Clean Tax Cut Combined Straw Proposal

Draft of September 13, 2017

This is a discussion draft, designed to solicit comments and suggestions. As a result of this input we anticipate substantial changes.

Debt-Side Tax Cuts

Bonds and loans whose proceeds will be used to manufacture, deploy, operate or maintain the following clean assets[1] will not be subject to federal taxation. In addition, businesses making expenses for these purposes may immediately expense them and not depreciate them:

1. Energy systems that produce energy with zero direct emissions of carbon dioxide and other greenhouse gases, including associated power management and storage systems, and power lines needed to connect such power sources to the grid;
2. Equipment or systems that reduce energy use in a home or business as follows:
    a. Equipment that is certified under the Energy Star program at the time of purchase (Energy Star covers more than 50 types of products)
    b. Energy management and process management systems
    c. Insulation (beyond insulation required for compliance with local building codes)
    d. Air and duct sealing accompanied by measurements of the infiltration or leakage reduction achieved. Infiltration/leakage and energy use reductions to be reported to the home/building owner. DOE to provide guidance on measurements.
3. A home or building that is designed to achieve zero energy performance, as defined by guidance published by the Department of Energy.
4. A combined heat and power system as defined under the Energy Improvement and Extension Act of 2008.
5. Best Available Technology for reducing emissions from oil and gas production and distribution, as determined by the Environmental Protection Agency.
6. Vehicles that exceed CAFE standards; factories that are dedicated to producing such vehicles; and components critical to high efficiency or low emissions vehicles, such as PEV and PHEV battery systems and engines.
7. Electric vehicle charging systems
8. Operations that junk and recycle used vehicles, including payments for any vehicles so recycled that do not exceed current CAFE standards.
9. All waste recycling operations and equipment, for paper, plastic, metals, equipment, biomass, composting, etc.

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[1] All of these terms will ultimately need tight definitions.

10. Waste-to-energy and waste-to-fuel systems that produce no GHG emissions.
11. Fuel cell and other energy production systems that capture emissions, or reduce emissions compared to combustion of the same fuel.
12. ENERGY STAR products and equipment and factories dedicated to exclusive production of ENERGY STAR products.
13. No-till tractors; aerobic digesters; Organic farm operations on land already cleared for two decades. Certified forest operations, including mills and lumber yards dedicated to producing and selling 100% certified wood and wood products.
14. Carbon capture and storage systems that reduce emissions from power and industrial plants. Air capture systems that remove GHGs from the atmosphere. Seaweed and shellfish aquaculture operations that remove nitrogen, pollutants and CO_2 from the ocean. Coral reef, mangrove, and forest restoration and replanting. Nursery operations and tree planting expenditures.
15. Ecotourism resorts and operations contingent on a duty to protect and maintain a surrounding ecosystem, where 10% of revenues are earmarked for ecosystem protection by a certified NGO.
16. Manufacturing operations dedicated to producing products made over 50% from captured carbon, or recycled plastic products (except any that shed plastic microfibers).
17. Other systems that reduce energy use or emissions, or waste, or pollutants, as determined by the Secretary of Energy or the Secretary of Agriculture or the Administrator of the Environmental Protection Agency, after providing an opportunity for public comment.

With respect to tax-exempt pension funds, income from the above tax exempt debt will flow through and be tax exempt to pensioners when they receive income from the pension funds, in proportion to the amount of such tax exempt income received by the pension fund, as a share of total pension income in any given year.

Equity-Side Tax Cuts

Individual and business income from the following types of clean products, services and investments, (including the portion of dividend and capital gains income equal to the portion of corporate or partnership revenue in any fiscal year from those clean products and services) shall be taxed at 20% less than the ordinary tax rate for that taxpayer:

1. All clean assets, above defined, are also clean products, as are the products or services produced by clean assets.
2. Income from power produced by zero-emission energy systems;
3. Income from a combined heat and power system as defined under the Energy Improvement and Extension Act of 2008.

4. Income from an Energy Star certified building as determined, less than five years before the current fiscal year, under the Energy Star program authorized under section 324A of the Energy Policy and Conservation Act;
5. Income from a commercial building or multifamily residential property that, within five years of the current fiscal year, has reduced energy use by at least 30% as determined using the Portfolio Manager computer program and the Designed to Earn the Energy Star guidance issued by the Environmental Protection Agency;
6. Income from an industrial process that reduces energy use at least 30% per product produced as determined, less than five years before the current fiscal year, using criteria developed by the Secretary of the Department of Energy through a notice and comment rulemaking.
7. Income from oil and gas wells that reduce emissions by at least 30% as determined under criteria to be developed by the Administrator of the Environmental Protection Agency through a notice and comment rulemaking.
8. Income from the production and sale of vehicles that achieve a fuel economy of twice the level specified under Corporate Average Fuel Economy (CAFÉ) standards relative to the CAFÉ standards for that model year for a vehicle of the same type and footprint. [Alternative just for automobiles: 10% tax reduction for exceeding CAFE standards by 10%; 30% tax reduction for zero-emission vehicles; a proportional sliding scale between those rates.]
9. [what else]
10. Income from other clean investments as determined by the Secretary of Energy or the Secretary of Agriculture or the Administrator of the Environmental Protection Agency, after providing an opportunity for public comment.

This provision shall apply for five years after the equipment is placed in service. .The Administrator of the Environmental Protection Agency, in consultation with the the Secretary of Energy or the Secretary of Agriculture, after providing an opportunity for public comment, shall develop criteria by which each of the above types of clean investments shall be certified by an independent third party.

For both debt-side and equity-side tax cuts, the Secretary of the Treasury shall develop procedures for reporting income from such clean assets, products, services and investment to the federal government.

For investments that also qualify for tax incentives established prior to the date of enactment of this section, the tax payer may use either the old incentive or these new tax cuts, but not both.