Weekly Briefing

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House Tax Reform Bill: Energy-Related Provisions

- *The bill released by the U.S. House Ways and Means Committee includes several proposed changes to tax credits, deductions, and expensing of energy-related production and/or consumption.*
- *The Senate leaders have indicated they will release their version of tax reform this week.*
- *This is the first inning, however, as amendments will be offered. Reconciliation and a final bill for signature would cap a lengthy legislative process prior to any final vote in Congress and Presidential signature.*

Analyzing tax reform legislation is like catching a falling star: Many modifications can and will be made before this even gets close to 1600 Pennsylvania Avenue, NW. The U.S. tax code includes complex provisions which lay out the rules of the road for the current tax year and up to 10 years into the future. The U.S. House Ways and Means Committee issued their version of the Tax Cuts and Jobs Act (House Plan) which includes much more than its hallmark proposal to reduce the corporate income tax rate from 35% to 20%. This weekly will summarize the major provisions affecting the energy sector in the House Plan. A readable summary of this bill was issued by the Congressional Joint Committee on Taxation (JCT) and can be found here.

Tax Revenue Impact* of Major Provisions in House Plan

$ Bils	**2018 - 2027**
Corporate tax cut to 20%	$ (1,000)
100% depreciation expensing for capital equipment purchases	(25)
Repeal of $7,500 credit for electric vehicles	0.2
Reduction in tax credit for electricity produced from renewables	12.3
Enhanced energy investment tax credit	(1.2)
Extension of tax credit for residential energy efficient property	(1.1)
Repeal of tax credit for oil and gas production from marginal wells	0.2
Enhanced tax credit for production from advanced nuclear power facilities	(0.4)
Repeal of tax credit bonds, including those used to finance conservation	0.5**

* Parentheses represent reduction in tax revenue
** This amount also includes other types of non-conservation tax credit bonds
Source: Joint Committee on Taxation, U.S. Congress, https://www.jct.gov/publications.html?func=startdown&id=5027

The top right box includes a summary of the major provisions likely to affect energy sector businesses. The revenue impact is shown for each item which represents the 10-year projection developed by the JCT. Some of these provisions begin at the end of this year, while others phase in over the 10-year period.

- The corporate tax cut to 20% is projected to result in a loss of $1 trillion in tax revenue. The corporate tax rate reduction will apply to all corporations, including renewable and fossil fuel firms. To the extent this tax cut is utilized for greater investment and production, it should be supportive of increased capacity for energy related production.
- The House Plan provides for an upfront tax deduction for the full depreciation expense of a capital equipment purchase and costs $25 billion in revenue through 2027. Reducing the cost of equipment purchases could help companies purchase wind and solar equipment.
- Note that the House Plan includes repeal of the $7,500 tax credit for the purchase of electrified vehicles, resulting in tax revenue of $200 million. On the demand side, this provision is the most important one from the standpoint of providing an incentive to purchase a lower CO_2 emitting vehicle.

Several energy related tax credits are modified in the House Plan. In general, most of the renewable energy tax credits remain in place, albeit at a lower rate given the elimination of an inflation adjustment. These are the production and investment tax credits (PTC and ITC) which incentivize either the production of or the investment in renewable energy sources.

Key Takeaways

- The House Plan cuts corporate and income tax rates, allows for immediate expensing of business capital equipment purchases and rolls back the ability to deduct interest expenses for both businesses and consumers.
- It does, however, retain both the production and investment tax credits, albeit somewhat reduced, for certain types of energy assets.
- This is the initial phase of the process with several checkpoints coming up in the next several weeks.