

**DESCRIPTION OF THE CHAIRMAN'S MODIFICATION TO THE
"ENERGY TAX INCENTIVES ACT OF 2002"**

Scheduled for Markup
By the
SENATE COMMITTEE ON FINANCE
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Prepared by
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INTRODUCTION

This document,¹ provides a description of the Chairman's Modification to the "Energy Tax Incentives Act of 2002," scheduled for a markup on February 13, 2002, by the Senate Committee on Finance.

¹ This document may be cited as follows: Joint Committee on Taxation, *Description of the Chairman's Modification to the "Energy Tax Incentives Act of 2002"* (JCX-5-02), February 13, 2002.

I. MODIFICATIONS TO THE PROPOSALS IN THE CHAIRMAN'S MARK

A. Extension and Modification of the Section 45 Electricity Production Credit

The modification would add solar energy facilities as qualified facilities for purposes of claiming the electricity production credit under section 45. Qualifying solar energy facilities would be facilities using solar energy to generate electricity that are placed in service after the date of enactment and before January 1, 2007.

B. Modifications and Extensions of Provisions Relating to Electric Vehicles, Clean-Fuel Vehicles, and Clean-Fuel Vehicle Refueling Property

The effective date of proposal in the Chairman's Mark to modify and extend the present-law benefits for electric vehicles, to provide credits for qualified fuel cell motor vehicles, for qualified alternative fuel motor vehicles, and for qualified hybrid motor vehicles, to provide a credit for the installation of clean-fuel vehicle refueling property, and to provide a credit for the sale of alternative motor fuels would be accelerated to October 1, 2002. For heavy duty hybrid motor vehicles placed in service before 2003, the otherwise allowable credit (\$1,000 to \$10,000) is increased by between \$3,500 and \$14,000 depending upon the vehicle's weight and provided the vehicle meets certain 2007 (and beyond) emissions standards. The credit for the retail sale of qualifying alternative fuels would be 30 cents per gallon for qualifying sales in 2002.

In addition, the modification would clarify that qualifying alternative fuel motor vehicles are vehicles that operate only on qualifying alternative fuels and are incapable of operating on gasoline or diesel fuel (except to the extent gasoline or diesel fuel is part of a qualified mixed fuel).

C. Determination of Small Refiner Exception to Oil Depletion Allowance

The proposal in the Chairman's Mark to modify the operating limits on small refiners eligible for treatment as independent producers would be changed to specify a maximum operation level of 60,000 barrels of oil (rather than 50,000 barrels of oil).

D. Refined Coal

The proposal in the Chairman's Mark regarding refined coal would be modified to clarify that qualifying liquid, gaseous, or solid synthetic fuels produced from coal include fuels derived from high carbon fly ash.

E. Ongoing Study and Reports With Regard to Tax Issues Resulting from Future Electric Industry Restructuring Decisions

The proposal in the Chairman's Mark would be modified to clarify that, as part of the study, Treasury should exercise its authority, as appropriate, to modify or suspend regulations that may impede an electric utility company's ability to reorganize its capital stock structure to respond to a competitive marketplace.

II. ADDITIONAL PROVISIONS

A. Tax Credit for Certain Residential Energy Efficient Property

Present Law

A taxpayer may exclude from income the value of any subsidy provided by a public utility for the purchase or installation of an energy conservation measure. An energy conservation measure means any installation or modification primarily designed to reduce consumption of electricity or natural gas or to improve the management of energy demand with respect to a dwelling unit (sec. 136).

There is no present-law personal tax credit for energy efficient residential property.

Description of Proposal

The proposal would provide a personal tax credit for the purchase of certain qualified energy efficient property:

Electric heat pump hot water heaters (equipment using electrically powered vapor compression cycles to extract heat from air and deliver it to a hot water storage tank) with an Energy Factor of at least 1.7 in the standard DOE test procedure. The maximum credit would be \$75 per unit.

Electric heat pumps (equipment using electrically powered vapor compression cycles to extract heat from air in one space and deliver it to air in another space) with a heating efficiency of at least 9 HSPF (Heating Seasonal Performance Factor) and a cooling efficiency of at least 15 SEER (Seasonal Energy Efficiency Rating) and an energy efficiency ratio (EER) of 12.5 or greater. The maximum credit would be \$250 per unit.

Geothermal heat pumps. With a SEER (Seasonal Energy Efficiency Rating) of at least 21. The maximum credit would be \$250 per unit.

Natural gas heat pumps (equipment using either a gas-absorption cycle or a gas-driven engine to power the vapor compression cycle to extract heat from one source and deliver it to another) with a coefficient of performance for heating of at least 1.25 and for cooling of at least 0.70. The maximum credit would be \$500 per unit.

Central air conditioners with an efficiency of at least 15 SEER and an EER of 12.5 or greater. The maximum credit would be \$250 per unit.

Natural gas water heaters (equipment using a variety of mechanisms to increase steady-state efficiency and reduce standby and vent losses) with an Energy Factor of at least 0.8 in the standard Department of Energy (DOE) test procedure. The maximum credit would be \$75 per unit.

The credits would be nonrefundable, and the depreciable basis of the property would be reduced by the amount of the credit. The credit would be allowed against the regular and minimum tax.

Effective Date

The credit would apply to purchases after December 31, 2002 and before January 1, 2008.

B. Credit for Energy Efficiency Improvements to Existing Homes

Present Law

A taxpayer may exclude from income the value of any subsidy provided by a public utility for the purchase or installation of an energy conservation measure. An energy conservation measure means any installation or modification primarily designed to reduce consumption of electricity or natural gas or to improve the management of energy demand with respect to a dwelling unit (sec. 136).

There is no present law credit for energy efficiency improvements to existing homes.

Description of Proposal

The proposal would provide a 10-percent nonrefundable credit for the purchase of qualified energy efficiency improvements. The maximum credit for a taxpayer with respect to the same dwelling for all taxable years is \$300. A qualified energy efficiency improvement would be any energy efficiency building envelope component that is certified to meet or exceed the prescriptive criteria for such a component established by the 2000 International Energy Conservation Code, or any combination of energy efficiency measures that is certified to achieve at least a 30 percent reduction in heating and cooling energy usage for the dwelling and (1) that is installed in or on a dwelling located in the United States; (2) owned and used by the taxpayer as the taxpayer's principal residence; (3) the original use of which commences with the taxpayer; and (4) such component can reasonably be expected to remain in use for at least five years.

Building envelope components would be: (1) insulation materials or systems which are specifically and primarily designed to reduce the heat loss or gain for a dwelling; and (2) exterior windows (including skylights) and doors.

The taxpayer's basis in the property would be reduced by the amount of the credit. Special rules would apply in the case of condominiums and tenant-stockholders in cooperative housing corporations.

The credit would be allowed against the regular and minimum tax.

Effective Date

The credit would be effective for qualified energy efficiency improvements installed on or after the date of enactment and before January 1, 2006.