The Tax Cuts and Jobs Act (TCJA) has the possibility of fostering an improved environment for investment this year. The key provisions potentially impacting the pace of capital spending include:

- Reduction in corporate tax rate from 35% to 21%, effective January 1, 2018.
- 20% deduction for pass-through business income.
- 100% up front depreciation of capital equipment purchases, excluding structures for five years, expiring on December 31, 2022.
- Section 179 expensing of capital equipment for small and mid-sized firms.

Additional TCJA provisions are included in the top box.

Importantly, the TCJA retains the production tax credits for wind (Section 45) at 2.4 cents/KwH and the investment tax credits (Section 48) for solar investment at commercial properties and large solar farms. The latter is a 30% tax credit which phases down to a permanent 10% for commercial developers beyond 2021. The new tax code also retains the $7,000 credit for electrified vehicle sales.

Business Views On Capital Spending and Tax Policy

Several recent business surveys provide a backdrop for understanding to what extent tax policy changes will incentivize greater investment in energy-related equipment and structures. For the most part, these surveys hint at some favorable effects on investment from the TCJA. For example, if they reduce the capital costs, then the new tax policy landscape may provide some boost. But the backdrop may overwhelm this positive impetus. Right now, the global economy is growing at a strong pace and there is expanding demand for goods and services. Investment decisions may turn on expectations that a greater capacity to produce will have a solid payoff. With added tax credits, program assistance provided by the U.S. Department of Agriculture, falling unit costs for wind and solar, along with a reduction in the business tax rates, more renewable energy investment projects will likely get a positive nod.

Source: The Joint Committee on Taxation, U.S. Congress.

“Since 2014, nearly 100 large global companies have committed to transitioning to 100% renewables through a partnership with The Climate Group, a nonprofit that’s working to reduce greenhouse gas emissions. Roughly two corporations a month are joining that effort, according to Amy Davidsen, the organization’s executive director for North America.”

Reuters Report, June 21, 2017