

CALIFORNIA SENATE OFFICE OF RESEARCH

MARCH 31, 2016

Federal Update

FEDERAL ENERGY TAX CREDITS EXTENDED

On December 18, 2015, President Obama signed the Consolidated Appropriation Act of 2016, thereby extending a number of tax credits and incentives for renewable energy. Passage of the act was critical to efforts to develop renewable energy across the country as many of the policies had expired or were scheduled to expire at the end of 2015.

Below is a description of how each energy tax credit is extended under the act.

INVESTMENT CREDIT FOR SOLAR FACILITIES

The investment tax credit, often cited as one of the primary incentives for solar investment, received a multiyear extension under the act. The credit makes solar more affordable by providing a tax credit to investors for development costs. Under the act, the investment tax credit for solar projects, which was to fall to 10 percent at the end of 2016, will now stay at 30 percent until 2020, then gradually decline to 10 percent by 2022. Commercial investors can now claim the credit at the time construction begins, rather than the date a facility is placed into operation. For residential owners, the act allows them to claim the credit in the year the solar investment is placed into service.

INVESTMENT CREDIT FOR WIND FACILITIES

Wind producers received an extension of the investment tax credit for wind investments. The act allows wind producers to claim a full credit through 2017 and then see the credit decrease through 2019.

PRODUCTION CREDIT FOR WIND FACILITIES

A large incentive for wind production, the production tax credit, was renewed after it had expired at the end of 2014. The credit is an incentive for affordable renewable energy by allowing companies that generate electricity from renewable sources a tax credit based on power delivered to the grid. The credit is 2.3 cents per kilowatt-hour (kWh) generated. The act extends the credit for wind power facilities under construction before 2017 and then phases down the credit in succeeding years until it expires in 2020.

PRODUCTION TAX CREDIT FOR RENEWABLE FACILITIES

Renewable energy projects in closed-loop biomass, open-loop biomass, geothermal, landfill gas, municipal solid waste (trash), hydropower and marine and hydrokinetic renewable energy received an extension of the production tax credit through the end of 2016.

TAX CREDIT FOR NONBUSINESS ENERGY PROPERTY

Residential homeowners received a one-year extension on tax credits for investment in energy-efficient home improvements. The credit is an incentive for energy-efficient improvements such as new windows and advanced heating and air conditioning. The act allows a credit of 10 percent of the amount paid or incurred by the homeowner for qualified energy improvements, up to \$500.

TAX CREDIT FOR ENERGY-EFFICIENT NEW HOMES

Green-home builders received an extension of tax incentives for new home construction. The act extends through 2016 the tax credit for builders of energy-efficient residential homes. An eligible contractor may claim a tax credit of \$1,000 or \$2,000 for the construction or manufacture of a new home that meets qualifying energy-efficient criteria.

DEDUCTION FOR ENERGY-EFFICIENT COMMERCIAL BUILDINGS

Commercial property owners were given a one-year extension on above-the-line deductions for energy-efficiency improvements to lighting, heating, cooling, ventilation, and hot water systems of commercial buildings.

TAX CREDIT FOR ALTERNATIVE FUEL VEHICLE REFUELING PROPERTY

A tax credit for the installation of alternative fuel vehicle refueling was extended through 2016. (Under current law, hydrogen-related property is eligible for the credit through 2016.) The credit is intended to be an incentive for investment in clean-burning-fuel refueling, the most common being electric recharging but also including ethanol, natural gas, hydrogen, and biodiesel. Taxpayers are allowed a credit of up to 30 percent of the cost of the installation of the qualified alternative fuel vehicle refueling property.

TAX CREDIT FOR TWO-WHEELED PLUG-IN ELECTRIC VEHICLES

Incentives for plug-in electric motorcycles and three-wheel vehicles were extended through 2016. The act extends a 10 percent credit for plug-in electric motorcycles and three-wheeled vehicles (capped at \$2,500).

SECOND-GENERATION BIOFUEL PRODUCER CREDIT

A tax credit for producers of biofuel made from agricultural and organic waste, known as second-generation biofuel, was extended through 2016.

BIODIESEL AND RENEWABLE DIESEL INCENTIVES

The act also extended a number of biodiesel and renewable diesel tax credits through 2016. A \$1 per gallon tax credit was extended for biodiesel and biodiesel-mixture producers and diesel fuels created from biomass. Small agri-biodiesel production will continue to receive a tax credit of 10 cents per gallon, and biodiesel mixtures will continue to receive an excise tax credit.

DEPRECIATION CREDIT FOR SECOND-GENERATION BIOFUEL FACILITIES

This credit gives second-generation biofuel producers a 50 percent bonus depreciation credit toward production facilities through 2016.

EXCISE TAX CREDITS RELATING TO ALTERNATIVE FUELS

This credit provides relief for retailers of alternative fuels, such as liquefied natural gas or hydrogen, by extending through 2016 a credit of 50 cents per gallon against excise taxes imposed on those fuels.

TAX CREDIT FOR NEW QUALIFIED FUEL CELL MOTOR VEHICLES

Qualified new fuel cell motor vehicles will continue to receive a tax credit upon purchase through 2016. The act extends to buyers a credit between \$4,000 and \$40,000, depending on the car's weight, for the purchase of these vehicles.

Written by Jim Damrell. The California Senate Office of Research is a nonpartisan office charged with serving the research needs of the California State Senate and assisting Senate members and committees with the development of effective public policy. The office was established by the Senate Rules Committee in 1969. For more information, please visit <http://sor.senate.ca.gov> or call (916) 651-1500.
