



SMI Clients-

Today, the Senate will take up the tax extender bill as passed by the House of Representatives last month. The \$55 billion package includes a 1-year extension of the Production Tax Credits (PTC) for renewable energy, including wind, geothermal, marine, and biomass and a 6-year extension of the Investment Tax Credit (ITC) for solar. The bill's chances of passing are slim, but appear to be moderately improving.

A Brief History

Congress has been trying to extend the ITC and PTC tax provisions since last year. The House had already tried to extend the ITC and PTC on three different occasions prior to this most recent effort. In each of the first three attempts, the House, operating under pay-as-you-go rules which require any new spending to be offset either by new revenue or cuts elsewhere, proposed paying for the extensions by eliminating subsidies to the oil industry. The first two attempts failed in the Senate by a one vote margin, over protests, not about the credits, but about the merits of eliminating subsidies to oil companies. The third version was never taken up by the Senate at all.

Despite these losses, the PTC/ITC are in fact broadly popular in the Senate. In March, Senators Cantwell (D-WA) and Ensign (R-NV) introduced a bill that would extend the PTC by 1 year and the ITC by 8 years. The bill did not specify a source of revenue to fund the extensions, but instead the bill was eventually adopted as an amendment to the Senate's Housing Relief Bill, deemed emergency spending, and not subject to pay-go rules. The House has not passed its version yet, but leadership has already indicated that it will strip the extensions from the bill in conference because they don't believe they are relevant to the legislation and need to be paid for.

The House Ways and Means Committee decided that the best way to secure the extension was to make it part of the larger tax extenders bill. Rather than offsetting the cost of the PTC and ITC extension with the rollback of oil subsidies, it pays for all of the extensions, including the R&D tax credit and others, by closing two tax loopholes that allow hedge fund managers and multinational corporations to defer taxes on money held offshore or overseas.

The Bottom Line

While broadly supported, the bill still only has a slim chance of passage, due to arguments over how to offset the loss in revenue and to seasonal election year politics. It is not clear that a new rollback, one less controversial than the oil subsidy rollback, exists as a source of revenue and funding. Earlier this year, 41 Republicans signed a letter saying they would oppose any revenue-raising offsets, which would disqualify the new funding sources. The Senate would have a difficult time getting the 60 votes needed to get a vote on the bill unless one of those senators was to change his or her position. Given the political and economic situation, this possibility is not out of the question. With gas crossing the \$4 mark, the unemployment rate hitting 5.5 percent, the continuing housing crisis, and out-of-the-ordinary weather events raising the specter of climate change, there will be a great deal of pressure on lawmakers not only to pass the renewable energy credits, but all of the credits in the package in order to bolster the economy. At least one of the 41 senators who signed the letter against revenue-raising offsets has indicated that he will likely have to vote for the measure.

In any case, this could be the last chance for the extension this year. Election year politics will make passage of the bill very difficult. However, we expect the legislations will be taken up immediately in the next Congress, after the new Administration is sworn in.

We will let you know the outcome of the final vote, as it happens. If you have any questions or need more information, please contact me or a member of the Helios team.