



The Challenge: Lawmakers often use incentives in the tax code to promote specific energy sources. These include, but are not limited to, electricity generation and transportation fuels. Different tax treatments provide specific benefits to coal, oil, natural gas, renewables, biofuels, energy efficiency, and nuclear power. Over the decades, laws have entrenched specific tax credits and exemptions. Some credits, initially designed to be temporary provisions to jumpstart nascent technologies, have become seemingly permanent fixtures in the tax code. Many targeted tax subsidies for various energy sources are now both costly and inefficient. Furthermore, mature, cost-competitive energy sources do not need help from the taxpayer. Yet, even if a technology is financially viable, businesses that benefit will lobby to extend the preferential treatment, and politicians, looking to promote jobs in their districts, will work to make it happen.

The Opportunity: Pro-growth tax reform will incentivize more investment and innovation, creating American jobs and strengthening the U.S. economy. Competitive tax policies will empower energy companies to supply families with affordable, dependable, and cleaner power. Removing biases against investment and lowering rates broadly instead of trying to pick winners and losers would drive investments in newer, more efficient technologies. Reforming the research and development tax credit would spur more groundbreaking discoveries and increase opportunities for small businesses to conduct R&D.

The Solutions: To move toward a pro-growth, simplified, and technology-neutral tax code, Congress and the administration should:

- Make immediate expensing permanent and apply it to longer asset class lives and research and development (R&D).
- Reform the research and development tax credit.
- Phase out targeted energy tax credits for mature technologies. At the very least, Congress should replace targeted credits with a technology-neutral, emissions-based credit that focuses on the most efficient abatement cost.
- Explore the implementation of a reverse auction to improve the efficiency of the subsidy, which could reward the most economically viable and lowest-priced energy sources and technologies, and therefore increase clean energy generation at a lower cost to taxpayers.
- Ensure any emerging energy technology tax credit is limited.
- Maintain competitive corporate tax rates.

Key Facts:

- The Tax Cuts and Jobs Act of 2017 allowed for immediate expensing for assets with lives of 20 years or less, but this expensing begins phasing out by 20 percent from 2023 through 2026.
- Philip Rossetti of the R Street Institute [found](#), “Prior to the tax reform, private sector E&E R&D was relatively stagnant, only increasing by 2 percent from 2012-2017. After the tax reform, E&E R&D jumped by \$3.3 billion, or 11.8 percent. Private sector E&E R&D is roughly seven times as large as public sector R&D.”
- There is an [assortment of 44 tax credits](#) that benefit different energy technologies, making the tax code inefficient and subject to cronyism and dependence on preferential treatment.
- Including federal and state (national and subnational) corporate tax rates, the U.S. has the [13th highest corporate tax rate](#) out of the 38 OECD countries.

Legislation to Follow:

Legislation	Bill Number(s)	House Sponsor	Senate Sponsor	House Cosponsor(s)	Senate Cosponsor(s)
ALIGN Act	S.1166 and H.R.2558	Arrington (R-TX-19)	Toomey (R-PA)	Nunes (R-CA-22), Buchanan (R-FL-16), Smith (R-NE-3), and more	Barrasso (R-WY), Blunt (R-MO), Braun (R-IN), and more
American Innovation and Competitiveness Act	H.R.1304	Larson (D-CT-1)		Panetta (D-CA-20), DelBene (D-WA-1), Estes (R-KS-1), and more	
American Innovation and Jobs Act	S.749		Hassan (D-NH)		Young (R-IN), Cortez-Masto (D-NV), Portman (R-OH), and more
Clean Energy for America Act	S.2118		Wyden (D-OR)		Stabenow (D-MI), Menendez (D-NJ), Carper (D-DE), and more
The Energy Sector Innovation Credit Act	S.2475 and H.R.4720	Reed (R-NY-23)	Crapo (R-ID)	Panetta (D-CA-20), LaHood (R-IL-18), Suozzi (D-NY-3), and more	Whitehouse (D-RI), Barasso (R-WY), Bennett (D-CO), and more