REMARKS AS PREPARED FOR DELIVERY EMBARGOED UNTIL DELIVERY

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Good afternoon Chairman Bingaman, Ranking Member Bunning, and members of the Subcommittee. Thank you for inviting me to testify before your Subcommittee today. I appreciate the opportunity to discuss the role of tax incentives in helping improve clean technology manufacturing competitiveness for the United States.

Overview of the Administration's Environmental and Energy Policy

First, I will briefly discuss the Administration's environmental and energy policy to provide some context for President Obama's budget proposal relating to supporting clean technology manufacturing through the tax code.

The Obama Administration believes that our nation must build a clean energy economy, curb our dependence on fossil fuels, limit the emissions of greenhouse gases (GHGs), and make America more energy independent. It is not sufficient to address our nation's energy needs solely by finding more fossil fuels. Instead we must take dramatic steps towards becoming a clean energy economy. These include encouraging investment in clean energy infrastructure and energy efficient technologies.

The American Recovery and Reinvestment Act of 2009 (Recovery Act) took an important step in that direction by providing more than \$90 billion for various investments in clean energy technologies, including \$2.3 billion in tax credits for investments in advanced energy manufacturing facilities (section 48C of the tax code). In addition, the Administration recently finalized a joint rule establishing new fuel economy and greenhouse standards that will require new vehicles to meet an estimated average emissions level of 250 grams of carbon dioxide (CO2) per mile in model year 2016, equivalent to 35.5 miles per gallon if the automotive industry were to meet this CO2 level entirely through fuel economy improvements. These new standards are expected to save 1.8 billion barrels of oil over the life of cars and trucks sold in the 2012-2016 model years and reduce carbon dioxide emissions by about 960 million metric tons over the lifetime of those vehicles.

The Administration's proposed FY 2011 Budget further promotes these objectives by investing in a variety of renewable sources of electricity generation, by investing to accelerate deployment of energy conservation measures, by providing support for the construction of new nuclear power plants, by advancing the development of carbon capture and storage technologies, and by

providing Federal assistance for state-level programs related to clean energy and energy conservation. The President has recently established an Interagency Task Force on Carbon Capture and Storage (CCS). The Task Force will develop a plan to overcome the barriers to the widespread, cost-effective deployment of CCS within 10 years, with a goal of bringing 5 to 10 commercial demonstration projects online by 2016. The Task Force also will explore incentives for commercial CCS adoption and address financial, economic, technological, legal, institutional, social, and other barriers to deployment. The President has also called on Congress to invest in a new HomeStar program of rebates for consumers who make energy efficiency retrofits. Such a program will harness the power of the private sector to help consumers make effective cost-saving and energy-saving investments in their homes.

In addition to direct investments in clean energy, the Administration's Budget proposes a comprehensive market-based policy that will reduce GHG emissions in the range of 17 percent below 2005 levels by 2020 and more than 80 percent by 2050. The policy will address the looming challenge of climate change, help reduce our dependence on oil, promote advanced industries and technology in the U.S., all while providing businesses the right incentives and the necessary flexibility to find the least costly and most efficient ways of achieving GHG emission reductions.

Recovery Act Clean Energy Programs Administered by Treasury

The Department of the Treasury, in consultation with the Department of Energy, administers two major Recovery Act programs promoting clean energy technologies and leveraging billions of dollars of investment into domestic clean energy manufacturing: The program providing payments for specified energy property in lieu of tax credits established under section 1603 of the Recovery Act's Division B (the Section 1603 program) and the advanced energy manufacturing tax credit (the 48C program). The 48C program, which is the subject of today's hearing, has provided \$2.3 billion in tax credits to support American businesses in the clean energy manufacturing marketplace, funding 183 projects in 43 states. The Section 1603 and 48C programs together are responsible for supporting tens of thousands of American jobs.

Other Countries' Programs

Other countries have a variety of programs to encourage the clean energy sector. Some countries have adopted systems that require utilities to purchase specified amounts of clean or renewable energy at a set price. The creation of a stable market for clean energy increases demand for it and encourages investment in the manufacturing capacity to meet that demand.

Other programs include direct public investments in clean energy technology, often at levels exceeding similar U.S. programs. China, for example, is expected to direct nearly \$400 billion in public investments in clean energy technology over the period 2009-13, compared to less than half that amount of public investments in clean energy by the United States over the same period. In other cases, direct public investment, while not greater than U.S. investment in absolute terms, nevertheless exceeds U.S. public investment as a percentage of gross domestic product.

Some jurisdictions offer significant tax incentives to clean energy manufacturers. In one example, Malaysia offers solar photovoltaic manufacturers a 15-year income tax holiday.

The Obama Administration will monitor other countries' programs to promote clean energy manufacturing and will work to establish a level playing field for U.S. clean energy product manufacturers, including through vigorous enforcement of our rights under international trading rules and our ongoing efforts in the World Trade Organization to eliminate tariffs and non-tariff barriers to trade in goods and services linked to addressing climate change.

Budget Tax Proposals Relating to Clean Energy

With this as background, let me turn to the tax proposals in the FY 2011 Budget relating to clean energy. Additional information on the proposals can be found in the appendix.

1. Provide additional tax credits for advanced energy manufacturing facilities.

As noted above, the Recovery Act provided \$2.3 billion in tax credits for investments in advanced energy manufacturing facilities. This section 48C credit was designed to help America take the lead in the manufacture of wind turbines, solar panels, electric vehicles, and other clean energy and energy conservation products. Eligible manufacturers receive a 30-percent tax credit for their investments in facilities to manufacture these products.

The 48C credit represents a new approach for the United States. Previous tax incentives were aimed at increasing clean energy production. While these incentives increased demand for clean energy equipment, much of this equipment was manufactured overseas. The 48C credit provides a powerful incentive to invest in advanced energy facilities that will produce clean energy equipment here in this country.

The \$2.3 billion cap on the credit resulted in the funding of less than one-third of the technically acceptable applications that have been received. The President's FY 2011 Budget proposes an additional \$5 billion in credits that would support at least \$15 billion in total capital investment, creating tens of thousands of new construction and manufacturing jobs. Because there is already an existing pipeline of high-priority projects and substantial interest from a variety of sources, the additional tax credits could be deployed quickly to create jobs and support economic activity.

2. Extend expiring provisions.

The FY 2011 Budget proposes to extend through 2011 a number of tax provisions that have either expired or are scheduled to expire before the end of 2011. The following clean and renewable energy and energy efficiency incentives are included in the budget proposal:

• Incentives for biodiesel and renewable diesel. A \$1.00-per-gallon incentive for biodiesel and renewable diesel is provided as an income tax credit, an excise tax credit, or a

- refundable payment. In addition, an extra \$0.10-per-gallon income tax credit is available for small producers. The incentives expired at the end of 2009.
- *Incentives for alternative fuels*. A \$0.50-per-gallon (or gasoline gallon equivalent) excise tax credit or refundable payment is provided for alternative fuels such as liquefied hydrogen, natural gas fuels, liquefied petroleum gas, liquid fuels derived from coal, and liquid fuels derived from biomass. The incentives expired at the end of 2009 for fuels other than liquefied hydrogen. The proposed extension would not apply to black liquor.
- *Incentives for alcohol fuels*. A \$0.45-per-gallon income tax credit, excise tax credit, or refundable payment is available for alcohol fuels. The incentive is increased to \$0.60 per gallon for alcohol other than ethanol and an extra \$0.10-per-gallon credit is available for small producers. The incentives are scheduled to expire at the end of 2010.
- Tax credits for alternative fuel refueling property. A 50-percent income tax credit is provided for alternative fuel (including electricity) refueling property, subject to a \$50,000 cap for depreciable property and a \$2,000 cap for nonbusiness property. The credit rate falls to 30 percent and the caps are reduced to \$30,000 and \$1,000 after 2010. The proposal would delay these reductions for one year.
- Tax credits for hybrid automobiles and other alternative motor vehicles. Income tax credits are provided for hybrid vehicles, advanced lean burn technology automobiles, alternative fuel motor vehicles, and fuel cell vehicles. Credits of up to \$4,000 are available for passenger automobiles (\$12,000 for fuel cell vehicles) and of up to \$40,000 for heavy motor vehicles. At the end of 2009, the credit for heavy hybrid vehicles expired and the maximum credit for fuel cell vehicles fell to \$8,000. The credits expire for other hybrid vehicles, advanced lean burn technology vehicles, and alternative fuel vehicles at the end of 2010.
- Tax credits for energy efficient new homes. A \$2,000 dollar income tax credit is allowed for the construction of an energy efficient home (\$1,000 in the case of a manufactured home). The credit expired at the end of 2009.
- Tax credits for energy efficiency improvements to existing homes. A 30-percent income tax credit is allowed for various energy-efficient home improvements (improvements to the building envelope and the installation of energy-efficient heating and cooling equipment). The aggregate credit is limited to \$1,500. The credit expires at the end of 2010.

Conclusion

Mr. Chairman, this concludes my prepared testimony. I will be pleased to answer any questions you or other members of the Committee may have.

APPENDIX: GENERAL EXPLANATIONS OF THE ADMINISTRATION'S FISCAL YEAR 2011 REVENUE PROPOSALS RELATED TO CLEAN ENERGY

PROVIDE ADDITIONAL TAX CREDITS FOR INVESTMENT IN QUALIFIED PROPERTY USED IN A QUALIFYING ADVANCED ENERGY MANUFACTURING PROJECT

Current Law

A 30-percent tax credit is provided for investments in eligible property used in a qualifying advanced energy project. A qualifying advanced energy project is a project that re-equips, expands, or establishes a manufacturing facility for the production of: (1) property designed to produce energy from renewable resources; (2) fuel cells, microturbines, or an energy storage system for use with electric or hybrid-electric vehicles; (3) electric grids to support the transmission, including storage, of intermittent sources of renewable energy; (4) property designed to capture and sequester carbon dioxide emissions; (5) property designed to refine or blend renewable fuels or to produce energy conservation technologies; (6) electric drive motor vehicles that qualify for tax credits or components designed for use with such vehicles; and (7) other advanced energy property designed to reduce greenhouse gas emissions.

Eligible property is property: (1) that is necessary for the production of the property listed above; (2) that is tangible personal property or other tangible property (not including a building and its structural components) that is used as an integral part of a qualifying facility; and (3) with respect to which depreciation (or amortization in lieu of depreciation) is allowable.

Total credits are limited to \$2.3 billion, and the Treasury Department, in consultation with the Department of Energy, was required to establish a program to consider and award certifications for qualified investments eligible for credits within 180 days of the date of enactment of the American Recovery and Reinvestment Act of 2009. Credits may be allocated only to projects where there is a reasonable expectation of commercial viability. In addition, consideration must be given to which projects: (1) will provide the greatest domestic job creation; (2) will have the greatest net impact in avoiding or reducing air pollutants or greenhouse gas emissions; (3) have the greatest potential for technological innovation and commercial deployment; (4) have the lowest levelized cost of generated or stored energy, or of measured reduction in energy consumption or greenhouse gas emission; and (5) have the shortest completion time. Guidance under current law requires taxpayers to apply for the credit with respect to their entire qualified investment in a project.

Applications for certification under the program may be made only during the two-year period beginning on the date the program is established. An applicant that is allocated credits must provide evidence that the requirements of the certification have been met within one year of the date of acceptance of the application and must place the property in service within three years from the date of the issuance of the certification.

Reasons for Change

The \$2.3 billion cap on the credit has resulted in the funding of less than one-third of the technically acceptable applications that have been received. Instead of turning down worthy applicants who are willing to invest private resources to build and equip factories that manufacture clean energy products in America, the program should be expanded. An additional \$5 billion in credits would support at least \$15 billion in total capital investment, creating tens of thousands of new construction and manufacturing jobs. Because there is already an existing pipeline of worthy projects and substantial interest in this area, the additional credit can be deployed quickly to create jobs and support economic activity.

Proposal

The proposal would authorize an additional \$5 billion of credits for investments in eligible property used in a qualifying advanced energy project. The guidance that requires taxpayers to apply for the credit with respect to their entire qualified investment will be modified so that taxpayers can apply for a credit with respect to only part of their qualified investment. If a taxpayer applies for a credit with respect to only part of the qualified investment in the project, the taxpayer's increased cost sharing and the project's reduced revenue cost to the government will be taken into account in determining whether to allocate credits to the project.

Applications for the additional credits would be made during the two-year period beginning on the date on which the additional authorization is enacted. As under current law, applicants that are allocated the additional credits must provide evidence that the requirements of the certification have been met within one year of the date of acceptance of the application and must place the property in service within three years from the date of the issuance of the certification.

The change would be effective on the date of enactment.

CONTINUE CERTAIN EXPIRING PROVISIONS THROUGH CALENDAR YEAR 2011

A number of temporary tax provisions are scheduled to expire before December 31, 2011. The Administration proposes to extend a number of these provisions through December 31, 2011. These provisions include the optional deduction for State and local general sales taxes, the Subpart F "active financing" and "look-through" exceptions, the exclusion from unrelated business income of certain payments to controlling exempt organizations, the modified recovery period for qualified leasehold improvements and qualified restaurant property, incentives for empowerment and community renewal zones, and several trade agreements, including the Generalized System of Preferences and the Caribbean Basin Initiative. In accordance with the President's agreement at the G-20 Summit in Pittsburgh to phase out subsidies for fossil fuels, temporary incentives provided for the production of fossil fuels would be allowed to expire as scheduled under current law.