Obama FY2014 budget proposal would make PTC permanent, refundable, and applicable to solar

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In brief

President Obama's FY2014 budget proposal includes a permanent extension of the production tax credit and would make the credit refundable. It also would allow electricity generated from solar assets to qualify for the PTC. The proposal also includes tax credits for advanced technology vehicles and medium- and heavy-duty alternative fuel commercial vehicles and would modify and increase the accelerated deduction for energy efficient commercial building property.

In detail

President Obama's FY2014 budget contains several provisions of significance for producers and consumers of renewable energy and clean technology. While touching on themes in prior budgets, the FY2014 blueprint also contains several new approaches to fulfilling the President's goals for renewable energy and the green economy.

Production tax credit

The most significant proposal would make permanent the section 45 production tax credit. In addition, it would allow the PTC to be refundable. Both of these changes are intended to encourage continued renewable energy development and reduce transaction costs by allowing developers to receive current-year cash refunds rather than having to bring in tax equity investors to monetize the value of the PTC.

Additionally, the proposal would extend the PTC to electricity generated from solar properties.

The proposal states that the revised PTC would be available to properties on which construction began after December 31, 2013.

Advanced technology vehicles

The budget proposal contains a new tax credit for advanced technology vehicles that would replace the current tax credit for plug-in electric vehicles.

A vehicle would qualify for the credit if:

1. It operates primarily on an alternative to petroleum;
2. There were few vehicles in service in the US as of January 1, 2012 that use the same technology; and
3. The technology used by the vehicle exceeds by at least 25% the footprint based target MPGe (Miles Per Gallon Gasoline Equivalent)

The credit would be limited to vehicles of 14,000 pounds or less and would be capped at $10,000 or $7,500 for vehicles with MSRPs above $45,000.

The credit would be available for vehicles placed in service after December 31, 2013 and would be reduced to 75% in 2018, 50% in 2019, 25% in 2020, and would expire on December 31, 2020.

Lastly, the credit could be claimed by the entity selling or financing the vehicle if the amount of the credit is disclosed to the purchaser.

Alternative fuel commercial vehicles

The budget blueprint also contains a proposed tax credit for alternative fuel medium- and heavy-duty commercial vehicles above 14,000 pounds. The credit would be 50% of the incremental cost compared to a comparable diesel or gasoline vehicle. The credit would be limited to $25,000 for vehicles weighing up to 26,000 pounds and $40,000 for vehicles above 26,000 pounds.

The credit would be available for vehicles placed in service after December 31, 2013 and would be reduced by 50% for vehicles placed in service in calendar year 2019. The credit would be reduced by the amount allowed under the existing credit for fuel-cell vehicles.

In addition, the credit would go to the entity placing the vehicle in service, but if the vehicle is placed in service by a tax-exempt or government entity, the credit could be claimed by the seller or the entity financing the vehicle if the amount of the credit is disclosed to the purchaser.

Energy efficient commercial building deduction

The budget proposal would also alter the section 179D deduction in several significant ways.

First, it would increase the amount of the deduction to $3.00 per square foot from the current level of $1.80 per square foot, for a new amount of $1.00 per building system (lighting, HVAC/hot water, and building envelope). The maximum partial deduction would be increased to $2.20 per square foot. Finally, the energy savings thresholds would be increased every three years.

Second, the proposal contains a new tax deduction for a combination of projected and actual energy savings for a building retrofit. The deduction would be based on square footage but would be calculated on a sliding scale beginning at $1.00 per square foot for a 20% energy savings, up to $4.00 per square foot for energy savings of 50% or greater.

Of note, only 60% of the available deduction would be claimed when the property is placed in service, with the remaining 40% being claimed "at a later point...based on actual energy savings ..."

The deduction would be capped at 50% of the cost of implementing the energy savings plan, and only buildings with at least 10 years of occupancy would qualify.

Finally, the proposal calls for the promulgation of rules to allow the deduction to benefit a REIT or its shareholders.

PwC observations

The PTC proposal would substantially change existing incentives for deployment of wind, solar, biomass, and other renewable energy technologies. While refundable tax credits would simplify transactional structuring, the proposal apparently does not include an extension of the current ability to elect into the section 48 investment tax credit for PTC property.

The PTC proposal apparently would not apply to ITC properties other than solar. It is unclear if the Administration intends to propose extending the ITC beyond its current expiration in 2016 or whether the revised PTC would be the only tax credit for solar properties after that date.

The proposals on vehicles are intended to provide consumers the economic benefit of tax credits as a rebate at purchase rather than through their own tax returns. More details will be needed to evaluate which vehicle technologies will qualify for the credits, although the revenue scores associated with these proposals suggest that the Administration expects many vehicle sales to qualify.

In addition, while prior Obama budget proposals called for converting the 179D deduction to a tax credit of $1.80 per square foot, this year the Administration has opted for a simpler proposal to increase the deduction. While extending section 179D to REITs would be welcome, it is unclear how that objective would be accomplished.

Finally, although both the President and Administration officials have spoken about the need for new financing structures in renewable energy markets, the budget does not contain proposals to allow renewable assets to be held in either real estate investment trusts or master limited partnerships.

Additional resources

For prior alerts on alternative and renewable energy tax issues, please see our news archive.

In addition to the Alternative & Renewable Energy Tax Newsalert, PwC also publishes a cross-disciplinary Newsalert providing updates on cleantech, sustainable development, and the business impacts of US climate and energy policy. Access further information and sign up for these alerts.

Let's talk

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