.

Qualifying equipment must be capable of providing broadband services at any time to each subscriber who is utilizing such services. In the case of a telecommunications carrier, qualifying equipment is only that equipment that extends from the last point of switching to the outside of the building in which the subscriber is located. In the case of a commercial mobile service carrier, qualifying equipment is only that equipment that extends from the customer side of a mobile telephone switching office to a transmission/reception antenna (including the antenna) of the subscriber. In the case of a cable operator or open video system operator, qualifying equipment is only that equipment that extends from the customer side of the headend to the outside of the

[18] The taxpayer's basis in the equipment would be reduced by the amount of credit claimed.

building in which the subscriber is located. In the case of a satellite carrier or other wireless carrier (other than a telecommunications carrier), qualifying equipment is only that equipment that extends from a transmission/reception antenna (including the antenna) to a transmission/reception antenna on the outside of the building used by the subscriber. In addition, any packet switching equipment deployed in connection with other qualifying equipment would be qualifying equipment, regardless of location, provided that it is the last such equipment in a series as part of transmission of a signal to a subscriber or the first in a series in the transmission of a signal from a subscriber.

A rural area would be any census tract which is not within 10 miles of any incorporated or census designated place with a population of more than 25,000 and which is not within a county with a population density of more than 500 people per square mile. An underserved area would be any census tract which is located in an empowerment zone, enterprise community, renewal zone, or any census tract in which the poverty level is greater than or equal to 30 percent and in which the median family income is less than 70 percent of the greater of metropolitan area median family income or statewide median family income.[19] A residential subscriber would be any individual who purchases broadband service to be delivered to his or her dwelling.

Effective Date

The proposal would be effective for expenditures incurred after December 31, 2000.

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[19] In the case of an area outside of a metropolitan area, this area median family income must be less than 70 percent of statewide median family income.

M. Contribution in Aid of Construction

Present Law

Section 118(a) provides that gross income of a corporation does not include a contribution to its capital. In general, section 118(b) provides that a contribution to the capital of a corporation does not include any contribution in aid of construction or any other contribution as a customer or potential customer and, as such, is includible in gross income of the corporation. However, for any amount of money or property received by a regulated public utility that provides water or sewerage disposal services such amount shall be considered a contribution to capital (excludible from gross income) so long as such amount: (1) is a contribution in aid of construction, and (2) is not included in the taxpayer's rate base for rate-making purposes. If the contribution is in property other than water or sewerage disposal facilities, the amount is generally excludible from gross income only if the amount is expended to acquire or construct water or sewerage disposal facilities within a specified time period. A contribution in aid of construction does not include customer connection fees or amounts paid as service charges for starting or stopping services.

Description of Proposal

The proposal would define contribution in aid of construction to include customer connection fees (including amounts paid to connect the customer's line to, or extend, a main water or sewer line). Thus, the proposal would permit customer connection fees received by a regulated public utility that provides water or sewerage disposal services to be treated as nontaxable contributions to capital (excludible from gross income). Amounts paid as a service charge for starting or stopping services to a customer would continue to be includible in gross income of a taxpayer.

Effective Date

The proposal would be effective for amounts received after date of enactment.

Alliance to Save Energy
American Council for an Energy-Efficient Economy
American Green Network • Business Council for Sustainable Energy
Environmental and Energy Study Institute • Friends of the Earth
Natural Resources Defense Council • Public Citizen
Sierra Club • Union of Concerned Scientists

September 8, 2000

The Honorable Bill Clinton
The White House
Washington, DC 20500

Dear Mr. President:

As the Administration prepares for negotiations over possible tax legislation in the closing weeks of the 106th Congress, we are writing to ask for your favorable consideration of an innovative proposal to save energy and money for American consumers while reducing emissions of greenhouse gasses. Senators Grassley and Rockefeller and Representatives Nussle and Tanner, with bipartisan support in both chambers, have introduced the "Resource Efficient Appliance Incentives Act," S. 2939 and H.R. 4977, respectively. We believe that this legislation is entirely consistent with the Administration's own tax incentives for energy efficiency and renewable energy, and we urge you to support enactment this measure.

In the next few years, new federal standards will go into effect that will greatly improve the energy efficiency of new refrigerators and clothes washers, two of the largest uses of energy in US households. While these new standards will provide large benefits to American consumers and to the nation, there are promising innovations either just entering the marketplace today or just on the horizon that offer even greater energy savings in future years. The new bill will speed up the commercialization of this next generation of appliance technology by providing manufacturers with tax credits for each new ultra-high efficiency appliance they produce and sell. The credits would be set at $50 or $100 per product, depending on efficiency level, and will be available from 2001 through 2006. The estimated cost of this proposal is about $275 million over five years.

Enclosed is a briefing paper from the Alliance for Resource Efficient Appliances providing additional details on energy savings, water savings, consumer savings, and costs. We hope you will share our view that this bill makes economic and environmental sense. Thank you for your continuing leadership on climate protection policy and for your consideration of this important proposal.

Sincerely,

Howard Geller

Howard Geller
Executive Director
American Council for an Energy-Efficient Economy

David Nemtzow
Alliance to Save Energy

Jim Sims
American Green Network

Michael Marvin
Business Council for Sustainable Energy

Carol Werner
Environmental & Energy Study Institute

Brent Blackwelder
Friends of the Earth

David Goldstein
Natural Resources Defense Council

Charlie Higley
Public Citizen

Debbie Sease
Sierra Club

Alden Meyer
Union of Concerned Scientists

encl.

*A*lliance *for* **R**esource **E**fficient **A**ppliances

1111 19th Street, N.W., Suite 402, Washington, D.C. 20036 (202) 872-6838; Fax (202) 872-9354

Tax Credit for Super Energy-Efficient Appliances

Summary of Tax Credit

The proposed tax credit for super energy-efficient appliances provides a per unit tax credit for the production of super energy-efficient clothes washing machines and refrigerators from 2001 through 2006. Subject to an aggregate per company limit of $60 million and an annual limit of two percent of corporate gross revenues, the per unit tax credit would be available for washing machines that exceed the energy efficiency standards announced by Department of Energy Secretary Bill Richardson on May 23, 2000, and for refrigerators that exceed the 2001 DOE standards[1], as follows:

1. **Washing Machines**. Manufacturers of super energy-efficient washing machines would be eligible to claim a credit of either $50 or $100 for each super energy-efficient washing machine produced between 2001 and 2006. The $50 credit is available for units that use 35% less energy than the standard in place through 2003 and use 17% less energy than the standards announced by the Secretary. The $100 credit is available for units that use 42% less energy than the standard in place through 2003 and use 31% less energy than the standards announced by the Secretary. See Table 1.

2. **Refrigerators**. Manufacturers of super energy-efficient refrigerators would be eligible to claim a credit of $50 for each super energy-efficient refrigerator produced between 2001 and 2004 that is at least 10% more energy efficient than the DOE required efficiency standard that goes into effect on July 1, 2001. Manufacturers would be eligible to claim a credit of $100 for each unit produced between 2001 and 2006 that is at least 15% more energy efficient than the 2001 DOE required efficiency standard.

[1] The energy savings targets in the proposed legislation are expressed in terms of Modified Energy Factors (MEF), which is a DOE term used to measure energy efficiency in clothes washers, and kilowatts per hour (kwH) for refrigerators. MEF not only measures the amount of energy needed to operate a clothes washer. MEF measures the energy used to operate the clothes washer and the dryer and to heat the water for the washer. Clothes washing machines receive a higher MEF for producing dryer clothes that require less energy during the drying process.

Purpose of Tax Credit

The purpose of the tax credit is to accelerate the production and market penetration of leading-edge appliance technologies that create significant environmental benefits. The credit is an essential part of the historic agreement between the appliance industry and the nation's leading energy-efficiency and environmental organizations that Secretary Richardson announced on May 23. The May 23 agreement unveiled significantly higher energy efficiency standards for clothes washers to accompany the new energy efficiency standards for refrigerators that go into effect in July 2001, as well as the new criteria for achieving the voluntary "Energy Star" designation.

Standing alone, however, the new standards will not achieve the environmental benefits that state-of-the-art appliance technology is capable of achieving. The tax credit for the production of super energy-efficient washing machines and refrigerators creates the incentives necessary for both manufacturers and consumers to increase the production and sale of super energy-efficient appliances in the short-term and to expand marketing opportunities. The more rapidly that super energy-efficient appliances appear in the marketplace; the more rapidly energy savings will occur. For example, as a result of making the tax credit available between 2001 and 2006, the production and purchase of super energy-efficient washers is estimated to increase by almost 200% and the purchase of super energy-efficient refrigerators by over 285%. See table 2. Moreover, this increase in the purchase of super energy-efficient appliances will be a catalyst in the years after the expiration of the tax credit for a major market transformation in which the long term cost savings of increased energy efficiency will lead to a dramatic change in consumer purchasing decisions.

The expanded use of super energy-efficient appliances has significant long-term environmental benefits. Over the life of the appliances, over 200 trillion Btus of energy will be saved.[2] This is the equivalent of taking 2.3 million cars off the road or closing down 6 coal-fired power plants for a year. Energy savings of this magnitude pay significant environmental dividends. For example, carbon emissions, the critical element in greenhouse gas emissions, will be reduced by over 3.1 million metric tons. In addition, the super energy-efficient clothes washers will reduce the amount of water necessary to wash clothes by 870 billion gallons or approximately the amount of water necessary to meet the needs of every household in a city the size of Phoenix, Arizona for two years.

The tax credit also achieves these significant environmental and energy-efficiency goals with relatively modest reduction in federal tax revenues. The total revenue loss is estimated to be less than $350 million over the six year life of the tax credit. See Table 3. These controls on the amount of revenue loss are the result of the strict per company caps contained in the proposal. Moreover, the benefits to consumers over the life of the super energy-efficient clothes washers and refrigerators

[2] Of the total, approximately 150 trillion Btus are attributable to the super energy-efficient clothes washers and approximately 40 trillion Btus are attributable to super energy-efficient refrigerators.

from operational savings is almost $1 billion even after assuming the higher purchase prices associated with the appliances. See Table 4.

Background

The culmination of the cooperative approach between the Department of Energy, the appliance manufacturing industry, and environmental and energy-efficiency organizations is the recently negotiated agreement between the appliance industry, energy efficiency organizations such as the Alliance to Save Energy, the American Council for an Energy Efficient Economy (ACEEE); local, state and regional planning agencies such as the City of Austin, Texas, the California Energy Commission and the Northwest Power Planning Council; environmental organizations such as the Natural Resources Defense Council (NRDC); and utility companies such as Pacific Gas and Electric.

The agreement is historic not only because it represents consensus among manufacturers and advocacy organizations about appropriate energy-efficiency standards, but also because the impact on energy and water utilization is so enormous. Clothes washers and dryers, together with refrigerators, account for about 15 percent of all household energy consumed in the United States and cost consumers approximately $21 billion annually to operate.

The appliance industry and the advocacy organizations acknowledge that substantial energy savings are being achieved today through the use of more energy efficient appliances, but industry has the technological ability to achieve even greater energy savings if properly crafted incentives are enacted to encourage greater consumer receptivity to the super energy-efficient appliances. Currently, a major hurdle to the more widespread use of the super energy-efficient clothes washers and refrigerators is the reluctance of many consumers to make a higher initial investment in order to receive the long term savings of the super energy-efficient appliances.

A tax credit available to manufacturers for the production of super energy-efficient washing machines and refrigerators can overcome much of the consumer reluctance by creating incentives for both manufacturers and consumers that will increase sales of super energy-efficient appliances. A credit provided at the manufacturers' level is preferable to a credit at the consumer level because of – 1) the ease of administration; 2) the ability to limit the cost of the proposal by capping the benefits; 3) the higher leverage obtained by providing the tax credits upstream; and 4) the flexibility to select among many means of marketing for the best way to sell more energy-efficient appliances.

Alliance for Resource Efficient Appliances

Alliance to Save Energy
Alliance Laundry Systems LLC
Amana Appliances
American Council for an Energy-Efficient Economy
Association of Home Appliance Manufacturers
Asko Incorporate
California Energy Commission
City of Austin, Texas
Fisher & Paykel Appliance Inc.
Frigidaire Home Products
General Electric Appliances
Maytag Corporation
Miele, Inc.
Natural Resources Defense Council
Northwest Power Planning Council
Pacific Gas and Electric
Whirlpool Corporation

Tax Credit for Super Energy-Efficient Appliances
Tables

Table 1: Clothes Washers (MEF)

Year	Clothes Washer Standard	Tax Credit Tier 1	Additional Savings of Tier 1 product vs. Prevailing Standard.	Tax Credit Tier 2	Additional Savings of Tier 2 product vs. Prevailing Standard.
2000	.817*				
2001	.817*	1.26	35%	1.42	42%
2002	.817*	1.26	35%	1.42	42%
2003	.817*	1.26	35%	1.42	42%
2004	1.04	1.26	17%	1.5	31%
2005	1.04	1.26	17%	1.5	31%
2006	1.04	1.26	17%	1.5	31%
2007	1.26				

*Calculated

Table 2: Assumed Shipments (in thousands of units)[1]

Year	Number of Efficient Clothes Washers Shipped if No Tax Credit	Number of Additional Efficient Clothes Washers Shipped with Tax Credit	Number of Efficient Refrigerator Shipped if No Tax Credit	Number of Additional Efficient Refrigerators Shipped With Tax Credit
2001	639	1284	410	1616
2002	685	1284	410	1616
2003	727	1284	410	1616
2004	769	1568	410	1616
2005	814	1568	410	300.7
2006	864	1568	410	300.7

Table 3: Estimated Revenue Costs (millions of dollars)

Year	2001	2002	2003	2004	2005	2006
Tax Credit	120.64	121.23	31.37	21.15	26.21	26.21

Table 4: Cumulative Economic Impacts (in billions, 1997 dollars)

	Savings In Reduced Energy Costs	Costs to Consumers in More Expensive Appliances	Net Impact
Clothes Washers	1.70	0.70	1.0
Refrigerators	0.12	0.06	0.06
Tax Credit		0.22	0.22
Total	1.82	0.98	0.84

Table 5: Energy and Water Savings

Clothes Washer Net Energy Savings	0.15 Quads[2]
Refrigerator Net Energy Savings	0.04 Quads
Total Energy Savings	0.19 Quads
Total Carbon Savings	3.1 million metric tons
Total Water Savings	0.87 trillion gallons

[1] Figures derived from survey of individual manufacturers performed by AHAM. Annual figures represent averages in order to protect confidentiality of data submitters.

[2] Quadrillion Btu

Final Version of Tax Package ~~Plus $.312 biomass~~

Tax Provision	FY2001 5 Year Estimate
Autos	2.078
Homes (New)	.633
Equipment	.201
Solar	.132
Wind/Bio	.446
Combined Heat and Power	.047
Methane Landfill	.320
Existing biomass	.312
TOTALS	3.857

4.169

Specifically this includes:

- No change to auto package.
- Change last year's homes proposal to 30%, $1000 for three years, and 50%, $2000 for five years.
- Cut energy efficient equipment by $1.4 billion, leaving only leapfrog technologies (electric heat pump water heaters, building fuel cells, and natural gas heat pumps).
- Retain last year's solar, wind and biomass provisions, but only make the cofiring at .5 cents per kwh available for 5 years.
- Add methane landfills (non-NSPS @ 1.5 cent per kwh and NSPS @ 1 cent per kwh) for five years.
- CHP changed to an accelerated depreciation approach.

As Proposed

David Gardiner
09/06/2000 06:19:08 PM

Record Type: Record

To: Roger S. Ballentine/WHO/EOP@EOP, Janet Anderson/WHCCTF/EOP@EOP, Debra Reed/CEQ/EOP@EOP

cc:
Subject: end game tax views from NRDC

NRDC has continued to pressure me about the Smith buildings bill. They now have cosponsorship from Smith NH, Baucus, Helms, Rockefeller, Kerry MA, Feinstein, Boxer, and Reid, with the latter two agreeing to come on recently. They argue that it has more political momentum than other things in our package, chiefly because they are continuing to work it. I thought you ought to see the memo from them on it.

MEMORANDUM

To: David Gardiner

From: David B. Goldstein, Natural Resources Defense Council

Date: September 6, 2000

Re: Tax Recommendations

As you know, NRDC has been working actively on two tax incentive proposals encouraging energy efficiency, the Grassley Bill (S.2939) and the Smith Bill (S.2718). The Grassley bill is an outcome of negotiations between NRDC and other efficiency advocates with the appliance industry. The tax incentives were agreed upon based on our experience with successful market transformation programs for appliances.

The Smith Bill builds on two years of efforts to refine and reconcile the Administration's tax proposals with those supported by the efficiency industry. While it is more expensive than the Grassley Bill, it also accomplishes disproportionately more energy and carbon savings.

We urge you to help place both bills on the Administration's "must have" list.

It would be easy to rank the Grassley Bill effectively higher because of its lower cost. But this would be a big mistake:

The Grassley appliances bill costs $290 M or so and saves about 0.2 MMTCE/yr in 2010, according to Howard Geller. This is a "benefit/cost ratio" of about .7 MMTCE/$B.

Because the Smith Bill covers virtually the entire building sector, and because of its highly leveraged program design, the potential savings from this bill are 40-50 million metric tons of carbon equivalent in the year 2010. That is why incentives for buildings and equipment is the Green Group's top priority for climate-related legislation in the year 2000. While the Smith Bill's likely cost is $4.6 billion over 10 years, it has a benefit/cost ratio exceeding 8 MMTCE/$B, as much as an order of magnitude better than the Grassley appliances bill, which is itself very cost-effective.

This year there is a real opportunity to get results that matter politically, and thus we see a much greater willingness to spend money to have something to say to the voters in November. The new factors are:

- An electric reliability crisis of unpredictedly large magnitude, affecting California this year and threatening much of the rest of the country, and California again in 2001. Tax incentives, particularly for efficient air conditioners, are virtually the only public policy that can make a significant dent in the problem by 2001, saving as much as 2000 MW next summer.
- Skyrocketing heating fuel prices. Last winter the political problem was confined to the Northeast, where there were concerns about high heating oil prices. This winter, the problem would be much more widespread, as the spot price of natural gas for December and January delivery approaches $5/MBtu, about double what it was last year. If these prices are passed on without additional markup to retail, they will result in a 35% increase in home heating bills for gas-heated houses, which are about two-thirds of the nation. Efficiency in buildings and equipment can reduce costs next winter for those who respond to the incentives and reduce price pressures for everyone.

There is recent movement for a compromise between Republicans and Democrats on tax relief that applies to individuals and businesses. Tax incentives for buildings reach out to a far larger set of taxpayers than most of our other recommendations, making them more politically feasible.

DRAFT

September 8, 2000

MEMORANDUM FOR SECRETARY SUMMERS
DEPUTY SECRETARY EIZENSTAT

FROM JON TALISMAN
ACTING ASSISTANT SECRETARY (TAX POLICY)

MARTI THOMAS
ACTING ASSITANT SECRETARY (LEGISLATIVE AFFAIRS AND PUBLIC LIAISON)

RE ISSUES WITH TAX CUT IN HASTERT MINIMUM WAGE OFFER

In an August 28 letter to the President (attached), Speaker Hastert made a compromise offer that would include a $1.00 an hour increase in the minimum wage to $6.15 over two years. The offer also dropped the estate tax and pension provisions contained in the current bills before Congress, but still contains (as in Senator Nickles' small business package), among other provisions, the deduction for individually purchased (i.e., non-employer provided) health insurance. According to the Speaker, the estimated cost of this offer is $23 billion over five years, and $76 billion over ten. The health insurance deduction provision, which raises serious policy concerns, is about $45 billion over ten years

The President reportedly raised concerns about several of the tax provisions in the Speaker's offer on their recent trip to Columbia, but they agreed to discuss the issues further at the staff level. Representative Bonior has stated that the tax provisions are too expensive. He noted that the tax cuts accompanying the last minimum wage increase (in 1997) only totaled about $20 billion over ten years. Senator Daschle indicated that he would accept some tax provisions as a part of a deal for increasing the minimum wage, but he wanted the cost of the package reduced by $30 billion.

This memo discusses the major elements of the Speaker's tax cut proposal and some options for modifying the tax proposal to reflect some of our priorities.

Tax Items in the Minimum Wage Package

The Speaker's offer is an improvement over the minimum wage bills that had passed the House and Senate, but some elements still raise issues. The earlier versions of the minimum wage bill, which would have cost over $100 billion over ten years, included costly proposals for estate tax relief and major elements from the Portman-Cardin and Patients' Bill of Rights (PBOR) proposals. All of the pension and estate tax proposals have been stripped from the Speaker's offer (as they are moving in other legislation), but the largest tax cut from PBOR remains. Based on a very sketchy description, the Speaker's proposal would:

- allow an above-the-line deduction for health insurance expenses (discussed above),
- repeal the 0.2 percent FUTA surtax (discussed above),
- speed up the phase-in of 100-percent deductibility for health insurance purchased by self-employed people,
- speed up the phase-in for 80-percent deduction of meals and entertainment expenses for employees subject to DOT hour limitations (e.g., truckers and airline pilots),
- increase to $35,000 the amount of property that small businesses can expense,
- double (to $20,000) the amount of reforestation expenses eligible for a tax credit, Trade
- extend the Work Opportunity Tax Credit (WOTC) through 2004, energy
- allow accrual-basis taxpayers to use the installment method of accounting (i.e., repeal 1999 law changes),
- repeal the special excise taxes (effectively license fees) on producers of distilled spirits, wine, and beer, and Small
- allow commercial fishermen to income-average in the same way as farmers. Literature

In addition, the Speaker proposed two other tax cuts directly to the President:

- a deduction for donations by computer manufacturers of used computer equipment to schools, and
- tax-free rollovers from IRAs and 401(k) plans to charitable organizations.

We have significant policy concerns about the first two proposals, which are outlined below. We also need further details on the specifics of the proposals, many of which were unclear in the Speaker's offer.

Above-the-line deduction for health insurance. The most problematic element of the proposal is the above-the-line deduction for health insurance. It is the most expensive element of the package, costing $45 billion over ten years according to OTA, and it does little or nothing to help small businesses. Providing a tax deduction for purchases of health insurance outside the workplace makes employer-provided health insurance less attractive, especially to young, healthy employees who can get inexpensive insurance in the nongroup market. This is a particular problem for small firms that want to offer health insurance, because the cost of their insurance increases dramatically as the number of employees covered decreases—especially, if the uncovered employees are also the healthiest. Moreover, a deduction is most valuable to high-income employees in higher tax brackets, whereas the greatest need for expanded coverage is among lower-income employees.

Repeal of the FUTA surtax. We also have a problem with repeal of the FUTA surtax as a stand-alone measure. As described in the September 1 memo from de la Vina, Elmendorf, and Burman, the Department of Labor has reached a tentative agreement with representatives of states, employers, and unions on a package of reforms to the Unemployment Insurance program. Repeal of the FUTA surtax is an essential element of that agreement: employers might not support reform without that sweetener attached. For that reason, the Administration should insist that the reforms be included with the FUTA surtax repeal. Since the reform package has bipartisan support, it should be possible to include it in the minimum wage bill, and its enactment this year would be a significant achievement.

Although the details of the rest of the package are unclear, most of the other elements could probably be made acceptable in some form. (The attachment discusses the issues that need to be resolved.)

Possible counter-offer options

The following table presents some options from the Administration's Budget that could be added to an overall package. Several of the options either directly or indirectly help small businesses.

- **New Markets** -- the new markets tax credit and renewal community bill ($18 billion), which has the broad bipartisan support in both the House and the Senate, contains a number of incentives to help businesses in distressed communities, as well as the new tax credit to make available equity capital in areas where it has traditionally been scarce.

- **Education** -- Investment in schools through school modernization bonds and qualified zone academy bonds, ($8 billion). This provision has strong bipartisan support in the House as a part of the larger Johnson-Rangel School Modernization bill, but may face Republican opposition in the Senate. We also could add our college opportunity tax cut, which costs $30 billion. Finally, we may want to add in our proposed employer tax credit for workplace literacy (including computer literacy), which was part of the $2 billion digital divide initiative.

- **Child Care** -- The proposed expansions of the child and dependent care tax credit ($31 billion) help low- and moderate-income people to meet the high cost of child care, an essential cost of working, thus helping to expand the labor supply in a very tight labor market. The proposal to provide a tax credit for employer-provided child care ($1.4 billion) proposed by Senator Kohl would be useful complement and a direct aid to employers who provide this valuable fringe benefit.

- **Health Care** -- The tax credits for COBRA continuation coverage ($10 billion) and Medicare buy-in ($2 billion) provide targeted assistance in paying for health insurance for workers between jobs and early retirees. Since the credits target employees who are out of the work force, they do not undermine the system of employment-based health insurance, in sharp contrast to the Speaker's proposed health insurance deduction. The proposal to encourage the development of small business health insurance purchasing coalitions would strengthen the system of employment-based health insurance by helping small employers to pool together to gain some of the health insurance cost savings that accrue to large employers. These proposals have received interest from both the Blue Dogs and centrist Democrats in the Senate. Versions of health-related tax credits targeted to small businesses were introduced before the August recess by Senator Robb [and the Blue Dogs].

- **Energy and the Environment** -- The climate change tax incentives are aimed at helping the producers and marketers of innovative energy-saving technologies to develop markets for those products and achieve profitability. Several of the incentives help businesses to reduce their energy costs.

$2 billion (5 yrs)

- **Vaccines** -- While the vaccine tax credit doesn't address small business concerns, it remains one of the Administration's highest priorities.

- **Encourage philanthropy** – As discussed above, the Speaker made two proposals to encourage philanthropy. Our budget proposals would allow non-itemizers to take a partial deduction for charitable donations, simplify the tax rules for public foundations, raise the limits on donations of appreciated property to charity, and clarify the tax-treatment of donor-advised funds. The $15 billion package would be a more equitable way to address the concerns raised by the Speaker.

Revenue Cost Of Selected Budget Options
(Billions of Dollars)

	2000-2005	2000-2010
Provide incentives for public school construction and modernization	-2.4	-8.0
New markets package (HR 4923)	-5.1	-17.8
Enhance the child and dependent care tax credit	-7.6	-31.0
Provide tax credit for employer-provided child-care facilities	-0.5	-1.4
Encourage COBRA continuation coverage	-3.3	-10.3
Provide credit for Medicare buy-in program	-0.4	-1.6
Provide tax relief to encourage small business health plans	-0.1	-0.3
Provide climate change tax incentives	-4.0	-9.3
Encourage development of vaccines for targeted diseases	0.0	-1.0
Encourage philanthropy	-4.7	-14.7

Source: Office of Tax Analysis

Attachment. Speaker Hastert's Offer and Issues
(based on the description attached to the August 28 letter to the President)

Based on a very sketchy description, the Speaker's proposal would:

- allow an above-the-line deduction for health insurance expenses (discussed above),
- repeal the 0.2 percent FUTA surtax (discussed above),
- speed up the phase-in of 100-percent deductibility for health insurance purchased by self-employed people,
- speed up the phase-in for 80-percent deduction of meals and entertainment expenses for employees subject to DOT hour limitations (e.g., truckers and airline pilots),
- increase to $35,000 the amount of property that small businesses can expense,
- double (to $20,000) the amount of reforestation expenses eligible for a tax credit,
- extend the Work Opportunity Tax Credit (WOTC) through 2004,
- allow accrual-basis taxpayers to use the installment method of accounting (i.e., repeal 1999 law changes),
- repeal the special excise taxes (effectively license fees) on producers of distilled spirits, wine, and beer, and
- allow commercial fishermen to income-average in the same way as farmers.

In addition, the Speaker proposed two other tax cuts directly to the President:

- a deduction for donations by computer manufacturers of used computer equipment to schools, and
- tax-free rollovers from IRAs and 401(k) plans to charitable organizations.

We have significant policy concerns about the first two proposals, which are outlined above. We also need further details on the specifics of the proposals, many of which were unclear in the Speaker's offer.

Issues with other tax provisions

Speed-up proposals. The speed-ups of the deductibility of self-employed health insurance and business meals for employees subject to DOT hour limitations (e.g., truckers and airline pilots) are not particularly objectionable if they only change the timing of the policies. There are business meal proposals that would substantially expand the scope of the 80-percent deduction to apply to other employees and would be problematic. (We can't tell from the Speaker's description what version of the proposal he has in mind. Senate Minority Leader Daschle made critical comments about the Speaker's offer suggesting that he interpreted the proposal to be the more expansive one.)

Higher expensing limit for small firms. Our Budget proposal would have raised the expensing limit immediately to $25,000 and indexed it for inflation. Raising the limit further to $35,000 is acceptable policy, but the limit increase should be combined with the simplifications that we proposed in the Budget. The Administration's 2001 Budget proposal on Section 179 expensing would not only encourage small businesses to increase investment by raising the deduction limit, but also would simplify the operation of Section 179 and remove some of the confusion that small business owners face in using the provision. In addition, it would better target the provision on small businesses. The proposal could be expanded further to help small businesses by modifying the list of property eligible for expensing improvements to include storefronts and buildings as described in S. 1341, The Main Street Business Incentive Act.

Double expenses eligible for reforestation credit and rapid amortization. This proposal would double from $10,000 to $20,000 the amount of expenses eligible for the 10-percent reforestation credit and seven-year amortization. It would also eliminate the cap on amortization expenses in 2001-2003. The increase in the amount of eligible expenses is mildly objectionable because it would provide a small windfall to large timber companies. The temporary elimination of the cap on expenses eligible for rapid amortization is highly objectionable because it would create large windfalls for large timber companies and inequities between the tax treatment of timber and other investments. OTP staff is working on developing an alternative that is better targeted at the needs of small timber producers.

Tax-free rollovers from retirement savings to charities. This proposal would allow owners of IRAs and 401(k)s to make contributions to charity from those accounts without either including the income or taking the charitable deduction. Under certain circumstances, such a transaction would be advantageous. For example, under the proposal, taxpayers could effectively deduct fully the amount of contributions made from an IRA, without regard to whether they itemize their deductions, and without regard to the present-law limitations on deductible charitable contributions. By comparison, under current law, they would first include the IRA distribution in income, and then deduct the charitable contribution only to the extent, if any, that their other deductions plus the contribution exceed the standard deduction. Thus, under current law, a non-itemizer's income tax liability could increase despite the charitable donation. Similarly, taxpayers whose AGI exceeds the threshold for phasing out itemized deductions also would have a slight increase in tax liability, even if they donated the full amount of their IRA distribution to charity. Finally, taxpayers whose contributions to public charities exceed 50 percent of their AGI (30 percent for donations of appreciated property) may not currently deduct that excess. Contributions directly from an IRA or 401(k) could skirt that limit under the proposal.

Although encouraging contributions to charity is clearly worthwhile, the issue is why we should change the rules only for those with IRAs or 401(k) accounts. Our Budget proposals, which increase the AGI limits for contributions of appreciated property and allow a limited above-the-line charitable deduction for non-itemizers would be a more equitable way to advance the same objectives. We also have worked with representatives from the computer industry to develop a workable option to encourage their donation of computers to schools, as part of the Administration's ongoing digital-divide initiative, and believe we could support a proposal with sufficient safeguards that are acceptable to industry.

Extend the Work Opportunity Tax Credit through 2004. We strongly support the Speaker's proposal to extend this popular credit, and extension has broad bipartisan bicameral support. However, if WOTC is extended, the Welfare to Work Tax Credit, which is specifically targeted to employers who hire long-term welfare recipients, should be extended at the same time. (Both credits are currently scheduled to expire at the end of 2001.) If these credits are extended, the provision that prevents the AMT from reducing the value of personal credits, which also expires in 2001, could also be extended through 2004. The Small Business Administration's Office of Advocacy raised AMT relief as a special concern of small business owners. Moreover, extending this provision through 2004 could be viewed as a down payment on the more fundamental AMT reform that has to happen soon.

Sustainable Energy Coalition

Washington, DC

September 12, 2000

The Honorable Trent Lott
Majority Leader
United States Senate
Washington, DC 20510

Dear Mr. Majority Leader:

As Congressional leaders and the Administration seek areas of agreement on tax legislation in the closing weeks of this Congress, we urge you to look favorably on tax incentives for energy efficiency and renewable energy that have drawn bipartisan support in both the House and Senate. With reliability of the electric system in doubt in several regions and oil and natural gas prices hitting new highs, there is a critical need for legislation that will speed the arrival of clean energy technologies in the American marketplace this coming year. Targeted tax incentives can help fill this need.

Congressional Republicans, Democrats, and the Administration have all called for tax incentives for clean energy, and poll after poll demonstrate the support of the American people for energy efficiency and renewable energy. American businesses have responded with a promising offering of efficient new products and clean new power generating technologies that can help dampen the effects of price spikes and supply curtailments – *if* the right incentives are quickly put in place.

We urge you to review the legislation already introduced by your colleagues (see attached table) providing targeted tax incentives for –

- Electricity generated from clean renewable sources of energy, including wind, biomass, and landfill methane;
- Electric vehicles and combustion-electric hybrid vehicles;
- Energy-efficient building equipment;
- Residential solar energy systems;
- Energy-efficient buildings; and
- Extra-high efficiency appliances.

Most of this exciting new technology is market-ready, but constrained by somewhat higher purchase prices or investment costs. If enacted this year, these tax incentives will affect investment decisions and consumer purchases almost immediately, and their positive effects on energy production and consumption will begin to be felt in 2001 – and for years thereafter.

Thank you for your consideration of the nation's urgent need for action to avoid the economic disruption and personal hardship that will accompany further energy price shocks and curtailments in coming months.

Sincerely,

David Nemtzow
Alliance to Save Energy

Megan Smith
American Bioenergy Association

Howard Geller
American Council for an
Energy-Efficient Economy

Jim Sims
American Green Network

Randall J. Swisher
American Wind Energy Association

Jennifer Schafer
Cascade Associates

Douglas Durante
Clean Fuels Development Coalition

Burl Haigwood
Clean Fuels Foundation

Henry Griggs
Communications Consortium
Media Center

Carol Werner
Environmental & Energy Study Institute

Bill Holmberg
Global Biorefineries Inc.

Katherine Hamilton
The Hamilton Group

John Stanton
National Environmental Trust

David Goldstein
Natural Resources Defense Council

Edward R. Osann
Potomac Resources, Inc.

Charlie Higley
Public Citizen

Scott Sklar
Solar Energy Industries Association
and the
National BioEnergy Industries
Association

Ron Sundergill
Union of Concerned Scientists

attachment

Questions about or replies to this letter may be directed to the Sustainable Energy Coalition c/o Edward R. Osann, Potomac Resources, Inc., 1001 Connecticut Ave., NW, Suite 801, Washington, DC 20036; 202-429-8873.

Sustainable Energy Coalition
CLEAN ENERGY TAX INCENTIVES

Proposed credit	Who benefits or what problem is solved?	What is the level of support?	What bills have already been introduced? [1]	What is the cost of this credit?
Biomass production tax credit for electricity generated from -- Open loop biomass; Co-fired biomass; and Landfill methane.	Utilities, independent power producers, foresters, farmers (anyone with biomass waste) seeking to use biomass to generate electricity; Addresses air quality, nutrient management, and global warming issues.	Widely supported by industry: American Bioenergy Assoc.; National BioEnergy Industries Assoc. Included in FY 01 Administration budget; Biomass open loop and co-firing and landfill methane enacted by Senate in H.R. 2488 in 1999.	Administration -- open loop 1.5¢, co-firing .5¢, landfill methane 1¢); H.R.1731 (Herger + 29) -- open loop 1.5¢; H.R.2380 (Matsui + 30) -- open loop 1.5¢, co-firing 1¢; H.R.3466 (Camp + 12) -- landfill methane 1.5¢; S.1833 (Daschle + 6) -- open loop 1.5¢, co-firing 1¢; S.2904 (Bingaman + 7) – open loop 1.5¢, co-firing 1¢.	Various. In 1999 Joint Tax set open loop and co-fired biomass at $215 million over 5 years; with landfill methane, $390 million. Current Administration estimate: $976 m., including wind and closed loop 2 1/2-year extensions (see below).
Wind and closed loop biomass PTC extension	Incentives encourage additional production of electric power from clean renewable sources of energy.	Included in FY 01 Administration budget.	Administration H.R.2380 (Matsui + 30) S.2904 (Bingaman + 7)	Previously scored at $195 million over 5 years by Joint Tax.
Electric vehicle investment tax credit extension	Fleet vehicle operators directly benefit; Incentives encourage technical innovation on zero emission vehicles.	Electric Vehicle Coalition; Auto industry; Included in FY 01 Administration budget.	Administration H.R. 1108 (Collins + 25) H.R.2380 (Matsui + 30) H.R.4270 (Kildee + 8) S.2685 (Levin + 2) S.2904 (Bingaman + 7)	EV's are a small portion of total vehicle incentives. See below.
Combustion-electric hybrid vehicle investment tax credit, with fuel economy and emissions criteria for qualification	Incentives encourage technical innovation and cost reduction on high-mileage, low emission vehicles.	Auto industry and Administration support technology-specific incentives, without emission and fuel economy qualifications; Included in FY 01 Administration budget.	Administration H.R.2380 (Matsui + 30) H.R.4270 (Kildee + 8) S.2685 (Levin + 2) S.2904 (Bingaman + 7)	Administration estimate of $2.078 billion over 5 years for both electric and hybrid vehicle credits

[1] Bills that contain tax incentives for clean energy, not necessarily endorsed in their entirety by members of the Sustainable Energy Coalition.

Energy-efficient building equipment investment tax credit	Incentives encourage technical innovation and cost reduction for advanced high-efficiency equipment, specifically fuel cells, natural gas heat pumps, and electric heat pump hot water heaters. Central air conditioners and heat pumps are also included in the Matsui and Smith bills, and will reduce electric system peak loads.	Included in FY 01 Administration budget	Administration H.R.2380 (Matsui + 30) S.2718 (Bob Smith + 7)	$201 million over 5 years. Smith bill see below.
Residential solar energy systems investment tax credit	Incentives encourage technical innovation and cost reduction in the solar industry.	Solar Energy Industries Association Included in FY 01 Administration budget	S. 1634 (Allard) H.R.1465 (Salmon + 11) S.2718 (Bob Smith + 7) as a production credit.	$92 million over 5 years. Smith bill see below.
Energy-efficient homes, commercial buildings, schools, and rental housing investment tax credit	Building owners and tenants will realize energy savings of 30 to 50 % over current model codes. Increased production, reduced costs, and further technical innovation are likely for high efficiency building components.	Substantial support from the building products industry, regional builder associations, state energy officials, and environmental organizations; Credits for new single-family residences included in FY 01 Administration budget.	S.2718 (Bob Smith + 7) H.R.1358 (Thomas + 58) H.R.2380 (Matsui + 30)	Administration proposal for new homes estimated at $633 million over 5 years; Smith bill 5-year estimates: homes $1.353B; solar $157 million; building equip. $2.116 billion; commercial bldgs. $359 million.
Production tax credit for the manufacture of extra-high efficiency refrigerators and clothes washers	Manufacturers receive incentives for producing appliances that are substantially more efficient than minimum requirements. Consumers benefit from new extra-high efficiency appliances, saving energy, water, and detergent costs. Water savings from new highly efficient clothes washers is substantial.	Appliance manufacturers are strongly in support; Environmental and energy efficiency advocates, along with some state and local representatives, also support these credits.	S.2939 (Grassley + 5) H.R.4977 (Nussle + 23)	An estimated $275 million over five years; total tax credit per manufacturer is capped, leading to greater certainty regarding cost.

handed out to caucus

26 July 2000

Summary of Democratic Tax Bill

Following is a brief description of the provisions in the Democratic tax bill. The ten-year cost of the bill is approximately $375 billion.

	Ten-Year Cost (In billions)
I. Targeted Tax Relief for Families	**$50**
A. Long-term care credit	
B. Tax Credits to Expand Access to Health Insurance Coverage	
C. Expansion of Dependent Care Credit	
II. School Construction and Other Education Tax Benefits	**$11.5**
A. School construction and modernization bond initiative – $24.8 billion in interest-free funds for school construction and renovation.	
B. Reinstate exclusion for employer-provided educational assistance for graduate courses	
C. Liberalization of prepaid tuition plans for higher education – providing exclusion for distributions under the plan and permitting private colleges to establish plans under same rules as state schools.	
D. Exclusion from tax awards under certain Federal scholarship programs with service requirements and under similar state plans.	
E. Increase small issuer exemption for small school construction bond issues.	
F. Liberalize student loan interest deduction – repeal 60-month rule and increase income limitations.	

G. Extend for one year current law enhanced charitable deduction for computer equipment.	
H. Exemption from 2 percent floor for professional development expenses of teachers	
III. Marriage Penalty Relief	**$95**
A. Increase standard deduction for joint returns to an amount equal to twice the deduction allowed to single taxpayers	
B. Increase income level at which the earned income credit begins to phase out on a joint return by $2,000 in 2001 and by $2,500 thereafter.	
IV. Community Development	**$19**
A. New Markets Tax Credit	
B. Expansion of Empowerment Zone Programs including 10 additional zones, extension of benefits in existing zones until December 31, 2009, and equalization of benefits available in zones.	
C. Increase in low-income housing tax credit per capita limit to $1.75 with inflation adjustments.	
D. Acceleration of increase in private activity bond cap.	
E. Better America Bonds – $10.75 billion in interest-free loans for community environmental projects such as parks, green space and environmental cleanup.	
F. Tax credit for development of vaccines for certain diseases	
G. Provisions Addressing Digital Divide	

V. Earned Income Tax Credit	**$26**
A. Increase credit for families with 3 or more children	
B. Reduce phase-out rate for families with 2 children.	
C. Simplify credit by excluding non-taxable earned income from credit calculations.	
VI. Estate Tax Relief	**$22**
A. 20 percent across-the-board reduction in the estate and gift tax rates.	
B. Effectively, a $4 million exclusion per family for farms and closely held businesses.	
C. Immediate increase in the exemption equivalent of the unified credit against estate and gift taxes to $1 million. In 2006, a further increase to $1.2 million.	
D. Elimination of some avoidance devices and a repeal of the credit for State inheritance and estate taxes.	
VII. Small Business Relief	**$17**
A. Permanent extension of the Work Opportunity Tax Credit (WOTC) and the Welfare to Work Credit and extension of eligibility to adult food stamp recipients.	
B. Acceleration of 100 percent deductibility for health insurance premiums paid by the self-employed.	
C. $30,000 limit on expensing for small businesses.	

D.	Section 415 of the Code imposes limitations on contributions and benefits under qualified employer retirement plans. The bill would modify to those limitations for multiemployer plans and plans maintained by tax-exempt organizations.	
E.	Increase in the investment credit for reforestation expenses to 20 percent, shorten the amortization period for those expenses to 3 years, and increase the dollar limitation on these benefits to $20,000.	more generous than the Hastert version?
F.	For small businesses, increase in the deduction for business meal and entertainment expenses from 50 to 65 percent. Small businesses would be defined as businesses with annual gross receipts of less than $5 million.	
G.	Repeal of a provision that disallows the business deduction for travel expenses incurred with respect to a spouse, dependent, or other individual accompanying the taxpayer on business travel.	-
H.	Exclusion for postsecondary educational benefits provided for the empoyees' children. There would be a $2,000 per-child limit on the exclusion.	
I.	Repeal of the changes made to the installment method by section 536(a) of the tax extender bill of last year.	
VIII.	**Retirement Savings Accounts**	**$35**
	Refundable credit for contributions to retirement savings accounts	

IX.	**Expiring Provisions**	**$100**
	Permanent extension of expiring provisions (including research credit) and permanent extension of waiver of alternative minimum tax disallowance of $500 per child credit and other nonrefundable credits	
X.	**Additional Priorities**	
	Provisions addressing tax avoidance through expatriation or through corporate tax shelter transactions with revenues from these provisions used to finance cost of other priorities	
TOTAL		**$375**

September 14, 2000

MEMORANDUM FOR SECRETARY SUMMERS
DEPUTY SECRETARY EIZENSTAT

FROM: JONATHAN TALISMAN
ACTING ASSISTANT SECRETARY (TAX POLICY)

SUBJECT: **Possible Options to Respond to Hastert Minimum Wage Offer**

In an August 28 letter to the President and a follow-up personal conversation, Speaker Hastert made a compromise offer that included a $1.00 an hour increase in the minimum wage to $6.15 over two years. The offer also contained a small business package that was similar to the two minimum wage bills before Congress, but drops the estate tax and pension provisions contained in those bills.

The Speaker's proposal would:

- allow an above-the-line deduction for the cost of individually-purchased health insurance,
- repeal the 0.2 percent FUTA surtax,
- speed up the phase-in of 100-percent deductibility for health insurance purchased by self-employed people,
- phase in 80-percent deduction of meals and entertainment expenses for all employees,
- increase to $35,000 the amount of property that small businesses can expense,
- increase the maximum reforestation expenses eligible for amortization and the credit from $10,000 to $25,000 and remove the cap on amortization costs in 2001-2003,
- extend the Work Opportunity Tax Credit (WOTC) through 2004,
- allow accrual-basis taxpayers to use the installment method of accounting (i.e., repeal 1999 law changes),
- repeal the special excise taxes (effectively license fees) on producers of distilled spirits, wine, and beer,
- allow commercial fishermen to income-average in the same way as farmers,
- allow computer manufacturers a deduction for donations of used computer equipment to schools, and
- allow tax-free rollovers from IRAs and 401(k) plans to charitable organizations.

According to the Speaker, this offer (not taking into account the last two provisions which were added by the Speaker later) costs $23 billion over five years, and $76 billion over ten years.

The offer was discussed at a bicameral, bipartisan meeting last week, which was attended by Chuck Brain and Jon Talisman. The House and Senate Democrats agreed that the tax package is too large and that the health insurance deduction should be dropped. Senate Republicans, particularly Senator Nickles, will push hard for the health insurance deduction.

This memo outlines possible options for responding to the Speaker's proposal.

Modifications to the Speaker's Offer

Health insurance. The most problematic element of the package is the health insurance deduction. It could actually cause problems for small employers by increasing the incentive for the healthiest workers to opt out of the employer group. If that provision were deleted from the package, the cost would be in the $20 to $30 billion range over ten years. Senator Daschle said on Sunday that he would accept a minimum wage package with tax cuts in that range.

FUTA surtax. The FUTA surtax should not be repealed as a stand-alone measure. In the meeting last week, Democrats and we argued that the bipartisan package of reforms negotiated by the Department of Labor with representatives of states, employers, and unions should be coupled with the FUTA surtax repeal. Repeal of the FUTA surtax is an essential element of that bipartisan agreement; passing it as a stand-alone measure could significantly reduce the odds of achieving meaningful FUTA reform. Adding these reforms would increase the total cost of the package by about $14 billion over ten years.

Deduction for meals and entertainment. The Speaker proposes a significant expansion of the deduction for meals and entertainment expenses. Most employers can deduct only 50 percent of such costs, but employers of employees subject to DOT hour limits, such as truckers and airline pilots, will eventually be able to deduct 80 percent of their meals. The Speaker would increase the deduction to 80 percent for all employees. Senator Daschle has ridiculed the Speaker's proposal as a reinstatement of the "three-martini lunch." For that reason, and also because of the great cost (as much as $40 billion over ten years, depending on the phase in), the proposal should be limited to a straightforward speed-up of the 80 percent deduction for employees subject to DOT hour limits. If the 80-percent deduction is to be extended to other types of employees, that expansion should be limited to employees of small businesses.

Reforestation tax incentives. Mr. Hastert's proposed expansion of the reforestation tax incentives is overly broad, providing windfalls to large timber producers. The proposal would increase from $10,000 to $25,000 the amount of expenses eligible for the 10-percent reforestation credit and seven-year amortization. It would also eliminate the cap on amortization expenses in 2001-2003. The increase in the amount of eligible expenses is mildly objectionable because it would provide a small windfall to large timber companies. The temporary elimination of the cap on expenses eligible for rapid amortization is highly objectionable because it would create large windfalls for large timber companies and inequities between the tax treatment of timber and other investments. Moreover, this "temporary" provision would be unlikely to expire once enacted. We should resist lifting the cap and explore ways to limit the benefits of the other elements of the proposal to small businesses.

Possible Additions to Address Administration Priorities

There was less agreement among Democrats about what, if anything, should be added to the package. They agreed that the welfare-to-work tax credit should be extended through 2004 if the work opportunity tax credit is extended. The attached table presents some other options from the Administration's Budget that could be added to an overall package. Several of the options either directly or indirectly help small businesses.

- **New Markets** -- The new markets tax credit and renewal community bill ($18 billion), which has broad bipartisan support in both the House and the Senate, contains a number of incentives to help businesses in distressed communities, as well as the new tax credit to make available equity capital in areas where it has traditionally been scarce.

- **Education** -- Investment in schools through school modernization bonds and qualified zone academy bonds, ($8 billion) has strong bipartisan support in the House as a part of the larger Johnson-Rangel School Modernization bill, but may face Republican opposition in the Senate. We also could add our college opportunity tax cut, which costs $30 billion.

- **Vaccines** -- This remains one of the Administration's highest priorities.

- **Digital Divide** -- We may want to add our $2 billion digital divide initiative. In particular, our proposed employer tax credit for workplace literacy (including computer literacy), is well-suited to a small business package.

- **Child Care** -- The proposed expansions of the child and dependent care tax credit ($31 billion) help low- and moderate-income people to meet the high cost of child care, an essential cost of working, thus helping to expand the labor supply in a very tight labor market. The proposal to provide a tax credit for employer-provided child care ($1.4 billion) offered by Senator Kohl would be useful complement and a direct aid to employers who provide this valuable fringe benefit.

- **Health Care** -- The tax credits for COBRA continuation coverage ($10 billion) and Medicare buy-in ($2 billion) provide targeted assistance in paying for health insurance for workers between jobs and early retirees. Since the credits target employees who are out of the work force, they do not undermine the system of employment-based health insurance, in sharp contrast to the Speaker's proposed health insurance deduction. The proposal to encourage the development of small business health insurance purchasing coalitions would strengthen the system of employment-based health insurance by helping small employers to pool together to gain some of the health insurance cost savings that accrue to large employers. These proposals have received interest from both the Blue Dogs and centrist Democrats in the Senate. Senator Robb and the Blue Dogs introduced versions of health-related tax credits targeted to small businesses before the August recess.

- **Energy and the Environment** -- The climate change tax incentives are aimed at helping the producers and marketers of innovative energy-saving technologies to develop markets for those products and achieve profitability. Several of the incentives help businesses to reduce their energy costs. Cars?

- **Encourage philanthropy** -- The Speaker made two proposals to the President to encourage philanthropy (not in Table 1). Our budget proposals would allow non-itemizers to take a partial deduction for charitable donations, simplify the tax rules for public foundations, raise the limits on donations of appreciated property to charity, and clarify the tax-treatment of donor-advised funds. The $15 billion package would be a more equitable way to address the concerns raised by the Speaker.

Revenue Cost Of Selected Budget Options
(Billions of Dollars)

	2000-2005	2000-2010
New markets package (HR 4923)	-5.1	-17.8
Provide incentives for public school construction and modernization	-2.4	-8.0
Provide college opportunity tax cut	-11.7	-36.0
Digital Divide initiatives	-1.2	-2.1
Enhance the child and dependent care tax credit	-7.6	-31.0
Provide tax credit for employer-provided child-care facilities	-0.5	-1.4
Encourage COBRA continuation coverage	-3.3	-10.3
Provide credit for Medicare buy-in program	-0.4	-1.6
Provide tax relief to encourage small business health plans	-0.1	-0.3
Provide climate change tax incentives	-4.0	-9.3
Encourage development of vaccines for targeted diseases	0.0	-1.3
Encourage philanthropy	-4.7	-14.7

Department of Treasury
Office of Tax Analysis

Cc: Thomas
Robertson
Fant
Stern
Cohen
Elmendorf

?

Possible Congressional Package ?

(2001-10, $billions, plugs ~~based on JCT~~ estimates)

Estate tax repeal (SFC Democrats)		$60
Marriage penalty (House Democrats):		
Increase in standard deduction	$72	
EITC- $2500 increase in beginning point of phaseout range	$13	
AMT protection	$10	
Total Marriage penalty		$95
Social security benefit taxation		$43
Pension and IRA provisions		$50
Telecommunications excise tax		$50
New Markets, Ezs, Renewal Communities		$20
Energy?	9?	$318

PRESIDENT'S TAX PROPOSALS ($billions, 2001-10, Administration estimates)	
College opportunity	36
School construction	8
EITC	25
Community (new mkts, EZs, etc.)	15
Digital divide	2
Better America Bonds	3
Long-term care	26
Health coverage	14
Vaccines	1
Marriage penalty / standard deduction	43
Childcare	31
RSAs	54
Small business pension coverage	17
Other pensions	7
AMT	36
Other simplification	5
Philanthropy	15
Energy efficiency	9
International trade	5
GROSS TOTAL	**359**
OFFSETS	**96**
NET TOTAL	**263**

OTHER CONGRESSIONAL PROPOSALS	HOUSE	SENATE
Small business	19	27
Patients Bill of Rights	68	40
Taxpayer Bill of Rights	7	--
Affordable Education	12	21

TO: WHCCTF

FROM: DAVID

February 14, 2000

Attached are the detailed provisions of the CCTI tax package. This text is from the Treasury's "Green Book". Call me if you have questions.

General Explanations of the Administration's Fiscal Year 2001 Revenue Proposals

Department of the Treasury
February 2000

Promote Energy Efficiency and Improve the Environment

PROVIDE TAX CREDIT FOR ENERGY-EFFICIENT BUILDING EQUIPMENT

Current Law

No income tax credit is provided currently for investment in energy-efficient building equipment.

Reasons for Change

A credit for types of building equipment that are substantially more energy efficient than conventional equipment will help to accelerate the development and distribution of energy-efficient technologies. A credit would reduce costs to consumers, increasing demand for the equipment and reducing manufacturing costs, while also spurring technological innovation and reducing energy consumption.

Proposal

A credit of 20 percent of the purchase price would be allowed for the purchase after December 31, 2000 and before January 1, 2005 of the following building equipment:

> Fuel cells (equipment using an electrochemical process to generate electricity and heat) with an electricity-only generation efficiency of at least 35 percent and a minimum generating capacity of 5 kilowatts. The maximum credit would be $500 per kilowatt of capacity.
>
> Electric heat pump hot water heaters (equipment using electrically powered vapor compression cycles to extract heat from air and deliver it to a hot water storage tank) with an Energy Factor of at least 1.7 in the standard DOE test procedure. The maximum credit would be $500 per unit.
>
> Natural gas heat pumps (equipment using either a gas-absorption cycle or a gas-driven engine to power the vapor compression cycle to extract heat from one source and deliver it to another) with a coefficient of performance for heating of at least 1.25 and for cooling of at least 0.70. The maximum credit would be $1,000 per unit.

A credit would be allowed only for final purchases from unrelated third parties. The credit would be nonrefundable. Credits for equipment used for business purposes would be subject to the limitations on the general business credit and would reduce the basis of the equipment by the amount of the credit.

TAX CREDIT FOR PURCHASE OF ENERGY-EFFICIENT NEW HOMES

Current Law

No deductions or credits are provided currently for the purchase of energy-efficient new homes.

Reasons for Change

Residences, which account for about one-sixth of all U.S. greenhouse gases, offer one of the largest single sources of carbon saving potential. Some States and certain Federal programs require new houses to meet Model Energy Code standards for insulation and related construction standards, and for heating, cooling and hot water equipment. By the use of cost-effective means, many new homes could reduce energy consumption by 30 to 50 percent or more compared to the standards in the Model Energy Code or the more recent 1998 International Energy Conservation Code (IECC). A targeted credit for such highly energy-efficient new housing could increase the use of energy-efficient building practices and efficient heating and cooling equipment. In addition, it may help spur innovation in the ways that houses are designed and built, thereby providing significant energy-saving and environmental benefits over the long term.

Proposal

A tax credit of up to $2,000 would be available to purchasers of highly energy-efficient new homes that meet energy-efficiency standards for heating, cooling and hot water that significantly exceed those of the IECC. A taxpayer may claim the credit only if the new home is the taxpayer's principal residence and reduces energy use by prescribed amounts as compared to the IECC for single family residences. The tax credit would be $1,000 for new homes that reduce energy use by at least 30 percent compared with the IECC standard, and that are purchased in the three-year period beginning January 1, 2001 and ending December 31, 2003. The tax credit would be $2,000 for new homes that reduce energy use by at least 50 percent compared with the IECC standard, and are purchased in the five-year period beginning January 1, 2001 and ending December 31, 2005.

EXTEND TAX CREDIT FOR ELECTRIC VEHICLES AND PROVIDE TAX CREDIT FOR CERTAIN HYBRID VEHICLES

Current Law

No generally available income tax credit for purchases of hybrid vehicles is available currently. A 10-percent tax credit is provided for the cost of a qualified electric vehicle, up to a maximum credit of $4,000. A qualified electric vehicle is a motor vehicle that is powered primarily by an electric motor drawing current from rechargeable batteries, fuel cells, or other portable sources of electric current, the original use of which commences with the taxpayer, and that is acquired for use by the taxpayer and not for resale. The full amount of the credit is available for purchases prior to 2002. The credit begins to phase down in 2002 and does not apply to vehicles placed in service after 2004.

Certain costs of qualified clean-fuel property, including clean-fuel vehicles, may be deducted when such property is placed in service. Qualified electric vehicles do not qualify for the clean-fuel vehicle deduction. The deduction begins to phase down in 2002 and does not apply to property placed in service after 2004.

Reasons for Change

The transportation sector now accounts for one-third of greenhouse gas emissions in the United States. Cars, sport utility vehicles, light trucks and minivans alone account for 20 percent of our greenhouse gas emissions. These vehicles also account for about 20 to 40 percent of all urban smog-forming emissions and 40 percent of U.S. oil consumption. Almost all of these vehicles use a single gasoline-fueled engine.

Hybrid vehicles, which have more than one source of power on-board the vehicle, and electric vehicles have the potential to reduce greenhouse gas emissions, air pollution, and petroleum consumption. The proposed credits will encourage the purchase of vehicles that incorporate advanced automotive technologies and will help to move hybrid vehicles from the laboratory to the highway. These vehicles can significantly reduce emissions of carbon dioxide, the most prevalent greenhouse gas.

Proposal

The proposal would extend the present credit for qualified electric vehicles and provide temporary tax credits for certain hybrid vehicles:

(1) Credit for electric vehicles. The phase down of the credit for electric vehicles would be eliminated and the credit would be extended through 2006. Thus, the maximum $4,000 credit would be available for purchases before 2007.

(2) Credit for qualified hybrid vehicles. A credit, of up to $3,000, would be available for purchases of qualified hybrid vehicles after December 31, 2002, and before January 1, 2007. The credit would be:

(a) $500 if the rechargeable energy storage system provides at least 5 percent but less than 10 percent of the maximum available power;
(b) $1,000 if the rechargeable energy storage system provides at least 10 percent and less than 20 percent of the maximum available power;
(c) $1,500 if the rechargeable energy storage system provides at least 20 percent and less than 30 percent of the maximum available power; and
(d) $2,000 if the rechargeable energy storage system provides 30 percent or more of the maximum available power.

If the vehicle actively employs a regenerative braking system, the amount of the credit shown in (a) through (d) above would be increased by the following amounts:

(i) $250 if the regenerative braking system supplies at least 20 percent but less than 40 percent of the energy available from braking in a typical 60 miles per hour (mph) to 0 mph braking event to the rechargeable energy storage system;
(ii) $500 if the regenerative braking system supplies at least 40 percent but less than 60 percent of such energy; and
(iii) $1,000 if the regenerative braking system supplies 60 percent or more of such energy.

A qualifying hybrid vehicle is a road vehicle that can draw propulsion energy from both of the following on-board sources of stored energy: (1) a consumable fuel, and (2) a rechargeable energy storage system. A qualifying vehicle must meet all applicable regulatory requirements.

Maximum available power means the maximum value of the sum of the heat engine and electric drive system power or other non-heat energy conversion devices available for a driver's command for maximum acceleration at vehicle speeds under 75 mph.

These credits would be available for all qualifying light vehicles including cars, minivans, sport utility vehicles, and light trucks. Taxpayers who claim one of the qualified hybrid vehicle credits would not be able to claim the qualified electric vehicle credit or the deduction for clean-fuel vehicle property for the same vehicle. Business taxpayers claiming the qualified hybrid vehicle credit would be subject to the limitations on the general business credit and would be required to reduce the basis of the vehicle by the amount of the credit.

EXTEND AND MODIFY THE TAX CREDIT FOR PRODUCING ELECTRICITY FROM CERTAIN SOURCES

Current Law

Current law provides taxpayers a 1.5-cent-per-kilowatt-hour tax credit for electricity produced from wind, "closed-loop" biomass (organic material from a plant that is planted exclusively for purposes of being used at a qualified facility to produce electricity), and poultry waste. The electricity must be sold to an unrelated third party and the credit is limited to the first 10 years of production. The credit applies only to facilities placed in service before January 1, 2002. The credit amount is indexed for inflation after 1992.

Reasons for Change

The tax credit helps make electricity produced from wind and biomass price competitive with other forms of electricity. These renewable energy sources produce virtually no greenhouse gas emissions. Expanding eligible biomass sources would increase the use of this renewable energy source.

Allowing a tax credit for electricity produced from methane from landfills would reduce greenhouse gas emissions. Methane gas, which has approximately 21 times the greenhouse gas effect as carbon dioxide, accounts for about 10 percent of the warming caused by U.S. emissions.

Methane from landfills, the single largest source of methane emissions, accounted for 37 percent of total U.S. methane emissions in 1997.

Proposal

The proposal would extend the present credit for wind and closed-loop biomass, expand eligible biomass sources, and provide a credit for electricity produced from methane from landfills:

Wind and biomass. The present credit for wind and closed-loop biomass would be extended for two and one-half years to facilities placed in service before July 1, 2004 and eligible biomass sources would be expanded for facilities placed in service after December 31, 2000 and before January 1, 2006. Biomass facilities that were placed in service before January 1, 2001 would be eligible for a credit of 1.0 cent per kilowatt hour for electricity produced from the newly eligible sources from January 1, 2001 through December 31, 2003. Biomass that is co-fired in coal plants to produce electricity would be eligible for the credit at a reduced rate (0.5 cent per kilowatt hour adjusted for inflation after 2000) from January 1, 2001 through December 31, 2005.

Biomass qualifying for the credit would include (i) closed-loop biomass and (ii) any solid, nonhazardous, cellulosic waste material, which is segregated from other waste materials, and which is derived from: (a) any of the following forest-related resources: mill residues, pre-commercial thinnings, slash and brush, but not including old growth timber or wood waste incidental to pulp and paper production, (b) waste pallets, crates, and dunnage, and landscape or right-of-way tree trimmings, but not including unsegregated municipal solid waste (garbage) and post-consumer waste paper, or (c) agricultural sources, including orchard tree crops, vineyard grain, legumes, sugar, and other crop-by-products or residues.

A facility that produces electricity from wind or biomass (other than a facility that cofires biomass with coal) would be treated as being placed in service before July 1, 2004 if it is placed in service before July 1, 2005 and (1) the facility is constructed, reconstructed, or acquired by the taxpayer pursuant to a written contract binding on June 30, 2004; or (2) the facility is constructed or reconstructed by the taxpayer and (i) the lesser of (a) \$1 million, or (b) 5 percent of the cost of such facility has been incurred or committed by June 30, 2004, and (ii) the construction or reconstruction of such facility began by such date.

Methane from landfills. Facilities that produce electricity from landfill methane would be eligible for a credit for the first ten years of production if the facility is placed in service after December 31, 2000 and before January 1, 2006. The credit for electricity produced from methane from qualified facilities would equal 1.5 cent per kilowatt hour for facilities at landfills that are not subject to EPA's 1996 New Source Performance Standards/Emissions Guidelines (NSPS/EG) and 1.0 cent per kilowatt hour for facilities at landfills that are subject to NSPS/EG. These credits would be adjusted for inflation after 2000. A qualified facility would include equipment and housing required to generate electricity (but not wells and related systems required to collect and transmit gas to the production facility).

A facility that produces electricity from methane from landfills would be treated as being placed in service before January 1, 2006 if it is placed in service before January 1, 2007 and (1) the facility is constructed, reconstructed, or acquired by the taxpayer pursuant to a written contract binding on December 31, 2005; or (2) the facility is constructed or reconstructed by the taxpayer and (i) the lesser of (a) $1 million, or (b) 5 percent of the cost of such facility has been incurred or committed by December 31, 2005, and (ii) the construction or reconstruction of such facility began by such date.

PROVIDE TAX CREDIT FOR SOLAR ENERGY SYSTEMS

Current Law

A 10-percent investment tax credit is provided to businesses for qualifying equipment that uses solar energy to generate electricity, to heat or cool or provide hot water for use in a structure, or to provide solar process heat.

Reasons for Change

A tax credit for rooftop solar photovoltaic systems and solar water heating systems will reduce the cost of these investments and encourage individuals and businesses to adopt these systems. Heat and electricity from these sources produce no greenhouse gasses.

Proposal

Under this proposal, a tax credit would be available for purchasers of rooftop photovoltaic systems and solar water heating systems that are located on or adjacent to a building and are used exclusively for purposes other than heating swimming pools. The credit would be equal to 15 percent of qualified investment up to a maximum of $1,000 for solar water heating systems and $2,000 for rooftop photovoltaic systems. This credit would be nonrefundable. For businesses, this credit would be subject to the limitations of the general business credit and the basis of the qualified property would be reduced by the amount of the credit claimed. The credit would apply only to equipment placed in service during the five-year period after December 31, 2000 and before January 1, 2006 for solar water heating systems and during the seven-year period after December 31, 2000 and before January 1, 2008 for rooftop photovoltaic systems. Taxpayers must choose between the proposed credit and the present tax credit for each investment.

PROVIDE A 15-YEAR DEPRECIABLE LIFE FOR DISTRIBUTED POWER PROPERTY

Current Law

Distributed power property used to produce electricity and/or steam for use in a taxpayer's industrial manufacturing process or plant activity, and not ordinarily available for sale to others, is generally depreciated using the 150 percent declining balance method over 15 years. Distributed power property with a rated total capacity of 500 kilowatts or less of electricity (or 12,500 pounds per hour or less of steam) is depreciated in accordance with the class life assigned to the taxpayer's applicable manufacturing equipment class.

Building structural components include all components (whether in, on, or adjacent to the building) of a central air conditioning or heating system, including motors, compressors, pipes and ducts, and all other components relating to the operation or maintenance of a building. Distributed power property used to produce electricity and/or heat for use in a commercial or residential building is likely to classified as a building structural component and depreciated using the straight-line method over 39 years.

Reasons for Change

Distributed power technologies have made it possible to place electrical generation assets in or adjacent to commercial establishments and residential rental properties, as well as in industrial establishments. These technologies can be more energy efficient and generate fewer greenhouse gases than conventional electrical generation methods. Under current law, distributed power assets used in a commercial or residential building are likely to be depreciated over much longer lives than are similar assets used to produce process energy in an industrial setting. Also, because the current asset classification system predates the development of these technologies and the era of electricity deregulation, there are ambiguities regarding the proper classification of distributed power property. The proposed change would simplify current law by clarifying and rationalizing the assignment of recovery periods to distributed power property, including property used to produce both electricity and useful heat and mechanical power. It would therefore reduce taxpayer uncertainty and controversy in this area, and would promote the use of these more efficient technologies.

Proposal

Distributed power property placed in service after the date of enactment would be assigned a 15-year depreciation recovery period and a 22-year class life. For this purpose, distributed power property would include only (1) property used in the generation of electricity for primary use in nonresidential real property or residential rental property used in the taxpayer's trade or business, and (2) property with a rated total capacity in excess of 500 kilowatts that is used in the generation of electricity for primary use in a taxpayer's industrial manufacturing process or plant activity. It must be reasonably expected that no more than 50 percent of the electricity produced from distributed power assets would be sold to, or used by, unrelated persons. Distributed power property would not include assets used to transport primary fuel to the generating facility or to distribute energy within or outside of the taxpayer's facility.

Distributed power property may also be used to produce usable thermal energy or mechanical power for use in a heating or cooling application. However, if used to produce energy for use in a building, not less than 40 percent of the total useful energy produced must consist of electrical power (whether sold or used by the taxpayer). In an industrial setting, not less than 40 percent of the total useful energy produced must consist of electrical power (whether sold or used by the taxpayer) and thermal or mechanical energy used in the taxpayer's industrial manufacturing process or plant activity. For this purpose, energy output would be determined on the basis of expected annual output levels and measured in British thermal units (Btu) using standard conversion factors established by the Secretary.

Climate Change Technology Initiative:
$3.8 Billion in Tax Incentives

The President is proposing a new $3.8 billion package in tax incentives over five years to help reduce greenhouse gas emissions by spurring the purchase of energy efficient products and the use of renewable energy (see Table 2).

Table 2. CCTI Tax Incentives ($ in Billions)

	Revenue Effect	
	FY 2001	**Total FY01-05**
Homes and Buildings		
Provide tax credit for energy efficient building equipment	-- *	-0.2
Provide tax credit for new energy efficient homes	- 0.1	-0.6
Provide tax credit for solar energy systems	-- *	-0.1
Vehicles		
Extend tax credit for electric and fuel cell vehicles and provide tax credits for highly fuel efficient hybrid vehicles	0	-2.1
Renewable Energy		
Extend tax credit for electricity produced from wind and biomass; expand eligible biomass sources; include coal-biomass cofiring; and provide credit for methane from certain landfills	- 0.1	-0.7
Industry		
Provide 15-year recovery period for distributed power property	-- *	_*
TOTAL**	**-0.2**	**-3.7**

*Less than -$50 million.
**Total may not add due to rounding.

HOMES AND BUILDINGS

- ***Tax credit to consumers who purchase new energy efficient homes.*** To encourage the purchase of new energy efficient homes, consumers would receive a tax credit of $1,000 for homes purchased from 2001-2003 that are 30 percent more energy efficient than the standard under the 1998 International Energy Conservation Code (IECC) and a credit of $2,000 for homes purchased from 2001-2005 that are at least 50 percent more energy efficient than the IECC standard.

- ***Tax credit for energy efficient equipment in new and existing homes or buildings.*** This credit will encourage the purchase of electric heat pump water heaters, natural gas heat pumps and fuel cells. The credit would apply to both residential and commercial equipment. The credit would be 20 percent of the cost of the investment, subject to a cap, for equipment purchased from 2001-2004.

- ***Tax credit for solar energy systems.*** A 15 percent tax credit will encourage the purchase by consumers and businesses of solar energy systems. The maximum credit would be $2,000 for rooftop photovoltaic systems placed in service from 2001-2007 and $1,000 for solar water heating systems placed in service from 2001-2005.

VEHICLES

- ***Tax credits for highly efficient cars and light trucks.*** Cars and light trucks (including minivans, sport utilities, and pickups) currently account for 20 percent of greenhouse gas emissions. Tax credits for electric, fuel cell, and hybrid vehicles will help to move advanced technologies from the laboratory to the highway. These technologies can significantly reduce emissions of carbon dioxide, the most prevalent greenhouse gas.

    - **Extend the current tax credit for electric vehicles and fuel cell vehicles.** Under current law, a 10 percent credit, up to $4,000, is provided for the cost of qualified electric vehicles and fuel cell vehicles. The credit begins to phase down in 2002 and phases out in 2005. The President's proposal would extend the tax credit at its $4,000 maximum level through 2006.

    - **Tax credits for hybrid vehicles.** The credit -- available for all qualifying vehicles, including cars, minivans, sport utility vehicles, and pickup trucks -- would range from $500 to $3,000 for purchases of a qualified hybrid vehicle from 2003 through 2006, depending upon the vehicle's design performance.

RENEWABLE ENERGY

- ***Tax credit for electricity produced from wind.*** Current law encourages the production of electricity from wind, which emits no greenhouse gases, through a tax credit of 1.5 cents per kilowatt hour (adjusted for inflation after 1992). The current tax credit covers facilities placed in service before January 1, 2002. The President proposes a 2.5-year extension of this tax credit.

- ***Tax credits for electricity produced from biomass.*** Biomass refers to trees, crops and agricultural wastes used to produce power, fuels or chemicals. This package of credits would:

    -- **Extend current "closed-loop" biomass credit.** This proposal extends for 2.5 years the current 1.5 cent per kilowatt hour tax credit (adjusted for inflation after 1992), which covers facilities placed in service before January 1, 2002.

    -- **Expand definition of eligible biomass.** This proposal expands the definition of biomass eligible for the 1.5 cent tax credit to include certain forest-related resources and agricultural and other sources.

-- **Include cofiring biomass and coal.** This proposal adds a 0.5 cent per kilowatt hour tax credit for electricity produced by cofiring biomass in coal plants from 2001 through 2005.

-- **Provide credit for methane from landfills**. This proposal adds a 1.5 cent per kilowatt hour credit for electricity produced from landfills not subject to EPA's 1996 New Source Performance Standards/Emissions Guidelines (NSPS) and 1.0 cent per kilowatt hour for landfills subject to NSPS. Qualified facilities would be facilities placed in service after December 31, 2000 and before January 1, 2006.

INDUSTRY

- ***15-year recovery period for distributed power property.*** The development of distributed power technologies has made it possible to generate electricity locally at dispersed industrial, commercial, and residential locations. Such technologies can be more energy efficient and generate fewer greenhouse gases than conventional generation methods. The current classification system for assigning cost recovery periods to depreciable property does not adequately account for distributed power assets. This proposal would simplify and rationalize the current system by assigning a single 15-year recovery period to distributed power property.

Morley.Winograd@npr.gov
01/03/2000 10:29:19 PM

Record Type: Record

To: Geraldine.Gerardi@do.treas.gov

cc: See the distribution list at the bottom of this message
Subject: RE: Car tax credit

Roger:
We need to talk soon. Don't think options 2 or 3 are viable. How are you doing on getting extra money?
Morley

-----Original Message-----
From: Geraldine.Gerardi@do.treas.gov
[mailto:Geraldine.Gerardi@do.treas.gov]
Sent: Monday, January 03, 2000 12:35 PM
To: Morley.Winograd@NPR.gov
Cc: burmanl@A1.treas.gov; David_Gardiner@whcctf.eop.gov; hkelly@ostp.eop.gov; Jefferson_B._Seabright@whcctf.eop.gov; Roger_S._Ballentine@who.eop.gov
Subject: Car tax credit

Date: 01/03/2000 12:35 pm (Monday)
From: Geraldine Gerardi
To: EX.MAIL."Morley.Winograd@NPR.gov"
CC: EX.MAIL."Roger_S._Ballentine@who.eop.gov",
EX.MAIL."David_Gardiner@whcctf.eop.gov",
EX.MAIL."hkelly@ostp.eop.gov",
EX.MAIL."Jefferson_B._Seabright@whcctf.eop.gov",
EX.MAIL."burmanl@A1"
Subject: Car tax credit

When we met before the holidays, you asked for estimates for several options that would reduce the cost of the vehicle tax credit. If we reintroduce last year's budget proposal with no changes, the revenue cost would be $2.1 billion for FY2001-FY2005. (A description of last year's proposal is attached.)

Option 1: Reduce all the credit amounts by 30%. The credits presently range from $500 to $3000 depending upon the design characteristics of the vehicle. Under this option, the credit amounts would range from $350 to $2100. Preliminary revenue cost: $1.5 billion over FY2001-FY2005.

Option 2: Delete the $500 credit for vehicles with rechargeable energy storage systems that provide at least 5% but less than 10% of the maximum available power. Preliminary revenue cost: $2.0 billion over

FY2001-FY 2005.

Option 3: Delete the $500 credit described in option 2 and delete the $1000 credit for vehicles with rechargeable energy storage systems that provide at least 10% and less than 20% of the maximum available power. Preliminary revenue cost: $1.6 billion for FY2001-2005.

Background
In last year's budget the cost of the vehicle credit proposal was $0.9 billion for FY2000-FY2004. The cost increases by $1.2 billion if we reintroduce that proposal now because the five-year budget window has shifted one year (from FY2000 - 2004 to FY2001 -2005). FY2000, which has a zero revenue cost, drops out of the five year total and FY 2005, which has a $1.2 billion cost, is included in the five year total.

If you have any questions, I can be reached at 622-1782.

Message Copied To:

burmanl@A1.treas.gov
David Gardiner/CEQ/EOP
Henry C. Kelly/OSTP/EOP
Jefferson B. Seabright/WHCCTF/EOP
Roger S. Ballentine/WHO/EOP

1000
30% 1 3 yrs
50% 2000 5 yrs

Proposed Low Tax Package

Tax Provision	FY2001 Estimate
Autos	2.1 (2100)
Homes (New)	.6 (560) 7 ?
Equipment	.2 (167) 201 274 ?
Solar	.1 (131)
Wind/Bio	.3 (336) —
Existing Biomass	.2 (~200)
Combined Heat and Power	.05 (45)
Methane Landfill	.3 (301)
TOTALS	~~3.85~~ (3840) 3.95

Specifically this includes:

- No change to auto package.
- No change with last year's homes proposal.
- Cut energy efficient equipment by $1.4 billion, leaving only leapfrog technologies (electric heat pumps @ $100 million, building fuel cells @ $63 million, and natural gas heat pumps @ $4 million).
- Retain last year's solar, wind and biomass provisions, but only make the cofiring at .5 cents per kwh available for 3 years.
- Add existing biomass facilities (1 cent per kwh) for 3 years. .5¢ ?
- Add methane landfills (non-NSPS @ 1.5 cent per kwh and NSPS @ 1 cent per kwh) for three years.
- CHP changed to an accelerated depreciation approach.

PROPOSED TAX PACKAGE

Tax Provision	**FY2001 Estimate**
Autos	2.1
Homes (new)	.8
Equipment	.2
Solar	.1
Wind/Bio (new)	.4
Existing Biomass	.3
Methane Landfills	.4
Combined Heat and Power	.05
TOTALS	4.35

This package would increase the costs of last year' s package by $750 million. We would:

- Absorb the full increase in costs of the auto provision from $900 million to $2.1 billion.

- Make more available to strike a deal with homebuilders.

- Cut energy efficient equipment by $1.4 billion, leaving only leapfrog technologies (electric heat pumps @ $100 million, building fuel cells @ $63 million, and natural gas heat pumps @ $4 million.

- Retain last year's solar, wind and biomass provisions.

- Add existing biomass facilities (1 cent per kwh) and methane landfills (non-NSPS @ 1.5 cent per kwh and NSPS @ per kwh).

- Reduce CHP from $300 million to $45 million by shifting to an accelerated depreciation approach.

2001 CCTI TAX OPTIONS

Rescoring for 2001

Tax Provision	FY2000 Score	FY2001 Estimate
Hybrid	.9	2.1
Equipment	1.5	1.6
Homes (New)	.4	.6
Combined Heat and Power	.3	.3
Wind/Bio	.3	.4
Solar	.1	.1
TOTAL	3.6	5.1

Scoring for Possible New Provisions

Tax Provision	FY2001 Estimate
Homes (30%, $1000, 3yrs; 50%, $2000, 5yrs)	.7
Homes(30%, $750, 5 yrs; 50%, $2000, 5yrs)	.9
Existing Biomass ($.01/Kwh)	.3
Existing Biomass ($.005/Kwh)	.2
CHP Depreciation	.045
CHP Production Tax Credit	?
Methane Landfills (unregulated)	?

Option A – No Efficient Equipment

Tax Provision	FY2001 Estimate
Autos	2.1
Homes	.9
CHP Depreciation	.045
Solar	.1
New Wind/Biomass	.4
TOTALS	3.545

no methane
no existg biomass

Option B – No Efficient Equipment or CHP, Add Existing Biomass

Tax Provision	FY2001 Estimate
Autos	2.1
Homes	.9
New Wind/Biomass	.4
Existing Biomass	.3
TOTALS	3.7

Option C – No Homes, Add Existing Biomass, Methane Landfills

Tax Provision	FY2001 Estimate
Auto	2.1
Equipment	.5
New Wind/Biomass	.4
Existing Biomass	.3
Methane Landfills	.3
TOTALS	3.6

Option D – No Equipment or Homes, Add Existing Biomass, Methane, CHP Production

Tax Provision	FY2001 Estimate
Autos	2.1
New Wind/Biomass	.4
Existing Biomass	.3
CHP Production Tax Credit	.4
Methane Landfills	.4
TOTALS	3.6

Option E – Reduce Autos 1/3 and Equipment 2/3

Tax Provision	FY2001 Estimate
Autos	1.4
Homes (New)	.9
~~Equipment~~	~~.5~~
Solar	.1
Wind/Bio	.4
Existing Biomass/& and Methane Landfills	[illegible] .7
Combined Heat and Power (Deprec)	.05
TOTALS	~~3.6~~ 4.0

Gerry @ land methane
and Gerry 3 Biomass

Gerry

Preliminary
Revenue
Cost
FY0[illegible]-05

FY 2000 budget proposals moved one year

New homes	
30%,$1000,2yrs;40%,$1500, 3yrs; 50%, $2000, 5yrs	-560
Electric and hybrid vehicles	-886
Building equipment	
10% max credit of $250, 20% max credit of $500	-1644
Solar energy systems	
15%, max credit $1000, 5 yrs; max credit $2000 for photovoltaics for 7 years	-131
Combined heat and power	
8% investment credit for 3 years	-262
Total	-3483

Alternative 1 closed loop

new open loop @ 1.5¢ for 5 yrs

1. Add wind and biomass extension for 2.5 years ~~and cofiring at .5 cent per kwh~~	-463	(w/o co-firing) -7121 208
2. Delete CHP investment credit	262	
Total	-3684	

Alternative 2

Alternative 1	
1. With electric and hybrid vehicles not moved forward one yr.	-1206
2. For building equipment, reduce max credit to $100/$200 for 10%/20% credits for AC and electric heat pumps	968
Total	-3922

Other options (additional revenue loss)

Methane from landfills	
1. Non NSPS at 1.5 cent per kwh, no elec. or new elec. capacity	-256
2. NSPS at 1 cent per kwh, no elec. or new elec. capacity	-147
3. NSPS at .5 cent per kwh, no elec. or new elec. capacity	-52
New homes	
1. 30%, $1000, 3 yrs., 50%, $2000, 5 yrs	-120
2. 30%, $750, 5 yrs; 50%, $2000, 5 yrs	-287
Wind and biomass	
1. Cofiring at 1 cent	-424
2. Existing biomass facilities at .5 cent per kwh	-157
3. Existing biomass facilities at 1 cent per kwh	-312
Distributed power property (15 year recovery period)	-45

Diff

FY2000 Tax Package

1.	Energy efficient equipment	1.5B
2.	Energy efficient homes	.4
3.	Solar roofs	.1
4.	Hybrid cars	.9
5.	Wind/Biomass	.3
6.	CHP	.3

FY2001 Tax Package

1.	Energy efficient homes	.4 (+ for deal with homebuilders)
2.	Hybrid cars	.9
3.	Wind/Biomass	.3 (minus two years of wind credit)
4.	Solar roofs	.1

New Ideas

1. CHP production tax credit
2. Credit for biodiesel
3. Expand biomass to include existing biomass facilities
4. Clean Air Bonds
5. Methane landfill gas
6. Alternative Fuel vehicles
7. Refrigerators
   replacement program .5

May 28, 1999

EXTEND TAX CREDIT FOR ELECTRIC VEHICLES AND PROVIDE TAX CREDIT FOR CERTAIN HYBRID VEHICLES

Current Law

No generally available income tax credit for purchases of hybrid vehicles is available currently. A 10-percent tax credit is provided for the cost of a qualified electric vehicle, up to a maximum credit of $4,000. A qualified electric vehicle is a motor vehicle that is powered primarily by an electric motor drawing current from rechargeable batteries, fuel cells, or other portable sources of electric current, the original use of which commences with the taxpayer, and that is acquired for use by the taxpayer and not for resale. The full amount of the credit is available for purchases prior to 2002. The credit begins to phase down in 2002 and does not apply to vehicles placed in service after 2004.

Certain costs of qualified clean-fuel property, including clean-fuel vehicles, may be deducted when such property is placed in service. Qualified electric vehicles do not qualify for the clean-fuel vehicle deduction. The deduction begins to phase down in 2002 and does not apply to property placed in service after 2004.

Reasons for Change

The transportation sector now accounts for one-third of greenhouse gas emissions in the United States. Cars, sport utility vehicles, light trucks and minivans alone account for 20 percent of our greenhouse gas emissions. These vehicles also account for about 20 to 40 percent of all urban smog-forming emissions and 40 percent of US oil consumption. Almost all of these vehicles use a single gasoline-fueled engine.

Hybrid vehicles, which have more than one source of power on-board the vehicle, and electric vehicles have the potential to reduce greenhouse gas emissions, air pollution, and petroleum consumption. The proposed credits will encourage the purchase of vehicles that incorporate advanced automotive technologies and will help to move hybrid vehicles from the laboratory to the highway. These vehicles can significantly reduce emissions of carbon dioxide, the most prevalent greenhouse gas.

Proposal

The proposal would extend the present credit for qualified electric vehicles and provide temporary tax credits for certain hybrid vehicles:

(1) Credit for electric vehicles. The phase down of the credit for electric vehicles would be eliminated and the credit would be extended through 2006. Thus, the maximum $4,000 credit would be available for purchases before 2007.

(2) Credit for qualified hybrid vehicles. A credit, of up to $3,000, would be available for purchases of a qualified hybrid vehicle after December 31, 2002, and before January 1, 2007. The credit would be:

(a) $500 if the rechargeable energy storage system provides at least 5% but less than 10% of the maximum available power;
(b) $1,000 if the rechargeable energy storage system provides at least 10% and less than 20% of the maximum available power;
(c) $1,500 if the rechargeable energy storage system provides at least 20% and less than 30% of the maximum available power; and
(d) $2,000 if the rechargeable energy storage system provides 30% or more of the maximum available power.

If the vehicle actively employs a regenerative braking system, the amount of the credit shown in (a) through (d) above would be increased by the following amounts:

(i) $250 if the regenerative braking system supplies at least 20% but less than 40% of the energy available from braking in a typical 60 miles per hour (mph) to 0 mph braking event to the rechargeable energy storage system;
(ii) $500 if the regenerative braking system supplies at least 40% but less than 60% of such energy; and
(iii) $1,000 if the regenerative braking system supplies 60% or more of such energy.

A qualifying hybrid vehicle is a road vehicle that can draw propulsion energy from both of the following on-board sources of stored energy: (1) a consumable fuel, and (2) a rechargeable energy storage system. A qualifying vehicle would have to meet all applicable regulatory requirements.

Maximum available power means the maximum value of the sum of the heat engine and electric drive system power or other non-heat energy conversion devices available for a driver's command for maximum acceleration at vehicle speeds under 75 mph.

These credits would be available for all qualifying light vehicles including cars, minivans, sport utility vehicles, and light trucks. Taxpayers who claim one of the qualified hybrid vehicle credits would not be able to claim the qualified electric vehicle credit or the deduction for clean-fuel vehicle property for the same vehicle.

will rescan w/o

January 12 Working Version of Tax Package

Tax Provision	FY2001 Estimate
Autos	2.078
Homes (New)	.633
Equipment	.201
Solar	.132
Wind/Bio	.446
Combined Heat and Power	.047
Methane Landfill	.320
TOTALS	3.857

Specifically this includes:

- No change to auto package.
- Change last year's homes proposal to 30%, $1000 for five years, and 50%, $2000 for five years.
- Cut energy efficient equipment by $1.4 billion, leaving only leapfrog technologies (electric heat pump water heaters, building fuel cells, and natural gas heat pumps).
- Retain last year's solar, wind and biomass provisions, but only make the cofiring at .5 cents per kwh available for 5 years.
- Add methane landfills (non-NSPS @ 1.5 cent per kwh and NSPS @ 1 cent per kwh) for five years.
- CHP changed to an accelerated depreciation approach.