Applying Clean Tax Cuts to Wind & Solar Industries
Discussion Points for Charrette in Aspen, Colorado
American Renewable Energy Institute 3/27/17

STRAW PROPOSALS ON APPLYING TAX CUTS TO WIND & SOLAR INDUSTRIES:

- **The No-Taxable-Profit Barrier:** Farming is similar to solar and wind, in that farmers show little taxable profit because of the value of depreciation shields income from taxes. The same is sometimes true of owner occupied real estate, and nonprofit entities in real estate, farming, the power sector, or any sustainable endeavor. **So how do we accelerate such clean and sustainable industries where the principal players show little taxable profit?**

- Look to the economic ecosystem around the core sustainable activity, from any and all profitable, taxable raw material producers, manufacturers, installers, operators, farmers, and resellers, etc., to consumers. If we can lower cost of capital and outputs along the entire sustainable supply chain, we can accelerate that entire supply chain. **Sustainable supply chain tax cuts** are, in theory, quintessential supply-side tax cuts that increase supply, drive down costs and accelerate capital to sustainable production.

- The RE charrette proposed that **income from sustainable sources receive capital gains treatment for five years**. Qualification requirements include being an Energy Star certified property, or showing a 30% improvement in the Energy Star score. Recertification would be required after five years.

- Under the "Better Way" the GOP tax proposal, income would be taxed at **50% of ordinary income tax rates**. To the degree that RE investors receive "clean" capital gains from such efficient properties, it was proposed that the **"clean dividend/capital gains rate" be 50% of the ordinary capital gains rate**, which makes sense if the "Better Way" plan gains traction.

- **STRAW PROPOSAL: (1) Sustainable supply chain tax cuts proposal for wind and solar:** Applied to supply chains for solar and wind, this would mean that installers, lessors and manufacturers of wind turbines, solar arrays and components thereof, and producers of raw materials for same (and their investors) would all receive the same "clean" income, dividend and capital gains tax rates, 50% of such ordinary rates, following "Better Way" to the extent their income comes from sales to sustainable activities along the supply chain. This would lower costs and accelerate capital to the entire chain, and so accelerate solar and wind installations greatly, even if lower rates mean little to the solar and wind developers directly.

  The same tax rates could be applied to utilities as well, and to producers of energy storage systems and transmission/grid upgrades. That rate is less generous for utilities than the ZEEC proposed 0% tax rate for income from zero emissions energy resold by such utilities, but likely it is at least as powerful, since the clean tax cuts in this proposal extend up and down the entire supply chain, and also apply to investors on the "clean" dividends and "clean capital gains" they receive.

- **STRAW PROPOSAL: (2) Triple Tax-Free Green Bonds for wind and solar:**
  On the debt side, the proposals from the Columbia University Green Bond charrette, for **triple tax free green bonds**, would apply to all companies up and down the wind and solar supply chain. These green bonds could all finance any and all supplies for wind and solar power (and any innovative clean tech improvements and add ons) at a much lower cost of capital on both debt and equity sides.

- **STRAW PROPOSAL: (3) Assignable Clean Expensing:**
  Emerging from the RE charrette discussion related to the cost of tenant improvements was **the concept of "assignable clean expensing." The cost of energy efficiency improvements, whether funded by the owner or the tenant, can be immediately expensed, and the value of that deduction would be assignable to any other market participant —** the owner, tenant, to contractors, designers, architects, equipment suppliers, payroll taxes, etc., depending on negotiations among market participants. This proposal follows the "Better Way" proposal to immediately expense all kinds of investments, with the added benefit of assignability for "clean" or efficiency investments.

  This proposal was the first clear example of the general "clean expensing" concept raised in the September 2016 charrette at Columbia University. It provides a second interesting solution to the problem of how to incent owners either without taxable profits or with nonprofit status. Not-for-profit owners could benefit from **"assignable clean expensing"** by negotiating lower costs from contractors and suppliers, in exchange for some easily assignable tax equity.

  In the solar/wind context, such development costs might all be immediately ***expense-able***, and then the tax deduction ***assignable*** to other market participants in the supply chain, or to payroll tax expense, to the extent the developers cannot themselves take the income tax deduction because of lack of tax liability, or because of nonprofit status.

- **STRAW PROPOSAL: (4) Qualified R&D Investments:**
  Travis's green bond breakout group had a good proposal to use green bond principal categories to qualify Research and Development investments, which would then qualify any income from these investment for capital gains tax treatment.

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