Tax Reform and Renewable Energy Investment

- Congressional leaders are reportedly close to concluding their Conference on tax legislation in order to produce a bill for final vote in the House and Senate.
- Both the Senate and House versions of the legislation include 100% upfront expensing for investment.
- In a perfect world, this should help to stimulate investment in renewable energy.

The Congress included several provisions in the tax legislation which likely will affect the energy landscape. Two of these provisions pertain to how businesses can deduct from their taxable income the amount the money they spend on investment in plant and equipment, including software (see top table).

- Section 179 refers to the IRS code which allows small businesses to deduct the entire cost of a newly purchased business asset.
- It must be a tangible asset, used more than 50% in the business, and put to use in the current tax year.
- Section 179 expensing is quite detailed and the IRS code here can provide the best guide to what qualifies.
- The House and Senate bills propose to expand this provision to business purchases up to $5 million and $1 million, respectively, from the current $500,000 cap (actually, the statutory cap was raised to $510,000 in the 2017 tax year).
- The House bill also expands the assets that can be expensed to “qualified energy efficient heating and air-conditioning property” not covered under current law.
- In addition to this provision, the tax bills also include a 100% expensing for larger businesses’ purchases of new plant and equipment which lasts under 20 years.
- This could be a significant benefit to businesses purchasing, for example, wind and solar equipment.

According to the International Renewable Energy Agency, U.S. investment in renewable energy stood at $46.4 billion in 2016 (see 1st chart).

- If large businesses are able to deduct the cost of these purchases from their taxable business income, it will result in a substantial reduction in the cost of this capital.
- This is a direct way to incentivize all investment, but particularly investments that work toward reducing GHG emissions and the social costs associated with pollution. Investment is the engine of economic growth. The independent, nonprofit Tax Foundation found in this report that expensing (i.e., cost recovery) of capital equipment has a far greater benefit to GDP growth than does a reduction in the corporate tax rate (see 2nd chart).