CLEAN CAPITALIST LEADERSHIP COUNCIL

Turning Capitalism Into Clean Capitalism

American Barrier-Free Clean Capital Market Act (Cont'd):

The Act proposes additional Clean Tax Cut (CTC) provisions to remove further barriers to capital and participation, promote innovation, and extend barrier-free clean capital markets domestically and internationally. Continued from the core concept summary of the Act (a pilot program empowering the issuance of tax-exempt Clean Asset Bonds (CABs), optimized to create a very large, barrier-free clean capital market, to accelerate clean energy, infrastructure, jobs and prosperity). Comments welcome.

Fewer Barriers, Bigger Markets

Bigger barrier-free clean capital markets mean more capital flow, more participation, bigger opportunities, better prices, more jobs, faster clean infrastructure deployment, all resulting in a cleaner, more peaceful and prosperous planet. That is why the following CTC provisions target specific big barriers, the removal of which will powerfully extend the reach of this market.

Border barriers. Differences in tax treatment of securities, from one state or nation to another, can create a market-distorting barrier.

Interstate Reciprocity. The core mechanism of that Act, federal tax exemption for CABs issued in the corporate bond market, goes a long way to overcoming market distortions and high costs that would come with muni market issuance. Still, the CAB incentive would be even stronger and less prone to state policy distortion with uniform state/local tax-exemption.

Fortunately, Congress has leverage to gain voluntary 50 state reciprocity. Federal tax exemption for CABs and PABs is a valuable gift to states. Congress can reasonably ask states to contribute to the broad appeal of this incentive, inviting all states to declare all CABs and PABs state/local tax exempt in consideration of the benefit to states of federal tax exemption, as a condition of state issuance of PABs.

International Reciprocity. The US has long prospered as a safe haven for foreign capital. CABs could attract additional massive foreign capital to build American clean infrastructure, given reciprocal tax treatment, a common feature of most tax treaties.

Congress can lead on the creation of an international barrier-free clean capital market, simply by inviting reciprocity on CAB tax-emption, with all nations joining the market. Meaning, the Act would provide that CABs issued by other nations would be interest tax exempt to US citizens and corporations, if those nations provide tax exemption to their citizens and corporations, for CABs issued in the US or other member nations. The Act would incent new foreign capital (debt and equity) to fund US clean infrastructure and vice versa. Nations would likely be eager to join, recognizing the vast benefits of openness to international capital flows.

Such a market would increase global prosperity, stability and peace via international clean infrastructure investment. Poverty breeds terrorism, war, environmental destruction, refugees and illegal immigration. Since most poor nations have abundant sun, clean capital markets could directly help resolve such crises, build free market structures, and unlock new wealth.

Nations would retain full discretion over equity side tax rates. CAB categories should be substantially harmonized between nations, but all nations need not accept all categories. Market barriers will be minimized if the CAB/capital ratio is uniform, market-wide. So during the pilot program, this Act would set the CAB/capital ratio for all joining nations. Afterwards, international treaty or commission might do so.

$25.4 Trillion Pension Fund Barrier. Pension fund tax exemption creates perhaps the largest hidden domestic barrier to capital, obstructing the public policy purpose of bond tax exemption: to attract more capital to publicly beneficial investments. Mangers of US pension assets (worth $25.4T as of 2017), currently have no incentive to buy publicly beneficial tax-free bonds, because most pension investment income and gains are already tax exempt, except for distributions to pensioners, which are taxed as ordinary income. So pensions funds buy only (normally) taxable bonds and other high return investments. This arrangement cost an estimated $206.6 billion in lost 2017 federal tax revenue, besides blocking capital flows worth trillions from funding publicly beneficial works.

Another quadruple win is waiting here, for good works, pensioner, pension funds, and tax revenue. Allowing pension funds to provide a lower tax free payout (from tax exempt bonds) to higher tax bracket pensioners receiving larger pensions, would (a) reduce pension fund cash liabilities, (b) increase investment options (on equity too), (c) raise pensioners net after tax income, and (c) help fund public goods. It would also cost the US treasury little, perhaps nothing, despite the tax break for retirees, because the pension fund shift in investments would be funded by a sale of taxable investments by tax free pension funds to taxable investors, freeing up those investments to produce ongoing taxable income. If only 10% of pension assets shift to CABs and PABs, that is $2.54 trillion in new funding for clean infrastructure, and the same amount of taxable assets shifted to taxable investors, producing an estimated $240 billion in new tax revenue over the six year pilot program.

Barriers to Innovation. Many venture capitalists will not invest in a new kind of plant, even where the technology is proven, without 5 successful preexisting plants of the same kind. Many are also concerned that the "valley of death," the time between initial investment and revenue generation may be too long and risky for many clean tech ventures.

Clean Tax Cuts can reduce risk barriers by increasing rewards, improving the reward/risk ratio, making clean innovation much more attractive. That could significantly accelerate capitalization by making it much easier to scale-up faster, directly shortening and reducing the risks of the valley of death.

To that end, we suggests 10 years of 100% tax exemption (debt and equity: income and capital gains) for investments in pilot projects and the first five commercial scale plants, for each innovative new technology offering new low-or-no pollution solutions in the following categories: power generation, fuel production, carbon capture and recycling.

Best of all, this costs the taxpayer nothing. Since these investments might never otherwise happen, and cannot be forecast or foreseen, no future tax revenue is lost. Innovation offers the rare instance where a 0% tax rate has $0 cost, and so really offers a "Zero Regrets" solution.[1]

CAFE & Solar Tariff Compromise. CTC mechanisms can reduce political conflict by substituting enticing carrots for polarizing sticks. The pilot program could include limited equity side CTC mechanisms that solve conflicts over CAFE standards, solar tariffs, and clean energy.

The pilot program suggests a 20% tax rate reduction on a percentage of income and capital gains taxes, paid by corporations and investors, equal to the percentage of annual revenues from: (a) vehicles that exceed 2017 EPA CAFE standards; (b) US made solar panels; (c) sales of emission-free power or carbon-neutral fuels. CTC for US solar panels would replace 30% tariffs, and China would be invited to phase out their solar subsidies in exchange for reciprocity on solar CTC.

This modest tax reduction will strongly incent corporate culture to sell more low-emission vehicles, solar panels and emission-free energy and fuels. Each investor, manager and employee with stock holdings will see those grow more valuable, and less taxed, as their companies sell more clean product. CTC invites participation.

[1] Thanks to Columbia University Prof. Satyajit Bose for suggesting the seeds of this proposal. Credit also to Paul Walker of ConservAmerica for suggesting the "Zero Regrets" solution. (A further incentive, with some cost, might be to allow investors to immediately deduct such high risk, publicly beneficial investments against other income, much like a charitable contribution.)