Clean Tax Reform (CTR) Combined Straw Proposal

Draft of October 25, 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

The interest earned by holders of bonds and issuers of loans[1] whose proceeds are used to manufacture, purchase, deploy, and construct the following clean assets[2] will not be subject to federal taxation:[3]

1. Energy systems that produce energy with zero direct emissions of mercury, SOx, NOx and greenhouse gases, including associated power management and storage systems, and dedicated power lines needed to connect such power sources to the grid;

2. A home or building or industrial plant that is designed to achieve net zero energy performance, as defined by guidance published by the Department of Energy and certified by a licensed architect or engineer (need to be able to show design calculations, not actual performance).

3. Factories and other property, plants and equipment used for the production and sale of: (a) zero-emission vehicles as defined by the Environmental Protection Agency through a notice and comment rulemaking; (b) all vehicles (including medium and heavy trucks) with a fuel economy of at least 150% the level specified under Corporate Average Fuel Economy (CAFÉ) standards relative to the CAFÉ standard for that model year for a vehicle of the same type and footprint; and (c) zero-emission vehicle battery systems and engines; (d) low rolling resistance tires (as defined in accordance with xxxx); and (e) hybrid powertrains for trucks. [Note: With multiple manufacturers announcing plans to eventually switch all production to electric vehicles, EV provisions should probably sunset at some point, perhaps around 2030].

4. Electric vehicle charging systems [Note: As with EVs, these will eventually become common enough that clean tax cuts can be phased out].

5. 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);

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[1] Extending CTR to the level of small loans to homeowners and small businesses is important to the goal that CTR should democratize participation in clean capitalism, pulling in broad public participation. On the other hand, adding small loans could make the proposal more challenging to implement. The working group will consider a number of policy design choices to balance these needs. Suggestions welcome.

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

[3] We could also potentially allow immediate expensing as a CTC mechanism to accelerate clean asset deployment, but because immediate expensing is in the GOP package as of this writing, we did not include it. However, if immediate expensing does not survive the political process, there may be some room for a bi-partisan agreement to allow immediate expensing on a trial basis for clean assets, as a way to test the effectiveness of the concept.

   b. Energy management and process management systems;
   c. Insulation (beyond insulation required for compliance with local building codes);
   d. Air and duct sealing certified by the installer to be in accordance with [list an appropriate standard].

6. New or upgraded production lines dedicated to exclusive production of ENERGY STAR products.
7. Best Available Technology for reducing emissions from oil and gas production and distribution, as determined by the Environmental Protection Agency.
8. A combined heat and power system as defined under the Energy Improvement and Extension Act of 2008.
9. Fuel cell systems that meet the requirements for “qualified fuel cell property” in section 1336 of the Energy Policy Act of 2005.
10. New investments in waste recycling operations and equipment, for paper, plastic, metals, equipment, biomass, and composting.
11. New investments in production facilities for emission reducing biofuels and biogas made from waste (where “emission reducing” and “waste” will be defined).
12. Manufacturing operations dedicated to producing products made from at least 50% recycled plastic products or from captured carbon (plastic products that shed plastic microfibers are excluded).
13. New investments in operations that junk and recycle used vehicles, including payments for any operable vehicles so recycled that do not meet current CAFE standards.
14. No-till tractors; aerobic digesters; organic farm operations on land already cleared for two decades and certified forest operations (certified by xxxx), including mills and lumber yards dedicated to producing and selling 100% certified wood and wood products.
15. 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 and that meet all local environmental requirements. Coral reef, mangrove, and forest restoration and replanting. Tree planting expenditures.
16. Power plants that capture at least 60% of carbon emissions and that either incorporate this carbon into products or store this carbon for at least 500? years.
17. Ecotourism resorts and operations contingent on a legal commitment to protect and maintain a surrounding ecosystem, where 10% of revenues are earmarked for ecosystem protection by an NGO and as certified by [appropriate independent body].

The above mentioned loans paying tax-exempt interest may be combined with other similarly tax exempt loans and re-sold as debt securities, whose interest will also be tax exempt for holders of those securities.

With respect to tax-exempt pension funds, income from federally tax exempt securities will flow through and be federally tax exempt to pensioners when they receive income from the pension funds, in proportion to the amount of such federally tax exempt income received by the pension fund, as a share of total pension income in any given year.[4]

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 half[5] the ordinary tax rate for that taxpayer:

1. All clean assets, above defined, are also clean products or services, as are the products services and other income directly produced by those clean assets.
2. Rental income from an Energy Star certified building as certified by EPA under the Energy Star program authorized under section 324A of the Energy Policy and Conservation Act.
3. Rental income from a commercial building or multifamily residential property that has reduced energy use by at least 30% as certified by a licensed engineer and determined using the Portfolio Manager computer program and the Designed to Earn the Energy Star guidance issued by the Environmental Protection Agency.
4. Income from an industrial process that reduces energy use at least 30% per product produced as certified by a licensed engineer and using criteria developed by the Secretary of the Department of Energy through a notice and comment rulemaking.
5. Income from oil and gas wells that reduce emissions by at least 50%, and maintain that reduction, as determined under certification criteria to be developed by the Administrator of the Environmental Protection Agency through a notice and comment rulemaking.
6. Products made from at least 50% recycled plastic or captured carbon or seaweed (excluding plastic products that shed plastic microfibers).

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[4] This provision should be beneficial to pension funds, and also to state, municipal and green bond markets.

[5] Could be less. 25% off the ordinary tax rate would score better fiscally but might still have substantial impact. We will examine two levels of tax rate reduction on the equity side to try to optimize the clean tax reform framework.

These equity-side tax cuts shall apply for five years after the equipment is placed in service or any required certification is received (whichever is later).[6] [Note: For renewable energy systems might allow longer than five years. For methane leaks, five years might be too generous. The value of the tax benefit should be scaled so that it it generally no more than the amount of the investment].

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 any needed criteria by which each of the above categories of clean assets, products, services and investments shall be further defined, and where deemed necessary, certified by an independent third party; and they shall also consider simple procedures and criteria for proposing to Congress new technologies that may arise in the future in the above categories of clean assets, products, services and investments.

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.

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[6] There is also the question of whether these tax cuts should apply to existing clean equipment, factories, etc. Analysis is needed on the costs of adding existing clean property and the working group should discuss this issue in light of these analyses.