

Emission Reduction Bonds (ERBs)

(or if the test is only Carbon Based, could be Carbon Emission Reduction Bonds, CERBs)

Similar to favorable tax treatment given to municipal bonds for large scale assets deemed to be in the public interest, ERBs (CERBs) would eliminate federal taxes on bonds or loans invested in projects that meet the test of being a carbon-free energy generator.

Qualifying as Clean: The main focus of this policy proposal is to reward carbon free electricity generator from investment in renewable technologies like wind and solar. Approved and verified technologies installed and put into service would qualify for the tax cut treatment. (Open to alteration.)

Taxes targeted: For debt investments in assets qualifying as clean – including both dedicated bond investment pools or by individuals for qualified loan products - the tax treatment of these bonds/ loans would be based on the tax treatment currently offered to investors in municipal bonds – i.e., the interest income should be exempted from federal income taxes. Since the activities financed by the bonds are not necessarily confined to a single state, the bonds should be subject to state and local income taxes depending upon the investor’s state of residence. Furthermore, like municipal bonds, all capital gains on the bonds would be taxable. (An option exists to expand this proposal to cover equity distributions, or even capital gains, but that would introduce substantial additional complexity.)

Tax cut mechanism: approved investments would receive 100% exemption from taxes on interest income of qualified bonds. (Again, options exist to create a graduated scale, based on degree of cleanliness, but that will require a more complex qualifying mechanism.)

Payment options: The current ITC/ PTC could be eliminated or reduced to help fund this tax cut. At a minimum, projects should not be allowed to take advantage of both, which should assist in the scoring as projects migrate from one regime to another.