Clean Tax Reform = Better Bi-Partisan Tax Reform

Supply-side tax reform aims to simplify the tax code, strip out tax credit gimmicks, reduce rates, spur investment – and so create growth, jobs, opportunity…. What could be better?

Simple, supply-side ***CLEAN TAX REFORM*** could be a lot better – and more popular. The one thing better for the economy than capital investment is ***clean capital investment,*** in profitable opportunities to avert waste or pollution causing health or environmental damage. Clean investment opportunities exist in every industry, and offer major public benefits and taxpayer savings beyond the ordinary benefits of enterprise. The tax code should not favor one industry over another, and clean tax reform does not do so. However, any tax code that does not address the problem of free riders who dump waste and the cost of disastrous impacts on taxpayers and our children, will inevitably favor and accelerate polluting free riders over clean capitalists in each industry, with ever more public damage than benefit. Since waste and pollution is a universal problem – we all do it and damage each other's health and environment – the simple clean tax reform solution is to reward practices that reduce waste in every industry. Extra supply-side tax rate reduction focussed here, can not only deliver even more jobs, growth and opportunity, but can eliminate waste and pollution economy-wide, effectively turning capitalism into clean capitalism. And with more popular, bi-partisan support, because better overall impacts align everyone's interests.

Clean tax reform does not need new taxes, price support subsidies or regulations, or artificial tax equity gimmicks that favor only bankers and the ultra-rich. It just follows the pattern of ordinary tax reform. Tax rate cuts increase broad democratic participation in wealth deployment; reduce cost of capital and products; are paid for by eliminating complex tax equity schemes and price support subsidies. Clean tax reform does that, simply adding a deeper layer of supply-side tax rate cuts for clean solutions (a.k.a. Clean Tax Cuts or CTC) to the normal tax reform framework. Deeper clean tax cuts improve on tax reform with even greater GDP growth, defined by abundant, cheaper, cleaner assets, products and solutions.

Grace Richardson Fund[1] first introduced CTC in April and June 2016. Since then expert-level working groups of business leaders, university scholars and policy institutes (informally, the Clean Tax Cuts Working Group) have designed simple CTC mechanisms for seven economic sectors (auto, power, clean tech, real estate, farms & forests, green bonds, oil & gas) creating powerful complementary CTC mechanisms for the separate needs of debt vs equity markets.

The tax-exempt clean-asset-based green bond mechanism (Clean Asset Bonds or CABs) emerging from the Columbia-hosted working group led by Prof. Travis Bradford, offers a simple, uniform, technologically neutral means of powerfully accelerating a wide variety of clean infrastructure deployment. Tax exemption is conferred on private loans and corporate bonds financing assets that deliver a historically known, high-impact public benefit in terms of reducing waste, inefficiency and pollution. Every sector has such assets: zero emission power sources, factories that produce low emission vehicles or ENERGY STAR products, ENERGY STAR buildings and plants, vapor recovery units for oil & gas production, etc.

Privately issued tax-exempt green bonds would form a new class of security, blending characteristics of tax free munis ($3.7 trillion market) and higher yield taxable corporate

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[1] Part of the Smith Richardson family foundation group. Smith Richardson Foundation is best know for pioneering and seed funding virtually all the new ideas that became the Reagan Revolution.

bonds ($35 trillion market) – but potentially more attractive than either trillion dollar security class. These new bonds would offer a lower cost of capital for issuers, and a higher tax-free return for investors – a better deal for both issuers and investors than most anything else they can get.[2] Remarkably, CTC for bonds boosts supply and demand for clean solutions simultaneously, by increasing ROI and investment while also reducing cost of capital and outputs. The market potential appears significant. Jigar Shah, SunEdison founder and a leading critic of subsidies, recently wrote that "CTCs could quickly expand to double or triple [the] pace" of clean infrastructure deployment. This one mechanism, if applied globally, could deliver a multi-trillion dollar solution in new clean capital invested.

Tax exemption makes sense for debt market CTC for two reasons. First, municipal bond tax exemption is the well-known precedent for bonds with a high public benefit. Second, debt is used as leverage to drive profits to the equity side. Tax-exempt CABs allows governments to ride this leverage. They can offer a very strong incentive for clean infrastructure financing, but still recoup significant tax revenue on higher equity side profits – without giving up too much on the debt-side because rates of return, and share of overall profits, are lower there. That would argue that CTC tax rate reductions on the equity side should be more modest, to capture more of that increased profit as tax revenue, to be as fiscally sound as possible. Such a combination would likely score well fiscally, and deliver a high impact.

On the equity side, **clean-product-based CTC** mechanisms – where tax rate reduction rewards the public benefit conferred by the known waste-reducing impact of the products sold – led proposals by every sector working group. "Modest" implies cuts of perhaps 20% off prevailing tax rates (before or after tax reform) on the share of income or investor returns from "clean products." For instance, the auto and power sector CTC mechanisms call for tax cuts on the portion of income and investor returns derived from sales of products with quantifiable impacts (low-emission vehicles, zero-emissions power). Companies with cleaner products and practices gain a competitive advantage over dirty rivals. Since all employees, management and investors have stock packages, the profitability of which increases as taxes go down, even modest clean tax cuts, applied proportionally to all investor taxes, offer a powerful point of leverage to align corporate culture, at every level, with the goal of selling more waste-reducing clean products and solutions.

The above clean tax cuts layer easily into most leading tax reform proposals, delivering added growth, health and environmental benefits and greater bipartisan appeal. With simple rate cuts, we can accelerate deployment of cheaper clean assets, and sales of cheaper clean products that reduce costly waste and environmental damage.

Smart policymakers will explore these new ideas. CTC picks metrics, not winners or losers. But really, CTC makes everyone a winner, because every sector and industry has clean assets and products that can be profitably accelerated by clean tax reform, including oil, gas and coal. CTC is all carrot, no stick, demonizing and punishing no one, allowing everyone to participate profitably in the clean capitalist revolution. By simply lowering barriers to clean capital, CTC provides a laissez-faire, pro-capitalist framework which can align conservatives and progressives on energy, health, environment, tax reform and inclusive prosperity.

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[2] 82% of the US holders of US corp. bonds are taxable, and would likely invest eagerly in a high-yield tax-exempt corporate bond. Pension funds are tax exempt, but only account for 11% of the US corporate bond market. Right now, pensioners are taxed on pension distributions. Tax-exempt green bonds could be made attractive to pension funds if the tax-benefits on such income flowed through to pensioners by law. Which would help make pensions more financially viable, a matter of urgent concern for some pension funds.