

108TH CONGRESS
1ST SESSION

S. 597

To amend the Internal Revenue Code of 1986 to provide energy tax incentives.

IN THE SENATE OF THE UNITED STATES

MARCH 11, 2003

Mr. GRASSLEY (for himself, Mr. BAUCUS, Mr. DOMENICI, and Mr. BINGAMAN) introduced the following bill; which was read twice and referred to the Committee on Finance

A BILL

To amend the Internal Revenue Code of 1986 to provide energy tax incentives.

1 *Be it enacted by the Senate and House of Representa-*
2 *tives of the United States of America in Congress assembled,*

3 **SECTION 1. SHORT TITLE; ETC.**

4 (a) SHORT TITLE.—This Act may be cited as the
5 “Energy Tax Incentives Act of 2003”.

6 (b) AMENDMENT OF 1986 CODE.—Except as other-
7 wise expressly provided, whenever in this division an
8 amendment or repeal is expressed in terms of an amend-
9 ment to, or repeal of, a section or other provision, the ref-

1 erence shall be considered to be made to a section or other
 2 provision of the Internal Revenue Code of 1986.

3 (c) TABLE OF CONTENTS.—The table of contents for
 4 this Act is as follows:

Sec. 1. Short title; etc.

TITLE I—EXTENSION AND MODIFICATION OF RENEWABLE
 ELECTRICITY PRODUCTION TAX CREDIT

- Sec. 101. Three-year extension of credit for producing electricity from wind and poultry waste.
- Sec. 102. Credit for electricity produced from biomass.
- Sec. 103. Credit for electricity produced from swine and bovine waste nutrients, geothermal energy, and solar energy.
- Sec. 104. Treatment of persons not able to use entire credit.
- Sec. 105. Credit for electricity produced from small irrigation power.
- Sec. 106. Credit for electricity produced from municipal biosolids and recycled sludge.

TITLE II—ALTERNATIVE MOTOR VEHICLES AND FUELS
 INCENTIVES

- Sec. 201. Alternative motor vehicle credit.
- Sec. 202. Modification of credit for qualified electric vehicles.
- Sec. 203. Credit for installation of alternative fueling stations.
- Sec. 204. Credit for retail sale of alternative fuels as motor vehicle fuel.
- Sec. 205. Small ethanol producer credit.
- Sec. 206. All alcohol fuels taxes transferred to Highway Trust Fund.
- Sec. 207. Increased flexibility in alcohol fuels tax credit.
- Sec. 208. Incentives for biodiesel.
- Sec. 209. Credit for taxpayers owning commercial power takeoff vehicles.

TITLE III—CONSERVATION AND ENERGY EFFICIENCY
 PROVISIONS

- Sec. 301. Credit for construction of new energy efficient home.
- Sec. 302. Credit for energy efficient appliances.
- Sec. 303. Credit for residential energy efficient property.
- Sec. 304. Credit for business installation of qualified fuel cells and stationary microturbine power plants.
- Sec. 305. Energy efficient commercial buildings deduction.
- Sec. 306. Allowance of deduction for qualified new or retrofitted energy management devices.
- Sec. 307. Three-year applicable recovery period for depreciation of qualified energy management devices.
- Sec. 308. Energy credit for combined heat and power system property.
- Sec. 309. Credit for energy efficiency improvements to existing homes.
- Sec. 310. Allowance of deduction for qualified new or retrofitted water submetering devices.
- Sec. 311. Three-year applicable recovery period for depreciation of qualified water submetering devices.

TITLE IV—CLEAN COAL INCENTIVES

Subtitle A—Credit for Emission Reductions and Efficiency Improvements in Existing Coal-Based Electricity Generation Facilities

Sec. 401. Credit for production from a qualifying clean coal technology unit.

Subtitle B—Incentives for Early Commercial Applications of Advanced Clean Coal Technologies

Sec. 411. Credit for investment in qualifying advanced clean coal technology.

Sec. 412. Credit for production from a qualifying advanced clean coal technology unit.

Subtitle C—Treatment of Persons Not Able To Use Entire Credit

Sec. 421. Treatment of persons not able to use entire credit.

TITLE V—OIL AND GAS PROVISIONS

Sec. 501. Oil and gas from marginal wells.

Sec. 502. Natural gas gathering lines treated as 7-year property.

Sec. 503. Expensing of capital costs incurred in complying with Environmental Protection Agency sulfur regulations.

Sec. 504. Environmental tax credit.

Sec. 505. Determination of small refiner exception to oil depletion deduction.

Sec. 506. Marginal production income limit extension.

Sec. 507. Amortization of geological and geophysical expenditures.

Sec. 508. Amortization of delay rental payments.

Sec. 509. Study of coal bed methane.

Sec. 510. Extension and modification of credit for producing fuel from a non-conventional source.

Sec. 511. Natural gas distribution lines treated as 15-year property.

TITLE VI—ELECTRIC UTILITY RESTRUCTURING PROVISIONS

Sec. 601. Ongoing study and reports regarding tax issues resulting from future restructuring decisions.

Sec. 602. Modifications to special rules for nuclear decommissioning costs.

Sec. 603. Treatment of certain income of cooperatives.

Sec. 604. Sales or dispositions to implement Federal Energy Regulatory Commission or State electric restructuring policy.

Sec. 605. Treatment of certain development income of cooperatives.

TITLE VII—ADDITIONAL PROVISIONS

Sec. 701. Extension of accelerated depreciation and wage credit benefits on Indian reservations.

Sec. 702. Study of effectiveness of certain provisions by GAO.

Sec. 703. Credit for production of Alaska natural gas.

Sec. 704. Sale of gasoline and diesel fuel at duty-free sales enterprises.

Sec. 705. Clarification of excise tax exemptions for agricultural aerial applicators.

Sec. 706. Modification of rural airport definition.

Sec. 707. Exemption from ticket taxes for transportation provided by seaplanes.

1 **TITLE I—EXTENSION AND MODI-**
 2 **FICATION OF RENEWABLE**
 3 **ELECTRICITY PRODUCTION**
 4 **TAX CREDIT**

5 **SEC. 101. THREE-YEAR EXTENSION OF CREDIT FOR PRO-**
 6 **DUCING ELECTRICITY FROM WIND AND**
 7 **POULTRY WASTE.**

8 (a) IN GENERAL.—Subparagraphs (A) and (C) of
 9 section 45(c)(3) (relating to qualified facility), as amended
 10 by section 603(a) of the Job Creation and Worker Assist-
 11 ance Act of 2002, are each amended by striking “January
 12 1, 2004” and inserting “January 1, 2007”.

13 (b) EFFECTIVE DATE.—The amendments made by
 14 this section shall apply to electricity sold after the date
 15 of the enactment of this Act, in taxable years ending after
 16 such date.

17 **SEC. 102. CREDIT FOR ELECTRICITY PRODUCED FROM BIO-**
 18 **MASS.**

19 (a) EXTENSION AND MODIFICATION OF PLACED-IN-
 20 SERVICE RULES.—Paragraph (3) of section 45(c) is
 21 amended—

22 (1) by striking subparagraph (B) and inserting
 23 the following new subparagraph:

24 “(B) CLOSED-LOOP BIOMASS FACILITY.—

1 “(i) IN GENERAL.—In the case of a
2 facility using closed-loop biomass to
3 produce electricity, the term ‘qualified fa-
4 cility’ means any facility—

5 “(I) owned by the taxpayer which
6 is originally placed in service after De-
7 cember 31, 1992, and before January
8 1, 2007, or

9 “(II) owned by the taxpayer
10 which is originally placed in service
11 before January 1, 1993, and modified
12 to use closed-loop biomass to co-fire
13 with coal or other biomass before Jan-
14 uary 1, 2007, as approved under the
15 Biomass Power for Rural Develop-
16 ment Programs or under a pilot
17 project of the Commodity Credit Cor-
18 poration as described in 65 Fed. Reg.
19 63052.

20 “(ii) SPECIAL RULES.—In the case of
21 a qualified facility described in clause
22 (i)(II)—

23 “(I) the 10-year period referred
24 to in subsection (a) shall be treated as

1 beginning no earlier than the date of
2 the enactment of this subclause, and

3 “(II) if the owner of such facility
4 is not the producer of the electricity,
5 the person eligible for the credit allow-
6 able under subsection (a) is the lessee
7 or the operator of such facility.”, and

8 (2) by adding at the end the following new sub-
9 paragraph:

10 “(D) BIOMASS FACILITY.—

11 “(i) IN GENERAL.—In the case of a
12 facility using biomass (other than closed-
13 loop biomass) to produce electricity, the
14 term ‘qualified facility’ means any facility
15 owned by the taxpayer which is originally
16 placed in service before January 1, 2005.

17 “(ii) SPECIAL RULE FOR
18 POSTEFFECTIVE DATE FACILITIES.—In the
19 case of any facility described in clause (i)
20 which is placed in service after the date of
21 the enactment of this clause, the 3-year pe-
22 riod beginning on the date the facility is
23 originally placed in service shall be sub-
24 stituted for the 10-year period in sub-
25 section (a)(2)(A)(ii).

1 “(iii) SPECIAL RULES FOR
2 PREEFFECTIVE DATE FACILITIES.—In the
3 case of any facility described in clause (i)
4 which is placed in service before the date
5 of the enactment of this clause—

6 “(I) subsection (a)(1) shall be
7 applied by substituting ‘1.0 cents’ for
8 ‘1.5 cents’, and

9 “(II) the 3-year period beginning
10 after the date of the enactment of this
11 subparagraph, shall be substituted for
12 the 10-year period in subsection
13 (a)(2)(A)(ii).

14 “(iv) CREDIT ELIGIBILITY.—In the
15 case of any facility described in clause (i),
16 if the owner of such facility is not the pro-
17 ducer of the electricity, the person eligible
18 for the credit allowable under subsection
19 (a) is the lessee or the operator of such fa-
20 cility.”.

21 (b) DEFINITION OF BIOMASS.—

22 (1) IN GENERAL.—Section 45(c)(1) (defining
23 qualified energy resources) is amended—

24 (A) by striking “and” at the end of sub-
25 paragraph (B),

1 (B) by striking the period at the end of
2 subparagraph (C) and inserting “, and”, and

3 (C) by adding at the end the following new
4 subparagraph:

5 “(D) biomass (other than closed-loop bio-
6 mass).”.

7 (2) BIOMASS DEFINED.—Section 45(c) (relating
8 to definitions) is amended by adding at the end the
9 following new paragraph:

10 “(5) BIOMASS.—The term ‘biomass’ means any
11 solid, nonhazardous, cellulosic waste material which
12 is segregated from other waste materials and which
13 is derived from—

14 “(A) any of the following forest-related re-
15 sources: mill residues, precommercial thinnings,
16 slash, and brush, but not including old-growth
17 timber (other than old-growth timber which has
18 been permitted or contracted for removal by
19 any appropriate Federal authority through the
20 National Environmental Policy Act or by any
21 appropriate State authority),

22 “(B) solid wood waste materials, including
23 waste pallets, crates, dunnage, manufacturing
24 and construction wood wastes (other than pres-
25 sure-treated, chemically-treated, or painted

1 wood wastes), and landscape or right-of-way
2 tree trimmings, but not including municipal
3 solid waste (garbage), gas derived from the bio-
4 degradation of solid waste, or paper that is
5 commonly recycled, or

6 “(C) agriculture sources, including orchard
7 tree crops, vineyard, grain, legumes, sugar, and
8 other crop by-products or residues.”.

9 (c) COORDINATION WITH SECTION 29.—Section
10 45(c) (relating to definitions) is amended by adding at the
11 end the following new paragraph:

12 “(6) COORDINATION WITH SECTION 29.—The
13 term ‘qualified facility’ shall not include any facility
14 the production from which is taken into account in
15 determining any credit under section 29 for the tax-
16 able year or any prior taxable year.”.

17 (d) CLERICAL AMENDMENTS.—

18 (1) The heading for subsection (c) of section 45
19 is amended by inserting “AND SPECIAL RULES”
20 after “DEFINITIONS”.

21 (2) The heading for subsection (d) of section 45
22 is amended by inserting “ADDITIONAL” before
23 “DEFINITIONS”.

24 (e) EFFECTIVE DATES.—

1 (1) IN GENERAL.—Except as provided in para-
 2 graph (2), the amendments made by this section
 3 shall apply to electricity sold after the date of the
 4 enactment of this Act, in taxable years ending after
 5 such date.

6 (2) CERTAIN BIOMASS FACILITIES.—With re-
 7 spect to any facility described in section
 8 45(c)(3)(D)(i) of the Internal Revenue Code of
 9 1986, as added by this section, which is placed in
 10 service before the date of the enactment of this Act,
 11 the amendments made by this section shall apply to
 12 electricity sold after the date of the enactment of
 13 this Act, in taxable years ending after such date.

14 **SEC. 103. CREDIT FOR ELECTRICITY PRODUCED FROM**
 15 **SWINE AND BOVINE WASTE NUTRIENTS, GEO-**
 16 **THERMAL ENERGY, AND SOLAR ENERGY.**

17 (a) EXPANSION OF QUALIFIED ENERGY RE-
 18 SOURCES.—

19 (1) IN GENERAL.—Section 45(c)(1) (defining
 20 qualified energy resources), as amended by this Act,
 21 is amended by striking “and” at the end of subpara-
 22 graph (C), by striking the period at the end of sub-
 23 paragraph (D) and inserting a comma, and by add-
 24 ing at the end the following new subparagraphs:

25 “(E) swine and bovine waste nutrients,

1 “(F) geothermal energy, and
2 “(G) solar energy.”.

3 (2) DEFINITIONS.—Section 45(c) (relating to
4 definitions and special rules), as amended by this
5 Act, is amended by redesignating paragraph (6) as
6 paragraph (8) and by inserting after paragraph (5)
7 the following new paragraphs:

8 “(6) SWINE AND BOVINE WASTE NUTRIENTS.—
9 The term ‘swine and bovine waste nutrients’ means
10 swine and bovine manure and litter, including bed-
11 ding material for the disposition of manure.

12 “(7) GEOTHERMAL ENERGY.—The term ‘geo-
13 thermal energy’ means energy derived from a geo-
14 thermal deposit (within the meaning of section
15 613(e)(2)).”.

16 (b) EXTENSION AND MODIFICATION OF
17 PLACED-IN-SERVICE RULES.—Section 45(c)(3) (re-
18 lating to qualified facility), as amended by this Act,
19 is amended by adding at the end the following new
20 subparagraphs:

21 “(E) SWINE AND BOVINE WASTE NUTRI-
22 ENTS FACILITY.—In the case of a facility using
23 swine and bovine waste nutrients to produce
24 electricity, the term ‘qualified facility’ means
25 any facility owned by the taxpayer which is

1 originally placed in service after the date of the
2 enactment of this subparagraph and before
3 January 1, 2007.

4 “(F) GEOTHERMAL OR SOLAR ENERGY FA-
5 CILITY.—

6 “(i) IN GENERAL.—In the case of a
7 facility using geothermal or solar energy to
8 produce electricity, the term ‘qualified fa-
9 cility’ means any facility owned by the tax-
10 payer which is originally placed in service
11 after the date of the enactment of this
12 clause and before January 1, 2007.

13 “(ii) SPECIAL RULE.—In the case of
14 any facility described in clause (i), the 5-
15 year period beginning on the date the facil-
16 ity was originally placed in service shall be
17 substituted for the 10-year period in sub-
18 section (a)(2)(A)(ii).”.

19 (c) EFFECTIVE DATE.—The amendments made by
20 this section shall apply to electricity sold after the date
21 of the enactment of this Act, in taxable years ending after
22 such date.

1 **SEC. 104. TREATMENT OF PERSONS NOT ABLE TO USE EN-**
2 **TIRE CREDIT.**

3 (a) IN GENERAL.—Section 45(d) (relating to addi-
4 tional definitions and special rules), as amended by this
5 Act, is amended by adding at the end the following new
6 paragraph:

7 “(8) TREATMENT OF PERSONS NOT ABLE TO
8 USE ENTIRE CREDIT.—

9 “(A) ALLOWANCE OF CREDIT.—

10 “(i) IN GENERAL.—Except as other-
11 wise provided in this subsection—

12 “(I) any credit allowable under
13 subsection (a) with respect to a quali-
14 fied facility owned by a person de-
15 scribed in clause (ii) may be trans-
16 ferred or used as provided in this
17 paragraph, and

18 “(II) the determination as to
19 whether the credit is allowable shall
20 be made without regard to the tax-ex-
21 empt status of the person.

22 “(ii) PERSONS DESCRIBED.—A person
23 is described in this clause if the person
24 is—

1 “(I) an organization described in
2 section 501(c)(12)(C) and exempt
3 from tax under section 501(a),

4 “(II) an organization described
5 in section 1381(a)(2)(C),

6 “(III) a public utility (as defined
7 in section 136(c)(2)(B)), which is ex-
8 empt from income tax under this sub-
9 title,

10 “(IV) any State or political sub-
11 division thereof, the District of Co-
12 lumbia, any possession of the United
13 States, or any agency or instrumen-
14 tality of any of the foregoing, or

15 “(V) any Indian tribal govern-
16 ment (within the meaning of section
17 7871) or any agency or instrumen-
18 tality thereof.

19 “(B) TRANSFER OF CREDIT.—

20 “(i) IN GENERAL.—A person de-
21 scribed in subparagraph (A)(ii) may trans-
22 fer any credit to which subparagraph
23 (A)(i) applies through an assignment to
24 any other person not described in subpara-
25 graph (A)(ii). Such transfer may be re-

1 voked only with the consent of the Sec-
2 retary.

3 “(ii) REGULATIONS.—The Secretary
4 shall prescribe such regulations as nec-
5 essary to ensure that any credit described
6 in clause (i) is claimed once and not reas-
7 signed by such other person.

8 “(iii) TRANSFER PROCEEDS TREATED
9 AS ARISING FROM ESSENTIAL GOVERN-
10 MENT FUNCTION.—Any proceeds derived
11 by a person described in subclause (III),
12 (IV), or (V) of subparagraph (A)(ii) from
13 the transfer of any credit under clause (i)
14 shall be treated as arising from the exer-
15 cise of an essential government function.

16 “(C) USE OF CREDIT AS AN OFFSET.—
17 Notwithstanding any other provision of law, in
18 the case of a person described in subclause (I),
19 (II), or (V) of subparagraph (A)(ii), any credit
20 to which subparagraph (A)(i) applies may be
21 applied by such person, to the extent provided
22 by the Secretary of Agriculture, as a prepay-
23 ment of any loan, debt, or other obligation the
24 entity has incurred under subchapter I of chap-
25 ter 31 of title 7 of the Rural Electrification Act

1 of 1936 (7 U.S.C. 901 et seq.), as in effect on
2 the date of the enactment of the Energy Tax
3 Incentives Act of 2003.

4 “(D) CREDIT NOT INCOME.—Any transfer
5 under subparagraph (B) or use under subpara-
6 graph (C) of any credit to which subparagraph
7 (A)(i) applies shall not be treated as income for
8 purposes of section 501(c)(12).

9 “(E) TREATMENT OF UNRELATED PER-
10 SONS.—For purposes of subsection (a)(2)(B),
11 sales among and between persons described in
12 subparagraph (A)(ii) shall be treated as sales
13 between unrelated parties.”.

14 (b) CREDITS NOT REDUCED BY TAX-EXEMPT
15 BONDS OR CERTAIN OTHER SUBSIDIES.—Section
16 45(b)(3) (relating to credit reduced for grants, tax-exempt
17 bonds, subsidized energy financing, and other credits) is
18 amended—

19 (1) by striking clause (ii),

20 (2) by redesignating clauses (iii) and (iv) as
21 clauses (ii) and (iii),

22 (3) by inserting “(other than any loan, debt, or
23 other obligation incurred under subchapter I of
24 chapter 31 of title 7 of the Rural Electrification Act
25 of 1936 (7 U.S.C. 901 et seq.), as in effect on the

1 date of the enactment of the Energy Tax Incentives
 2 Act of 2003)” after “project” in clause (ii) (as so
 3 redesignated),

4 (4) by adding at the end the following new sen-
 5 tence: “This paragraph shall not apply with respect
 6 to any facility described in subsection
 7 (c)(3)(B)(i)(II).”, and

8 (5) by striking “TAX-EXEMPT BONDS,” in the
 9 heading and inserting “CERTAIN”.

10 (c) EFFECTIVE DATE.—The amendments made by
 11 this section shall apply to electricity sold after the date
 12 of the enactment of this Act, in taxable years ending after
 13 such date.

14 **SEC. 105. CREDIT FOR ELECTRICITY PRODUCED FROM**
 15 **SMALL IRRIGATION POWER.**

16 (a) IN GENERAL.—Section 45(c)(1) (defining quali-
 17 fied energy resources), as amended by this Act, is amend-
 18 ed by striking “and” at the end of subparagraph (F), by
 19 striking the period at the end of subparagraph (G) and
 20 inserting “, and”, and by adding at the end the following
 21 new subparagraph:

22 “(H) small irrigation power.”.

23 (b) QUALIFIED FACILITY.—Section 45(c)(3) (relat-
 24 ing to qualified facility), as amended by this Act, is

1 amended by adding at the end the following new subpara-
 2 graph:

3 “(G) SMALL IRRIGATION POWER FACIL-
 4 ITY.—In the case of a facility using small irri-
 5 gation power to produce electricity, the term
 6 ‘qualified facility’ means any facility owned by
 7 the taxpayer which is originally placed in serv-
 8 ice after date of the enactment of this subpara-
 9 graph and before January 1, 2007.”.

10 (c) DEFINITION.—Section 45(c), as amended by this
 11 Act, is amended by redesignating paragraph (8) as para-
 12 graph (9) and by inserting after paragraph (7) the fol-
 13 lowing new paragraph:

14 “(8) SMALL IRRIGATION POWER.—The term
 15 ‘small irrigation power’ means power—

16 “(A) generated without any dam or im-
 17 poundment of water through an irrigation sys-
 18 tem canal or ditch, and

19 “(B) the installed capacity of which is less
 20 than 5 megawatts.”.

21 (d) EFFECTIVE DATE.—The amendments made by
 22 this section shall apply to electricity sold after the date
 23 of the enactment of this Act, in taxable years ending after
 24 such date.

1 **SEC. 106. CREDIT FOR ELECTRICITY PRODUCED FROM MU-**
 2 **NICIPAL BIOSOLIDS AND RECYCLED SLUDGE.**

3 (a) IN GENERAL.—Section 45(c)(1) (defining quali-
 4 fied energy resources), as amended by this Act, is amend-
 5 ed by striking “and” at the end of subparagraph (G), by
 6 striking the period at the end of subparagraph (H), and
 7 by adding at the end the following new subparagraphs:

8 “(I) municipal biosolids, and

9 “(J) recycled sludge.”.

10 (b) QUALIFIED FACILITIES.—Section 45(c)(3) (relat-
 11 ing to qualified facility), as amended by this Act, is
 12 amended by adding at the end the following new subpara-
 13 graphs:

14 “(H) MUNICIPAL BIOSOLIDS FACILITY.—

15 In the case of a facility using municipal bio-
 16 solids to produce electricity, the term ‘qualified
 17 facility’ means any facility owned by the tax-
 18 payer which is originally placed in service after
 19 the date of the enactment of this subparagraph
 20 and before January 1, 2007.

21 “(I) RECYCLED SLUDGE FACILITY.—

22 “(i) IN GENERAL.—In the case of a
 23 facility using recycled sludge to produce
 24 electricity, the term ‘qualified facility’
 25 means any facility owned by the taxpayer

1 which is originally placed in service before
2 January 1, 2007.

3 “(ii) SPECIAL RULE.—In the case of a
4 qualified facility described in clause (i), the
5 10-year period referred to in subsection (a)
6 shall be treated as beginning no earlier
7 than the date of the enactment of this sub-
8 paragraph.”.

9 (c) DEFINITIONS.—Section 45(c), as amended by this
10 Act, is amended by redesignating paragraph (9) as para-
11 graph (11) and by inserting after paragraph (8) the fol-
12 lowing new paragraphs:

13 “(9) MUNICIPAL BIOSOLIDS.—The term ‘munic-
14 ipal biosolids’ means the residue or solids removed
15 by a municipal wastewater treatment facility.

16 “(10) RECYCLED SLUDGE.—

17 “(A) IN GENERAL.—The term ‘recycled
18 sludge’ means the recycled residue byproduct
19 created in the treatment of commercial, indus-
20 trial, municipal, or navigational wastewater.

21 “(B) RECYCLED.—The term ‘recycled’
22 means the processing of residue into a market-
23 able product, but does not include incineration
24 for the purpose of volume reduction.”.

1 (d) EFFECTIVE DATE.—The amendments made by
 2 this section shall apply to electricity sold after the date
 3 of the enactment of this Act, in taxable years ending after
 4 such date.

5 **TITLE II—ALTERNATIVE MOTOR**
 6 **VEHICLES AND FUELS INCEN-**
 7 **TIVES**

8 **SEC. 201. ALTERNATIVE MOTOR VEHICLE CREDIT.**

9 (a) IN GENERAL.—Subpart B of part IV of sub-
 10 chapter A of chapter 1 (relating to foreign tax credit, etc.)
 11 is amended by adding at the end the following new section:

12 **“SEC. 30B. ALTERNATIVE MOTOR VEHICLE CREDIT.**

13 “(a) ALLOWANCE OF CREDIT.—There shall be al-
 14 lowed as a credit against the tax imposed by this chapter
 15 for the taxable year an amount equal to the sum of—

16 “(1) the new qualified fuel cell motor vehicle
 17 credit determined under subsection (b),

18 “(2) the new qualified hybrid motor vehicle
 19 credit determined under subsection (c), and

20 “(3) the new qualified alternative fuel motor ve-
 21 hicle credit determined under subsection (d).

22 “(b) NEW QUALIFIED FUEL CELL MOTOR VEHICLE
 23 CREDIT.—

24 “(1) IN GENERAL.—For purposes of subsection
 25 (a), the new qualified fuel cell motor vehicle credit

1 determined under this subsection with respect to a
2 new qualified fuel cell motor vehicle placed in service
3 by the taxpayer during the taxable year is—

4 “(A) \$4,000, if such vehicle has a gross ve-
5 hicle weight rating of not more than 8,500
6 pounds,

7 “(B) \$10,000, if such vehicle has a gross
8 vehicle weight rating of more than 8,500
9 pounds but not more than 14,000 pounds,

10 “(C) \$20,000, if such vehicle has a gross
11 vehicle weight rating of more than 14,000
12 pounds but not more than 26,000 pounds, and

13 “(D) \$40,000, if such vehicle has a gross
14 vehicle weight rating of more than 26,000
15 pounds.

16 “(2) INCREASE FOR FUEL EFFICIENCY.—

17 “(A) IN GENERAL.—The amount deter-
18 mined under paragraph (1)(A) with respect to
19 a new qualified fuel cell motor vehicle which is
20 a passenger automobile or light truck shall be
21 increased by—

22 “(i) \$1,000, if such vehicle achieves at
23 least 150 percent but less than 175 per-
24 cent of the 2002 model year city fuel econ-
25 omy,

1 “(ii) \$1,500, if such vehicle achieves
2 at least 175 percent but less than 200 per-
3 cent of the 2002 model year city fuel econ-
4 omy,

5 “(iii) \$2,000, if such vehicle achieves
6 at least 200 percent but less than 225 per-
7 cent of the 2002 model year city fuel econ-
8 omy,

9 “(iv) \$2,500, if such vehicle achieves
10 at least 225 percent but less than 250 per-
11 cent of the 2002 model year city fuel econ-
12 omy,

13 “(v) \$3,000, if such vehicle achieves
14 at least 250 percent but less than 275 per-
15 cent of the 2002 model year city fuel econ-
16 omy,

17 “(vi) \$3,500, if such vehicle achieves
18 at least 275 percent but less than 300 per-
19 cent of the 2002 model year city fuel econ-
20 omy, and

21 “(vii) \$4,000, if such vehicle achieves
22 at least 300 percent of the 2002 model
23 year city fuel economy.

24 “(B) 2002 MODEL YEAR CITY FUEL ECON-
25 OMY.—For purposes of subparagraph (A), the

1 2002 model year city fuel economy with respect
 2 to a vehicle shall be determined in accordance
 3 with the following tables:

4 “(i) In the case of a passenger auto-
 5 mobile:

“If vehicle inertia weight class is:	The 2002 model year city fuel economy is:
1,500 or 1,750 lbs	45.2 mpg
2,000 lbs	39.6 mpg
2,250 lbs	35.2 mpg
2,500 lbs	31.7 mpg
2,750 lbs	28.8 mpg
3,000 lbs	26.4 mpg
3,500 lbs	22.6 mpg
4,000 lbs	19.8 mpg
4,500 lbs	17.6 mpg
5,000 lbs	15.9 mpg
5,500 lbs	14.4 mpg
6,000 lbs	13.2 mpg
6,500 lbs	12.2 mpg
7,000 to 8,500 lbs	11.3 mpg.

6 “(ii) In the case of a light truck:

“If vehicle inertia weight class is:	The 2002 model year city fuel economy is:
1,500 or 1,750 lbs	39.4 mpg
2,000 lbs	35.2 mpg
2,250 lbs	31.8 mpg
2,500 lbs	29.0 mpg
2,750 lbs	26.8 mpg
3,000 lbs	24.9 mpg
3,500 lbs	21.8 mpg
4,000 lbs	19.4 mpg
4,500 lbs	17.6 mpg
5,000 lbs	16.1 mpg
5,500 lbs	14.8 mpg
6,000 lbs	13.7 mpg
6,500 lbs	12.8 mpg
7,000 to 8,500 lbs	12.1 mpg.

7 “(C) VEHICLE INERTIA WEIGHT CLASS.—

8 For purposes of subparagraph (B), the term
 9 ‘vehicle inertia weight class’ has the same
 10 meaning as when defined in regulations pre-

1 scribed by the Administrator of the Environ-
2 mental Protection Agency for purposes of the
3 administration of title II of the Clean Air Act
4 (42 U.S.C. 7521 et seq.).

5 “(3) NEW QUALIFIED FUEL CELL MOTOR VEHI-
6 CLE.—For purposes of this subsection, the term
7 ‘new qualified fuel cell motor vehicle’ means a motor
8 vehicle—

9 “(A) which is propelled by power derived
10 from one or more cells which convert chemical
11 energy directly into electricity by combining ox-
12 ygen with hydrogen fuel which is stored on
13 board the vehicle in any form and may or may
14 not require reformation prior to use,

15 “(B) which, in the case of a passenger
16 automobile or light truck—

17 “(i) for 2002 and later model vehicles,
18 has received a certificate of conformity
19 under the Clean Air Act and meets or ex-
20 ceeds the equivalent qualifying California
21 low emission vehicle standard under sec-
22 tion 243(e)(2) of the Clean Air Act for
23 that make and model year, and

24 “(ii) for 2004 and later model vehi-
25 cles, has received a certificate that such ve-

1 hicle meets or exceeds the Bin 5 Tier II
 2 emission level established in regulations
 3 prescribed by the Administrator of the En-
 4 vironmental Protection Agency under sec-
 5 tion 202(i) of the Clean Air Act for that
 6 make and model year vehicle,

7 “(C) the original use of which commences
 8 with the taxpayer,

9 “(D) which is acquired for use or lease by
 10 the taxpayer and not for resale, and

11 “(E) which is made by a manufacturer.

12 “(c) NEW QUALIFIED HYBRID MOTOR VEHICLE
 13 CREDIT.—

14 “(1) IN GENERAL.—For purposes of subsection
 15 (a), the new qualified hybrid motor vehicle credit de-
 16 termined under this subsection with respect to a new
 17 qualified hybrid motor vehicle placed in service by
 18 the taxpayer during the taxable year is the credit
 19 amount determined under paragraph (2).

20 “(2) CREDIT AMOUNT.—

21 “(A) IN GENERAL.—The credit amount de-
 22 termined under this paragraph shall be deter-
 23 mined in accordance with the following tables:

24 “(i) In the case of a new qualified hy-
 25 brid motor vehicle which is a passenger

1 automobile or light truck and which pro-
2 vides the following percentage of the max-
3 imum available power:

“If percentage of the maximum available power is:	The credit amount is:
At least 4 percent but less than 10 percent	\$250
At least 10 percent but less than 20 percent	\$500
At least 20 percent but less than 30 percent	\$750
At least 30 percent	\$1,000.

4 “(ii) In the case of a new qualified hy-
5 brid motor vehicle which is a heavy duty
6 hybrid motor vehicle and which provides
7 the following percentage of the maximum
8 available power:

9 “(I) If such vehicle has a gross
10 vehicle weight rating of not more than
11 14,000 pounds:

“If percentage of the maximum available power is:	The credit amount is:
At least 20 percent but less than 30 percent	\$1,000
At least 30 percent but less than 40 percent	\$1,750
At least 40 percent but less than 50 percent	\$2,000
At least 50 percent but less than 60 percent	\$2,250
At least 60 percent	\$2,500.

12 “(II) If such vehicle has a gross
13 vehicle weight rating of more than
14 14,000 but not more than 26,000
15 pounds:

“If percentage of the maximum available power is:	The credit amount is:
At least 20 percent but less than 30 percent	\$4,000
At least 30 percent but less than 40 percent	\$4,500
At least 40 percent but less than 50 percent	\$5,000
At least 50 percent but less than 60 percent	\$5,500
At least 60 percent	\$6,000.

1 “(III) If such vehicle has a gross
2 vehicle weight rating of more than
3 26,000 pounds:

“If percentage of the maximum available power is:	The credit amount is:
At least 20 percent but less than 30 percent	\$6,000
At least 30 percent but less than 40 percent	\$7,000
At least 40 percent but less than 50 percent	\$8,000
At least 50 percent but less than 60 percent	\$9,000
At least 60 percent	\$10,000.

4 “(B) INCREASE FOR FUEL EFFICIENCY.—

5 “(i) AMOUNT.—The amount deter-
6 mined under subparagraph (A)(i) with re-
7 spect to a new qualified hybrid motor vehi-
8 cle which is a passenger automobile or
9 light truck shall be increased by—

10 “(I) \$500, if such vehicle
11 achieves at least 125 percent but less
12 than 150 percent of the 2002 model
13 year city fuel economy,

14 “(II) \$1,000, if such vehicle
15 achieves at least 150 percent but less
16 than 175 percent of the 2002 model
17 year city fuel economy,

18 “(III) \$1,500, if such vehicle
19 achieves at least 175 percent but less
20 than 200 percent of the 2002 model
21 year city fuel economy,

1 “(IV) \$2,000, if such vehicle
2 achieves at least 200 percent but less
3 than 225 percent of the 2002 model
4 year city fuel economy,

5 “(V) \$2,500, if such vehicle
6 achieves at least 225 percent but less
7 than 250 percent of the 2002 model
8 year city fuel economy, and

9 “(VI) \$3,000, if such vehicle
10 achieves at least 250 percent of the
11 2002 model year city fuel economy.

12 “(ii) 2002 MODEL YEAR CITY FUEL
13 ECONOMY.—For purposes of clause (i), the
14 2002 model year city fuel economy with re-
15 spect to a vehicle shall be determined using
16 the tables provided in subsection (b)(2)(B)
17 with respect to such vehicle.

18 “(C) INCREASE FOR ACCELERATED EMIS-
19 SIONS PERFORMANCE.—The amount deter-
20 mined under subparagraph (A)(ii) with respect
21 to an applicable heavy duty hybrid motor vehi-
22 cle shall be increased by the increased credit
23 amount determined in accordance with the fol-
24 lowing tables:

1 “(i) In the case of a vehicle which has
2 a gross vehicle weight rating of not more
3 than 14,000 pounds:

“If the model year is:	The increased credit amount is:
2003	\$3,000
2004	\$2,500
2005	\$2,000
2006	\$1,500.

4 “(ii) In the case of a vehicle which
5 has a gross vehicle weight rating of more
6 than 14,000 pounds but not more than
7 26,000 pounds:

“If the model year is:	The increased credit amount is:
2003	\$7,750
2004	\$6,500
2005	\$5,250
2006	\$4,000.

8 “(iii) In the case of a vehicle which
9 has a gross vehicle weight rating of more
10 than 26,000 pounds:

“If the model year is:	The increased credit amount is:
2003	\$12,000
2004	\$10,000
2005	\$8,000
2006	\$6,000.

11 “(D) DEFINITIONS.—

12 “(i) APPLICABLE HEAVY DUTY HY-
13 BRID MOTOR VEHICLE.—For purposes of
14 subparagraph (C), the term ‘applicable
15 heavy duty hybrid motor vehicle’ means a
16 heavy duty hybrid motor vehicle which is
17 powered by an internal combustion or heat

1 engine which is certified as meeting the
2 emission standards set in the regulations
3 prescribed by the Administrator of the En-
4 vironmental Protection Agency for 2007
5 and later model year diesel heavy duty en-
6 gines, or for 2008 and later model year
7 ottocycle heavy duty engines, as applicable.

8 “(ii) HEAVY DUTY HYBRID MOTOR VE-
9 HICLE.—For purposes of this paragraph,
10 the term ‘heavy duty hybrid motor vehicle’
11 means a new qualified hybrid motor vehicle
12 which has a gross vehicle weight rating of
13 more than 10,000 pounds and draws pro-
14 pulsion energy from both of the following
15 onboard sources of stored energy:

16 “(I) An internal combustion or
17 heat engine using consumable fuel
18 which, for 2002 and later model vehi-
19 cles, has received a certificate of con-
20 formity under the Clean Air Act and
21 meets or exceeds a level of not greater
22 than 3.0 grams per brake horse-
23 power-hour of oxides of nitrogen and
24 0.01 per brake horsepower-hour of
25 particulate matter.

1 “(II) A rechargeable energy stor-
2 age system.

3 “(iii) MAXIMUM AVAILABLE POWER.—

4 “(I) PASSENGER AUTOMOBILE
5 OR LIGHT TRUCK.—For purposes of
6 subparagraph (A)(i), the term ‘max-
7 imum available power’ means the
8 maximum power available from the re-
9 chargeable energy storage system,
10 during a standard 10 second pulse
11 power or equivalent test, divided by
12 such maximum power and the SAE
13 net power of the heat engine.

14 “(II) HEAVY DUTY HYBRID
15 MOTOR VEHICLE.—For purposes of
16 subparagraph (A)(ii), the term ‘max-
17 imum available power’ means the
18 maximum power available from the re-
19 chargeable energy storage system,
20 during a standard 10 second pulse
21 power or equivalent test, divided by
22 the vehicle’s total traction power. The
23 term ‘total traction power’ means the
24 sum of the peak power from the re-
25 chargeable energy storage system and

1 the heat engine peak power of the ve-
2 hicle, except that if such storage sys-
3 tem is the sole means by which the ve-
4 hicle can be driven, the total traction
5 power is the peak power of such stor-
6 age system.

7 “(3) NEW QUALIFIED HYBRID MOTOR VEHI-
8 CLE.—For purposes of this subsection, the term
9 ‘new qualified hybrid motor vehicle’ means a motor
10 vehicle—

11 “(A) which draws propulsion energy from
12 onboard sources of stored energy which are
13 both—

14 “(i) an internal combustion or heat
15 engine using combustible fuel, and

16 “(ii) a rechargeable energy storage
17 system,

18 “(B) which, in the case of a passenger
19 automobile or light truck—

20 “(i) for 2002 and later model vehicles,
21 has received a certificate of conformity
22 under the Clean Air Act and meets or ex-
23 ceeds the equivalent qualifying California
24 low emission vehicle standard under sec-

1 tion 243(e)(2) of the Clean Air Act for
2 that make and model year, and

3 “(ii) for 2004 and later model vehi-
4 cles, has received a certificate that such ve-
5 hicle meets or exceeds the Bin 5 Tier II
6 emission level established in regulations
7 prescribed by the Administrator of the En-
8 vironmental Protection Agency under sec-
9 tion 202(i) of the Clean Air Act for that
10 make and model year vehicle,

11 “(C) the original use of which commences
12 with the taxpayer,

13 “(D) which is acquired for use or lease by
14 the taxpayer and not for resale, and

15 “(E) which is made by a manufacturer.

16 “(d) NEW QUALIFIED ALTERNATIVE FUEL MOTOR
17 VEHICLE CREDIT.—

18 “(1) ALLOWANCE OF CREDIT.—Except as pro-
19 vided in paragraph (5), the new qualified alternative
20 fuel motor vehicle credit determined under this sub-
21 section is an amount equal to the applicable percent-
22 age of the incremental cost of any new qualified al-
23 ternative fuel motor vehicle placed in service by the
24 taxpayer during the taxable year.

1 “(2) APPLICABLE PERCENTAGE.—For purposes
2 of paragraph (1), the applicable percentage with re-
3 spect to any new qualified alternative fuel motor ve-
4 hicle is—

5 “(A) 40 percent, plus

6 “(B) 30 percent, if such vehicle—

7 “(i) has received a certificate of con-
8 formity under the Clean Air Act and meets
9 or exceeds the most stringent standard
10 available for certification under the Clean
11 Air Act for that make and model year vehi-
12 cle (other than a zero emission standard),
13 or

14 “(ii) has received an order certifying
15 the vehicle as meeting the same require-
16 ments as vehicles which may be sold or
17 leased in California and meets or exceeds
18 the most stringent standard available for
19 certification under the State laws of Cali-
20 fornia (enacted in accordance with a waiv-
21 er granted under section 209(b) of the
22 Clean Air Act) for that make and model
23 year vehicle (other than a zero emission
24 standard).

1 “(3) INCREMENTAL COST.—For purposes of
2 this subsection, the incremental cost of any new
3 qualified alternative fuel motor vehicle is equal to
4 the amount of the excess of the manufacturer’s sug-
5 gested retail price for such vehicle over such price
6 for a gasoline or diesel fuel motor vehicle of the
7 same model, to the extent such amount does not ex-
8 ceed—

9 “(A) \$5,000, if such vehicle has a gross ve-
10 hicle weight rating of not more than 8,500
11 pounds,

12 “(B) \$10,000, if such vehicle has a gross
13 vehicle weight rating of more than 8,500
14 pounds but not more than 14,000 pounds,

15 “(C) \$25,000, if such vehicle has a gross
16 vehicle weight rating of more than 14,000
17 pounds but not more than 26,000 pounds, and

18 “(D) \$40,000, if such vehicle has a gross
19 vehicle weight rating of more than 26,000
20 pounds.

21 “(4) NEW QUALIFIED ALTERNATIVE FUEL
22 MOTOR VEHICLE.—For purposes of this sub-
23 section—

1 “(A) IN GENERAL.—The term ‘new quali-
2 fied alternative fuel motor vehicle’ means any
3 motor vehicle—

4 “(i) which is only capable of operating
5 on an alternative fuel,

6 “(ii) the original use of which com-
7 mences with the taxpayer,

8 “(iii) which is acquired by the tax-
9 payer for use or lease, but not for resale,
10 and

11 “(iv) which is made by a manufac-
12 turer.

13 “(B) ALTERNATIVE FUEL.—The term ‘al-
14 ternative fuel’ means compressed natural gas,
15 liquefied natural gas, liquefied petroleum gas,
16 hydrogen, and any liquid at least 85 percent of
17 the volume of which consists of methanol.

18 “(5) CREDIT FOR MIXED-FUEL VEHICLES.—

19 “(A) IN GENERAL.—In the case of a
20 mixed-fuel vehicle placed in service by the tax-
21 payer during the taxable year, the credit deter-
22 mined under this subsection is an amount equal
23 to—

24 “(i) in the case of a 75/25 mixed-fuel
25 vehicle, 70 percent of the credit which

1 would have been allowed under this sub-
2 section if such vehicle was a qualified alter-
3 native fuel motor vehicle, and

4 “(ii) in the case of a 90/10 mixed-fuel
5 vehicle, 90 percent of the credit which
6 would have been allowed under this sub-
7 section if such vehicle was a qualified alter-
8 native fuel motor vehicle.

9 “(B) MIXED-FUEL VEHICLE.—For pur-
10 poses of this subsection, the term ‘mixed-fuel
11 vehicle’ means any motor vehicle described in
12 subparagraph (C) or (D) of paragraph (3),
13 which—

14 “(i) is certified by the manufacturer
15 as being able to perform efficiently in nor-
16 mal operation on a combination of an al-
17 ternative fuel and a petroleum-based fuel,

18 “(ii) either—

19 “(I) has received a certificate of
20 conformity under the Clean Air Act,
21 or

22 “(II) has received an order certi-
23 fying the vehicle as meeting the same
24 requirements as vehicles which may be
25 sold or leased in California and meets

1 or exceeds the low emission vehicle
2 standard under section 88.105–94 of
3 title 40, Code of Federal Regulations,
4 for that make and model year vehicle,
5 “(iii) the original use of which com-
6 mences with the taxpayer,

7 “(iv) which is acquired by the tax-
8 payer for use or lease, but not for resale,
9 and

10 “(v) which is made by a manufac-
11 turer.

12 “(C) 75/25 MIXED-FUEL VEHICLE.—For
13 purposes of this subsection, the term ‘75/25
14 mixed-fuel vehicle’ means a mixed-fuel vehicle
15 which operates using at least 75 percent alter-
16 native fuel and not more than 25 percent petro-
17 leum-based fuel.

18 “(D) 90/10 MIXED-FUEL VEHICLE.—For
19 purposes of this subsection, the term ‘90/10
20 mixed-fuel vehicle’ means a mixed-fuel vehicle
21 which operates using at least 90 percent alter-
22 native fuel and not more than 10 percent petro-
23 leum-based fuel.

1 “(e) APPLICATION WITH OTHER CREDITS.—The
2 credit allowed under subsection (a) for any taxable year
3 shall not exceed the excess (if any) of—

4 “(1) the regular tax for the taxable year re-
5 duced by the sum of the credits allowable under sub-
6 part A and sections 27, 29, and 30, over

7 “(2) the tentative minimum tax for the taxable
8 year.

9 “(f) OTHER DEFINITIONS AND SPECIAL RULES.—
10 For purposes of this section—

11 “(1) CONSUMABLE FUEL.—The term
12 ‘consumable fuel’ means any solid, liquid, or gaseous
13 matter which releases energy when consumed by an
14 auxiliary power unit.

15 “(2) MOTOR VEHICLE.—The term ‘motor vehi-
16 cle’ has the meaning given such term by section
17 30(c)(2).

18 “(3) CITY FUEL ECONOMY.—The city fuel econ-
19 omy with respect to any vehicle shall be measured in
20 a manner which is substantially similar to the man-
21 ner city fuel economy is measured in accordance
22 with procedures under part 600 of subchapter Q of
23 chapter I of title 40, Code of Federal Regulations,
24 as in effect on the date of the enactment of this sec-
25 tion.

1 “(4) OTHER TERMS.—The terms ‘automobile’,
2 ‘passenger automobile’, ‘light truck’, and ‘manufac-
3 turer’ have the meanings given such terms in regula-
4 tions prescribed by the Administrator of the Envi-
5 ronmental Protection Agency for purposes of the ad-
6 ministration of title II of the Clean Air Act (42
7 U.S.C. 7521 et seq.).

8 “(5) REDUCTION IN BASIS.—For purposes of
9 this subtitle, the basis of any property for which a
10 credit is allowable under subsection (a) shall be re-
11 duced by the amount of such credit so allowed (de-
12 termined without regard to subsection (e)).

13 “(6) NO DOUBLE BENEFIT.—The amount of
14 any deduction or other credit allowable under this
15 chapter—

16 “(A) for any incremental cost taken into
17 account in computing the amount of the credit
18 determined under subsection (d) shall be re-
19 duced by the amount of such credit attributable
20 to such cost, and

21 “(B) with respect to a vehicle described
22 under subsection (b) or (c), shall be reduced by
23 the amount of credit allowed under subsection
24 (a) for such vehicle for the taxable year.

1 “(7) PROPERTY USED BY TAX-EXEMPT ENTI-
2 TIES.—In the case of a credit amount which is al-
3 lowable with respect to a motor vehicle which is ac-
4 quired by an entity exempt from tax under this
5 chapter, the person which sells or leases such vehicle
6 to the entity shall be treated as the taxpayer with
7 respect to the vehicle for purposes of this section
8 and the credit shall be allowed to such person, but
9 only if the person clearly discloses to the entity at
10 the time of any sale or lease the specific amount of
11 any credit otherwise allowable to the entity under
12 this section.

13 “(8) RECAPTURE.—The Secretary shall, by reg-
14 ulations, provide for recapturing the benefit of any
15 credit allowable under subsection (a) with respect to
16 any property which ceases to be property eligible for
17 such credit (including recapture in the case of a
18 lease period of less than the economic life of a vehi-
19 cle).

20 “(9) PROPERTY USED OUTSIDE UNITED
21 STATES, ETC., NOT QUALIFIED.—No credit shall be
22 allowed under subsection (a) with respect to any
23 property referred to in section 50(b) or with respect
24 to the portion of the cost of any property taken into
25 account under section 179.

1 “(10) ELECTION TO NOT TAKE CREDIT.—No
2 credit shall be allowed under subsection (a) for any
3 vehicle if the taxpayer elects to not have this section
4 apply to such vehicle.

5 “(11) CARRYBACK AND CARRYFORWARD AL-
6 LOWED.—

7 “(A) IN GENERAL.—If the credit amount
8 allowable under subsection (a) for a taxable
9 year exceeds the amount of the limitation under
10 subsection (e) for such taxable year (in this
11 paragraph referred to as the ‘unused credit
12 year’), such excess shall be allowed as a credit
13 carryback for each of the 3 taxable years begin-
14 ning after the date of the enactment of this
15 paragraph, which precede the unused credit
16 year and a credit carryforward for each of the
17 20 taxable years which succeed the unused
18 credit year.

19 “(B) RULES.—Rules similar to the rules of
20 section 39 shall apply with respect to the credit
21 carryback and credit carryforward under sub-
22 paragraph (A).

23 “(12) INTERACTION WITH AIR QUALITY AND
24 MOTOR VEHICLE SAFETY STANDARDS.—Unless oth-
25 erwise provided in this section, a motor vehicle shall

1 not be considered eligible for a credit under this sec-
2 tion unless such vehicle is in compliance with—

3 “(A) the applicable provisions of the Clean
4 Air Act for the applicable make and model year
5 of the vehicle (or applicable air quality provi-
6 sions of State law in the case of a State which
7 has adopted such provision under a waiver
8 under section 209(b) of the Clean Air Act), and

9 “(B) the motor vehicle safety provisions of
10 sections 30101 through 30169 of title 49,
11 United States Code.

12 “(g) REGULATIONS.—

13 “(1) IN GENERAL.—Except as provided in para-
14 graph (2), the Secretary shall promulgate such regu-
15 lations as necessary to carry out the provisions of
16 this section.

17 “(2) COORDINATION IN PRESCRIPTION OF CER-
18 TAIN REGULATIONS.—The Secretary of the Treas-
19 ury, in coordination with the Secretary of Transpor-
20 tation and the Administrator of the Environmental
21 Protection Agency, shall prescribe such regulations
22 as necessary to determine whether a motor vehicle
23 meets the requirements to be eligible for a credit
24 under this section.

1 “(h) TERMINATION.—This section shall not apply to
2 any property purchased after—

3 “(1) in the case of a new qualified fuel cell
4 motor vehicle (as described in subsection (b)), De-
5 cember 31, 2011, and

6 “(2) in the case of any other property, Decem-
7 ber 31, 2006.”.

8 (b) CONFORMING AMENDMENTS.—

9 (1) Section 1016(a) is amended by striking
10 “and” at the end of paragraph (27), by striking the
11 period at the end of paragraph (28) and inserting “,
12 and”, and by adding at the end the following new
13 paragraph:

14 “(29) to the extent provided in section
15 30B(f)(5).”.

16 (2) Section 55(c)(2) is amended by inserting
17 “30B(e),” after “30(b)(3)”.

18 (3) Section 6501(m) is amended by inserting
19 “30B(f)(10),” after “30(d)(4).”.

20 (4) The table of sections for subpart B of part
21 IV of subchapter A of chapter 1 is amended by in-
22 sserting after the item relating to section 30A the fol-
23 lowing new item:

“Sec. 30B. Alternative motor vehicle credit.”.

24 (c) EFFECTIVE DATE.—The amendments made by
25 this section shall apply to property placed in service after

1 the date of the enactment of this Act, in taxable years
2 ending after such date.

3 **SEC. 202. MODIFICATION OF CREDIT FOR QUALIFIED ELEC-**
4 **TRIC VEHICLES.**

5 (a) AMOUNT OF CREDIT.—

6 (1) IN GENERAL.—Section 30(a) (relating to al-
7 lowance of credit) is amended by striking “10 per-
8 cent of”.

9 (2) LIMITATION OF CREDIT ACCORDING TO
10 TYPE OF VEHICLE.—Section 30(b) (relating to limi-
11 tations) is amended—

12 (A) by striking paragraphs (1) and (2) and
13 inserting the following new paragraph:

14 “(1) LIMITATION ACCORDING TO TYPE OF VE-
15 HICLE.—The amount of the credit allowed under
16 subsection (a) for any vehicle shall not exceed the
17 greatest of the following amounts applicable to such
18 vehicle:

19 “(A) In the case of a vehicle which con-
20 forms to the Motor Vehicle Safety Standard
21 500 prescribed by the Secretary of Transpor-
22 tation, as in effect on the date of the enactment
23 of the Energy Tax Incentives Act of 2003, the
24 lesser of—

1 “(i) 10 percent of the manufacturer’s
2 suggested retail price of the vehicle, or

3 “(ii) \$1,500.

4 “(B) In the case of a vehicle not described
5 in subparagraph (A) with a gross vehicle weight
6 rating not exceeding 8,500 pounds—

7 “(i) \$3,500, or

8 “(ii) \$6,000, if such vehicle is—

9 “(I) capable of a driving range of
10 at least 100 miles on a single charge
11 of the vehicle’s rechargeable batteries
12 as measured pursuant to the urban
13 dynamometer schedules under appen-
14 dix I to part 86 of title 40, Code of
15 Federal Regulations, or

16 “(II) capable of a payload capaci-
17 ty of at least 1,000 pounds.

18 “(C) In the case of a vehicle with a gross
19 vehicle weight rating exceeding 8,500 but not
20 exceeding 14,000 pounds, \$10,000.

21 “(D) In the case of a vehicle with a gross
22 vehicle weight rating exceeding 14,000 but not
23 exceeding 26,000 pounds, \$20,000.

1 “(E) In the case of a vehicle with a gross
2 vehicle weight rating exceeding 26,000 pounds,
3 \$40,000.”, and

4 (B) by redesignating paragraph (3) as
5 paragraph (2).

6 (3) CONFORMING AMENDMENTS.—

7 (A) Section 53(d)(1)(B)(iii) is amended by
8 striking “section 30(b)(3)(B)” and inserting
9 “section 30(b)(2)(B)”.

10 (3) Section 55(c)(2), as amended by this Act, is
11 amended by striking “30(b)(3)” and inserting
12 “30(b)(2)”.

13 (b) QUALIFIED BATTERY ELECTRIC VEHICLE.—

14 (1) IN GENERAL.—Section 30(c)(1)(A) (defin-
15 ing qualified electric vehicle) is amended to read as
16 follows:

17 “(A) which is—

18 “(i) operated solely by use of a bat-
19 tery or battery pack, or

20 “(ii) powered primarily through the
21 use of an electric battery or battery pack
22 using a flywheel or capacitor which stores
23 energy produced by an electric motor
24 through regenerative braking to assist in
25 vehicle operation,”.

1 (2) LEASED VEHICLES.—Section 30(c)(1)(C) is
2 amended by inserting “or lease” after “use”.

3 (3) CONFORMING AMENDMENTS.—

4 (A) Subsections (a), (b)(2), and (c) of sec-
5 tion 30 are each amended by inserting “bat-
6 tery” after “qualified” each place it appears.

7 (B) The heading of subsection (c) of sec-
8 tion 30 is amended by inserting “BATTERY”
9 after “QUALIFIED”.

10 (C) The heading of section 30 is amended
11 by inserting “**BATTERY**” after “**QUALIFIED**”.

12 (D) The item relating to section 30 in the
13 table of sections for subpart B of part IV of
14 subchapter A of chapter 1 is amended by in-
15 serting “battery” after “qualified”.

16 (E) Section 179A(c)(3) is amended by in-
17 serting “battery” before “electric”.

18 (F) The heading of paragraph (3) of sec-
19 tion 179A(c) is amended by inserting “BAT-
20 TERY” before “ELECTRIC”.

21 (c) ADDITIONAL SPECIAL RULES.—Section 30(d)
22 (relating to special rules) is amended by adding at the end
23 the following new paragraphs:

24 “(5) NO DOUBLE BENEFIT.—The amount of
25 any deduction or other credit allowable under this

1 chapter for any cost taken into account in com-
2 puting the amount of the credit determined under
3 subsection (a) shall be reduced by the amount of
4 such credit attributable to such cost.

5 “(6) PROPERTY USED BY TAX-EXEMPT ENTI-
6 TIES.—In the case of a credit amount which is al-
7 lowable with respect to a vehicle which is acquired
8 by an entity exempt from tax under this chapter, the
9 person which sells or leases such vehicle to the entity
10 shall be treated as the taxpayer with respect to the
11 vehicle for purposes of this section and the credit
12 shall be allowed to such person, but only if the per-
13 son clearly discloses to the entity at the time of any
14 sale or lease the specific amount of any credit other-
15 wise allowable to the entity under this section.

16 “(7) CARRYBACK AND CARRYFORWARD AL-
17 LOWED.—

18 “(A) IN GENERAL.—If the credit amount
19 allowable under subsection (a) for a taxable
20 year exceeds the amount of the limitation under
21 subsection (b)(2) for such taxable year (in this
22 paragraph referred to as the ‘unused credit
23 year’), such excess shall be allowed as a credit
24 carryback for each of the 3 taxable years begin-
25 ning after the date of the enactment of this

1 paragraph, which precede the unused credit
 2 year and a credit carryforward for each of the
 3 20 taxable years which succeed the unused
 4 credit year.

5 “(B) RULES.—Rules similar to the rules of
 6 section 39 shall apply with respect to the credit
 7 carryback and credit carryforward under sub-
 8 paragraph (A).”.

9 (d) EFFECTIVE DATE.—The amendments made by
 10 this section shall apply to property placed in service after
 11 the date of the enactment of this Act, in taxable years
 12 ending after such date.

13 **SEC. 203. CREDIT FOR INSTALLATION OF ALTERNATIVE**
 14 **FUELING STATIONS.**

15 (a) IN GENERAL.—Subpart B of part IV of sub-
 16 chapter A of chapter 1 (relating to foreign tax credit, etc.),
 17 as amended by this Act, is amended by adding at the end
 18 the following new section:

19 **“SEC. 30C. CLEAN-FUEL VEHICLE REFUELING PROPERTY**
 20 **CREDIT.**

21 “(a) CREDIT ALLOWED.—There shall be allowed as
 22 a credit against the tax imposed by this chapter for the
 23 taxable year an amount equal to 50 percent of the amount
 24 paid or incurred by the taxpayer during the taxable year

1 for the installation of qualified clean-fuel vehicle refueling
2 property.

3 “(b) LIMITATION.—The credit allowed under sub-
4 section (a)—

5 “(1) with respect to any retail clean-fuel vehicle
6 refueling property, shall not exceed \$30,000, and

7 “(2) with respect to any residential clean-fuel
8 vehicle refueling property, shall not exceed \$1,000.

9 “(c) YEAR CREDIT ALLOWED.—The credit allowed
10 under subsection (a) shall be allowed in the taxable year
11 in which the qualified clean-fuel vehicle refueling property
12 is placed in service by the taxpayer.

13 “(d) DEFINITIONS.—For purposes of this section—

14 “(1) QUALIFIED CLEAN-FUEL VEHICLE RE-
15 FUELING PROPERTY.—The term ‘qualified clean-fuel
16 vehicle refueling property’ has the same meaning
17 given such term by section 179A(d).

18 “(2) RESIDENTIAL CLEAN-FUEL VEHICLE RE-
19 FUELING PROPERTY.—The term ‘residential clean-
20 fuel vehicle refueling property’ means qualified
21 clean-fuel vehicle refueling property which is in-
22 stalled on property which is used as the principal
23 residence (within the meaning of section 121) of the
24 taxpayer.

1 “(3) RETAIL CLEAN-FUEL VEHICLE REFUELING
2 PROPERTY.—The term ‘retail clean-fuel vehicle re-
3 fueling property’ means qualified clean-fuel vehicle
4 refueling property which is installed on property
5 (other than property described in paragraph (2))
6 used in a trade or business of the taxpayer.

7 “(e) APPLICATION WITH OTHER CREDITS.—The
8 credit allowed under subsection (a) for any taxable year
9 shall not exceed the excess (if any) of—

10 “(1) the regular tax for the taxable year re-
11 duced by the sum of the credits allowable under sub-
12 part A and sections 27, 29, 30, and 30B, over

13 “(2) the tentative minimum tax for the taxable
14 year.

15 “(f) BASIS REDUCTION.—For purposes of this title,
16 the basis of any property shall be reduced by the portion
17 of the cost of such property taken into account under sub-
18 section (a).

19 “(g) NO DOUBLE BENEFIT.—No deduction shall be
20 allowed under section 179A with respect to any property
21 with respect to which a credit is allowed under subsection
22 (a).

23 “(h) REFUELING PROPERTY INSTALLED FOR TAX-
24 EXEMPT ENTITIES.—In the case of qualified clean-fuel ve-
25 hicle refueling property installed on property owned or

1 used by an entity exempt from tax under this chapter, the
2 person which installs such refueling property for the entity
3 shall be treated as the taxpayer with respect to the refuel-
4 ing property for purposes of this section (and such refuel-
5 ing property shall be treated as retail clean-fuel vehicle
6 refueling property) and the credit shall be allowed to such
7 person, but only if the person clearly discloses to the entity
8 in any installation contract the specific amount of the
9 credit allowable under this section.

10 “(i) CARRYFORWARD ALLOWED.—

11 “(1) IN GENERAL.—If the credit amount allow-
12 able under subsection (a) for a taxable year exceeds
13 the amount of the limitation under subsection (e) for
14 such taxable year (referred to as the ‘unused credit
15 year’ in this subsection), such excess shall be allowed
16 as a credit carryforward for each of the 20 taxable
17 years following the unused credit year.

18 “(2) RULES.—Rules similar to the rules of sec-
19 tion 39 shall apply with respect to the credit
20 carryforward under paragraph (1).

21 “(j) SPECIAL RULES.—Rules similar to the rules of
22 paragraphs (4) and (5) of section 179A(e) shall apply.

23 “(k) REGULATIONS.—The Secretary shall prescribe
24 such regulations as necessary to carry out the provisions
25 of this section.

1 “(l) TERMINATION.—This section shall not apply to
2 any property placed in service—

3 “(1) in the case of property relating to hydro-
4 gen, after December 31, 2011, and

5 “(2) in the case of any other property, after
6 December 31, 2007.”.

7 (b) MODIFICATIONS TO EXTENSION OF DEDUCTION
8 FOR CERTAIN REFUELING PROPERTY.—

9 (1) IN GENERAL.—Subsection (f) of section
10 179A is amended to read as follows:

11 “(f) TERMINATION.—This section shall not apply to
12 any property placed in service—

13 “(1) in the case of property relating to hydro-
14 gen, after December 31, 2011, and

15 “(2) in the case of any other property, after
16 December 31, 2007.”.

17 (2) EXTENSION OF PHASEOUT.—Section
18 179A(b)(1)(B), as amended by section 606(a) of the
19 Job Creation and Worker Assistance Act of 2002, is
20 amended—

21 (A) by striking “calendar year 2004” in
22 clause (i) and inserting “calendar years 2004
23 and 2005 (calendar years 2004 through 2009
24 in the case of property relating to hydrogen) ”,

1 (B) by striking “2005” in clause (ii) and
2 inserting “2006 (calendar year 2010 in the case
3 of property relating to hydrogen)”, and

4 (C) by striking “2006” in clause (iii) and
5 inserting “2007 (calendar year 2011 in the case
6 of property relating to hydrogen)”.

7 (c) INCENTIVE FOR PRODUCTION OF HYDROGEN AT
8 QUALIFIED CLEAN-FUEL VEHICLE REFUELING PROP-
9 erty.—Section 179A(d) (defining qualified clean-fuel ve-
10 hicle refueling property) is amended by adding at the end
11 the following new flush sentence:

12 “In the case of clean-burning fuel which is hydrogen pro-
13 duced from another clean-burning fuel, paragraph (3)(A)
14 shall be applied by substituting ‘production, storage, or
15 dispensing’ for ‘storage or dispensing’ both places it ap-
16 pears.”.

17 (d) CONFORMING AMENDMENTS.—(1) Section
18 1016(a), as amended by this Act, is amended by striking
19 “and” at the end of paragraph (28), by striking the period
20 at the end of paragraph (29) and inserting “, and”, and
21 by adding at the end the following new paragraph:

22 “(30) to the extent provided in section
23 30C(f).”.

24 (2) Section 55(e)(2), as amended by this Act, is
25 amended by inserting “30C(e),” after “30B(e)”.

1 (3) The table of sections for subpart B of part IV
 2 of subchapter A of chapter 1, as amended by this Act,
 3 is amended by inserting after the item relating to section
 4 30B the following new item:

“Sec. 30C. Clean-fuel vehicle refueling property credit.”.

5 (e) EFFECTIVE DATE.—The amendments made by
 6 this section shall apply to property placed in service after
 7 the date of the enactment of this Act, in taxable years
 8 ending after such date.

9 **SEC. 204. CREDIT FOR RETAIL SALE OF ALTERNATIVE**
 10 **FUELS AS MOTOR VEHICLE FUEL.**

11 (a) IN GENERAL.—Subpart D of part IV of sub-
 12 chapter A of chapter 1 (relating to business related cred-
 13 its) is amended by inserting after section 40 the following
 14 new section:

15 **“SEC. 40A. CREDIT FOR RETAIL SALE OF ALTERNATIVE**
 16 **FUELS AS MOTOR VEHICLE FUEL.**

17 “(a) GENERAL RULE.—For purposes of section 38,
 18 the alternative fuel retail sales credit for any taxable year
 19 is the applicable amount for each gasoline gallon equiva-
 20 lent of alternative fuel sold at retail by the taxpayer during
 21 such year as a fuel to propel any qualified motor vehicle.

22 “(b) DEFINITIONS.—For purposes of this section—

23 “(1) APPLICABLE AMOUNT.—The term ‘applica-
 24 ble amount’ means the amount determined in ac-
 25 cordance with the following table:

“In the case of any taxable year ending in—	The applicable amount is—
2003	30 cents
2004	40 cents
2005 and 2006	50 cents.

1 “(2) ALTERNATIVE FUEL.—The term ‘alter-
2 native fuel’ means compressed natural gas, liquefied
3 natural gas, liquefied petroleum gas, hydrogen, and
4 any liquid at least 85 percent of the volume of which
5 consists of methanol or ethanol.

6 “(3) GASOLINE GALLON EQUIVALENT.—The
7 term ‘gasoline gallon equivalent’ means, with respect
8 to any alternative fuel, the amount (determined by
9 the Secretary) of such fuel having a Btu content of
10 114,000.

11 “(4) QUALIFIED MOTOR VEHICLE.—The term
12 ‘qualified motor vehicle’ means any motor vehicle (as
13 defined in section 30(c)(2)) which meets any appli-
14 cable Federal or State emissions standards with re-
15 spect to each fuel by which such vehicle is designed
16 to be propelled.

17 “(5) SOLD AT RETAIL.—

18 “(A) IN GENERAL.—The term ‘sold at re-
19 tail’ means the sale, for a purpose other than
20 resale, after manufacture, production, or impor-
21 tation.

22 “(B) USE TREATED AS SALE.—If any per-
23 son uses alternative fuel (including any use

1 after importation) as a fuel to propel any quali-
2 fied alternative fuel motor vehicle (as defined in
3 section 30B(d)(4)) before such fuel is sold at
4 retail, then such use shall be treated in the
5 same manner as if such fuel were sold at retail
6 as a fuel to propel such a vehicle by such per-
7 son.

8 “(c) NO DOUBLE BENEFIT.—The amount of any de-
9 duction or other credit allowable under this chapter for
10 any fuel taken into account in computing the amount of
11 the credit determined under subsection (a) shall be re-
12 duced by the amount of such credit attributable to such
13 fuel.

14 “(d) PASS-THRU IN THE CASE OF ESTATES AND
15 TRUSTS.—Under regulations prescribed by the Secretary,
16 rules similar to the rules of subsection (d) of section 52
17 shall apply.

18 “(e) TERMINATION.—This section shall not apply to
19 any fuel sold at retail after December 31, 2006.”.

20 (b) CREDIT TREATED AS BUSINESS CREDIT.—Sec-
21 tion 38(b) (relating to current year business credit) is
22 amended by striking “plus” at the end of paragraph (14),
23 by striking the period at the end of paragraph (15) and
24 inserting “, plus”, and by adding at the end the following
25 new paragraph:

1 “(16) the alternative fuel retail sales credit de-
2 termined under section 40A(a).”.

3 (c) TRANSITIONAL RULE.—Section 39(d) (relating to
4 transitional rules) is amended by adding at the end the
5 following new paragraph:

6 “(11) NO CARRYBACK OF SECTION 40A CREDIT
7 BEFORE EFFECTIVE DATE.—No portion of the un-
8 used business credit for any taxable year which is
9 attributable to the alternative fuel retail sales credit
10 determined under section 40A(a) may be carried
11 back to a taxable year ending on or before the date
12 of the enactment of such section.”.

13 (d) CLERICAL AMENDMENT.—The table of sections
14 for subpart D of part IV of subchapter A of chapter 1
15 is amended by inserting after the item relating to section
16 40 the following new item:

 “Sec. 40A. Credit for retail sale of alternative fuels as motor vehicle fuel.”.

17 (e) EFFECTIVE DATE.—The amendments made by
18 this section shall apply to fuel sold at retail after the date
19 of the enactment of this Act, in taxable years ending after
20 such date.

21 **SEC. 205. SMALL ETHANOL PRODUCER CREDIT.**

22 (a) ALLOCATION OF ALCOHOL FUELS CREDIT TO
23 PATRONS OF A COOPERATIVE.—Section 40(g) (relating to
24 alcohol used as fuel) is amended by adding at the end the
25 following new paragraph:

1 “(6) ALLOCATION OF SMALL ETHANOL PRO-
2 DUCER CREDIT TO PATRONS OF COOPERATIVE.—

3 “(A) ELECTION TO ALLOCATE.—

4 “(i) IN GENERAL.—In the case of a
5 cooperative organization described in sec-
6 tion 1381(a), any portion of the credit de-
7 termined under subsection (a)(3) for the
8 taxable year may, at the election of the or-
9 ganization, be apportioned pro rata among
10 patrons of the organization on the basis of
11 the quantity or value of business done with
12 or for such patrons for the taxable year.

13 “(ii) FORM AND EFFECT OF ELEC-
14 TION.—An election under clause (i) for any
15 taxable year shall be made on a timely
16 filed return for such year. Such election,
17 once made, shall be irrevocable for such
18 taxable year.

19 “(B) TREATMENT OF ORGANIZATIONS AND
20 PATRONS.—The amount of the credit appor-
21 tioned to patrons under subparagraph (A)—

22 “(i) shall not be included in the
23 amount determined under subsection (a)
24 with respect to the organization for the
25 taxable year,

1 “(ii) shall be included in the amount
2 determined under subsection (a) for the
3 taxable year of each patron for which the
4 patronage dividends for the taxable year
5 described in subparagraph (A) are included
6 in gross income, and

7 “(iii) shall be included in gross income
8 of such patrons for the taxable year in the
9 manner and to the extent provided in sec-
10 tion 87.

11 “(C) SPECIAL RULES FOR DECREASE IN
12 CREDITS FOR TAXABLE YEAR.—If the amount
13 of the credit of a cooperative organization de-
14 termined under subsection (a)(3) for a taxable
15 year is less than the amount of such credit
16 shown on the return of the cooperative organi-
17 zation for such year, an amount equal to the
18 excess of—

19 “(i) such reduction, over

20 “(ii) the amount not apportioned to
21 such patrons under subparagraph (A) for
22 the taxable year,

23 shall be treated as an increase in tax imposed
24 by this chapter on the organization. Such in-
25 crease shall not be treated as tax imposed by

1 this chapter for purposes of determining the
2 amount of any credit under this chapter or for
3 purposes of section 55.”.

4 (b) IMPROVEMENTS TO SMALL ETHANOL PRODUCER
5 CREDIT.—

6 (1) DEFINITION OF SMALL ETHANOL PRO-
7 DUCER.—Section 40(g) (relating to definitions and
8 special rules for eligible small ethanol producer cred-
9 it) is amended by striking “30,000,000” each place
10 it appears and inserting “60,000,000”.

11 (2) SMALL ETHANOL PRODUCER CREDIT NOT A
12 PASSIVE ACTIVITY CREDIT.—Clause (i) of section
13 469(d)(2)(A) is amended by striking “subpart D”
14 and inserting “subpart D, other than section
15 40(a)(3),”.

16 (3) ALLOWING CREDIT AGAINST ENTIRE REG-
17 ULAR TAX AND MINIMUM TAX.—

18 (A) IN GENERAL.—Subsection (c) of sec-
19 tion 38 (relating to limitation based on amount
20 of tax), as amended by section 301(b) of the
21 Job Creation and Worker Assistance Act of
22 2002, is amended by redesignating paragraph
23 (4) as paragraph (5) and by inserting after
24 paragraph (3) the following new paragraph:

1 “(4) SPECIAL RULES FOR SMALL ETHANOL
2 PRODUCER CREDIT.—

3 “(A) IN GENERAL.—In the case of the
4 small ethanol producer credit—

5 “(i) this section and section 39 shall
6 be applied separately with respect to the
7 credit, and

8 “(ii) in applying paragraph (1) to the
9 credit—

10 “(I) the amounts in subpara-
11 graphs (A) and (B) thereof shall be
12 treated as being zero, and

13 “(II) the limitation under para-
14 graph (1) (as modified by subclause
15 (I)) shall be reduced by the credit al-
16 lowed under subsection (a) for the
17 taxable year (other than the small
18 ethanol producer credit).

19 “(B) SMALL ETHANOL PRODUCER CRED-
20 IT.—For purposes of this subsection, the term
21 ‘small ethanol producer credit’ means the credit
22 allowable under subsection (a) by reason of sec-
23 tion 40(a)(3).”.

24 “(B) CONFORMING AMENDMENTS.—Sub-
25 clause (II) of section 38(c)(2)(A)(ii), as amend-

1 ed by section 301(b)(2) of the Job Creation and
2 Worker Assistance Act of 2002, and subclause
3 (II) of section 38(c)(3)(A)(ii), as added by sec-
4 tion 301(b)(1) of such Act, are each amended
5 by inserting “or the small ethanol producer
6 credit” after “employee credit”.

7 (4) SMALL ETHANOL PRODUCER CREDIT NOT
8 ADDED BACK TO INCOME UNDER SECTION 87.—Sec-
9 tion 87 (relating to income inclusion of alcohol fuel
10 credit) is amended to read as follows:

11 **“SEC. 87. ALCOHOL FUEL CREDIT.**

12 “Gross income includes an amount equal to the sum
13 of—

14 “(1) the amount of the alcohol mixture credit
15 determined with respect to the taxpayer for the tax-
16 able year under section 40(a)(1), and

17 “(2) the alcohol credit determined with respect
18 to the taxpayer for the taxable year under section
19 40(a)(2).”.

20 (c) CONFORMING AMENDMENT.—Section 1388 (re-
21 lating to definitions and special rules for cooperative orga-
22 nizations) is amended by adding at the end the following
23 new subsection:

24 “(k) CROSS REFERENCE.—For provisions relating to
25 the apportionment of the alcohol fuels credit between coop-

1 erative organizations and their patrons, see section
2 40(g)(6).”.

3 (d) **EFFECTIVE DATE.**—The amendments made by
4 this section shall apply to taxable years beginning after
5 the date of the enactment of this Act.

6 **SEC. 206. ALL ALCOHOL FUELS TAXES TRANSFERRED TO**
7 **HIGHWAY TRUST FUND.**

8 (a) **IN GENERAL.**—Section 9503(b)(4) (relating to
9 certain taxes not transferred to Highway Trust Fund) is
10 amended—

11 (1) by adding “or” at the end of subparagraph
12 (C),

13 (2) by striking the comma at the end of sub-
14 paragraph (D)(iii) and inserting a period, and

15 (3) by striking subparagraphs (E) and (F).

16 (b) **EFFECTIVE DATE.**—The amendments made by
17 this section shall apply to taxes imposed after September
18 30, 2003.

19 **SEC. 207. INCREASED FLEXIBILITY IN ALCOHOL FUELS TAX**
20 **CREDIT.**

21 (a) **ALCOHOL FUELS CREDIT MAY BE TRANS-**
22 **FERRED.**—Section 40 (relating to alcohol used as fuel) is
23 amended by adding at the end the following new sub-
24 section:

25 “(i) **CREDIT MAY BE TRANSFERRED.**—

1 “(1) IN GENERAL.—A taxpayer may transfer
2 any credit allowable under paragraph (1) or (2) of
3 subsection (a) with respect to alcohol used in the
4 production of ethyl tertiary butyl ether through an
5 assignment to a qualified assignee. Such transfer
6 may be revoked only with the consent of the Sec-
7 retary.

8 “(2) QUALIFIED ASSIGNEE.—For purposes of
9 this subsection, the term ‘qualified assignee’ means
10 any person who—

11 “(A) is liable for taxes imposed under sec-
12 tion 4081,

13 “(B) is required to register under section
14 4101, and

15 “(C) obtains a certificate from the tax-
16 payer described in paragraph (1) which identi-
17 fies the amount of alcohol used in such produc-
18 tion.

19 “(3) REGULATIONS.—The Secretary shall pre-
20 scribe such regulations as necessary to insure that
21 any credit described in paragraph (1) is claimed
22 once and not reassigned by a qualified assignee.”.

23 (b) ALCOHOL FUELS CREDIT MAY BE TAKEN
24 AGAINST MOTOR FUELS TAX LIABILITY.—

1 (1) IN GENERAL.—Subpart C of part III of
2 subchapter A of chapter 32 (relating to special pro-
3 visions applicable to petroleum products) is amended
4 by adding at the end the following new section:

5 **“SEC. 4104. CREDIT AGAINST MOTOR FUELS TAXES.**

6 “(a) ELECTION TO USE CREDIT AGAINST MOTOR
7 FUELS TAXES.—There is hereby allowed as a credit
8 against the taxes imposed by section 4081, any credit al-
9 lowed under paragraph (1) or (2) of section 40(a) with
10 respect to alcohol used in the production of ethyl tertiary
11 butyl ether to the extent—

12 “(1) such credit is not claimed by the taxpayer
13 or the qualified assignee under section 40(i) as a
14 credit under section 40, and

15 “(2) the taxpayer or qualified assignee elects to
16 claim such credit under this section.

17 “(b) ELECTION IRREVOCABLE.—Any election under
18 subsection (a) shall be irrevocable.

19 “(c) REQUIRED STATEMENT.—Any return claiming
20 a credit pursuant to an election under this section shall
21 be accompanied by a statement that the credit was not,
22 and will not, be claimed on an income tax return.

23 “(d) REGULATIONS.—The Secretary shall prescribe
24 such regulations as necessary to avoid the claiming of dou-

1 ble benefits and to prescribe the taxable periods with re-
2 spect to which the credit may be claimed.”.

3 (2) CONFORMING AMENDMENT.—Section 40(c)
4 is amended by striking “or section 4091(c)” and in-
5 serting “section 4091(c), or section 4104”.

6 (3) CLERICAL AMENDMENT.—The table of sec-
7 tions for subpart C of part III of subchapter A of
8 chapter 32 is amended by adding at the end the fol-
9 lowing new item:

“Sec. 4104. Credit against motor fuels taxes.”.

10 (c) EFFECTIVE DATE.—The amendments made by
11 this section shall take effect on and after the date of the
12 enactment of this Act.

13 **SEC. 208. INCENTIVES FOR BIODIESEL.**

14 (a) CREDIT FOR BIODIESEL USED AS A FUEL.—

15 (1) IN GENERAL.—Subpart D of part IV of
16 subchapter A of chapter 1 (relating to business re-
17 lated credits), as amended by this Act, is amended
18 by inserting after section 40A the following new sec-
19 tion:

20 **“SEC. 40B. BIODIESEL USED AS FUEL.**

21 “(a) GENERAL RULE.—For purposes of section 38,
22 the biodiesel fuels credit determined under this section for
23 the taxable year is an amount equal to the biodiesel mix-
24 ture credit.

1 “(b) DEFINITION OF BIODIESEL MIXTURE CRED-
2 IT.—For purposes of this section—

3 “(1) BIODIESEL MIXTURE CREDIT.—

4 “(A) IN GENERAL.—The biodiesel mixture
5 credit of any taxpayer for any taxable year is
6 the sum of the products of the biodiesel mixture
7 rate for each qualified biodiesel mixture and the
8 number of gallons of such mixture of the tax-
9 payer for the taxable year.

10 “(B) BIODIESEL MIXTURE RATE.—For
11 purposes of subparagraph (A), the biodiesel
12 mixture rate for each qualified biodiesel mixture
13 shall be—

14 “(i) in the case of a mixture with only
15 biodiesel V, 1 cent for each whole percent-
16 age point (not exceeding 20 percentage
17 points) of biodiesel V in such mixture, and

18 “(ii) in the case of a mixture with bio-
19 diesel NV, or a combination of biodiesel V
20 and biodiesel NV, 0.5 cent for each whole
21 percentage point (not exceeding 20 per-
22 centage points) of such biodiesel in such
23 mixture.

24 “(2) QUALIFIED BIODIESEL MIXTURE.—

1 “(A) IN GENERAL.—The term ‘qualified
2 biodiesel mixture’ means a mixture of diesel
3 and biodiesel V or biodiesel NV which—

4 “(i) is sold by the taxpayer producing
5 such mixture to any person for use as a
6 fuel, or

7 “(ii) is used as a fuel by the taxpayer
8 producing such mixture.

9 “(B) SALE OR USE MUST BE IN TRADE OR
10 BUSINESS, ETC.—

11 “(i) IN GENERAL.—Biodiesel V or bio-
12 diesel NV used in the production of a
13 qualified biodiesel mixture shall be taken
14 into account—

15 “(I) only if the sale or use de-
16 scribed in subparagraph (A) is in a
17 trade or business of the taxpayer, and

18 “(II) for the taxable year in
19 which such sale or use occurs.

20 “(ii) CERTIFICATION FOR BIODIESEL
21 V.—Biodiesel V used in the production of
22 a qualified biodiesel mixture shall be taken
23 into account only if the taxpayer described
24 in subparagraph (A) obtains a certification

1 from the producer of the biodiesel V which
2 identifies the product produced.

3 “(C) CASUAL OFF-FARM PRODUCTION NOT
4 ELIGIBLE.—No credit shall be allowed under
5 this section with respect to any casual off-farm
6 production of a qualified biodiesel mixture.

7 “(c) COORDINATION WITH EXEMPTION FROM EX-
8 CISE TAX.—The amount of the credit determined under
9 this section with respect to any biodiesel V shall, under
10 regulations prescribed by the Secretary, be properly re-
11 duced to take into account any benefit provided with re-
12 spect to such biodiesel V solely by reason of the application
13 of section 4041(n) or section 4081(f).

14 “(d) DEFINITIONS AND SPECIAL RULES.—For pur-
15 poses of this section—

16 “(1) BIODIESEL V DEFINED.—The term ‘bio-
17 diesel V’ means the monoalkyl esters of long chain
18 fatty acids derived solely from virgin vegetable oils
19 for use in compression-ignition (diesel) engines.
20 Such term shall include esters derived from vege-
21 table oils from corn, soybeans, sunflower seeds, cot-
22 tonseeds, canola, crambe, rapeseeds, safflowers,
23 flaxseeds, rice bran, and mustard seeds.

24 “(2) BIODIESEL NV DEFINED.—The term ‘bio-
25 diesel NV’ means the monoalkyl esters of long chain

1 fatty acids derived from nonvirgin vegetable oils or
2 animal fats for use in compressional-ignition (diesel)
3 engines.

4 “(3) REGISTRATION REQUIREMENTS.—The
5 terms ‘biodiesel V’ and ‘biodiesel NV’ shall only in-
6 clude a biodiesel which meets—

7 “(i) the registration requirements for
8 fuels and fuel additives established by the
9 Environmental Protection Agency under
10 section 211 of the Clean Air Act (42
11 U.S.C. 7545), and

12 “(ii) the requirements of the Amer-
13 ican Society of Testing and Materials
14 D6751.

15 “(2) BIODIESEL MIXTURE NOT USED AS A
16 FUEL, ETC.—

17 “(A) IMPOSITION OF TAX.—If—

18 “(i) any credit was determined under
19 this section with respect to biodiesel V or
20 biodiesel NV used in the production of any
21 qualified biodiesel mixture, and

22 “(ii) any person—

23 “(I) separates such biodiesel
24 from the mixture, or

1 “(II) without separation, uses the
2 mixture other than as a fuel,
3 then there is hereby imposed on such per-
4 son a tax equal to the product of the bio-
5 diesel mixture rate applicable under sub-
6 section (b)(1)(B) and the number of gal-
7 lons of the mixture.

8 “(B) APPLICABLE LAWS.—All provisions of
9 law, including penalties, shall, insofar as appli-
10 cable and not inconsistent with this section,
11 apply in respect of any tax imposed under sub-
12 paragraph (A) as if such tax were imposed by
13 section 4081 and not by this chapter.

14 “(3) PASS-THRU IN THE CASE OF ESTATES AND
15 TRUSTS.—Under regulations prescribed by the Sec-
16 retary, rules similar to the rules of subsection (d) of
17 section 52 shall apply.

18 “(e) ELECTION TO HAVE BIODIESEL FUELS CREDIT
19 NOT APPLY.—

20 “(1) IN GENERAL.—A taxpayer may elect to
21 have this section not apply for any taxable year.

22 “(2) TIME FOR MAKING ELECTION.—An elec-
23 tion under paragraph (1) for any taxable year may
24 be made (or revoked) at any time before the expira-
25 tion of the 3-year period beginning on the last date

1 prescribed by law for filing the return for such tax-
2 able year (determined without regard to extensions).

3 “(3) MANNER OF MAKING ELECTION.—An elec-
4 tion under paragraph (1) (or revocation thereof)
5 shall be made in such manner as the Secretary may
6 by regulations prescribe.”.

7 “(f) TERMINATION.—This section shall not apply to
8 any fuel sold after December 31, 2005.”.

9 (2) CREDIT TREATED AS PART OF GENERAL
10 BUSINESS CREDIT.—Section 38(b), as amended by
11 this Act, is amended by striking “plus” at the end
12 of paragraph (15), by striking the period at the end
13 of paragraph (16) and inserting “, plus”, and by
14 adding at the end the following new paragraph:

15 “(17) the biodiesel fuels credit determined
16 under section 40B(a).”.

17 (3) CONFORMING AMENDMENTS.—

18 (A) Section 39(d), as amended by this Act,
19 is amended by adding at the end the following
20 new paragraph:

21 “(12) NO CARRYBACK OF BIODIESEL FUELS
22 CREDIT BEFORE JANUARY 1, 2003.—No portion of
23 the unused business credit for any taxable year
24 which is attributable to the biodiesel fuels credit de-

1 terminated under section 40B may be carried back to
2 a taxable year beginning before January 1, 2003.”.

3 (B) Section 196(c) is amended by striking
4 “and” at the end of paragraph (9), by striking
5 the period at the end of paragraph (10), and by
6 adding at the end the following new paragraph:
7 “(11) the biodiesel fuels credit determined
8 under section 40B(a).”.

9 (C) Section 6501(m), as amended by this
10 Act, is amended by inserting “40B(e),” after
11 “40(f),”.

12 (D) The table of sections for subpart D of
13 part IV of subchapter A of chapter 1, as
14 amended by this Act, is amended by adding
15 after the item relating to section 40A the fol-
16 lowing new item:

 “Sec. 40B. Biodiesel used as fuel.”.

17 (4) EFFECTIVE DATE.—The amendments made
18 by this subsection shall apply to taxable years begin-
19 ning after December 31, 2002.

20 (b) REDUCTION OF MOTOR FUEL EXCISE TAXES ON
21 BIODIESEL V MIXTURES.—

22 (1) IN GENERAL.—Section 4081 (relating to
23 manufacturers tax on petroleum products) is amend-
24 ed by adding at the end the following new sub-
25 section:

1 “(f) BIODIESEL V MIXTURES.—Under regulations
2 prescribed by the Secretary—

3 “(1) IN GENERAL.—In the case of the removal
4 or entry of a qualified biodiesel mixture with bio-
5 diesel V, the rate of tax under subsection (a) shall
6 be the otherwise applicable rate reduced by the bio-
7 diesel mixture rate (if any) applicable to the mix-
8 ture.

9 “(2) TAX PRIOR TO MIXING.—

10 “(A) IN GENERAL.—In the case of the re-
11 moval or entry of diesel fuel for use in pro-
12 ducing at the time of such removal or entry a
13 qualified biodiesel mixture with biodiesel V, the
14 rate of tax under subsection (a) shall be the
15 rate determined under subparagraph (B).

16 “(B) DETERMINATION OF RATE.—For
17 purposes of subparagraph (A), the rate deter-
18 mined under this subparagraph is the rate de-
19 termined under paragraph (1), divided by a per-
20 centage equal to 100 percent minus the per-
21 centage of biodiesel V which will be in the mix-
22 ture.

23 “(3) DEFINITIONS.—For purposes of this sub-
24 section, any term used in this subsection which is

1 also used in section 40B shall have the meaning
2 given such term by section 40B.

3 “(4) CERTAIN RULES TO APPLY.—Rules similar
4 to the rules of paragraphs (6) and (7) of subsection
5 (c) shall apply for purposes of this subsection.”.

6 (2) CONFORMING AMENDMENTS.—

7 (A) Section 4041 is amended by adding at
8 the end the following new subsection:

9 “(n) BIODIESEL V MIXTURES.—Under regulations
10 prescribed by the Secretary, in the case of the sale or use
11 of a qualified biodiesel mixture (as defined in section
12 40B(b)(2)) with biodiesel V, the rates under paragraphs
13 (1) and (2) of subsection (a) shall be the otherwise appli-
14 cable rates, reduced by any applicable biodiesel mixture
15 rate (as defined in section 40B(b)(1)(B)).”.

16 (B) Section 6427 is amended by redesignig-
17 nating subsection (p) as subsection (q) and by
18 inserting after subsection (o) the following new
19 subsection:

20 “(p) BIODIESEL V MIXTURES.—Except as provided
21 in subsection (k), if any diesel fuel on which tax was im-
22 posed by section 4081 at a rate not determined under sec-
23 tion 4081(f) is used by any person in producing a qualified
24 biodiesel mixture (as defined in section 40B(b)(2)) with
25 biodiesel V which is sold or used in such person’s trade

1 or business, the Secretary shall pay (without interest) to
 2 such person an amount equal to the per gallon applicable
 3 biodiesel mixture rate (as defined in section 40B(b)(1)(B))
 4 with respect to such fuel.”.

5 (3) EFFECTIVE DATE.—The amendments made
 6 by this subsection shall apply to any fuel sold after
 7 the date of the enactment of this Act, and before
 8 January 1, 2006.

9 (c) HIGHWAY TRUST FUND HELD HARMLESS.—
 10 There are hereby transferred (from time to time) from the
 11 funds of the Commodity Credit Corporation amounts de-
 12 termined by the Secretary of the Treasury to be equivalent
 13 to the reductions that would occur (but for this sub-
 14 section) in the receipts of the Highway Trust Fund by
 15 reason of the amendments made by this section.

16 **SEC. 209. CREDIT FOR TAXPAYERS OWNING COMMERCIAL**
 17 **POWER TAKEOFF VEHICLES.**

18 (a) IN GENERAL.—Subpart D of part IV of sub-
 19 chapter A of chapter 1 (relating to business-related cred-
 20 its), as amended by section 703, is amended by adding
 21 at the end the following new section:

22 **“SEC. 45N. COMMERCIAL POWER TAKEOFF VEHICLES**
 23 **CREDIT.**

24 “(a) GENERAL RULE.—For purposes of section 38,
 25 the amount of the commercial power takeoff vehicles credit

1 determined under this section for the taxable year is \$250
2 for each qualified commercial power takeoff vehicle owned
3 by the taxpayer as of the close of the calendar year in
4 which or with which the taxable year of the taxpayer ends.

5 “(b) DEFINITIONS.—For purposes of this section—

6 “(1) QUALIFIED COMMERCIAL POWER TAKEOFF
7 VEHICLE.—The term ‘qualified commercial power
8 takeoff vehicle’ means any highway vehicle described
9 in paragraph (2) which is propelled by any fuel sub-
10 ject to tax under section 4041 or 4081 if such vehi-
11 cle is used in a trade or business or for the produc-
12 tion of income (and is licensed and insured for such
13 use).

14 “(2) HIGHWAY VEHICLE DESCRIBED.—A high-
15 way vehicle is described in this paragraph if such ve-
16 hicle is—

17 “(A) designed to engage in the daily collec-
18 tion of refuse or recyclables from homes or
19 businesses and is equipped with a mechanism
20 under which the vehicle’s propulsion engine pro-
21 vides the power to operate a load compactor, or

22 “(B) designed to deliver ready mixed con-
23 crete on a daily basis and is equipped with a
24 mechanism under which the vehicle’s propulsion
25 engine provides the power to operate a mixer

1 drum to agitate and mix the product en route
2 to the delivery site.

3 “(c) EXCEPTION FOR VEHICLES USED BY GOVERN-
4 MENTS, ETC.—No credit shall be allowed under this sec-
5 tion for any vehicle owned by any person at the close of
6 a calendar year if such vehicle is used at any time during
7 such year by—

8 “(1) the United States or an agency or instru-
9 mentality thereof, a State, a political subdivision of
10 a State, or an agency or instrumentality of one or
11 more States or political subdivisions, or

12 “(2) an organization exempt from tax under
13 section 501(a).

14 “(d) DENIAL OF DOUBLE BENEFIT.—The amount of
15 any deduction under this subtitle for any tax imposed by
16 subchapter B of chapter 31 or part III of subchapter A
17 of chapter 32 for any taxable year shall be reduced (but
18 not below zero) by the amount of the credit determined
19 under this subsection for such taxable year.

20 “(e) TERMINATION.—This section shall not apply
21 with respect to any calendar year after 2004.”.

22 (b) CREDIT MADE PART OF GENERAL BUSINESS
23 CREDIT.—Subsection (b) of section 38 (relating to general
24 business credit), as amended by section 703, is amended
25 by striking “plus” at the end of paragraph (23), by strik-

1 ing the period at the end of paragraph (24) and inserting
2 “, plus”, and by adding at the end the following new para-
3 graph:

4 “(25) the commercial power takeoff vehicles
5 credit under section 45N(a).”.

6 (c) CLERICAL AMENDMENT.—The table of sections
7 for subpart D of part IV of subchapter A of chapter 1,
8 as amended by section 703, is amended by adding at the
9 end the following new item:

“Sec. 45N. Commercial power takeoff vehicles credit.”.

10 (d) REGULATIONS.—Not later than January 1, 2005,
11 the Secretary of the Treasury, in consultation with the
12 Secretary of Energy, shall by regulation provide for the
13 method of determining the exemption from any excise tax
14 imposed under section 4041 or 4081 of the Internal Rev-
15 enue Code of 1986 on fuel used through a mechanism to
16 power equipment attached to a highway vehicle as de-
17 scribed in section 45N(b)(2) of such Code, as added by
18 subsection (a).

19 (e) EFFECTIVE DATE.—The amendments made by
20 this section shall apply to taxable years beginning after
21 the date of the enactment of this Act.

1 **TITLE III—CONSERVATION AND**
2 **ENERGY EFFICIENCY PROVI-**
3 **SIONS**

4 **SEC. 301. CREDIT FOR CONSTRUCTION OF NEW ENERGY EF-**
5 **FICIENT HOME.**

6 (a) IN GENERAL.—Subpart D of part IV of sub-
7 chapter A of chapter 1 (relating to business related cred-
8 its), as amended by this Act, is amended by adding at
9 the end the following new section:

10 **“SEC. 45G. NEW ENERGY EFFICIENT HOME CREDIT.**

11 “(a) IN GENERAL.—For purposes of section 38, in
12 the case of an eligible contractor, the credit determined
13 under this section for the taxable year is an amount equal
14 to the aggregate adjusted bases of all energy efficient
15 property installed in a qualifying new home during con-
16 struction of such home.

17 “(b) LIMITATIONS.—

18 “(1) MAXIMUM CREDIT.—

19 “(A) IN GENERAL.—The credit allowed by
20 this section with respect to a qualifying new
21 home shall not exceed—

22 “(i) in the case of a 30-percent home,
23 \$1,250, and

24 “(ii) in the case of a 50-percent home,
25 \$2,000.

1 “(B) 30- OR 50-PERCENT HOME.—For pur-
2 poses of subparagraph (A)—

3 “(i) 30-PERCENT HOME.—The term
4 ‘30-percent home’ means a qualifying new
5 home which is certified to have a projected
6 level of annual heating and cooling energy
7 consumption, measured in terms of aver-
8 age annual energy cost to the homeowner,
9 which is at least 30 percent less than the
10 annual level of heating and cooling energy
11 consumption of a reference qualifying new
12 home constructed in accordance with the
13 standards of chapter 4 of the 2000 Inter-
14 national Energy Conservation Code, or a
15 qualifying new home which is a manufac-
16 tured home which meets the applicable
17 standards of the Energy Star program
18 managed jointly by the Environmental
19 Protection Agency and the Department of
20 Energy.

21 “(ii) 50-PERCENT HOME.—The term
22 ‘50-percent home’ means a qualifying new
23 home which is certified to have a projected
24 level of annual heating and cooling energy
25 consumption, measured in terms of aver-

1 age annual energy cost to the homeowner,
2 which is at least 50 percent less than such
3 annual level of heating and cooling energy
4 consumption.

5 “(C) PRIOR CREDIT AMOUNTS ON SAME
6 HOME TAKEN INTO ACCOUNT.—If a credit was
7 allowed under subsection (a) with respect to a
8 qualifying new home in 1 or more prior taxable
9 years, the amount of the credit otherwise allow-
10 able for the taxable year with respect to that
11 home shall not exceed the amount under clause
12 (i) or (ii) of subparagraph (A) (as the case may
13 be), reduced by the sum of the credits allowed
14 under subsection (a) with respect to the home
15 for all prior taxable years.

16 “(2) COORDINATION WITH REHABILITATION
17 AND ENERGY CREDITS.—For purposes of this sec-
18 tion—

19 “(A) the basis of any property referred to
20 in subsection (a) shall be reduced by that por-
21 tion of the basis of any property which is attrib-
22 utable to the rehabilitation credit (as deter-
23 mined under section 47(a)) or to the energy
24 percentage of energy property (as determined
25 under section 48(a)), and

1 “(B) expenditures taken into account
2 under either section 47 or 48(a) shall not be
3 taken into account under this section.

4 “(c) DEFINITIONS.—For purposes of this section—

5 “(1) ELIGIBLE CONTRACTOR.—The term ‘eligi-
6 ble contractor’ means the person who constructed
7 the qualifying new home, or in the case of a manu-
8 factured home which conforms to Federal Manufac-
9 tured Home Construction and Safety Standards (24
10 C.F.R. 3280), the manufactured home producer of
11 such home.

12 “(2) ENERGY EFFICIENT PROPERTY.—The
13 term ‘energy efficient property’ means any energy
14 efficient building envelope component, and any en-
15 ergy efficient heating or cooling equipment which
16 can, individually or in combination with other com-
17 ponents, meet the requirements of this section.

18 “(3) QUALIFYING NEW HOME.—The term
19 ‘qualifying new home’ means a dwelling—

20 “(A) located in the United States,

21 “(B) the construction of which is substan-
22 tially completed after the date of the enactment
23 of this section, and

1 “(C) the first use of which after construc-
2 tion is as a principal residence (within the
3 meaning of section 121).

4 “(4) CONSTRUCTION.—The term ‘construction’
5 includes reconstruction and rehabilitation.

6 “(5) BUILDING ENVELOPE COMPONENT.—The
7 term ‘building envelope component’ means—

8 “(A) any insulation material or system
9 which is specifically and primarily designed to
10 reduce the heat loss or gain of a qualifying new
11 home when installed in or on such home, and

12 “(B) exterior windows (including skylights)
13 and doors.

14 “(6) MANUFACTURED HOME INCLUDED.—The
15 term ‘qualifying new home’ includes a manufactured
16 home conforming to Federal Manufactured Home
17 Construction and Safety Standards (24 C.F.R.
18 3280).

19 “(d) CERTIFICATION.—

20 “(1) METHOD OF CERTIFICATION.—

21 “(A) IN GENERAL.—A certification de-
22 scribed in subsection (b)(1)(B) shall be deter-
23 mined either by a component-based method or
24 a performance-based method.

1 “(B) COMPONENT-BASED METHOD.—A
2 component-based method is a method which
3 uses the applicable technical energy efficiency
4 specifications or ratings (including product la-
5 beling requirements) for the energy efficient
6 building envelope component or energy efficient
7 heating or cooling equipment. The Secretary
8 shall, in consultation with the Administrator of
9 the Environmental Protection Agency, develop
10 prescriptive component-based packages that are
11 equivalent in energy performance to properties
12 that qualify under subparagraph (C).

13 “(C) PERFORMANCE-BASED METHOD.—

14 “(i) IN GENERAL.—A performance-
15 based method is a method which calculates
16 projected energy usage and cost reductions
17 in the qualifying new home in relation to
18 a reference qualifying new home—

19 “(I) heated by the same energy
20 source and heating system type, and

21 “(II) constructed in accordance
22 with the standards of chapter 4 of the
23 2000 International Energy Conserva-
24 tion Code.

1 “(ii) COMPUTER SOFTWARE.—Com-
2 puter software shall be used in support of
3 a performance-based method certification
4 under clause (i). Such software shall meet
5 procedures and methods for calculating en-
6 ergy and cost savings in regulations pro-
7 mulgated by the Secretary of Energy. Such
8 regulations on the specifications for soft-
9 ware and verification protocols shall be
10 based on the 2001 California Residential
11 Alternative Calculation Method Approval
12 Manual.

13 “(2) PROVIDER.—A certification described in
14 subsection (b)(1)(B) shall be provided by—

15 “(A) in the case of a component-based
16 method, a local building regulatory authority, a
17 utility, a manufactured home production inspec-
18 tion primary inspection agency (IPIA), or a
19 home energy rating organization, or

20 “(B) in the case of a performance-based
21 method, an individual recognized by an organi-
22 zation designated by the Secretary for such
23 purposes.

24 “(3) FORM.—

1 “(A) IN GENERAL.—A certification de-
2 scribed in subsection (b)(1)(B) shall be made in
3 writing in a manner that specifies in readily
4 verifiable fashion the energy efficient building
5 envelope components and energy efficient heat-
6 ing or cooling equipment installed and their re-
7 spective rated energy efficiency performance,
8 and in the case of a performance-based method,
9 accompanied by a written analysis documenting
10 the proper application of a permissible energy
11 performance calculation method to the specific
12 circumstances of such qualifying new home.

13 “(B) FORM PROVIDED TO BUYER.—A form
14 documenting the energy efficient building enve-
15 lope components and energy efficient heating or
16 cooling equipment installed and their rated en-
17 ergy efficiency performance shall be provided to
18 the buyer of the qualifying new home. The form
19 shall include labeled R-value for insulation
20 products, NFRC-labeled U-factor and Solar
21 Heat Gain Coefficient for windows, skylights,
22 and doors, labeled AFUE ratings for furnaces
23 and boilers, labeled HSPF ratings for electric
24 heat pumps, and labeled SEER ratings for air
25 conditioners.

1 “(C) RATINGS LABEL AFFIXED IN DWELL-
2 ING.—A permanent label documenting the rat-
3 ings in subparagraph (B) shall be affixed to the
4 front of the electrical distribution panel of the
5 qualifying new home, or shall be otherwise per-
6 manently displayed in a readily inspectable loca-
7 tion in such home.

8 “(4) REGULATIONS.—

9 “(A) IN GENERAL.—In prescribing regula-
10 tions under this subsection for performance-
11 based certification methods, the Secretary, after
12 examining the requirements for energy consult-
13 ants and home energy ratings providers speci-
14 fied by the Mortgage Industry National Accred-
15 itation Procedures for Home Energy Rating
16 Systems, shall prescribe procedures for calcu-
17 lating annual energy usage and cost reductions
18 for heating and cooling and for the reporting of
19 the results. Such regulations shall—

20 “(i) provide that any calculation pro-
21 cedures be fuel neutral such that the same
22 energy efficiency measures allow a quali-
23 fying new home to be eligible for the credit
24 under this section regardless of whether

1 such home uses a gas or oil furnace or
2 boiler or an electric heat pump, and

3 “(ii) require that any computer soft-
4 ware allow for the printing of the Federal
5 tax forms necessary for the credit under
6 this section and for the printing of forms
7 for disclosure to the homebuyer.

8 “(B) PROVIDERS.—For purposes of para-
9 graph (2)(B), the Secretary shall establish re-
10 quirements for the designation of individuals
11 based on the requirements for energy consult-
12 ants and home energy raters specified by the
13 Mortgage Industry National Accreditation Pro-
14 cedures for Home Energy Rating Systems.

15 “(e) TERMINATION.—Subsection (a) shall apply to
16 qualifying new homes purchased during the period begin-
17 ning on the date of the enactment of this section and end-
18 ing on December 31, 2007.”.

19 (b) CREDIT MADE PART OF GENERAL BUSINESS
20 CREDIT.—Subsection (b) of section 38 (relating to current
21 year business credit), as amended by this Act, is amended
22 by striking “plus” at the end of paragraph (16), by strik-
23 ing the period at the end of paragraph (17) and inserting
24 “, plus”, and by adding at the end the following new para-
25 graph:

1 “(18) the new energy efficient home credit de-
2 termined under section 45G(a).”.

3 (c) DENIAL OF DOUBLE BENEFIT.—Section 280C
4 (relating to certain expenses for which credits are allow-
5 able) is amended by adding at the end the following new
6 subsection:

7 “(d) NEW ENERGY EFFICIENT HOME EXPENSES.—
8 No deduction shall be allowed for that portion of expenses
9 for a qualifying new home otherwise allowable as a deduc-
10 tion for the taxable year which is equal to the amount
11 of the credit determined for such taxable year under sec-
12 tion 45G(a).”.

13 (d) LIMITATION ON CARRYBACK.—Subsection (d) of
14 section 39, as amended by this Act, is amended by adding
15 at the end the following new paragraph:

16 “(13) NO CARRYBACK OF NEW ENERGY EFFI-
17 CIENT HOME CREDIT BEFORE EFFECTIVE DATE.—
18 No portion of the unused business credit for any
19 taxable year which is attributable to the credit deter-
20 mined under section 45G may be carried back to any
21 taxable year ending on or before the date of the en-
22 actment of such section.”.

23 (e) DEDUCTION FOR CERTAIN UNUSED BUSINESS
24 CREDITS.—Subsection (e) of section 196, as amended by
25 this Act, is amended by striking “and” at the end of para-

1 graph (10), by striking the period at the end of paragraph
 2 (11) and inserting “, and”, and by adding after paragraph
 3 (11) the following new paragraph:

4 “(12) the new energy efficient home credit de-
 5 termined under section 45G(a).”.

6 (f) CLERICAL AMENDMENT.—The table of sections
 7 for subpart D of part IV of subchapter A of chapter 1,
 8 as amended by this Act, is amended by adding at the end
 9 the following new item:

“Sec. 45G. New energy efficient home credit.”.

10 (g) EFFECTIVE DATE.—The amendments made by
 11 this section shall apply to taxable years ending after the
 12 date of the enactment of this Act.

13 **SEC. 302. CREDIT FOR ENERGY EFFICIENT APPLIANCES.**

14 (a) IN GENERAL.—Subpart D of part IV of sub-
 15 chapter A of chapter 1 (relating to business-related cred-
 16 its), as amended by this Act, is amended by adding at
 17 the end the following new section:

18 **“SEC. 45H. ENERGY EFFICIENT APPLIANCE CREDIT.**

19 “(a) GENERAL RULE.—For purposes of section 38,
 20 the energy efficient appliance credit determined under this
 21 section for the taxable year is an amount equal to the ap-
 22 plicable amount determined under subsection (b) with re-
 23 spect to the eligible production of qualified energy efficient
 24 appliances produced by the taxpayer during the calendar
 25 year ending with or within the taxable year.

1 “(b) APPLICABLE AMOUNT; ELIGIBLE PRODUC-
2 TION.—For purposes of subsection (a)—

3 “(1) APPLICABLE AMOUNT.—The applicable
4 amount is—

5 “(A) \$50, in the case of—

6 “(i) a clothes washer which is manu-
7 factured with at least a 1.26 MEF, or

8 “(ii) a refrigerator which consumes at
9 least 10 percent less kWh per year than
10 the energy conservation standards for re-
11 frigerators promulgated by the Department
12 of Energy effective July 1, 2001, and

13 “(B) \$100, in the case of—

14 “(i) a clothes washer which is manu-
15 factured with at least a 1.42 MEF (at
16 least 1.5 MEF for washers produced after
17 2004), or

18 “(ii) a refrigerator which consumes at
19 least 15 percent less kWh per year than
20 such energy conservation standards.

21 “(2) ELIGIBLE PRODUCTION.—

22 “(A) IN GENERAL.—The eligible produc-
23 tion of each category of qualified energy effi-
24 cient appliances is the excess of—

1 “(i) the number of appliances in such
2 category which are produced by the tax-
3 payer during such calendar year, over

4 “(ii) the average number of appliances
5 in such category which were produced by
6 the taxpayer during calendar years 2000,
7 2001, and 2002.

8 “(B) CATEGORIES.—For purposes of sub-
9 paragraph (A), the categories are—

10 “(i) clothes washers described in para-
11 graph (1)(A)(i),

12 “(ii) clothes washers described in
13 paragraph (1)(B)(i),

14 “(iii) refrigerators described in para-
15 graph (1)(A)(ii), and

16 “(iv) refrigerators described in para-
17 graph (1)(B)(ii).

18 “(c) LIMITATION ON MAXIMUM CREDIT.—

19 “(1) IN GENERAL.—The maximum amount of
20 credit allowed under subsection (a) with respect to
21 a taxpayer for all taxable years shall be—

22 “(A) \$30,000,000 with respect to the cred-
23 it determined under subsection (b)(1)(A), and

24 “(B) \$30,000,000 with respect to the cred-
25 it determined under subsection (b)(1)(B).

1 “(2) LIMITATION BASED ON GROSS RE-
2 RECEIPTS.—The credit allowed under subsection (a)
3 with respect to a taxpayer for the taxable year shall
4 not exceed an amount equal to 2 percent of the aver-
5 age annual gross receipts of the taxpayer for the 3
6 taxable years preceding the taxable year in which
7 the credit is determined.

8 “(3) GROSS RECEIPTS.—For purposes of this
9 subsection, the rules of paragraphs (2) and (3) of
10 section 448(c) shall apply.

11 “(d) DEFINITIONS.—For purposes of this section—

12 “(1) QUALIFIED ENERGY EFFICIENT APPLI-
13 ANCE.—The term ‘qualified energy efficient appli-
14 ance’ means—

15 “(A) a clothes washer described in sub-
16 paragraph (A)(i) or (B)(i) of subsection (b)(1),
17 or

18 “(B) a refrigerator described in subpara-
19 graph (A)(ii) or (B)(ii) of subsection (b)(1).

20 “(2) CLOTHES WASHER.—The term ‘clothes
21 washer’ means a residential clothes washer, includ-
22 ing a residential style coin operated washer.

23 “(3) REFRIGERATOR.—The term ‘refrigerator’
24 means an automatic defrost refrigerator-freezer

1 which has an internal volume of at least 16.5 cubic
2 feet.

3 “(4) MEF.—The term ‘MEF’ means Modified
4 Energy Factor (as determined by the Secretary of
5 Energy).

6 “(e) SPECIAL RULES.—

7 “(1) IN GENERAL.—Rules similar to the rules
8 of subsections (c), (d), and (e) of section 52 shall
9 apply for purposes of this section.

10 “(2) AGGREGATION RULES.—All persons treat-
11 ed as a single employer under subsection (a) or (b)
12 of section 52 or subsection (m) or (o) of section 414
13 shall be treated as 1 person for purposes of sub-
14 section (a).

15 “(f) VERIFICATION.—The taxpayer shall submit such
16 information or certification as the Secretary, in consulta-
17 tion with the Secretary of Energy, determines necessary
18 to claim the credit amount under subsection (a).

19 “(g) TERMINATION.—This section shall not apply—

20 “(1) with respect to refrigerators described in
21 subsection (b)(1)(A)(ii) produced after December 31,
22 2004, and

23 “(2) with respect to all other qualified energy
24 efficient appliances produced after December 31,
25 2006.”.

1 (b) LIMITATION ON CARRYBACK.—Section 39(d) (re-
 2 lating to transition rules), as amended by this Act, is
 3 amended by adding at the end the following new para-
 4 graph:

5 “(14) NO CARRYBACK OF ENERGY EFFICIENT
 6 APPLIANCE CREDIT BEFORE EFFECTIVE DATE.—No
 7 portion of the unused business credit for any taxable
 8 year which is attributable to the energy efficient ap-
 9 pliance credit determined under section 45H may be
 10 carried to a taxable year ending on or before the
 11 date of the enactment of such section.”.

12 (c) CONFORMING AMENDMENT.—Section 38(b) (re-
 13 lating to general business credit), as amended by this Act,
 14 is amended by striking “plus” at the end of paragraph
 15 (17), by striking the period at the end of paragraph (18)
 16 and inserting “, plus”, and by adding at the end the fol-
 17 lowing new paragraph:

18 “(19) the energy efficient appliance credit de-
 19 termined under section 45H(a).”.

20 (d) CLERICAL AMENDMENT.—The table of sections
 21 for subpart D of part IV of subchapter A of chapter 1,
 22 as amended by this Act, is amended by adding at the end
 23 the following new item:

“Sec. 45H. Energy efficient appliance credit.”.

24 (e) EFFECTIVE DATE.—The amendments made by
 25 this section shall apply to appliances produced after the

1 date of the enactment of this Act, in taxable years ending
2 after such date.

3 **SEC. 303. CREDIT FOR RESIDENTIAL ENERGY EFFICIENT**
4 **PROPERTY.**

5 (a) IN GENERAL.—Subpart A of part IV of sub-
6 chapter A of chapter 1 (relating to nonrefundable personal
7 credits) is amended by inserting after section 25B the fol-
8 lowing new section:

9 **“SEC. 25C. RESIDENTIAL ENERGY EFFICIENT PROPERTY.**

10 “(a) ALLOWANCE OF CREDIT.—In the case of an in-
11 dividual, there shall be allowed as a credit against the tax
12 imposed by this chapter for the taxable year an amount
13 equal to the sum of—

14 “(1) 15 percent of the qualified photovoltaic
15 property expenditures made by the taxpayer during
16 such year,

17 “(2) 15 percent of the qualified solar water
18 heating property expenditures made by the taxpayer
19 during such year,

20 “(3) 30 percent of the qualified fuel cell prop-
21 erty expenditures made by the taxpayer during such
22 year,

23 “(4) 30 percent of the qualified wind energy
24 property expenditures made by the taxpayer during
25 such year, and

1 “(5) the sum of the qualified Tier 2 energy effi-
2 cient building property expenditures made by the
3 taxpayer during such year.

4 “(b) LIMITATIONS.—

5 “(1) MAXIMUM CREDIT.—The credit allowed
6 under subsection (a) shall not exceed—

7 “(A) \$2,000 for property described in sub-
8 section (d)(1),

9 “(B) \$2,000 for property described in sub-
10 section (d)(2),

11 “(C) \$1,000 for each kilowatt of capacity
12 of property described in subsection (d)(4),

13 “(D) \$2,000 for property described in sub-
14 section (d)(5), and

15 “(E) for property described in subsection
16 (d)(6)—

17 “(i) \$75 for each electric heat pump
18 water heater,

19 “(ii) \$250 for each electric heat
20 pump,

21 “(iii) \$250 for each advanced natural
22 gas furnace,

23 “(iv) \$250 for each central air condi-
24 tioner,

1 “(v) \$75 for each natural gas water
2 heater, and

3 “(vi) \$250 for each geothermal heat
4 pump.

5 “(2) SAFETY CERTIFICATIONS.—No credit shall
6 be allowed under this section for an item of property
7 unless—

8 “(A) in the case of solar water heating
9 property, such property is certified for perform-
10 ance and safety by the non-profit Solar Rating
11 Certification Corporation or a comparable enti-
12 ty endorsed by the government of the State in
13 which such property is installed,

14 “(B) in the case of a photovoltaic property,
15 a fuel cell property, or a wind energy property,
16 such property meets appropriate fire and elec-
17 tric code requirements, and

18 “(C) in the case of property described in
19 subsection (d)(6), such property meets the per-
20 formance and quality standards, and the certifi-
21 cation requirements (if any), which—

22 “(i) have been prescribed by the Sec-
23 retary by regulations (after consultation
24 with the Secretary of Energy or the Ad-

1 administrator of the Environmental Protec-
2 tion Agency, as appropriate),

3 “(ii) in the case of the energy effi-
4 ciency ratio (EER)—

5 “(I) require measurements to be
6 based on published data which is test-
7 ed by manufacturers at 95 degrees
8 Fahrenheit, and

9 “(II) do not require ratings to be
10 based on certified data of the Air
11 Conditioning and Refrigeration Insti-
12 tute, and

13 “(iii) are in effect at the time of the
14 acquisition of the property.

15 “(c) CARRYFORWARD OF UNUSED CREDIT.—If the
16 credit allowable under subsection (a) exceeds the limita-
17 tion imposed by section 26(a) for such taxable year re-
18 duced by the sum of the credits allowable under this sub-
19 part (other than this section and section 25D), such excess
20 shall be carried to the succeeding taxable year and added
21 to the credit allowable under subsection (a) for such suc-
22 ceeding taxable year.

23 “(d) DEFINITIONS.—For purposes of this section—

24 “(1) QUALIFIED SOLAR WATER HEATING PROP-
25 erty EXPENDITURE.—The term ‘qualified solar

1 water heating property expenditure’ means an ex-
2 penditure for property to heat water for use in a
3 dwelling unit located in the United States and used
4 as a residence by the taxpayer if at least half of the
5 energy used by such property for such purpose is de-
6 rived from the sun.

7 “(2) QUALIFIED PHOTOVOLTAIC PROPERTY EX-
8 PENDITURE.—The term ‘qualified photovoltaic prop-
9 erty expenditure’ means an expenditure for property
10 that uses solar energy to generate electricity for use
11 in such a dwelling unit.

12 “(3) SOLAR PANELS.—No expenditure relating
13 to a solar panel or other property installed as a roof
14 (or portion thereof) shall fail to be treated as prop-
15 erty described in paragraph (1) or (2) solely because
16 it constitutes a structural component of the struc-
17 ture on which it is installed.

18 “(4) QUALIFIED FUEL CELL PROPERTY EX-
19 PENDITURE.—The term ‘qualified fuel cell property
20 expenditure’ means an expenditure for qualified fuel
21 cell property (as defined in section 48(a)(4)) in-
22 stalled on or in connection with such a dwelling unit.

23 “(5) QUALIFIED WIND ENERGY PROPERTY EX-
24 PENDITURE.—The term ‘qualified wind energy prop-
25 erty expenditure’ means an expenditure for property

1 which uses wind energy to generate electricity for
2 use in such a dwelling unit.

3 “(6) QUALIFIED TIER 2 ENERGY EFFICIENT
4 BUILDING PROPERTY EXPENDITURE.—

5 “(A) IN GENERAL.—The term ‘qualified
6 Tier 2 energy efficient building property ex-
7 penditure’ means an expenditure for any Tier 2
8 energy efficient building property.

9 “(B) TIER 2 ENERGY EFFICIENT BUILDING
10 PROPERTY.—The term ‘Tier 2 energy efficient
11 building property’ means—

12 “(i) an electric heat pump water heat-
13 er which yields an energy factor of at least
14 1.7 in the standard Department of Energy
15 test procedure,

16 “(ii) an electric heat pump which has
17 a heating seasonal performance factor
18 (HSPF) of at least 9, a seasonal energy ef-
19 ficiency ratio (SEER) of at least 15, and
20 an energy efficiency ratio (EER) of at
21 least 12.5,

22 “(iii) an advanced natural gas furnace
23 which achieves at least 95 percent annual
24 fuel utilization efficiency (AFUE),

1 “(iv) a central air conditioner which
2 has a seasonal energy efficiency ratio
3 (SEER) of at least 15 and an energy effi-
4 ciency ratio (EER) of at least 12.5,

5 “(v) a natural gas water heater which
6 has an energy factor of at least 0.80 in the
7 standard Department of Energy test proce-
8 dure, and

9 “(vi) a geothermal heat pump which
10 has an energy efficiency ratio (EER) of at
11 least 21.

12 “(7) LABOR COSTS.—Expenditures for labor
13 costs properly allocable to the onsite preparation, as-
14 sembly, or original installation of the property de-
15 scribed in paragraph (1), (2), (4), (5), or (6) and for
16 piping or wiring to interconnect such property to the
17 dwelling unit shall be taken into account for pur-
18 poses of this section.

19 “(8) SWIMMING POOLS, ETC., USED AS STOR-
20 AGE MEDIUM.—Expenditures which are properly al-
21 locable to a swimming pool, hot tub, or any other
22 energy storage medium which has a function other
23 than the function of such storage shall not be taken
24 into account for purposes of this section.

1 “(e) SPECIAL RULES.—For purposes of this sec-
2 tion—

3 “(1) DOLLAR AMOUNTS IN CASE OF JOINT OC-
4 CUPANCY.—In the case of any dwelling unit which is
5 jointly occupied and used during any calendar year
6 as a residence by 2 or more individuals the following
7 shall apply:

8 “(A) The amount of the credit allowable,
9 under subsection (a) by reason of expenditures
10 (as the case may be) made during such cal-
11 endar year by any of such individuals with re-
12 spect to such dwelling unit shall be determined
13 by treating all of such individuals as 1 taxpayer
14 whose taxable year is such calendar year.

15 “(B) There shall be allowable, with respect
16 to such expenditures to each of such individ-
17 uals, a credit under subsection (a) for the tax-
18 able year in which such calendar year ends in
19 an amount which bears the same ratio to the
20 amount determined under subparagraph (A) as
21 the amount of such expenditures made by such
22 individual during such calendar year bears to
23 the aggregate of such expenditures made by all
24 of such individuals during such calendar year.

1 “(2) TENANT-STOCKHOLDER IN COOPERATIVE
2 HOUSING CORPORATION.—In the case of an indi-
3 vidual who is a tenant-stockholder (as defined in sec-
4 tion 216) in a cooperative housing corporation (as
5 defined in such section), such individual shall be
6 treated as having made his tenant-stockholder’s pro-
7 portionate share (as defined in section 216(b)(3)) of
8 any expenditures of such corporation.

9 “(3) CONDOMINIUMS.—

10 “(A) IN GENERAL.—In the case of an indi-
11 vidual who is a member of a condominium man-
12 agement association with respect to a condo-
13 minium which the individual owns, such indi-
14 vidual shall be treated as having made the indi-
15 vidual’s proportionate share of any expenditures
16 of such association.

17 “(B) CONDOMINIUM MANAGEMENT ASSO-
18 CIATION.—For purposes of this paragraph, the
19 term ‘condominium management association’
20 means an organization which meets the require-
21 ments of paragraph (1) of section 528(c) (other
22 than subparagraph (E) thereof) with respect to
23 a condominium project substantially all of the
24 units of which are used as residences.

1 “(4) ALLOCATION IN CERTAIN CASES.—Except
2 in the case of qualified wind energy property expend-
3 itures, if less than 80 percent of the use of an item
4 is for nonbusiness purposes, only that portion of the
5 expenditures for such item which is properly allo-
6 cable to use for nonbusiness purposes shall be taken
7 into account.

8 “(5) WHEN EXPENDITURE MADE; AMOUNT OF
9 EXPENDITURE.—

10 “(A) IN GENERAL.—Except as provided in
11 subparagraph (B), an expenditure with respect
12 to an item shall be treated as made when the
13 original installation of the item is completed.

14 “(B) EXPENDITURES PART OF BUILDING
15 CONSTRUCTION.—In the case of an expenditure
16 in connection with the construction or recon-
17 struction of a structure, such expenditure shall
18 be treated as made when the original use of the
19 constructed or reconstructed structure by the
20 taxpayer begins.

21 “(C) AMOUNT.—The amount of any ex-
22 penditure shall be the cost thereof.

23 “(6) PROPERTY FINANCED BY SUBSIDIZED EN-
24 ERGY FINANCING.—For purposes of determining the
25 amount of expenditures made by any individual with

1 respect to any dwelling unit, there shall not be taken
2 into account expenditures which are made from sub-
3 sidized energy financing (as defined in section
4 48(a)(5)(C)).

5 “(f) BASIS ADJUSTMENTS.—For purposes of this
6 subtitle, if a credit is allowed under this section for any
7 expenditure with respect to any property, the increase in
8 the basis of such property which would (but for this sub-
9 section) result from such expenditure shall be reduced by
10 the amount of the credit so allowed.

11 “(g) TERMINATION.—The credit allowed under this
12 section shall not apply to expenditures after December 31,
13 2007.”.

14 (b) CREDIT ALLOWED AGAINST REGULAR TAX AND
15 ALTERNATIVE MINIMUM TAX.—

16 (1) IN GENERAL.—Section 25C(b), as added by
17 subsection (a), is amended by adding at the end the
18 following new paragraph:

19 “(3) LIMITATION BASED ON AMOUNT OF
20 TAX.—The credit allowed under subsection (a) for
21 the taxable year shall not exceed the excess of—

22 “(A) the sum of the regular tax liability
23 (as defined in section 26(b)) plus the tax im-
24 posed by section 55, over

1 “(B) the sum of the credits allowable
2 under this subpart (other than this section and
3 section 25D) and section 27 for the taxable
4 year.”.

5 (2) CONFORMING AMENDMENTS.—

6 (A) Section 25C(e), as added by subsection
7 (a), is amended by striking “section 26(a) for
8 such taxable year reduced by the sum of the
9 credits allowable under this subpart (other than
10 this section and section 25D)” and inserting
11 “subsection (b)(3)”.

12 (B) Section 23(b)(4)(B) is amended by in-
13 serting “and section 25C” after “this section”.

14 (C) Section 24(b)(3)(B) is amended by
15 striking “23 and 25B” and inserting “23, 25B,
16 and 25C”.

17 (D) Section 25(e)(1)(C) is amended by in-
18 serting “25C,” after “25B,”.

19 (E) Section 25B(g)(2) is amended by
20 striking “section 23” and inserting “sections 23
21 and 25C”.

22 (F) Section 26(a)(1) is amended by strik-
23 ing “and 25B” and inserting “25B, and 25C”.

24 (G) Section 904(h) is amended by striking
25 “and 25B” and inserting “25B, and 25C”.

1 (H) Section 1400C(d) is amended by strik-
2 ing “and 25B” and inserting “25B, and 25C”.

3 (c) ADDITIONAL CONFORMING AMENDMENTS.—

4 (1) Section 23(e), as in effect for taxable years
5 beginning before January 1, 2004, is amended by
6 striking “section 1400C” and inserting “sections
7 25C and 1400C”.

8 (2) Section 25(e)(1)(C), as in effect for taxable
9 years beginning before January 1, 2004, is amended
10 by inserting “, 25Cs,” after “sections 23”.

11 (3) Subsection (a) of section 1016, as amended
12 by this Act, is amended by striking “and” at the end
13 of paragraph (29), by striking the period at the end
14 of paragraph (30) and inserting “, and”, and by
15 adding at the end the following new paragraph:

16 “(31) to the extent provided in section 25C(f),
17 in the case of amounts with respect to which a credit
18 has been allowed under section 25C.”.

19 (4) Section 1400C(d), as in effect for taxable
20 years beginning before January 1, 2004, is amended
21 by inserting “and section 25C” after “this section”.

22 (5) The table of sections for subpart A of part
23 IV of subchapter A of chapter 1 is amended by in-
24 serting after the item relating to section 25B the fol-
25 lowing new item:

“Sec. 25C. Residential energy efficient property.”.

1 (d) EFFECTIVE DATES.—

2 (1) IN GENERAL.—Except as provided by para-
3 graph (2), the amendments made by this section
4 shall apply to expenditures after the date of the en-
5 actment of this Act, in taxable years ending after
6 such date.

7 (2) SUBSECTION (b).—The amendments made
8 by subsection (b) shall apply to taxable years begin-
9 ning after December 31, 2003.

10 **SEC. 304. CREDIT FOR BUSINESS INSTALLATION OF QUALI-**
11 **FIED FUEL CELLS AND STATIONARY MICRO-**
12 **TURBINE POWER PLANTS.**

13 (a) IN GENERAL.—Subparagraph (A) of section
14 48(a)(3) (defining energy property) is amended by strik-
15 ing “or” at the end of clause (i), by adding “or” at the
16 end of clause (ii), and by inserting after clause (ii) the
17 following new clause:

18 “(iii) qualified fuel cell property or
19 qualified microturbine property,”.

20 (b) QUALIFIED FUEL CELL PROPERTY; QUALIFIED
21 MICROTURBINE PROPERTY.—Subsection (a) of section 48
22 is amended by redesignating paragraphs (4) and (5) as
23 paragraphs (5) and (6), respectively, and by inserting
24 after paragraph (3) the following new paragraph:

1 “(4) QUALIFIED FUEL CELL PROPERTY; QUALI-
2 FIED MICROTURBINE PROPERTY.—For purposes of
3 this subsection—

4 “(A) QUALIFIED FUEL CELL PROPERTY.—

5 “(i) IN GENERAL.—The term ‘quali-
6 fied fuel cell property’ means a fuel cell
7 power plant that—

8 “(I) generates at least 0.5 kilo-
9 watt of electricity using an electro-
10 chemical process, and

11 “(II) has an electricity-only gen-
12 eration efficiency greater than 30 per-
13 cent.

14 “(ii) LIMITATION.—In the case of
15 qualified fuel cell property placed in service
16 during the taxable year, the credit deter-
17 mined under paragraph (1) for such year
18 with respect to such property shall not ex-
19 ceed an amount equal to the lesser of—

20 “(I) 30 percent of the basis of
21 such property, or

22 “(II) \$500 for each 0.5 kilowatt
23 of capacity of such property.

24 “(iii) FUEL CELL POWER PLANT.—

25 The term ‘fuel cell power plant’ means an

1 integrated system comprised of a fuel cell
2 stack assembly and associated balance of
3 plant components that converts a fuel into
4 electricity using electrochemical means.

5 “(iv) TERMINATION.—Such term shall
6 not include any property placed in service
7 after December 31, 2007.

8 “(B) QUALIFIED MICROTURBINE PROP-
9 ERTY.—

10 “(i) IN GENERAL.—The term ‘quali-
11 fied microturbine property’ means a sta-
12 tionary microturbine power plant which
13 has an electricity-only generation efficiency
14 not less than 26 percent at International
15 Standard Organization conditions.

16 “(ii) LIMITATION.—In the case of
17 qualified microturbine property placed in
18 service during the taxable year, the credit
19 determined under paragraph (1) for such
20 year with respect to such property shall
21 not exceed an amount equal to the lesser
22 of—

23 “(I) 10 percent of the basis of
24 such property, or

1 “(II) \$200 for each kilowatt of
2 capacity of such property.

3 “(iii) STATIONARY MICROTURBINE
4 POWER PLANT.—The term ‘stationary
5 microturbine power plant’ means a system
6 comprising of a rotary engine which is ac-
7 tuated by the aerodynamic reaction or im-
8 pulse or both on radial or axial curved full-
9 circumferential-admission airfoils on a cen-
10 tral axial rotating spindle. Such system—

11 “(I) commonly includes an air
12 compressor, combustor, gas pathways
13 which lead compressed air to the com-
14 bustor and which lead hot combusted
15 gases from the combustor to 1 or
16 more rotating turbine spools, which in
17 turn drive the compressor and power
18 output shaft,

19 “(II) includes a fuel compressor,
20 recuperator/regenerator, generator or
21 alternator, integrated combined cycle
22 equipment, cooling-heating-and-power
23 equipment, sound attenuation appa-
24 ratus, and power conditioning equip-
25 ment, and

1 “(III) includes all secondary com-
2 ponents located between the existing
3 infrastructure for fuel delivery and
4 the existing infrastructure for power
5 distribution, including equipment and
6 controls for meeting relevant power
7 standards, such as voltage, frequency,
8 and power factors.

9 “(iv) TERMINATION.—Such term shall
10 not include any property placed in service
11 after December 31, 2006.”.

12 (c) LIMITATION.—Section 48(a)(2)(A) (relating to
13 energy percentage) is amended to read as follows:

14 “(A) IN GENERAL.—The energy percent-
15 age is—

16 “(i) in the case of qualified fuel cell
17 property, 30 percent, and

18 “(ii) in the case of any other energy
19 property, 10 percent.”.

20 (d) CONFORMING AMENDMENTS.—

21 (A) Section 29(b)(3)(A)(i)(III) is amended
22 by striking “section 48(a)(4)(C)” and inserting
23 “section 48(a)(5)(C)”.

24 (B) Section 48(a)(1) is amended by insert-
25 ing “except as provided in subparagraph (A)(ii)

1 or (B)(ii) of paragraph (4),” before “the en-
2 ergy”.

3 (e) EFFECTIVE DATE.—The amendments made by
4 this subsection shall apply to property placed in service
5 after the date of the enactment of this Act, in taxable
6 years ending after such date, under rules similar to the
7 rules of section 48(m) of the Internal Revenue Code of
8 1986 (as in effect on the day before the date of the enact-
9 ment of the Revenue Reconciliation Act of 1990).

10 **SEC. 305. ENERGY EFFICIENT COMMERCIAL BUILDINGS DE-**
11 **DUCTION.**

12 (a) IN GENERAL.—Part VI of subchapter B of chap-
13 ter 1 is amended by inserting after section 179A the fol-
14 lowing new section:

15 **“SEC. 179B. ENERGY EFFICIENT COMMERCIAL BUILDINGS**
16 **DEDUCTION.**

17 “(a) IN GENERAL.—There shall be allowed as a de-
18 duction for the taxable year an amount equal to the energy
19 efficient commercial building property expenditures made
20 by a taxpayer for the taxable year.

21 “(b) MAXIMUM AMOUNT OF DEDUCTION.—The
22 amount of energy efficient commercial building property
23 expenditures taken into account under subsection (a) shall
24 not exceed an amount equal to the product of—

25 “(1) \$2.25, and

1 “(2) the square footage of the building with re-
2 spect to which the expenditures are made.

3 “(c) YEAR DEDUCTION ALLOWED.—The deduction
4 under subsection (a) shall be allowed in the taxable year
5 in which the construction of the building is completed.

6 “(d) ENERGY EFFICIENT COMMERCIAL BUILDING
7 PROPERTY EXPENDITURES.—For purposes of this sec-
8 tion—

9 “(1) IN GENERAL.—The term ‘energy efficient
10 commercial building property expenditures’ means
11 an amount paid or incurred for energy efficient com-
12 mercial building property installed on or in connec-
13 tion with new construction or reconstruction of prop-
14 erty—

15 “(A) for which depreciation is allowable
16 under section 167,

17 “(B) which is located in the United States,
18 and

19 “(C) the construction or erection of which
20 is completed by the taxpayer.

21 Such property includes all residential rental prop-
22 erty, including low-rise multifamily structures and
23 single family housing property which is not within
24 the scope of Standard 90.1–1999 (described in para-
25 graph (2)). Such term includes expenditures for

1 labor costs properly allocable to the onsite prepara-
2 tion, assembly, or original installation of the prop-
3 erty.

4 “(2) ENERGY EFFICIENT COMMERCIAL BUILD-
5 ING PROPERTY.—For purposes of paragraph (1)—

6 “(A) IN GENERAL.—The term ‘energy effi-
7 cient commercial building property’ means any
8 property which reduces total annual energy and
9 power costs with respect to the lighting, heat-
10 ing, cooling, ventilation, and hot water supply
11 systems of the building by 50 percent or more
12 in comparison to a reference building which
13 meets the requirements of Standard 90.1–1999
14 of the American Society of Heating, Refrig-
15 erating, and Air Conditioning Engineers and
16 the Illuminating Engineering Society of North
17 America using methods of calculation under
18 subparagraph (B) and certified by qualified
19 professionals as provided under paragraph (5).

20 “(B) METHODS OF CALCULATION.—The
21 Secretary, in consultation with the Secretary of
22 Energy, shall promulgate regulations which de-
23 scribe in detail methods for calculating and
24 verifying energy and power consumption and
25 cost, taking into consideration the provisions of

1 the 2001 California Nonresidential Alternative
2 Calculation Method Approval Manual. These
3 regulations shall meet the following require-
4 ments:

5 “(i) In calculating tradeoffs and en-
6 ergy performance, the regulations shall
7 prescribe the costs per unit of energy and
8 power, such as kilowatt hour, kilowatt, gal-
9 lon of fuel oil, and cubic foot or Btu of
10 natural gas, which may be dependent on
11 time of usage.

12 “(ii) The calculational methodology
13 shall require that compliance be dem-
14 onstrated for a whole building. If some sys-
15 tems of the building, such as lighting, are
16 designed later than other systems of the
17 building, the method shall provide that ei-
18 ther—

19 “(I) the expenses taken into ac-
20 count under paragraph (1) shall not
21 occur until the date designs for all en-
22 ergy-using systems of the building are
23 completed,

24 “(II) the energy performance of
25 all systems and components not yet

1 designed shall be assumed to comply
2 minimally with the requirements of
3 such Standard 90.1–1999, or

4 “(III) the expenses taken into ac-
5 count under paragraph (1) shall be a
6 fraction of such expenses based on the
7 performance of less than all energy-
8 using systems in accordance with
9 clause (iii).

10 “(iii) The expenditures in connection
11 with the design of subsystems in the build-
12 ing, such as the envelope, the heating, ven-
13 tilation, air conditioning and water heating
14 system, and the lighting system shall be al-
15 located to the appropriate building sub-
16 system based on system-specific energy
17 cost savings targets in regulations promul-
18 gated by the Secretary of Energy which
19 are equivalent, using the calculation meth-
20 odology, to the whole building requirement
21 of 50 percent savings.

22 “(iv) The calculational methods under
23 this subparagraph need not comply fully
24 with section 11 of such Standard 90.1–
25 1999.

1 “(v) The calculational methods shall
2 be fuel neutral, such that the same energy
3 efficiency features shall qualify a building
4 for the deduction under this subsection re-
5 gardless of whether the heating source is a
6 gas or oil furnace or an electric heat pump.

7 “(vi) The calculational methods shall
8 provide appropriate calculated energy sav-
9 ings for design methods and technologies
10 not otherwise credited in either such
11 Standard 90.1–1999 or in the 2001 Cali-
12 fornia Nonresidential Alternative Calcula-
13 tion Method Approval Manual, including
14 the following:

15 “(I) Natural ventilation.

16 “(II) Evaporative cooling.

17 “(III) Automatic lighting controls
18 such as occupancy sensors, photocells,
19 and timeclocks.

20 “(IV) Daylighting.

21 “(V) Designs utilizing semi-con-
22 ditioned spaces that maintain ade-
23 quate comfort conditions without air
24 conditioning or without heating.

1 “(VI) Improved fan system effi-
2 ciency, including reductions in static
3 pressure.

4 “(VII) Advanced unloading
5 mechanisms for mechanical cooling,
6 such as multiple or variable speed
7 compressors.

8 “(VIII) The calculational meth-
9 ods may take into account the extent
10 of commissioning in the building, and
11 allow the taxpayer to take into ac-
12 count measured performance that ex-
13 ceeds typical performance.

14 “(C) COMPUTER SOFTWARE.—

15 “(i) IN GENERAL.—Any calculation
16 under this paragraph shall be prepared by
17 qualified computer software.

18 “(ii) QUALIFIED COMPUTER SOFT-
19 WARE.—For purposes of this subpara-
20 graph, the term ‘qualified computer soft-
21 ware’ means software—

22 “(I) for which the software de-
23 signer has certified that the software
24 meets all procedures and detailed
25 methods for calculating energy and

1 power consumption and costs as re-
2 quired by the Secretary,

3 “(II) which provides such forms
4 as required to be filed by the Sec-
5 retary in connection with energy effi-
6 ciency of property and the deduction
7 allowed under this subsection, and

8 “(III) which provides a notice
9 form which summarizes the energy ef-
10 ficiency features of the building and
11 its projected annual energy costs.

12 “(3) ALLOCATION OF DEDUCTION FOR PUBLIC
13 PROPERTY.—In the case of energy efficient commer-
14 cial building property installed on or in public prop-
15 erty, the Secretary shall promulgate a regulation to
16 allow the allocation of the deduction to the person
17 primarily responsible for designing the property in
18 lieu of the public entity which is the owner of such
19 property. Such person shall be treated as the tax-
20 payer for purposes of this subsection.

21 “(4) NOTICE TO OWNER.—The qualified indi-
22 vidual shall provide an explanation to the owner of
23 the building regarding the energy efficiency features
24 of the building and its projected annual energy costs

1 as provided in the notice under paragraph
2 (2)(C)(ii)(III).

3 “(5) CERTIFICATION.—

4 “(A) IN GENERAL.—Except as provided in
5 this paragraph, the Secretary shall prescribe
6 procedures for the inspection and testing for
7 compliance of buildings that are comparable,
8 given the difference between commercial and
9 residential buildings, to the requirements in the
10 Mortgage Industry National Accreditation Pro-
11 cedures for Home Energy Rating Systems.

12 “(B) QUALIFIED INDIVIDUALS.—Individ-
13 uals qualified to determine compliance shall be
14 only those individuals who are recognized by an
15 organization certified by the Secretary for such
16 purposes. The Secretary may qualify a Home
17 Ratings Systems Organization, a local building
18 code agency, a State or local energy office, a
19 utility, or any other organization which meets
20 the requirements prescribed under this section.

21 “(C) PROFICIENCY OF QUALIFIED INDIVID-
22 UALS.—The Secretary shall consult with non-
23 profit organizations and State agencies with ex-
24 pertise in energy efficiency calculations and in-
25 spections to develop proficiency tests and train-

1 ing programs to qualify individuals to determine
2 compliance.

3 “(e) BASIS REDUCTION.—For purposes of this sub-
4 title, if a deduction is allowed under this section with re-
5 spect to any energy efficient commercial building property,
6 the basis of such property shall be reduced by the amount
7 of the deduction so allowed.

8 “(f) REGULATIONS.—The Secretary shall promulgate
9 such regulations as necessary to take into account new
10 technologies regarding energy efficiency and renewable en-
11 ergy for purposes of determining energy efficiency and
12 savings under this section.

13 “(g) TERMINATION.—This section shall not apply
14 with respect to any energy efficient commercial building
15 property expenditures in connection with property—

16 “(1) the plans for which are not certified under
17 subsection (d)(5) on or before December 31, 2007,
18 and

19 “(2) the construction of which is not completed
20 on or before December 31, 2009.”.

21 (b) CONFORMING AMENDMENTS.—

22 (1) Section 1016(a), as amended by this Act, is
23 amended by striking “and” at the end of paragraph
24 (30), by striking the period at the end of paragraph

1 (31) and inserting “, and”, and by adding at the
2 end the following new paragraph:

3 “(32) to the extent provided in section
4 179B(e).”.

5 (2) Section 1245(a) is amended by inserting
6 “179B,” after “179A,” both places it appears in
7 paragraphs (2)(C) and (3)(C).

8 (3) Section 1250(b)(3) is amended by inserting
9 before the period at the end of the first sentence “or
10 by section 179B”.

11 (4) Section 263(a)(1) is amended by striking
12 “or” at the end of subparagraph (G), by striking the
13 period at the end of subparagraph (H) and inserting
14 “, or”, and by inserting after subparagraph (H) the
15 following new subparagraph:

16 “(I) expenditures for which a deduction is
17 allowed under section 179B.”.

18 (5) Section 312(k)(3)(B) is amended by strik-
19 ing “or 179A” each place it appears in the heading
20 and text and inserting “, 179A, or 179B”.

21 (c) CLERICAL AMENDMENT.—The table of sections
22 for part VI of subchapter B of chapter 1 is amended by
23 inserting after section 179A the following new item:

“Sec. 179B. Energy efficient commercial buildings deduction.”.

1 (d) EFFECTIVE DATE.—The amendments made by
2 this section shall apply to taxable years beginning after
3 the date of the enactment of this Act.

4 **SEC. 306. ALLOWANCE OF DEDUCTION FOR QUALIFIED**
5 **NEW OR RETROFITTED ENERGY MANAGE-**
6 **MENT DEVICES.**

7 (a) IN GENERAL.—Part VI of subchapter B of chap-
8 ter 1 (relating to itemized deductions for individuals and
9 corporations), as amended by this Act, is amended by in-
10 serting after section 179B the following new section:

11 **“SEC. 179C. DEDUCTION FOR QUALIFIED NEW OR RETRO-**
12 **FITTED ENERGY MANAGEMENT DEVICES.**

13 “(a) ALLOWANCE OF DEDUCTION.—In the case of a
14 taxpayer who is a supplier of electric energy or natural
15 gas or a provider of electric energy or natural gas services,
16 there shall be allowed as a deduction an amount equal to
17 the cost of each qualified energy management device
18 placed in service during the taxable year.

19 “(b) MAXIMUM DEDUCTION.—The deduction allowed
20 by this section with respect to each qualified energy man-
21 agement device shall not exceed \$30.

22 “(c) QUALIFIED ENERGY MANAGEMENT DEVICE.—
23 The term ‘qualified energy management device’ means any
24 tangible property to which section 168 applies if such
25 property is a meter or metering device—

1 “(1) which is acquired and used by the tax-
2 payer to enable consumers to manage their purchase
3 or use of electricity or natural gas in response to en-
4 ergy price and usage signals, and

5 “(2) which permits reading of energy price and
6 usage signals on at least a daily basis.

7 “(d) PROPERTY USED OUTSIDE THE UNITED
8 STATES NOT QUALIFIED.—No deduction shall be allowed
9 under subsection (a) with respect to property which is
10 used predominantly outside the United States or with re-
11 spect to the portion of the cost of any property taken into
12 account under section 179.

13 “(e) BASIS REDUCTION.—

14 “(1) IN GENERAL.—For purposes of this title,
15 the basis of any property shall be reduced by the
16 amount of the deduction with respect to such prop-
17 erty which is allowed by subsection (a).

18 “(2) ORDINARY INCOME RECAPTURE.—For
19 purposes of section 1245, the amount of the deduc-
20 tion allowable under subsection (a) with respect to
21 any property that is of a character subject to the al-
22 lowance for depreciation shall be treated as a deduc-
23 tion allowed for depreciation under section 167.”.

24 (b) CONFORMING AMENDMENTS.—

1 (1) Section 263(a)(1), as amended by this Act,
2 is amended by striking “or” at the end of subpara-
3 graph (H), by striking the period at the end of sub-
4 paragraph (I) and inserting “, or”, and by inserting
5 after subparagraph (I) the following new subpara-
6 graph:

7 “(J) expenditures for which a deduction is
8 allowed under section 179C.”.

9 (2) Section 312(k)(3)(B), as amended by this
10 Act, is amended by striking “or 179B” each place
11 it appears in the heading and text and inserting “,
12 179B, or 179C”.

13 (3) Section 1016(a), as amended by this Act, is
14 amended by striking “and” at the end of paragraph
15 (31), by striking the period at the end of paragraph
16 (32) and inserting “, and”, and by adding at the
17 end the following new paragraph:

18 “(33) to the extent provided in section
19 179C(e)(1).”.

20 (4) Section 1245(a), as amended by this Act, is
21 amended by inserting “179C,” after “179B,” both
22 places it appears in paragraphs (2)(C) and (3)(C).

23 (5) The table of contents for subpart B of part
24 IV of subchapter A of chapter 1, as amended by this

1 Act, is amended by inserting after the item relating
2 to section 179B the following new item:

“Sec. 179C. Deduction for qualified new or retrofitted energy management devices.”.

3 (c) EFFECTIVE DATE.—The amendments made by
4 this section shall apply to qualified energy management
5 devices placed in service after the date of the enactment
6 of this Act, in taxable years ending after such date.

7 **SEC. 307. THREE-YEAR APPLICABLE RECOVERY PERIOD**
8 **FOR DEPRECIATION OF QUALIFIED ENERGY**
9 **MANAGEMENT DEVICES.**

10 (a) IN GENERAL.—Subparagraph (A) of section
11 168(e)(3) (relating to classification of property) is amend-
12 ed by striking “and” at the end of clause (ii), by striking
13 the period at the end of clause (iii) and inserting “, and”,
14 and by adding at the end the following new clause:

15 “(iv) any qualified energy manage-
16 ment device.”.

17 (b) DEFINITION OF QUALIFIED ENERGY MANAGE-
18 MENT DEVICE.—Section 168(i) (relating to definitions
19 and special rules) is amended by inserting at the end the
20 following new paragraph:

21 “(15) QUALIFIED ENERGY MANAGEMENT DE-
22 VICE.—The term ‘qualified energy management de-
23 vice’ means any qualified energy management device
24 as defined in section 179C(c) which is placed in

1 service by a taxpayer who is a supplier of electric
 2 energy or natural gas or a provider of electric energy
 3 or natural gas services.”.

4 (c) EFFECTIVE DATE.—The amendments made by
 5 this section shall apply to property placed in service after
 6 the date of the enactment of this Act, in taxable years
 7 ending after such date.

8 **SEC. 308. ENERGY CREDIT FOR COMBINED HEAT AND**
 9 **POWER SYSTEM PROPERTY.**

10 (a) IN GENERAL.—Subparagraph (A) of section
 11 48(a)(3) (defining energy property), as amended by this
 12 Act, is amended by striking “or” at the end of clause (ii),
 13 by adding “or” at the end of clause (iii), and by inserting
 14 after clause (iii) the following new clause:

15 “(iv) combined heat and power system
 16 property,”.

17 (b) COMBINED HEAT AND POWER SYSTEM PROP-
 18 erty.—Subsection (a) of section 48, as amended by this
 19 Act, is amended by redesignating paragraphs (5) and (6)
 20 as paragraphs (6) and (7), respectively, and by inserting
 21 after paragraph (4) the following new paragraph:

22 “(5) COMBINED HEAT AND POWER SYSTEM
 23 PROPERTY.—For purposes of this subsection—

24 “(A) COMBINED HEAT AND POWER SYS-
 25 TEM PROPERTY.—The term ‘combined heat and

1 power system property' means property com-
2 prising a system—

3 “(i) which uses the same energy
4 source for the simultaneous or sequential
5 generation of electrical power, mechanical
6 shaft power, or both, in combination with
7 the generation of steam or other forms of
8 useful thermal energy (including heating
9 and cooling applications),

10 “(ii) which has an electrical capacity
11 of more than 50 kilowatts or a mechanical
12 energy capacity of more than 67 horse-
13 power or an equivalent combination of elec-
14 trical and mechanical energy capacities,

15 “(iii) which produces—

16 “(I) at least 20 percent of its
17 total useful energy in the form of
18 thermal energy, and

19 “(II) at least 20 percent of its
20 total useful energy in the form of elec-
21 trical or mechanical power (or com-
22 bination thereof),

23 “(iv) the energy efficiency percentage
24 of which exceeds 60 percent (70 percent in
25 the case of a system with an electrical ca-

1 capacity in excess of 50 megawatts or a me-
2 chanical energy capacity in excess of
3 67,000 horsepower, or an equivalent com-
4 bination of electrical and mechanical en-
5 ergy capacities), and

6 “ (v) which is placed in service after
7 the date of the enactment of this para-
8 graph, and before January 1, 2007.

9 “(B) SPECIAL RULES.—

10 “(i) ENERGY EFFICIENCY PERCENT-
11 AGE.—For purposes of subparagraph
12 (A)(iv), the energy efficiency percentage of
13 a system is the fraction—

14 “(I) the numerator of which is
15 the total useful electrical, thermal,
16 and mechanical power produced by
17 the system at normal operating rates,
18 and expected to be consumed in its
19 normal application, and

20 “(II) the denominator of which is
21 the lower heating value of the primary
22 fuel source for the system.

23 “(ii) DETERMINATIONS MADE ON BTU
24 BASIS.—The energy efficiency percentage

1 and the percentages under subparagraph
2 (A)(iii) shall be determined on a Btu basis.

3 “(iii) INPUT AND OUTPUT PROPERTY
4 NOT INCLUDED.—The term ‘combined heat
5 and power system property’ does not in-
6 clude property used to transport the en-
7 ergy source to the facility or to distribute
8 energy produced by the facility.

9 “(iv) PUBLIC UTILITY PROPERTY.—

10 “(I) ACCOUNTING RULE FOR
11 PUBLIC UTILITY PROPERTY.—If the
12 combined heat and power system
13 property is public utility property (as
14 defined in section 168(i)(10)), the
15 taxpayer may only claim the credit
16 under the subsection if, with respect
17 to such property, the taxpayer uses a
18 normalization method of accounting.

19 “(II) CERTAIN EXCEPTION NOT
20 TO APPLY.—The matter following
21 paragraph (3)(D) shall not apply to
22 combined heat and power system
23 property.

24 “(v) NONAPPLICATION OF CERTAIN
25 RULES.—For purposes of determining if

1 the term ‘combined heat and power system
2 property’ includes technologies which gen-
3 erate electricity or mechanical power using
4 back-pressure steam turbines in place of
5 existing pressure-reducing valves or which
6 make use of waste heat from industrial
7 processes such as by using organic rankin,
8 stirling, or kalina heat engine systems,
9 subparagraph (A) shall be applied without
10 regard to clauses (iii) and (iv) thereof.

11 “(C) EXTENSION OF DEPRECIATION RE-
12 COVERY PERIOD.—If a taxpayer is allowed cred-
13 it under this section for combined heat and
14 power system property and such property would
15 (but for this subparagraph) have a class life of
16 15 years or less under section 168, such prop-
17 erty shall be treated as having a 22-year class
18 life for purposes of section 168.”.

19 (c) NO CARRYBACK OF ENERGY CREDIT BEFORE
20 EFFECTIVE DATE.—Subsection (d) of section 39, as
21 amended by this Act, is amended by adding at the end
22 the following new paragraph:

23 “(15) NO CARRYBACK OF ENERGY CREDIT BE-
24 FORE EFFECTIVE DATE.—No portion of the unused
25 business credit for any taxable year which is attrib-

1 **“SEC. 25D. ENERGY EFFICIENCY IMPROVEMENTS TO EXIST-**
2 **ING HOMES.**

3 “(a) ALLOWANCE OF CREDIT.—In the case of an in-
4 dividual, there shall be allowed as a credit against the tax
5 imposed by this chapter for the taxable year an amount
6 equal to 10 percent of the amount paid or incurred by
7 the taxpayer for qualified energy efficiency improvements
8 installed during such taxable year.

9 “(b) LIMITATIONS.—

10 “(1) MAXIMUM CREDIT.—The credit allowed by
11 this section with respect to a dwelling shall not ex-
12 ceed \$300.

13 “(2) PRIOR CREDIT AMOUNTS FOR TAXPAYER
14 ON SAME DWELLING TAKEN INTO ACCOUNT.—If a
15 credit was allowed to the taxpayer under subsection
16 (a) with respect to a dwelling in 1 or more prior tax-
17 able years, the amount of the credit otherwise allow-
18 able for the taxable year with respect to that dwell-
19 ing shall not exceed the amount of \$300 reduced by
20 the sum of the credits allowed under subsection (a)
21 to the taxpayer with respect to the dwelling for all
22 prior taxable years.

23 “(c) CARRYFORWARD OF UNUSED CREDIT.—If the
24 credit allowable under subsection (a) exceeds the limita-
25 tion imposed by section 26(a) for such taxable year re-
26 duced by the sum of the credits allowable under this sub-

1 part (other than this section) for any taxable year, such
2 excess shall be carried to the succeeding taxable year and
3 added to the credit allowable under subsection (a) for such
4 succeeding taxable year.

5 “(d) QUALIFIED ENERGY EFFICIENCY IMPROVE-
6 MENTS.—For purposes of this section, the term ‘qualified
7 energy efficiency improvements’ means any energy effi-
8 cient building envelope component which is certified to
9 meet or exceed the prescriptive criteria for such compo-
10 nent in the 2000 International Energy Conservation Code,
11 any energy efficient building envelope component which is
12 described in subsection (f)(4)(B) and is certified by the
13 Energy Star program managed jointly by the Environ-
14 mental Protection Agency and the Department of Energy,
15 or any combination of energy efficiency measures which
16 are certified as achieving at least a 30 percent reduction
17 in heating and cooling energy usage for the dwelling (as
18 measured in terms of energy cost to the taxpayer), if—

19 “(1) such component or combination of meas-
20 ures is installed in or on a dwelling—

21 “(A) located in the United States, and

22 “(B) owned and used by the taxpayer as
23 the taxpayer’s principal residence (within the
24 meaning of section 121),

1 “(2) the original use of such component or com-
2 bination of measures commences with the taxpayer,
3 and

4 “(3) such component or combination of meas-
5 ures reasonably can be expected to remain in use for
6 at least 5 years.

7 “(e) CERTIFICATION.—

8 “(1) METHODS OF CERTIFICATION.—

9 “(A) COMPONENT-BASED METHOD.—The
10 certification described in subsection (d) for any
11 component described in such subsection shall be
12 determined on the basis of applicable energy ef-
13 ficiency ratings (including product labeling re-
14 quirements) for affected building envelope com-
15 ponents.

16 “(B) PERFORMANCE-BASED METHOD.—

17 “(i) IN GENERAL.—The certification
18 described in subsection (d) for any com-
19 bination of measures described in such
20 subsection shall be—

21 “(I) determined by comparing
22 the projected heating and cooling en-
23 ergy usage for the dwelling to such
24 usage for such dwelling in its original
25 condition, and

1 “(II) accompanied by a written
2 analysis documenting the proper ap-
3 plication of a permissible energy per-
4 formance calculation method to the
5 specific circumstances of such dwell-
6 ing.

7 “(ii) COMPUTER SOFTWARE.—Com-
8 puter software shall be used in support of
9 a performance-based method certification
10 under clause (i). Such software shall meet
11 procedures and methods for calculating en-
12 ergy and cost savings in regulations pro-
13 mulgated by the Secretary of Energy. Such
14 regulations on the specifications for soft-
15 ware and verification protocols shall be
16 based on the 2001 California Residential
17 Alternative Calculation Method Approval
18 Manual.

19 “(2) PROVIDER.—A certification described in
20 subsection (d) shall be provided by—

21 “(A) in the case of the method described
22 in paragraph (1)(A), by a third party, such as
23 a local building regulatory authority, a utility,
24 a manufactured home production inspection pri-

1 mary inspection agency (IPIA), or a home en-
2 ergy rating organization, or

3 “(B) in the case of the method described
4 in paragraph (1)(B), an individual recognized
5 by an organization designated by the Secretary
6 for such purposes.

7 “(3) FORM.—A certification described in sub-
8 section (d) shall be made in writing on forms which
9 specify in readily inspectable fashion the energy effi-
10 cient components and other measures and their re-
11 spective efficiency ratings, and which include a per-
12 manent label affixed to the electrical distribution
13 panel of the dwelling.

14 “(4) REGULATIONS.—

15 “(A) IN GENERAL.—In prescribing regula-
16 tions under this subsection for certification
17 methods described in paragraph (1)(B), the
18 Secretary, after examining the requirements for
19 energy consultants and home energy ratings
20 providers specified by the Mortgage Industry
21 National Accreditation Procedures for Home
22 Energy Rating Systems, shall prescribe proce-
23 dures for calculating annual energy usage and
24 cost reductions for heating and cooling and for

1 the reporting of the results. Such regulations
2 shall—

3 “(i) provide that any calculation pro-
4 cedures be fuel neutral such that the same
5 energy efficiency measures allow a dwelling
6 to be eligible for the credit under this sec-
7 tion regardless of whether such dwelling
8 uses a gas or oil furnace or boiler or an
9 electric heat pump, and

10 “(ii) require that any computer soft-
11 ware allow for the printing of the Federal
12 tax forms necessary for the credit under
13 this section and for the printing of forms
14 for disclosure to the owner of the dwelling.

15 “(B) PROVIDERS.—For purposes of para-
16 graph (2)(B), the Secretary shall establish re-
17 quirements for the designation of individuals
18 based on the requirements for energy consult-
19 ants and home energy raters specified by the
20 Mortgage Industry National Accreditation Pro-
21 cedures for Home Energy Rating Systems.

22 “(f) DEFINITIONS AND SPECIAL RULES.—For pur-
23 poses of this section—

24 “(1) DOLLAR AMOUNTS IN CASE OF JOINT OC-
25 CUPANCY.—In the case of any dwelling unit which is

1 jointly occupied and used during any calendar year
2 as a residence by 2 or more individuals the following
3 shall apply:

4 “(A) The amount of the credit allowable
5 under subsection (a) by reason of expenditures
6 for the qualified energy efficiency improvements
7 made during such calendar year by any of such
8 individuals with respect to such dwelling unit
9 shall be determined by treating all of such indi-
10 viduals as 1 taxpayer whose taxable year is
11 such calendar year.

12 “(B) There shall be allowable, with respect
13 to such expenditures to each of such individ-
14 uals, a credit under subsection (a) for the tax-
15 able year in which such calendar year ends in
16 an amount which bears the same ratio to the
17 amount determined under subparagraph (A) as
18 the amount of such expenditures made by such
19 individual during such calendar year bears to
20 the aggregate of such expenditures made by all
21 of such individuals during such calendar year.

22 “(2) TENANT-STOCKHOLDER IN COOPERATIVE
23 HOUSING CORPORATION.—In the case of an indi-
24 vidual who is a tenant-stockholder (as defined in sec-
25 tion 216) in a cooperative housing corporation (as

1 defined in such section), such individual shall be
2 treated as having paid his tenant-stockholder's pro-
3 portionate share (as defined in section 216(b)(3)) of
4 the cost of qualified energy efficiency improvements
5 made by such corporation.

6 “(3) CONDOMINIUMS.—

7 “(A) IN GENERAL.—In the case of an indi-
8 vidual who is a member of a condominium man-
9 agement association with respect to a condo-
10 minium which the individual owns, such indi-
11 vidual shall be treated as having paid the indi-
12 vidual's proportionate share of the cost of quali-
13 fied energy efficiency improvements made by
14 such association.

15 “(B) CONDOMINIUM MANAGEMENT ASSO-
16 CIATION.—For purposes of this paragraph, the
17 term ‘condominium management association’
18 means an organization which meets the require-
19 ments of paragraph (1) of section 528(c) (other
20 than subparagraph (E) thereof) with respect to
21 a condominium project substantially all of the
22 units of which are used as residences.

23 “(4) BUILDING ENVELOPE COMPONENT.—The
24 term ‘building envelope component’ means—

1 “(A) insulation material or system which is
2 specifically and primarily designed to reduce the
3 heat loss or gain of a dwelling when installed
4 in or on such dwelling,

5 “(B) exterior windows (including sky-
6 lights), and

7 “(C) exterior doors.

8 “(5) MANUFACTURED HOMES INCLUDED.—For
9 purposes of this section, the term ‘dwelling’ includes
10 a manufactured home which conforms to Federal
11 Manufactured Home Construction and Safety Stand-
12 ards (24 C.F.R. 3280).

13 “(g) BASIS ADJUSTMENT.—For purposes of this sub-
14 title, if a credit is allowed under this section for any ex-
15 penditure with respect to any property, the increase in the
16 basis of such property which would (but for this sub-
17 section) result from such expenditure shall be reduced by
18 the amount of the credit so allowed.

19 “(h) APPLICATION OF SECTION.—Subsection (a)
20 shall apply to qualified energy efficiency improvements in-
21 stalled during the period beginning on the date of the en-
22 actment of this section and ending on December 31,
23 2006.”.

24 (b) CREDIT ALLOWED AGAINST REGULAR TAX AND
25 ALTERNATIVE MINIMUM TAX.—

1 (1) IN GENERAL.—Section 25D(b), as added by
2 subsection (a), is amended by adding at the end the
3 following new paragraph:

4 “(3) LIMITATION BASED ON AMOUNT OF
5 TAX.—The credit allowed under subsection (a) for
6 the taxable year shall not exceed the excess of—

7 “(A) the sum of the regular tax liability
8 (as defined in section 26(b)) plus the tax im-
9 posed by section 55, over

10 “(B) the sum of the credits allowable
11 under this subpart (other than this section) and
12 section 27 for the taxable year.”.

13 (2) CONFORMING AMENDMENTS.—

14 (A) Section 25D(c), as added by subsection
15 (a), is amended by striking “section 26(a) for
16 such taxable year reduced by the sum of the
17 credits allowable under this subpart (other than
18 this section)” and inserting “subsection (b)(3)”.

19 (B) Section 23(b)(4)(B), as amended by
20 this Act, is amended by striking “section 25C”
21 and inserting “sections 25C and 25D”.

22 (C) Section 24(b)(3)(B), as amended by
23 this Act, is amended by striking “and 25C” and
24 inserting “25C, and 25D”.

1 (D) Section 25(e)(1)(C), as amended by
2 this Act, is amended by inserting “25D,” after
3 “25C,”.

4 (E) Section 25B(g)(2), as amended by this
5 Act, is amended by striking “23 and 25C” and
6 inserting “23, 25C, and 25D”.

7 (F) Section 26(a)(1), as amended by this
8 Act, is amended by striking “and 25C” and in-
9 serting “25C, and 25D”.

10 (G) Section 904(h), as amended by this
11 Act, is amended by striking “and 25C” and in-
12 serting “25C, and 25D”.

13 (H) Section 1400C(d), as amended by this
14 Act, is amended by striking “and 25C” and in-
15 serting “25C, and 25D”.

16 (c) ADDITIONAL CONFORMING AMENDMENTS.—

17 (1) Section 23(e), as in effect for taxable years
18 beginning before January 1, 2004, and as amended
19 by this Act, is amended by inserting “, 25D,” after
20 “sections 25C”.

21 (2) Section 25(e)(1)(C), as in effect for taxable
22 years beginning before January 1, 2004, and as
23 amended by this Act, is amended by inserting
24 “25D,” after “25C,”.

1 (3) Subsection (a) of section 1016, as amended
2 by this Act, is amended by striking “and” at the end
3 of paragraph (32), by striking the period at the end
4 of paragraph (33) and inserting “; and”, and by
5 adding at the end the following new paragraph:

6 “(34) to the extent provided in section 25D(f),
7 in the case of amounts with respect to which a credit
8 has been allowed under section 25D.”.

9 (4) Section 1400C(d), as in effect for taxable
10 years beginning before January 1, 2004, and as
11 amended by this Act, is amended by striking “sec-
12 tion 25C” and inserting “sections 25C and 25D”.

13 (5) The table of sections for subpart A of part
14 IV of subchapter A of chapter 1, as amended by this
15 Act, is amended by inserting after the item relating
16 to section 25C the following new item:

 “Sec. 25D. Energy efficiency improvements to existing homes.”.

17 (d) EFFECTIVE DATES.—

18 (1) IN GENERAL.—Except as provided by para-
19 graph (2), the amendments made by this section
20 shall apply to expenditures after the date of the en-
21 actment of this Act, in taxable years ending after
22 such date.

23 (2) SUBSECTION (b).—The amendments made
24 by subsection (b) shall apply to taxable years begin-
25 ning after December 31, 2003.

1 **SEC. 310. ALLOWANCE OF DEDUCTION FOR QUALIFIED**
2 **NEW OR RETROFITTED WATER SUB-**
3 **METERING DEVICES.**

4 (a) IN GENERAL.—Part VI of subchapter B of chap-
5 ter 1 (relating to itemized deductions for individuals and
6 corporations), as amended by section 503, is amended by
7 inserting after section 179D the following new section:

8 **“SEC. 179E. DEDUCTION FOR QUALIFIED NEW OR RETRO-**
9 **FITTED WATER SUBMETERING DEVICES.**

10 “(a) ALLOWANCE OF DEDUCTION.—In the case of a
11 taxpayer who is an eligible resupplier, there shall be al-
12 lowed as a deduction an amount equal to the cost of each
13 qualified water submetering device placed in service during
14 the taxable year.

15 “(b) MAXIMUM DEDUCTION.—The deduction allowed
16 by this section with respect to each qualified water sub-
17 metering device shall not exceed \$30.

18 “(c) ELIGIBLE RESUPPLIER.—For purposes of this
19 section, the term ‘eligible resupplier’ means any taxpayer
20 who purchases and installs qualified water submetering
21 devices in every unit in any multi-unit property.

22 “(d) QUALIFIED WATER SUBMETERING DEVICE.—
23 The term ‘qualified water submetering device’ means any
24 tangible property to which section 168 applies if such
25 property is a submetering device (including ancillary
26 equipment)—

1 “(1) which is purchased and installed by the
2 taxpayer to enable consumers to manage their pur-
3 chase or use of water in response to water price and
4 usage signals, and

5 “(2) which permits reading of water price and
6 usage signals on at least a daily basis.

7 “(e) PROPERTY USED OUTSIDE THE UNITED
8 STATES NOT QUALIFIED.—No deduction shall be allowed
9 under subsection (a) with respect to property which is
10 used predominantly outside the United States or with re-
11 spect to the portion of the cost of any property taken into
12 account under section 179.

13 “(f) BASIS REDUCTION.—

14 “(1) IN GENERAL.—For purposes of this title,
15 the basis of any property shall be reduced by the
16 amount of the deduction with respect to such prop-
17 erty which is allowed by subsection (a).

18 “(2) ORDINARY INCOME RECAPTURE.—For
19 purposes of section 1245, the amount of the deduc-
20 tion allowable under subsection (a) with respect to
21 any property that is of a character subject to the al-
22 lowance for depreciation shall be treated as a deduc-
23 tion allowed for depreciation under section 167.

24 “(g) TERMINATION.—This section shall not apply to
25 any property placed in service after December 31, 2007.”.

1 (b) CONFORMING AMENDMENTS.—

2 (1) Section 263(a)(1), as amended by section
3 503, is amended by striking “or” at the end of sub-
4 paragraph (J), by striking the period at the end of
5 subparagraph (K) and inserting “, or”, and by in-
6 serting after subparagraph (K) the following new
7 subparagraph:

8 “(L) expenditures for which a deduction is
9 allowed under section 179E.”.

10 (2) Section 312(k)(3)(B), as amended by sec-
11 tion 503, is amended by striking “or 179D” each
12 place it appears in the heading and text and insert-
13 ing “, 179D, or 179E”.

14 (3) Section 1016(a), as amended by section
15 503, is amended by striking “and” at the end of
16 paragraph (34), by striking the period at the end of
17 paragraph (35) and inserting “, and”, and by add-
18 ing at the end the following new paragraph:

19 “(36) to the extent provided in section
20 179E(f)(1).”.

21 (4) Section 1245(a), as amended by section
22 503, is amended by inserting “179E,” after
23 “179D,” both places it appears in paragraphs (2)(C)
24 and (3)(C).

1 (5) The table of contents for subpart B of part
 2 IV of subchapter A of chapter 1, as amended by sec-
 3 tion 503, is amended by inserting after the item re-
 4 lating to section 179D the following new item:

“Sec. 179E. Deduction for qualified new or retrofitted water sub-
 metering devices.”.

5 (c) EFFECTIVE DATE.—The amendments made by
 6 this section shall apply to qualified water submetering de-
 7 vices placed in service after the date of the enactment of
 8 this Act, in taxable years ending after such date.

9 **SEC. 311. THREE-YEAR APPLICABLE RECOVERY PERIOD**
 10 **FOR DEPRECIATION OF QUALIFIED WATER**
 11 **SUBMETERING DEVICES.**

12 (a) IN GENERAL.—Subparagraph (A) of section
 13 168(e)(3) (relating to classification of property), as
 14 amended by this Act, is amended by striking “and” at the
 15 end of clause (iii), by striking the period at the end of
 16 clause (iv) and inserting “, and”, and by adding at the
 17 end the following new clause:

18 “(v) any qualified water submetering
 19 device.”.

20 (b) DEFINITION OF QUALIFIED WATER SUB-
 21 METERING DEVICE.—Section 168(i) (relating to defini-
 22 tions and special rules), as amended by this Act, is amend-
 23 ed by inserting at the end the following new paragraph:

1 “(16) QUALIFIED WATER SUBMETERING DE-
 2 VICE.—The term ‘qualified water submetering de-
 3 vice’ means any qualified water submetering device
 4 (as defined in section 179E(d)) which is placed in
 5 service before January 1, 2008, by a taxpayer who
 6 is an eligible resupplier (as defined in section
 7 179E(c)).”.

8 (c) EFFECTIVE DATE.—The amendments made by
 9 this section shall apply to property placed in service after
 10 the date of the enactment of this Act, in taxable years
 11 ending after such date.

12 **TITLE IV—CLEAN COAL** 13 **INCENTIVES**

14 **Subtitle A—Credit for Emission Re-** 15 **ductions and Efficiency Im-** 16 **provements in Existing Coal-** 17 **Based Electricity Generation** 18 **Facilities**

19 **SEC. 401. CREDIT FOR PRODUCTION FROM A QUALIFYING** 20 **CLEAN COAL TECHNOLOGY UNIT.**

21 (a) CREDIT FOR PRODUCTION FROM A QUALIFYING
 22 CLEAN COAL TECHNOLOGY UNIT.—Subpart D of part IV
 23 of subchapter A of chapter 1 (relating to business related
 24 credits), as amended by this Act, is amended by adding
 25 at the end the following new section:

1 **“SEC. 45I. CREDIT FOR PRODUCTION FROM A QUALIFYING**
2 **CLEAN COAL TECHNOLOGY UNIT.**

3 “(a) GENERAL RULE.—For purposes of section 38,
4 the qualifying clean coal technology production credit of
5 any taxpayer for any taxable year is equal to the product
6 of—

7 “(1) the applicable amount of clean coal tech-
8 nology production credit, multiplied by

9 “(2) the applicable percentage of the kilowatt
10 hours of electricity produced by the taxpayer during
11 such taxable year at a qualifying clean coal tech-
12 nology unit, but only if such production occurs dur-
13 ing the 10-year period beginning on the date the
14 unit was returned to service after becoming a quali-
15 fying clean coal technology unit.

16 “(b) APPLICABLE AMOUNT.—

17 “(1) IN GENERAL.—For purposes of this sec-
18 tion, the applicable amount of clean coal technology
19 production credit is equal to \$0.0034.

20 “(2) INFLATION ADJUSTMENT.—For calendar
21 years after 2004, the applicable amount of clean coal
22 technology production credit shall be adjusted by
23 multiplying such amount by the inflation adjustment
24 factor for the calendar year in which the amount is
25 applied. If any amount as increased under the pre-
26 ceding sentence is not a multiple of 0.01 cent, such

1 amount shall be rounded to the nearest multiple of
2 0.01 cent.

3 “(c) APPLICABLE PERCENTAGE.—For purposes of
4 this section, with respect to any qualifying clean coal tech-
5 nology unit, the applicable percentage is the percentage
6 equal to the ratio which the portion of the national mega-
7 watt capacity limitation allocated to the taxpayer with re-
8 spect to such unit under subsection (e) bears to the total
9 megawatt capacity of such unit.

10 “(d) DEFINITIONS AND SPECIAL RULES.—For pur-
11 poses of this section—

12 “(1) QUALIFYING CLEAN COAL TECHNOLOGY
13 UNIT.—The term ‘qualifying clean coal technology
14 unit’ means a clean coal technology unit of the tax-
15 payer which—

16 “(A) on the date of the enactment of this
17 section was a coal-based electricity generating
18 steam generator-turbine unit which was not a
19 clean coal technology unit,

20 “(B) has a nameplate capacity rating of
21 not more than 300,000 kilowatts,

22 “(C) becomes a clean coal technology unit
23 as the result of the retrofitting, repowering, or
24 replacement of the unit with clean coal tech-

1 nology during the 10-year period beginning on
2 the date of the enactment of this section,

3 “(D) is not receiving nor is scheduled to
4 receive funding under the Clean Coal Tech-
5 nology Program, the Power Plant Improvement
6 Initiative, or the Clean Coal Power Initiative
7 administered by the Secretary of Energy, and

8 “(E) receives an allocation of a portion of
9 the national megawatt capacity limitation under
10 subsection (e).

11 “(2) CLEAN COAL TECHNOLOGY UNIT.—The
12 term ‘clean coal technology unit’ means a unit
13 which—

14 “(A) uses clean coal technology, including
15 advanced pulverized coal or atmospheric fluid-
16 ized bed combustion, pressurized fluidized bed
17 combustion, integrated gasification combined
18 cycle, or any other technology for the produc-
19 tion of electricity,

20 “(B) uses coal to produce 75 percent or
21 more of its thermal output as electricity,

22 “(C) has a design net heat rate of at least
23 500 less than that of such unit as described in
24 paragraph (1)(A),

1 “(D) has a maximum design net heat rate
2 of not more than 9,500, and

3 “(E) meets the pollution control require-
4 ments of paragraph (3).

5 “(3) POLLUTION CONTROL REQUIREMENTS.—

6 “(A) IN GENERAL.—A unit meets the re-
7 quirements of this paragraph if—

8 “(i) its emissions of sulfur dioxide, ni-
9 trogen oxide, or particulates meet the
10 lower of the emission levels for each such
11 emission specified in—

12 “(I) subparagraph (B), or

13 “(II) the new source performance
14 standards of the Clean Air Act (42
15 U.S.C. 7411) which are in effect for
16 the category of source at the time of
17 the retrofitting, repowering, or re-
18 placement of the unit, and

19 “(ii) its emissions do not exceed any
20 relevant emission level specified by regula-
21 tion pursuant to the hazardous air pollut-
22 ant requirements of the Clean Air Act (42
23 U.S.C. 7412) in effect at the time of the
24 retrofitting, repowering, or replacement.

1 “(B) SPECIFIC LEVELS.—The levels speci-
2 fied in this subparagraph are—

3 “(i) in the case of sulfur dioxide emis-
4 sions, 50 percent of the sulfur dioxide
5 emission levels specified in the new source
6 performance standards of the Clean Air
7 Act (42 U.S.C. 7411) in effect on the date
8 of the enactment of this section for the
9 category of source,

10 “(ii) in the case of nitrogen oxide
11 emissions—

12 “(I) 0.1 pound per million Btu of
13 heat input if the unit is not a cyclone-
14 fired boiler, and

15 “(II) if the unit is a cyclone-fired
16 boiler, 15 percent of the uncontrolled
17 nitrogen oxide emissions from such
18 boilers, and

19 “(iii) in the case of particulate emis-
20 sions, 0.02 pound per million Btu of heat
21 input.

22 “(4) DESIGN NET HEAT RATE.—The design net
23 heat rate with respect to any unit, measured in Btu
24 per kilowatt hour (HHV)—

1 “(A) shall be based on the design annual
2 heat input to and the design annual net elec-
3 trical output from such unit (determined with-
4 out regard to such unit’s co-generation of
5 steam),

6 “(B) shall be adjusted for the heat content
7 of the design coal to be used by the unit if it
8 is less than 12,000 Btu per pound according to
9 the following formula:

10 Design net heat rate = Unit net heat rate \times [1 -
11 {((12,000-design coal heat content, Btu per pound)/
12 1,000) \times 0.013}], and

13 “(C) shall be corrected for the site ref-
14 erence conditions of—

15 “(i) elevation above sea level of 500 feet,

16 “(ii) air pressure of 14.4 pounds per square
17 inch absolute (psia),

18 “(iii) temperature, dry bulb of 63°F,

19 “(iv) temperature, wet bulb of 54°F, and

20 “(v) relative humidity of 55 percent.

21 “(5) HHV.—The term ‘HHV’ means higher
22 heating value.

23 “(6) APPLICATION OF CERTAIN RULES.—The
24 rules of paragraphs (3), (4), and (5) of section 45(d)
25 shall apply.

1 “(7) INFLATION ADJUSTMENT FACTOR.—

2 “(A) IN GENERAL.—The term ‘inflation
3 adjustment factor’ means, with respect to a cal-
4 endar year, a fraction the numerator of which
5 is the GDP implicit price deflator for the pre-
6 ceding calendar year and the denominator of
7 which is the GDP implicit price deflator for the
8 calendar year 2003.

9 “(B) GDP IMPLICIT PRICE DEFLATOR.—

10 The term ‘GDP implicit price deflator’ means
11 the most recent revision of the implicit price
12 deflator for the gross domestic product as com-
13 puted by the Department of Commerce before
14 March 15 of the calendar year.

15 “(8) NONCOMPLIANCE WITH POLLUTION
16 LAWS.—For purposes of this section, a unit which is
17 not in compliance with the applicable State and Fed-
18 eral pollution prevention, control, and permit re-
19 quirements for any period of time shall not be con-
20 sidered to be a qualifying clean coal technology unit
21 during such period.

22 “(e) NATIONAL LIMITATION ON THE AGGREGATE CA-
23 PACITY OF QUALIFYING CLEAN COAL TECHNOLOGY
24 UNITS.—

1 “(1) IN GENERAL.—For purposes of subsection
2 (d)(1)(E), the national megawatt capacity limitation
3 for qualifying clean coal technology units is 4,000
4 megawatts.

5 “(2) ALLOCATION OF LIMITATION.—The Sec-
6 retary shall allocate the national megawatt capacity
7 limitation for qualifying clean coal technology units
8 in such manner as the Secretary may prescribe
9 under the regulations under paragraph (3).

10 “(3) REGULATIONS.—Not later than 6 months
11 after the date of the enactment of this section, the
12 Secretary shall prescribe such regulations as may be
13 necessary or appropriate—

14 “(A) to carry out the purposes of this sub-
15 section,

16 “(B) to limit the capacity of any qualifying
17 clean coal technology unit to which this section
18 applies so that the combined megawatt capacity
19 allocated to all such units under this subsection
20 when all such units are placed in service during
21 the 10-year period described in subsection
22 (d)(1)(C), does not exceed 4,000 megawatts,

23 “(C) to provide a certification process
24 under which the Secretary, in consultation with
25 the Secretary of Energy, shall approve and allo-

1 cate the national megawatt capacity limita-
2 tion—

3 “(i) to encourage that units with the
4 highest thermal efficiencies, when adjusted
5 for the heat content of the design coal and
6 site reference conditions described in sub-
7 section (d)(4)(C), and environmental per-
8 formance be placed in service as soon as
9 possible, and

10 “(ii) to allocate capacity to taxpayers
11 that have a definite and credible plan for
12 placing into commercial operation a quali-
13 fying clean coal technology unit, includ-
14 ing—

15 “(I) a site,

16 “(II) contractual commitments
17 for procurement and construction or,
18 in the case of regulated utilities, the
19 agreement of the State utility commis-
20 sion,

21 “(III) filings for all necessary
22 preconstruction approvals,

23 “(IV) a demonstrated record of
24 having successfully completed com-
25 parable projects on a timely basis, and

1 “(V) such other factors that the
2 Secretary determines are appropriate,

3 “(D) to allocate the national megawatt ca-
4 pacity limitation to a portion of the capacity of
5 a qualifying clean coal technology unit if the
6 Secretary determines that such an allocation
7 would maximize the amount of efficient produc-
8 tion encouraged with the available tax credits,

9 “(E) to set progress requirements and con-
10 ditional approvals so that capacity allocations
11 for clean coal technology units that become un-
12 likely to meet the necessary conditions for
13 qualifying can be reallocated by the Secretary
14 to other clean coal technology units, and

15 “(F) to provide taxpayers with opportuni-
16 ties to correct administrative errors and omis-
17 sions with respect to allocations and record
18 keeping within a reasonable period after dis-
19 covery, taking into account the availability of
20 regulations and other administrative guidance
21 from the Secretary.”.

22 (b) CREDIT TREATED AS BUSINESS CREDIT.—Sec-
23 tion 38(b), as amended by this Act, is amended by striking
24 “plus” at the end of paragraph (18), by striking the period

1 at the end of paragraph (19) and inserting “, plus”, and
2 by adding at the end the following new paragraph:

3 “(20) the qualifying clean coal technology pro-
4 duction credit determined under section 45I(a).”.

5 (c) TRANSITIONAL RULE.—Section 39(d) (relating to
6 transitional rules), as amended by this Act, is amended
7 by adding at the end the following new paragraph:

8 “(16) NO CARRYBACK OF SECTION 45I CREDIT
9 BEFORE EFFECTIVE DATE.—No portion of the un-
10 used business credit for any taxable year which is
11 attributable to the qualifying clean coal technology
12 production credit determined under section 45I may
13 be carried back to a taxable year ending on or before
14 the date of the enactment of such section.”.

15 (d) CLERICAL AMENDMENT.—The table of sections
16 for subpart D of part IV of subchapter A of chapter 1,
17 as amended by this Act, is amended by adding at the end
18 the following new item:

“Sec. 45I. Credit for production from a qualifying clean coal technology unit.”.

19 (e) EFFECTIVE DATE.—The amendments made by
20 this section shall apply to production after the date of the
21 enactment of this Act, in taxable years ending after such
22 date.

1 **Subtitle B—Incentives for Early**
 2 **Commercial Applications of Ad-**
 3 **vanced Clean Coal Technologies**

4 **SEC. 411. CREDIT FOR INVESTMENT IN QUALIFYING AD-**
 5 **VANCED CLEAN COAL TECHNOLOGY.**

6 (a) ALLOWANCE OF QUALIFYING ADVANCED CLEAN
 7 COAL TECHNOLOGY UNIT CREDIT.—Section 46 (relating
 8 to amount of credit) is amended by striking “and” at the
 9 end of paragraph (2), by striking the period at the end
 10 of paragraph (3) and inserting “, and”, and by adding
 11 at the end the following new paragraph:

12 “(4) the qualifying advanced clean coal tech-
 13 nology unit credit.”.

14 (b) AMOUNT OF QUALIFYING ADVANCED CLEAN
 15 COAL TECHNOLOGY UNIT CREDIT.—Subpart E of part
 16 IV of subchapter A of chapter 1 (relating to rules for com-
 17 puting investment credit) is amended by inserting after
 18 section 48 the following new section:

19 **“SEC. 48A. QUALIFYING ADVANCED CLEAN COAL TECH-**
 20 **NOLOGY UNIT CREDIT.**

21 “(a) IN GENERAL.—For purposes of section 46, the
 22 qualifying advanced clean coal technology unit credit for
 23 any taxable year is an amount equal to 10 percent of the
 24 applicable percentage of the qualified investment in a

1 qualifying advanced clean coal technology unit for such
2 taxable year.

3 “(b) QUALIFYING ADVANCED CLEAN COAL TECH-
4 NOLOGY UNIT.—

5 “(1) IN GENERAL.—For purposes of subsection
6 (a), the term ‘qualifying advanced clean coal tech-
7 nology unit’ means an advanced clean coal tech-
8 nology unit of the taxpayer—

9 “(A)(i)(I) in the case of a unit first placed
10 in service after the date of the enactment of
11 this section, the original use of which com-
12 mences with the taxpayer, or

13 “(II) in the case of the retrofitting or
14 repowering of a unit first placed in service be-
15 fore such date of enactment, the retrofitting or
16 repowering of which is completed by the tax-
17 payer after such date, or

18 “(ii) which is acquired through purchase
19 (as defined by section 179(d)(2)),

20 “(B) which is depreciable under section
21 167,

22 “(C) which has a useful life of not less
23 than 4 years,

24 “(D) which is located in the United States,

1 “(E) which is not receiving nor is sched-
2 uled to receive funding under the Clean Coal
3 Technology Program, the Power Plant Improve-
4 ment Initiative, or the Clean Coal Power Initia-
5 tive administered by the Secretary of Energy,

6 “(F) which is not a qualifying clean coal
7 technology unit, and

8 “(G) which receives an allocation of a por-
9 tion of the national megawatt capacity limita-
10 tion under subsection (f).

11 “(2) SPECIAL RULE FOR SALE-LEASEBACKS.—
12 For purposes of subparagraph (A) of paragraph (1),
13 in the case of a unit which—

14 “(A) is originally placed in service by a
15 person, and

16 “(B) is sold and leased back by such per-
17 son, or is leased to such person, within 3
18 months after the date such unit was originally
19 placed in service, for a period of not less than
20 12 years,

21 such unit shall be treated as originally placed in
22 service not earlier than the date on which such unit
23 is used under the leaseback (or lease) referred to in
24 subparagraph (B). The preceding sentence shall not
25 apply to any property if the lessee and lessor of such

1 property make an election under this sentence. Such
2 an election, once made, may be revoked only with
3 the consent of the Secretary.

4 “(3) NONCOMPLIANCE WITH POLLUTION
5 LAWS.—For purposes of this subsection, a unit
6 which is not in compliance with the applicable State
7 and Federal pollution prevention, control, and per-
8 mit requirements for any period of time shall not be
9 considered to be a qualifying advanced clean coal
10 technology unit during such period.

11 “(c) APPLICABLE PERCENTAGE.—For purposes of
12 this section, with respect to any qualifying advanced clean
13 coal technology unit, the applicable percentage is the per-
14 centage equal to the ratio which the portion of the national
15 megawatt capacity limitation allocated to the taxpayer
16 with respect to such unit under subsection (f) bears to
17 the total megawatt capacity of such unit.

18 “(d) ADVANCED CLEAN COAL TECHNOLOGY UNIT.—
19 For purposes of this section—

20 “(1) IN GENERAL.—The term ‘advanced clean
21 coal technology unit’ means a new, retrofit, or
22 repowering unit of the taxpayer which—

23 “(A) is—

1 “(i) an eligible advanced pulverized
2 coal or atmospheric fluidized bed combus-
3 tion technology unit,

4 “(ii) an eligible pressurized fluidized
5 bed combustion technology unit,

6 “(iii) an eligible integrated gasifi-
7 cation combined cycle technology unit, or

8 “(iv) an eligible other technology unit,
9 and

10 “(B) meets the carbon emission rate re-
11 quirements of paragraph (6).

12 “(2) ELIGIBLE ADVANCED PULVERIZED COAL
13 OR ATMOSPHERIC FLUIDIZED BED COMBUSTION
14 TECHNOLOGY UNIT.—The term ‘eligible advanced
15 pulverized coal or atmospheric fluidized bed combus-
16 tion technology unit’ means a clean coal technology
17 unit using advanced pulverized coal or atmospheric
18 fluidized bed combustion technology which—

19 “(A) is placed in service after the date of
20 the enactment of this section and before Janu-
21 ary 1, 2013, and

22 “(B) has a design net heat rate of not
23 more than 8,350 (8,750 in the case of units
24 placed in service before 2009).

1 “(3) ELIGIBLE PRESSURIZED FLUIDIZED BED
2 COMBUSTION TECHNOLOGY UNIT.—The term ‘eligi-
3 ble pressurized fluidized bed combustion technology
4 unit’ means a clean coal technology unit using pres-
5 surized fluidized bed combustion technology which—

6 “(A) is placed in service after the date of
7 the enactment of this section and before Janu-
8 ary 1, 2017, and

9 “(B) has a design net heat rate of not
10 more than 7,720 (8,750 in the case of units
11 placed in service before 2009, and 8,350 in the
12 case of units placed in service after 2008 and
13 before 2013).

14 “(4) ELIGIBLE INTEGRATED GASIFICATION
15 COMBINED CYCLE TECHNOLOGY UNIT.—The term
16 ‘eligible integrated gasification combined cycle tech-
17 nology unit’ means a clean coal technology unit
18 using integrated gasification combined cycle tech-
19 nology, with or without fuel or chemical co-produce-
20 tion, which—

21 “(A) is placed in service after the date of
22 the enactment of this section and before Janu-
23 ary 1, 2017,

24 “(B) has a design net heat rate of not
25 more than 7,720 (8,750 in the case of units

1 placed in service before 2009, and 8,350 in the
2 case of units placed in service after 2008 and
3 before 2013), and

4 “(C) has a net thermal efficiency (HHV)
5 using coal with fuel or chemical co-production
6 of not less than 43.9 percent (39 percent in the
7 case of units placed in service before 2009, and
8 40.9 percent in the case of units placed in serv-
9 ice after 2008 and before 2013).

10 “(5) ELIGIBLE OTHER TECHNOLOGY UNIT.—

11 The term ‘eligible other technology unit’ means a
12 clean coal technology unit using any other tech-
13 nology for the production of electricity which is
14 placed in service after the date of the enactment of
15 this section and before January 1, 2017.

16 “(6) CARBON EMISSION RATE REQUIRE-
17 MENTS.—

18 “(A) IN GENERAL.—Except as provided in
19 subparagraph (B), a unit meets the require-
20 ments of this paragraph if—

21 “(i) in the case of a unit using design
22 coal with a heat content of not more than
23 9,000 Btu per pound, the carbon emission
24 rate is less than 0.60 pound of carbon per
25 kilowatt hour, and

1 “(ii) in the case of a unit using design
2 coal with a heat content of more than
3 9,000 Btu per pound, the carbon emission
4 rate is less than 0.54 pound of carbon per
5 kilowatt hour.

6 “(B) ELIGIBLE OTHER TECHNOLOGY
7 UNIT.—In the case of an eligible other tech-
8 nology unit, subparagraph (A) shall be applied
9 by substituting ‘0.51’ and ‘0.459’ for ‘0.60’ and
10 ‘0.54’, respectively.

11 “(e) GENERAL DEFINITIONS.—Any term used in this
12 section which is also used in section 45I shall have the
13 meaning given such term in section 45I.

14 “(f) NATIONAL LIMITATION ON THE AGGREGATE CA-
15 PACITY OF ADVANCED CLEAN COAL TECHNOLOGY
16 UNITS.—

17 “(1) IN GENERAL.—For purposes of subsection
18 (b)(1)(G), the national megawatt capacity limitation
19 is—

20 “(A) for qualifying advanced clean coal
21 technology units using advanced pulverized coal
22 or atmospheric fluidized bed combustion tech-
23 nology, not more than 1,000 megawatts (not
24 more than 500 megawatts in the case of units
25 placed in service before 2009),

1 “(B) for such units using pressurized flu-
2 idized bed combustion technology, not more
3 than 500 megawatts (not more than 250
4 megawatts in the case of units placed in service
5 before 2009),

6 “(C) for such units using integrated gasifi-
7 cation combined cycle technology, with or with-
8 out fuel or chemical co-production, not more
9 than 2,000 megawatts (not more than 1,000
10 megawatts in the case of units placed in service
11 before 2009 and not more than 1,500
12 megawatts in the case of units placed in service
13 after 2008 and before 2013), and

14 “(D) for such units using other technology
15 for the production of electricity, not more than
16 500 megawatts (not more than 250 megawatts
17 in the case of units placed in service before
18 2009).

19 “(2) ALLOCATION OF LIMITATION.—The Sec-
20 retary shall allocate the national megawatt capacity
21 limitation for qualifying advanced clean coal tech-
22 nology units in such manner as the Secretary may
23 prescribe under the regulations under paragraph (3).

24 “(3) REGULATIONS.—Not later than 6 months
25 after the date of the enactment of this section, the

1 Secretary shall prescribe such regulations as may be
2 necessary or appropriate—

3 “(A) to carry out the purposes of this sub-
4 section and section 45J,

5 “(B) to limit the capacity of any qualifying
6 advanced clean coal technology unit to which
7 this section applies so that the combined mega-
8 watt capacity of all such units to which this sec-
9 tion applies does not exceed 4,000 megawatts,

10 “(C) to provide a certification process de-
11 scribed in section 45I(e)(3)(C),

12 “(D) to carry out the purposes described
13 in subparagraphs (D), (E), and (F) of section
14 45I(e)(3), and

15 “(E) to reallocate capacity which is not al-
16 located to any technology described in subpara-
17 graphs (A) through (D) of paragraph (1) be-
18 cause an insufficient number of qualifying units
19 request an allocation for such technology, to an-
20 other technology described in such subpara-
21 graphs in order to maximize the amount of en-
22 ergy efficient production encouraged with the
23 available tax credits.

24 “(4) SELECTION CRITERIA.—For purposes of
25 paragraph (3)(C), the selection criteria for allocating

1 the national megawatt capacity limitation to quali-
2 fying advanced clean coal technology units—

3 “(A) shall be established by the Secretary
4 of Energy as part of a competitive solicitation,

5 “(B) shall include primary criteria of min-
6 imum design net heat rate, maximum design
7 thermal efficiency, environmental performance,
8 and lowest cost to the Government, and

9 “(C) shall include supplemental criteria as
10 determined appropriate by the Secretary of En-
11 ergy.

12 “(g) QUALIFIED INVESTMENT.—For purposes of
13 subsection (a), the term ‘qualified investment’ means, with
14 respect to any taxable year, the basis of a qualifying ad-
15 vanced clean coal technology unit placed in service by the
16 taxpayer during such taxable year (in the case of a unit
17 described in subsection (b)(1)(A)(i)(II), only that portion
18 of the basis of such unit which is properly attributable
19 to the retrofitting or repowering of such unit).

20 “(h) QUALIFIED PROGRESS EXPENDITURES.—

21 “(1) INCREASE IN QUALIFIED INVESTMENT.—

22 In the case of a taxpayer who has made an election
23 under paragraph (5), the amount of the qualified in-
24 vestment of such taxpayer for the taxable year (de-
25 termined under subsection (g) without regard to this

1 subsection) shall be increased by an amount equal to
2 the aggregate of each qualified progress expenditure
3 for the taxable year with respect to progress expend-
4 iture property.

5 “(2) PROGRESS EXPENDITURE PROPERTY DE-
6 FINED.—For purposes of this subsection, the term
7 ‘progress expenditure property’ means any property
8 being constructed by or for the taxpayer and which
9 it is reasonable to believe will qualify as a qualifying
10 advanced clean coal technology unit which is being
11 constructed by or for the taxpayer when it is placed
12 in service.

13 “(3) QUALIFIED PROGRESS EXPENDITURES DE-
14 FINED.—For purposes of this subsection—

15 “(A) SELF-CONSTRUCTED PROPERTY.—In
16 the case of any self-constructed property, the
17 term ‘qualified progress expenditures’ means
18 the amount which, for purposes of this subpart,
19 is properly chargeable (during such taxable
20 year) to capital account with respect to such
21 property.

22 “(B) NONSELF-CONSTRUCTED PROP-
23 ERTY.—In the case of nonself-constructed prop-
24 erty, the term ‘qualified progress expenditures’
25 means the amount paid during the taxable year

1 to another person for the construction of such
2 property.

3 “(4) OTHER DEFINITIONS.—For purposes of
4 this subsection—

5 “(A) SELF-CONSTRUCTED PROPERTY.—
6 The term ‘self-constructed property’ means
7 property for which it is reasonable to believe
8 that more than half of the construction expendi-
9 tures will be made directly by the taxpayer.

10 “(B) NONSELF-CONSTRUCTED PROP-
11 erty.—The term ‘nonself-constructed property’
12 means property which is not self-constructed
13 property.

14 “(C) CONSTRUCTION, ETC.—The term
15 ‘construction’ includes reconstruction and erec-
16 tion, and the term ‘constructed’ includes recon-
17 structed and erected.

18 “(D) ONLY CONSTRUCTION OF QUALI-
19 FYING ADVANCED CLEAN COAL TECHNOLOGY
20 UNIT TO BE TAKEN INTO ACCOUNT.—Construc-
21 tion shall be taken into account only if, for pur-
22 poses of this subpart, expenditures therefor are
23 properly chargeable to capital account with re-
24 spect to the property.

1 “(5) ELECTION.—An election under this sub-
2 section may be made at such time and in such man-
3 ner as the Secretary may by regulations prescribe.
4 Such an election shall apply to the taxable year for
5 which made and to all subsequent taxable years.
6 Such an election, once made, may not be revoked ex-
7 cept with the consent of the Secretary.

8 “(i) COORDINATION WITH OTHER CREDITS.—This
9 section shall not apply to any property with respect to
10 which the rehabilitation credit under section 47 or the en-
11 ergy credit under section 48 is allowed unless the taxpayer
12 elects to waive the application of such credit to such prop-
13 erty.”.

14 (c) RECAPTURE.—Section 50(a) (relating to other
15 special rules) is amended by adding at the end the fol-
16 lowing new paragraph:

17 “(6) SPECIAL RULES RELATING TO QUALIFYING
18 ADVANCED CLEAN COAL TECHNOLOGY UNIT.—For
19 purposes of applying this subsection in the case of
20 any credit allowable by reason of section 48A, the
21 following shall apply:

22 “(A) GENERAL RULE.—In lieu of the
23 amount of the increase in tax under paragraph
24 (1), the increase in tax shall be an amount
25 equal to the investment tax credit allowed under

1 section 38 for all prior taxable years with re-
2 spect to a qualifying advanced clean coal tech-
3 nology unit (as defined by section 48A(b)(1))
4 multiplied by a fraction whose numerator is the
5 number of years remaining to fully depreciate
6 under this title the qualifying advanced clean
7 coal technology unit disposed of, and whose de-
8 nominator is the total number of years over
9 which such unit would otherwise have been sub-
10 ject to depreciation. For purposes of the pre-
11 ceding sentence, the year of disposition of the
12 qualifying advanced clean coal technology unit
13 shall be treated as a year of remaining depre-
14 ciation.

15 “(B) PROPERTY CEASES TO QUALIFY FOR
16 PROGRESS EXPENDITURES.—Rules similar to
17 the rules of paragraph (2) shall apply in the
18 case of qualified progress expenditures for a
19 qualifying advanced clean coal technology unit
20 under section 48A, except that the amount of
21 the increase in tax under subparagraph (A) of
22 this paragraph shall be substituted for the
23 amount described in such paragraph (2).

24 “(C) APPLICATION OF PARAGRAPH.—This
25 paragraph shall be applied separately with re-

1 spect to the credit allowed under section 38 re-
2 garding a qualifying advanced clean coal tech-
3 nology unit.”.

4 (d) TRANSITIONAL RULE.—Section 39(d) (relating to
5 transitional rules), as amended by this Act, is amended
6 by adding at the end the following new paragraph:

7 “(17) NO CARRYBACK OF SECTION 48A CREDIT
8 BEFORE EFFECTIVE DATE.—No portion of the un-
9 used business credit for any taxable year which is
10 attributable to the qualifying advanced clean coal
11 technology unit credit determined under section 48A
12 may be carried back to a taxable year ending on or
13 before the date of the enactment of such section.”.

14 (e) TECHNICAL AMENDMENTS.—

15 (1) Section 49(a)(1)(C) is amended by striking
16 “and” at the end of clause (ii), by striking the pe-
17 riod at the end of clause (iii) and inserting “, and”,
18 and by adding at the end the following new clause:

19 “(iv) the portion of the basis of any
20 qualifying advanced clean coal technology
21 unit attributable to any qualified invest-
22 ment (as defined by section 48A(g)).”.

23 (2) Section 50(a)(4) is amended by striking
24 “and (2)” and inserting “(2), and (6)”.

1 **“SEC. 45J. CREDIT FOR PRODUCTION FROM A QUALIFYING**
2 **ADVANCED CLEAN COAL TECHNOLOGY UNIT.**

3 “(a) GENERAL RULE.—For purposes of section 38,
4 the qualifying advanced clean coal technology production
5 credit of any taxpayer for any taxable year is equal to—

6 “(1) the applicable amount of advanced clean
7 coal technology production credit, multiplied by

8 “(2) the applicable percentage (as determined
9 under section 48A(c)) of the sum of—

10 “(A) the kilowatt hours of electricity, plus

11 “(B) each 3,413 Btu of fuels or chemicals,
12 produced by the taxpayer during such taxable year
13 at a qualifying advanced clean coal technology unit
14 during the 10-year period beginning on the date the
15 unit was originally placed in service (or returned to
16 service after becoming a qualifying advanced clean
17 coal technology unit).

18 “(b) APPLICABLE AMOUNT.—For purposes of this
19 section, the applicable amount of advanced clean coal tech-
20 nology production credit with respect to production from
21 a qualifying advanced clean coal technology unit shall be
22 determined as follows:

23 “(1) Where the qualifying advanced clean coal
24 technology unit is producing electricity only:

1 “(A) In the case of a unit originally placed
 2 in service before 2009, if—

“The design net heat rate is:	The applicable amount is:	
	For 1st 5 years of such service	For 2d 5 years of such service
Not more than 8,400	\$.0060	\$.0038
More than 8,400 but not more than 8,550	\$.0025	\$.0010
More than 8,550 but less than 8,750	\$.0010	\$.0010.

3 “(B) In the case of a unit originally placed
 4 in service after 2008 and before 2013, if—

“The design net heat rate is:	The applicable amount is:	
	For 1st 5 years of such service	For 2d 5 years of such service
Not more than 7,770	\$.0105	\$.0090
More than 7,770 but not more than 8,125	\$.0085	\$.0068
More than 8,125 but less than 8,350	\$.0075	\$.0055.

5 “(C) In the case of a unit originally placed
 6 in service after 2012 and before 2017, if—

“The design net heat rate is:	The applicable amount is:	
	For 1st 5 years of such service	For 2d 5 years of such service
Not more than 7,380	\$.0140	\$.0115
More than 7,380 but not more than 7,720	\$.0120	\$.0090.

7 “(2) Where the qualifying advanced clean coal
 8 technology unit is producing fuel or chemicals:

9 “(A) In the case of a unit originally placed
 10 in service before 2009, if—

“The unit design net thermal efficiency (HHV) is:	The applicable amount is:	
	For 1st 5 years of such service	For 2d 5 years of such service
Not less than 40.6 percent	\$.0060	\$.0038
Less than 40.6 but not less than 40 percent	\$.0025	\$.0010
Less than 40 but not less than 39 percent	\$.0010	\$.0010.

1 “(B) In the case of a unit originally placed
 2 in service after 2008 and before 2013, if—

“The unit design net thermal efficiency (HHV) is:	The applicable amount is:	
	For 1st 5 years of such service	For 2d 5 years of such service
Not less than 43.6 percent	\$.0105	\$.0090
Less than 43.6 but not less than 42 percent	\$.0085	\$.0068
Less than 42 but not less than 40.9 percent	\$.0075	\$.0055.

3 “(C) In the case of a unit originally placed
 4 in service after 2012 and before 2017, if—

“The unit design net thermal efficiency (HHV) is:	The applicable amount is:	
	For 1st 5 years of such service	For 2d 5 years of such service
Not less than 44.2 percent	\$.0140	\$.0115
Less than 44.2 but not less than 43.9 percent	\$.0120	\$.0090.

5 “(c) INFLATION ADJUSTMENT.—For calendar years
 6 after 2004, each amount in paragraphs (1) and (2) of sub-
 7 section (b) shall be adjusted by multiplying such amount
 8 by the inflation adjustment factor for the calendar year
 9 in which the amount is applied. If any amount as in-
 10 creased under the preceding sentence is not a multiple of
 11 0.01 cent, such amount shall be rounded to the nearest
 12 multiple of 0.01 cent.

13 “(d) DEFINITIONS AND SPECIAL RULES.—For pur-
 14 poses of this section—

15 “(1) IN GENERAL.—Any term used in this sec-
 16 tion which is also used in section 45I or 48A shall
 17 have the meaning given such term in such section.

1 “(2) APPLICABLE RULES.—The rules of para-
2 graphs (3), (4), and (5) of section 45(d) shall
3 apply.”.

4 (b) CREDIT TREATED AS BUSINESS CREDIT.—Sec-
5 tion 38(b), as amended by this Act, is amended by striking
6 “plus” at the end of paragraph (19), by striking the period
7 at the end of paragraph (20) and inserting “, plus”, and
8 by adding at the end the following new paragraph:

9 “(21) the qualifying advanced clean coal tech-
10 nology production credit determined under section
11 45J(a).”.

12 (c) TRANSITIONAL RULE.—Section 39(d) (relating to
13 transitional rules), as amended by this Act, is amended
14 by adding at the end the following new paragraph:

15 “(18) NO CARRYBACK OF SECTION 45J CREDIT
16 BEFORE EFFECTIVE DATE.—No portion of the un-
17 used business credit for any taxable year which is
18 attributable to the qualifying advanced clean coal
19 technology production credit determined under sec-
20 tion 45J may be carried back to a taxable year end-
21 ing on or before the date of the enactment of such
22 section.”.

23 (d) DENIAL OF DOUBLE BENEFIT.—Section 29(d)
24 (relating to other definitions and special rules) is amended
25 by adding at the end the following new paragraph:

1 “(9) DENIAL OF DOUBLE BENEFIT.—This sec-
 2 tion shall not apply with respect to any qualified fuel
 3 the production of which may be taken into account
 4 for purposes of determining the credit under section
 5 45J.”.

6 (e) CLERICAL AMENDMENT.—The table of sections
 7 for subpart D of part IV of subchapter A of chapter 1,
 8 as amended by this Act, is amended by adding at the end
 9 the following new item:

“Sec. 45J. Credit for production from a qualifying advanced clean coal tech-
 nology unit.”.

10 (f) EFFECTIVE DATE.—The amendments made by
 11 this section shall apply to production after the date of the
 12 enactment of this Act, in taxable years ending after such
 13 date.

14 **Subtitle C—Treatment of Persons**
 15 **Not Able To Use Entire Credit**

16 **SEC. 421. TREATMENT OF PERSONS NOT ABLE TO USE EN-**
 17 **TIRE CREDIT.**

18 (a) IN GENERAL.—Section 45I, as added by this Act,
 19 is amended by adding at the end the following new sub-
 20 section:

21 “(f) TREATMENT OF PERSON NOT ABLE TO USE
 22 ENTIRE CREDIT.—

23 “(1) ALLOWANCE OF CREDITS.—

1 “(A) IN GENERAL.—Any credit allowable
2 under this section, section 45J, or section 48A
3 with respect to a facility owned by a person de-
4 scribed in subparagraph (B) may be transferred
5 or used as provided in this subsection, and the
6 determination as to whether the credit is allow-
7 able shall be made without regard to the tax-
8 exempt status of the person.

9 “(B) PERSONS DESCRIBED.—A person is
10 described in this subparagraph if the person
11 is—

12 “(i) an organization described in sec-
13 tion 501(c)(12)(C) and exempt from tax
14 under section 501(a),

15 “(ii) an organization described in sec-
16 tion 1381(a)(2)(C),

17 “(iii) a public utility (as defined in
18 section 136(c)(2)(B)),

19 “(iv) any State or political subdivision
20 thereof, the District of Columbia, or any
21 agency or instrumentality of any of the
22 foregoing,

23 “(v) any Indian tribal government
24 (within the meaning of section 7871) or
25 any agency or instrumentality thereof, or

1 “(vi) the Tennessee Valley Authority.

2 “(2) TRANSFER OF CREDIT.—

3 “(A) IN GENERAL.—A person described in
4 clause (i), (ii), (iii), (iv), or (v) of paragraph
5 (1)(B) may transfer any credit to which para-
6 graph (1)(A) applies through an assignment to
7 any other person not described in paragraph
8 (1)(B). Such transfer may be revoked only with
9 the consent of the Secretary.

10 “(B) REGULATIONS.—The Secretary shall
11 prescribe such regulations as necessary to in-
12 sure that any credit described in subparagraph
13 (A) is claimed once and not reassigned by such
14 other person.

15 “(C) TRANSFER PROCEEDS TREATED AS
16 ARISING FROM ESSENTIAL GOVERNMENT FUNC-
17 TION.—Any proceeds derived by a person de-
18 scribed in clause (iii), (iv), or (v) of paragraph
19 (1)(B) from the transfer of any credit under
20 subparagraph (A) shall be treated as arising
21 from the exercise of an essential government
22 function.

23 “(3) USE OF CREDIT AS AN OFFSET.—Notwith-
24 standing any other provision of law, in the case of
25 a person described in clause (i), (ii), or (v) of para-

1 graph (1)(B), any credit to which paragraph (1)(A)
2 applies may be applied by such person, to the extent
3 provided by the Secretary of Agriculture, as a pre-
4 payment of any loan, debt, or other obligation the
5 entity has incurred under subchapter I of chapter 31
6 of title 7 of the Rural Electrification Act of 1936 (7
7 U.S.C. 901 et seq.), as in effect on the date of the
8 enactment of this section.

9 “(4) USE BY TVA.—

10 “(A) IN GENERAL.—Notwithstanding any
11 other provision of law, in the case of a person
12 described in paragraph (1)(B)(vi), any credit to
13 which paragraph (1)(A) applies may be applied
14 as a credit against the payments required to be
15 made in any fiscal year under section 15d(e) of
16 the Tennessee Valley Authority Act of 1933 (16
17 U.S.C. 831n-4(e)) as an annual return on the
18 appropriations investment and an annual repay-
19 ment sum.

20 “(B) TREATMENT OF CREDITS.—The ag-
21 gregate amount of credits described in para-
22 graph (1)(A) with respect to such person shall
23 be treated in the same manner and to the same
24 extent as if such credits were a payment in cash

1 and shall be applied first against the annual re-
2 turn on the appropriations investment.

3 “(C) CREDIT CARRYOVER.—With respect
4 to any fiscal year, if the aggregate amount of
5 credits described paragraph (1)(A) with respect
6 to such person exceeds the aggregate amount of
7 payment obligations described in subparagraph
8 (A), the excess amount shall remain available
9 for application as credits against the amounts
10 of such payment obligations in succeeding fiscal
11 years in the same manner as described in this
12 paragraph.

13 “(5) CREDIT NOT INCOME.—Any transfer
14 under paragraph (2) or use under paragraph (3) of
15 any credit to which paragraph (1)(A) applies shall
16 not be treated as income for purposes of section
17 501(c)(12).

18 “(6) TREATMENT OF UNRELATED PERSONS.—
19 For purposes of this subsection, sales among and be-
20 tween persons described in clauses (i), (ii), (iii), (iv),
21 and (v) of paragraph (1)(A) shall be treated as sales
22 between unrelated parties.”.

23 (b) EFFECTIVE DATE.—The amendment made by
24 this section shall apply to production after the date of the

1 enactment of this Act, in taxable years ending after such
2 date.

3 **TITLE V—OIL AND GAS** 4 **PROVISIONS**

5 **SEC. 501. OIL AND GAS FROM MARGINAL WELLS.**

6 (a) IN GENERAL.—Subpart D of part IV of sub-
7 chapter A of chapter 1 (relating to business credits), as
8 amended by this Act, is amended by adding at the end
9 the following new section:

10 **“SEC. 45K. CREDIT FOR PRODUCING OIL AND GAS FROM** 11 **MARGINAL WELLS.**

12 “(a) GENERAL RULE.—For purposes of section 38,
13 the marginal well production credit for any taxable year
14 is an amount equal to the product of—

15 “(1) the credit amount, and

16 “(2) the qualified credit oil production and the
17 qualified natural gas production which is attrib-
18 utable to the taxpayer.

19 “(b) CREDIT AMOUNT.—For purposes of this sec-
20 tion—

21 “(1) IN GENERAL.—The credit amount is—

22 “(A) \$3 per barrel of qualified crude oil
23 production, and

24 “(B) 50 cents per 1,000 cubic feet of
25 qualified natural gas production.

1 “(2) REDUCTION AS OIL AND GAS PRICES IN-
2 CREASE.—

3 “(A) IN GENERAL.—The \$3 and 50 cents
4 amounts under paragraph (1) shall each be re-
5 duced (but not below zero) by an amount which
6 bears the same ratio to such amount (deter-
7 mined without regard to this paragraph) as—

8 “(i) the excess (if any) of the applica-
9 ble reference price over \$15 (\$1.67 for
10 qualified natural gas production), bears to

11 “(ii) \$3 (\$0.33 for qualified natural
12 gas production).

13 The applicable reference price for a taxable
14 year is the reference price of the calendar year
15 preceding the calendar year in which the tax-
16 able year begins.

17 “(B) INFLATION ADJUSTMENT.—In the
18 case of any taxable year beginning in a calendar
19 year after 2003, each of the dollar amounts
20 contained in subparagraph (A) shall be in-
21 creased to an amount equal to such dollar
22 amount multiplied by the inflation adjustment
23 factor for such calendar year (determined under
24 section 43(b)(3)(B) by substituting ‘2002’ for
25 ‘1990’).

1 “(C) REFERENCE PRICE.—For purposes of
2 this paragraph, the term ‘reference price’
3 means, with respect to any calendar year—

4 “(i) in the case of qualified crude oil
5 production, the reference price determined
6 under section 29(d)(2)(C), and

7 “(ii) in the case of qualified natural
8 gas production, the Secretary’s estimate of
9 the annual average wellhead price per
10 1,000 cubic feet for all domestic natural
11 gas.

12 “(c) QUALIFIED CRUDE OIL AND NATURAL GAS
13 PRODUCTION.—For purposes of this section—

14 “(1) IN GENERAL.—The terms ‘qualified crude
15 oil production’ and ‘qualified natural gas production’
16 mean domestic crude oil or natural gas which is pro-
17 duced from a qualified marginal well.

18 “(2) LIMITATION ON AMOUNT OF PRODUCTION
19 WHICH MAY QUALIFY.—

20 “(A) IN GENERAL.—Crude oil or natural
21 gas produced during any taxable year from any
22 well shall not be treated as qualified crude oil
23 production or qualified natural gas production
24 to the extent production from the well during

1 the taxable year exceeds 1,095 barrels or barrel
2 equivalents.

3 “(B) PROPORTIONATE REDUCTIONS.—

4 “(i) SHORT TAXABLE YEARS.—In the
5 case of a short taxable year, the limitations
6 under this paragraph shall be proportion-
7 ately reduced to reflect the ratio which the
8 number of days in such taxable year bears
9 to 365.

10 “(ii) WELLS NOT IN PRODUCTION EN-
11 TIRE YEAR.—In the case of a well which is
12 not capable of production during each day
13 of a taxable year, the limitations under
14 this paragraph applicable to the well shall
15 be proportionately reduced to reflect the
16 ratio which the number of days of produc-
17 tion bears to the total number of days in
18 the taxable year.

19 “(3) DEFINITIONS.—

20 “(A) QUALIFIED MARGINAL WELL.—The
21 term ‘qualified marginal well’ means a domestic
22 well—

23 “(i) the production from which during
24 the taxable year is treated as marginal
25 production under section 613A(c)(6), or

1 “(ii) which, during the taxable year—

2 “(I) has average daily production
3 of not more than 25 barrel equiva-
4 lents, and

5 “(II) produces water at a rate
6 not less than 95 percent of total well
7 effluent.

8 “(B) CRUDE OIL, ETC.—The terms ‘crude
9 oil’, ‘natural gas’, ‘domestic’, and ‘barrel’ have
10 the meanings given such terms by section
11 613A(e).

12 “(C) BARREL EQUIVALENT.—The term
13 ‘barrel equivalent’ means, with respect to nat-
14 ural gas, a conversion ratio of 6,000 cubic
15 feet of natural gas to 1 barrel of crude oil.

16 “(d) OTHER RULES.—

17 “(1) PRODUCTION ATTRIBUTABLE TO THE TAX-
18 PAYER.—In the case of a qualified marginal well in
19 which there is more than one owner of operating in-
20 terests in the well and the crude oil or natural gas
21 production exceeds the limitation under subsection
22 (c)(2), qualifying crude oil production or qualifying
23 natural gas production attributable to the taxpayer
24 shall be determined on the basis of the ratio which
25 taxpayer’s revenue interest in the production bears

1 to the aggregate of the revenue interests of all oper-
2 ating interest owners in the production.

3 “(2) OPERATING INTEREST REQUIRED.—Any
4 credit under this section may be claimed only on
5 production which is attributable to the holder of an
6 operating interest.

7 “(3) PRODUCTION FROM NONCONVENTIONAL
8 SOURCES EXCLUDED.—In the case of production
9 from a qualified marginal well which is eligible for
10 the credit allowed under section 29 for the taxable
11 year, no credit shall be allowable under this section
12 unless the taxpayer elects not to claim the credit
13 under section 29 with respect to the well.

14 “(4) NONCOMPLIANCE WITH POLLUTION
15 LAWS.—For purposes of subsection (c)(3)(A), a
16 marginal well which is not in compliance with the
17 applicable State and Federal pollution prevention,
18 control, and permit requirements for any period of
19 time shall not be considered to be a qualified mar-
20 ginal well during such period.”.

21 (b) CREDIT TREATED AS BUSINESS CREDIT.—Sec-
22 tion 38(b), as amended by this Act, is amended by striking
23 “plus” at the end of paragraph (20), by striking the period
24 at the end of paragraph (21) and inserting “, plus”, and
25 by adding at the end the following new paragraph:

1 “(22) the marginal oil and gas well production
2 credit determined under section 45K(a).”.

3 (c) NO CARRYBACK OF MARGINAL OIL AND GAS
4 WELL PRODUCTION CREDIT BEFORE EFFECTIVE
5 DATE.—Subsection (d) of section 39, as amended by this
6 Act, is amended by adding at the end the following new
7 paragraph:

8 “(19) NO CARRYBACK OF MARGINAL OIL AND
9 GAS WELL PRODUCTION CREDIT BEFORE EFFECTIVE
10 DATE.—No portion of the unused business credit for
11 any taxable year which is attributable to the mar-
12 ginal oil and gas well production credit determined
13 under section 45K may be carried back to a taxable
14 year ending on or before the date of the enactment
15 of such section.”.

16 (d) COORDINATION WITH SECTION 29.—Section
17 29(a) is amended by striking “There” and inserting “At
18 the election of the taxpayer, there”.

19 (e) CLERICAL AMENDMENT.—The table of sections
20 for subpart D of part IV of subchapter A of chapter 1,
21 as amended by this Act, is amended by adding at the end
22 the following new item:

 “Sec. 45K. Credit for producing oil and gas from marginal
 wells.”.

1 (f) EFFECTIVE DATE.—The amendments made by
2 this section shall apply to production in taxable years be-
3 ginning after the date of the enactment of this Act.

4 **SEC. 502. NATURAL GAS GATHERING LINES TREATED AS 7-**
5 **YEAR PROPERTY.**

6 (a) IN GENERAL.—Subparagraph (C) of section
7 168(e)(3) (relating to classification of certain property) is
8 amended by striking “and” at the end of clause (i), by
9 redesignating clause (ii) as clause (iii), and by inserting
10 after clause (i) the following new clause:

11 “(ii) any natural gas gathering line,
12 and”.

13 (b) NATURAL GAS GATHERING LINE.—Subsection (i)
14 of section 168, as amended by this Act, is amended by
15 adding at the end the following new paragraph:

16 “(16) NATURAL GAS GATHERING LINE.—The
17 term ‘natural gas gathering line’ means—

18 “(A) the pipe, equipment, and appur-
19 tenances determined to be a gathering line by
20 the Federal Energy Regulatory Commission, or

21 “(B) the pipe, equipment, and appur-
22 tenances used to deliver natural gas from the
23 wellhead or a commonpoint to the point at
24 which such gas first reaches—

25 “(i) a gas processing plant,

1 “(ii) an interconnection with a trans-
2 mission pipeline certificated by the Federal
3 Energy Regulatory Commission as an
4 interstate transmission pipeline,

5 “(iii) an interconnection with an
6 intrastate transmission pipeline, or

7 “(iv) a direct interconnection with a
8 local distribution company, a gas storage
9 facility, or an industrial consumer.”.

10 (c) ALTERNATIVE SYSTEM.—The table contained in
11 section 168(g)(3)(B) is amended by inserting after the
12 item relating to subparagraph (C)(i) the following new
13 item:

“(C)(ii) 10”.

14 (d) EFFECTIVE DATE.—The amendments made by
15 this section shall apply to property placed in service after
16 the date of the enactment of this Act, in taxable years
17 ending after such date.

18 **SEC. 503. EXPENSING OF CAPITAL COSTS INCURRED IN**
19 **COMPLYING WITH ENVIRONMENTAL PROTEC-**
20 **TION AGENCY SULFUR REGULATIONS.**

21 (a) IN GENERAL.—Part VI of subchapter B of chap-
22 ter 1 (relating to itemized deductions for individuals and
23 corporations), as amended by this Act, is amended by in-
24 serting after section 179C the following new section:

1 **“SEC. 179D. DEDUCTION FOR CAPITAL COSTS INCURRED IN**
2 **COMPLYING WITH ENVIRONMENTAL PROTEC-**
3 **TION AGENCY SULFUR REGULATIONS.**

4 “(a) TREATMENT AS EXPENSE.—

5 “(1) IN GENERAL.—A small business refiner
6 may elect to treat any qualified capital costs as an
7 expense which is not chargeable to capital account.
8 Any qualified cost which is so treated shall be al-
9 lowed as a deduction for the taxable year in which
10 the cost is paid or incurred.

11 “(2) LIMITATION.—

12 “(A) IN GENERAL.—The aggregate costs
13 which may be taken into account under this
14 subsection for any taxable year may not exceed
15 the applicable percentage of the qualified cap-
16 ital costs paid or incurred for the taxable year.

17 “(B) APPLICABLE PERCENTAGE.—For
18 purposes of subparagraph (A)—

19 “(i) IN GENERAL.—Except as pro-
20 vided in clause (ii), the applicable percent-
21 age is 75 percent.

22 “(ii) REDUCED PERCENTAGE.—In the
23 case of a small business refiner with aver-
24 age daily refinery runs for the period de-
25 scribed in subsection (b)(2) in excess of
26 155,000 barrels, the percentage described

1 in clause (i) shall be reduced (not below
2 zero) by the product of such percentage
3 (before the application of this clause) and
4 the ratio of such excess to 50,000 barrels.

5 “(b) DEFINITIONS.—For purposes of this section—

6 “(1) QUALIFIED CAPITAL COSTS.—The term
7 ‘qualified capital costs’ means any costs which—

8 “(A) are otherwise chargeable to capital
9 account, and

10 “(B) are paid or incurred for the purpose
11 of complying with the Highway Diesel Fuel Sul-
12 fur Control Requirement of the Environmental
13 Protection Agency, as in effect on the date of
14 the enactment of this section, with respect to a
15 facility placed in service by the taxpayer before
16 such date.

17 “(2) SMALL BUSINESS REFINER.—The term
18 ‘small business refiner’ means, with respect to any
19 taxable year, a refiner of crude oil, which, within the
20 refinery operations of the business, employs not
21 more than 1,500 employees on any day during such
22 taxable year and whose average daily refinery run
23 for the 1-year period ending on the date of the en-
24 actment of this section did not exceed 205,000 bar-
25 rels.

1 “(c) COORDINATION WITH OTHER PROVISIONS.—
2 Section 280B shall not apply to amounts which are treated
3 as expenses under this section.

4 “(d) BASIS REDUCTION.—For purposes of this title,
5 the basis of any property shall be reduced by the portion
6 of the cost of such property taken into account under sub-
7 section (a).

8 “(e) CONTROLLED GROUPS.—For purposes of this
9 section, all persons treated as a single employer under sub-
10 section (b), (c), (m), or (o) of section 414 shall be treated
11 as a single employer.”.

12 (b) CONFORMING AMENDMENTS.—

13 (1) Section 263(a)(1), as amended by this Act,
14 is amended by striking “or” at the end of subpara-
15 graph (I), by striking the period at the end of sub-
16 paragraph (J) and inserting “, or”, and by inserting
17 after subparagraph (J) the following new subpara-
18 graph:

19 “(K) expenditures for which a deduction is
20 allowed under section 179D.”.

21 (2) Section 263A(c)(3) is amended by inserting
22 “179C,” after “section”.

23 (3) Section 312(k)(3)(B), as amended by this
24 Act, is amended by striking “or 179C” each place

1 it appears in the heading and text and inserting “,
2 179C, or 179D”.

3 (4) Section 1016(a), as amended by this Act, is
4 amended by striking “and” at the end of paragraph
5 (33), by striking the period at the end of paragraph
6 (34) and inserting “, and”, and by adding at the
7 end the following new paragraph:

8 “(35) to the extent provided in section
9 179D(d).”.

10 (5) Section 1245(a), as amended by this Act, is
11 amended by inserting “179D,” after “179C,” both
12 places it appears in paragraphs (2)(C) and (3)(C).

13 (6) The table of sections for part VI of sub-
14 chapter B of chapter 1, as amended by this Act, is
15 amended by inserting after section 179C the fol-
16 lowing new item:

“Sec. 179D. Deduction for capital costs incurred in complying with Environ-
mental Protection Agency sulfur regulations.”.

17 (c) **EFFECTIVE DATE.**—The amendment made by
18 this section shall apply to expenses paid or incurred after
19 the date of the enactment of this Act, in taxable years
20 ending after such date.

21 **SEC. 504. ENVIRONMENTAL TAX CREDIT.**

22 (a) **IN GENERAL.**—Subpart D of part IV of sub-
23 chapter A of chapter 1 (relating to business-related cred-

1 its), as amended by this Act, is amended by adding at
2 the end the following new section:

3 **“SEC. 45L. ENVIRONMENTAL TAX CREDIT.**

4 “(a) IN GENERAL.—For purposes of section 38, the
5 amount of the environmental tax credit determined under
6 this section with respect to any small business refiner for
7 any taxable year is an amount equal to 5 cents for every
8 gallon of 15 parts per million or less sulfur diesel produced
9 at a facility by such small business refiner during such
10 taxable year.

11 “(b) MAXIMUM CREDIT.—

12 “(1) IN GENERAL.—For any small business re-
13 finer, the aggregate amount determined under sub-
14 section (a) for any taxable year with respect to any
15 facility shall not exceed the applicable percentage of
16 the qualified capital costs paid or incurred by such
17 small business refiner with respect to such facility
18 during the applicable period, reduced by the credit
19 allowed under subsection (a) for any preceding year.

20 “(2) APPLICABLE PERCENTAGE.—For purposes
21 of paragraph (1)—

22 “(A) IN GENERAL.—Except as provided in
23 subparagraph (B), the applicable percentage is
24 25 percent.

1 “(B) REDUCED PERCENTAGE.—The per-
2 centage described in subparagraph (A) shall be
3 reduced in the same manner as under section
4 179D(a)(2)(B)(ii).

5 “(c) DEFINITIONS.—For purposes of this section—

6 “(1) IN GENERAL.—The terms ‘small business
7 refiner’ and ‘qualified capital costs’ have the same
8 meaning as given in section 179D.

9 “(2) APPLICABLE PERIOD.—The term ‘applica-
10 ble period’ means, with respect to any facility, the
11 period beginning on the day after the date which is
12 1 year after the date of the enactment of this section
13 and ending with the date which is 1 year after the
14 date on which the taxpayer must comply with the
15 applicable EPA regulations with respect to such fa-
16 cility.

17 “(3) APPLICABLE EPA REGULATIONS.—The
18 term ‘applicable EPA regulations’ means the High-
19 way Diesel Fuel Sulfur Control Requirements of the
20 Environmental Protection Agency, as in effect on
21 the date of the enactment of this section.

22 “(d) CERTIFICATION.—

23 “(1) REQUIRED.—Not later than the date
24 which is 30 months after the first day of the first
25 taxable year in which the environmental tax credit is

1 allowed with respect to qualified capital costs paid or
2 incurred with respect to a facility, the small business
3 refiner shall obtain a certification from the Sec-
4 retary, in consultation with the Administrator of the
5 Environmental Protection Agency, that the tax-
6 payer's qualified capital costs with respect to such
7 facility will result in compliance with the applicable
8 EPA regulations.

9 “(2) CONTENTS OF APPLICATION.—An applica-
10 tion for certification shall include relevant informa-
11 tion regarding unit capacities and operating charac-
12 teristics sufficient for the Secretary, in consultation
13 with the Administrator of the Environmental Protec-
14 tion Agency, to determine that such qualified capital
15 costs are necessary for compliance with the applica-
16 ble EPA regulations.

17 “(3) REVIEW PERIOD.—Any application shall
18 be reviewed and notice of certification, if applicable,
19 shall be made within 60 days of receipt of such ap-
20 plication. In the event the Secretary does not notify
21 the taxpayer of the results of such certification with-
22 in such period, the taxpayer may presume the cer-
23 tification to be issued until so notified.

24 “(4) STATUTE OF LIMITATIONS.—With respect
25 to the credit allowed under this section—

1 “(A) the statutory period for the assess-
2 ment of any deficiency attributable to such
3 credit shall not expire before the end of the 3-
4 year period ending on the date that the review
5 period described in paragraph (3) ends, and

6 “(B) such deficiency may be assessed be-
7 fore the expiration of such 3-year period not-
8 withstanding the provisions of any other law or
9 rule of law which would otherwise prevent such
10 assessment.

11 “(e) CONTROLLED GROUPS.—For purposes of this
12 section, all persons treated as a single employer under sub-
13 section (b), (c), (m), or (o) of section 414 shall be treated
14 as a single employer.

15 “(f) COOPERATIVE ORGANIZATIONS.—

16 “(1) APPORTIONMENT OF CREDIT.—In the case
17 of a cooperative organization described in section
18 1381(a), any portion of the credit determined under
19 subsection (a) of this section, for the taxable year
20 may, at the election of the organization, be appor-
21 tioned among patrons eligible to share in patronage
22 dividends on the basis of the quantity or value of
23 business done with or for such patrons for the tax-
24 able year. Such an election shall be irrevocable for
25 such taxable year.

1 “(2) TREATMENT OF ORGANIZATIONS AND PA-
2 TRONS.—

3 “(A) ORGANIZATIONS.—The amount of the
4 credit not apportioned to patrons pursuant to
5 paragraph (1) shall be included in the amount
6 determined under subsection (a) for the taxable
7 year of the organization.

8 “(B) PATRONS.—The amount of the credit
9 apportioned to patrons pursuant to paragraph
10 (1) shall be included in the amount determined
11 under subsection (a) for the first taxable year
12 of each patron ending on or after the last day
13 of the payment period (as defined in section
14 1382(d)) for the taxable year of the organiza-
15 tion or, if earlier, for the taxable year of each
16 patron ending on or after the date on which the
17 patron receives notice from the cooperative of
18 the apportionment.”.

19 (b) CREDIT MADE PART OF GENERAL BUSINESS
20 CREDIT.—Subsection (b) of section 38 (relating to general
21 business credit), as amended by this Act, is amended by
22 striking “plus” at the end of paragraph (21), by striking
23 the period at the end of paragraph (22) and inserting “,
24 plus”, and by adding at the end the following new para-
25 graph:

1 “(23) in the case of a small business refiner,
2 the environmental tax credit determined under sec-
3 tion 45L(a).”.

4 (c) DENIAL OF DOUBLE BENEFIT.—Section 280C
5 (relating to certain expenses for which credits are allow-
6 able), as amended by this Act, is amended by adding after
7 subsection (d) the following new subsection:

8 “(e) ENVIRONMENTAL TAX CREDIT.—No deduction
9 shall be allowed for that portion of the expenses otherwise
10 allowable as a deduction for the taxable year which is
11 equal to the amount of the credit determined for the tax-
12 able year under section 45L(a).”.

13 (d) CLERICAL AMENDMENT.—The table of sections
14 for subpart D of part IV of subchapter A of chapter 1,
15 as amended by this Act, is amended by adding at the end
16 the following new item:

“Sec. 45L. Environmental tax credit.”.

17 (e) EFFECTIVE DATE.—The amendments made by
18 this section shall apply to expenses paid or incurred after
19 the date of the enactment of this Act, in taxable years
20 ending after such date.

21 **SEC. 505. DETERMINATION OF SMALL REFINER EXCEPTION**
22 **TO OIL DEPLETION DEDUCTION.**

23 (a) IN GENERAL.—Paragraph (4) of section 613A(d)
24 (relating to certain refiners excluded) is amended to read
25 as follows:

1 “(4) CERTAIN REFINERS EXCLUDED.—If the
2 taxpayer or 1 or more related persons engages in the
3 refining of crude oil, subsection (c) shall not apply
4 to the taxpayer for a taxable year if the average
5 daily refinery runs of the taxpayer and such persons
6 for the taxable year exceed 60,000 barrels. For pur-
7 poses of this paragraph, the average daily refinery
8 runs for any taxable year shall be determined by di-
9 viding the aggregate refinery runs for the taxable
10 year by the number of days in the taxable year.”.

11 (b) EFFECTIVE DATE.—The amendment made by
12 this section shall apply to taxable years beginning after
13 the date of the enactment of this Act.

14 **SEC. 506. MARGINAL PRODUCTION INCOME LIMIT EXTEN-**
15 **SION.**

16 Section 613A(c)(6)(H) (relating to temporary sus-
17 pension of taxable income limit with respect to marginal
18 production) is amended by striking “2004” and inserting
19 “2007”.

20 **SEC. 507. AMORTIZATION OF GEOLOGICAL AND GEO-**
21 **PHYSICAL EXPENDITURES.**

22 (a) IN GENERAL.—Part VI of subchapter B of chap-
23 ter 1, as amended by this Act, is amended by adding at
24 the end the following new section:

1 **“SEC. 199. AMORTIZATION OF GEOLOGICAL AND GEO-**
2 **PHYSICAL EXPENDITURES FOR DOMESTIC**
3 **OIL AND GAS WELLS.**

4 “A taxpayer shall be entitled to an amortization de-
5 duction with respect to any geological and geophysical ex-
6 penses incurred in connection with the exploration for, or
7 development of, oil or gas within the United States (as
8 defined in section 638) based on a period of 24 months
9 beginning with the month in which such expenses were in-
10 curred.”.

11 (b) CLERICAL AMENDMENT.—The table of sections
12 for part VI of subchapter B of chapter 1, as amended by
13 this Act, is amended by adding at the end the following
14 new item:

“Sec. 199. Amortization of geological and geophysical expenditures for domestic
oil and gas wells.”.

15 (c) EFFECTIVE DATE.—The amendments made by
16 this section shall apply to costs paid or incurred in taxable
17 years beginning after the date of the enactment of this
18 Act.

19 **SEC. 508. AMORTIZATION OF DELAY RENTAL PAYMENTS.**

20 (a) IN GENERAL.—Part VI of subchapter B of chap-
21 ter 1, as amended by this Act, is amended by adding at
22 the end the following new section:

1 **“SEC. 199A. AMORTIZATION OF DELAY RENTAL PAYMENTS**
2 **FOR DOMESTIC OIL AND GAS WELLS.**

3 “(a) IN GENERAL.—A taxpayer shall be entitled to
4 an amortization deduction with respect to any delay rental
5 payments incurred in connection with the development of
6 oil or gas within the United States (as defined in section
7 638) based on a period of 24 months beginning with the
8 month in which such payments were incurred.”.

9 “(b) DELAY RENTAL PAYMENTS.—For purposes of
10 this section, the term ‘delay rental payment’ means an
11 amount paid for the privilege of deferring development of
12 an oil or gas well under an oil or gas lease.”.

13 (b) CLERICAL AMENDMENT.—The table of sections
14 for part VI of subchapter B of chapter 1, as amended by
15 this Act, is amended by adding at the end the following
16 new item:

“Sec. 199A. Amortization of delay rental payments for domestic oil and gas
wells.”.

17 (c) EFFECTIVE DATE.—The amendments made by
18 this section shall apply to amounts paid or incurred in tax-
19 able years beginning after the date of the enactment of
20 this Act.

21 **SEC. 509. STUDY OF COAL BED METHANE.**

22 (a) IN GENERAL.—The Secretary of the Treasury
23 shall study the effect of section 29 of the Internal Revenue
24 Code of 1986 on the production of coal bed methane.

1 (b) CONTENTS OF STUDY.—The study under sub-
 2 section (a) shall estimate the total amount of credits under
 3 section 29 of the Internal Revenue Code of 1986 claimed
 4 annually and in the aggregate which are related to the
 5 production of coal bed methane since the date of the enact-
 6 ment of such section 29. Such study shall report the an-
 7 nual value of such credits allowable for coal bed methane
 8 compared to the average annual wellhead price of natural
 9 gas (per thousand cubic feet of natural gas). Such study
 10 shall also estimate the incremental increase in production
 11 of coal bed methane that has resulted from the enactment
 12 of such section 29, and the cost to the Federal Govern-
 13 ment, in terms of the net tax benefits claimed, per thou-
 14 sand cubic feet of incremental coal bed methane produced
 15 annually and in the aggregate since such enactment.

16 **SEC. 510. EXTENSION AND MODIFICATION OF CREDIT FOR**
 17 **PRODUCING FUEL FROM A NONCONVEN-**
 18 **TIONAL SOURCE.**

19 (a) IN GENERAL.—Section 29 is amended by adding
 20 at the end the following new subsection:

21 “(h) EXTENSION FOR OTHER FACILITIES.—

22 “(1) OIL AND GAS.—In the case of a well or fa-
 23 cility for producing qualified fuels described in sub-
 24 paragraph (A) or (B) of subsection (c)(1) which was
 25 drilled or placed in service after the date of the en-

1 actment of this subsection and before January 1,
2 2005, notwithstanding subsection (f), this section
3 shall apply with respect to such fuels produced at
4 such well or facility not later than the close of the
5 3-year period beginning on the date that such well
6 is drilled or such facility is placed in service.

7 “(2) FACILITIES PRODUCING REFINED COAL.—

8 “(A) IN GENERAL.—In the case of a facil-
9 ity described in subparagraph (C) for producing
10 refined coal which was placed in service after
11 the date of the enactment of this subsection
12 and before January 1, 2007, this section shall
13 apply with respect to fuel produced at such fa-
14 cility not later than the close of the 5-year pe-
15 riod beginning on the date such facility is
16 placed in service.

17 “(B) REFINED COAL.—For purposes of
18 this paragraph, the term ‘refined coal’ means a
19 fuel which is a liquid, gaseous, or solid syn-
20 thetic fuel produced from coal (including lig-
21 nite) or high carbon fly ash, including such fuel
22 used as a feedstock.

23 “(C) COVERED FACILITIES.—

24 “(i) IN GENERAL.—A facility is de-
25 scribed in this subparagraph if such facil-

1 ity produces refined coal using a tech-
2 nology that results in—

3 “(I) a qualified emission reduc-
4 tion, and

5 “(II) a qualified enhanced value.

6 “(ii) QUALIFIED EMISSION REDUC-
7 TION.—For purposes of this subparagraph,
8 the term ‘qualified emission reduction’
9 means a reduction of at least 20 percent of
10 the emissions of nitrogen oxide and either
11 sulfur dioxide or mercury released when
12 burning the refined coal (excluding any di-
13 lution caused by materials combined or
14 added during the production process), as
15 compared to the emissions released when
16 burning the feedstock coal or comparable
17 coal predominantly available in the market-
18 place as of January 1, 2003.

19 “(iii) QUALIFIED ENHANCED
20 VALUE.—For purposes of this subpara-
21 graph, the term ‘qualified enhanced value’
22 means an increase of at least 50 percent in
23 the market value of the refined coal (ex-
24 cluding any increase caused by materials
25 combined or added during the production

1 process), as compared to the value of the
2 feedstock coal.

3 “(iii) QUALIFYING ADVANCED CLEAN
4 COAL TECHNOLOGY FACILITIES EX-
5 CLUDED.—A facility described in this sub-
6 paragraph shall not include a qualifying
7 advanced clean coal technology facility (as
8 defined in section 48A(b)).

9 “(3) WELLS PRODUCING VISCOUS OIL.—

10 “(A) IN GENERAL.—In the case of a well
11 for producing viscous oil which was placed in
12 service after the date of the enactment of this
13 subsection and before January 1, 2005, this
14 section shall apply with respect to fuel produced
15 at such well not later than the close of the 3-
16 year period beginning on the date such well is
17 placed in service.

18 “(B) VISCOUS OIL.—The term ‘viscous oil’
19 means heavy oil, as defined in section
20 613A(e)(6), except that—

21 “(i) ‘22 degrees’ shall be substituted
22 for ‘20 degrees’ in applying subparagraph
23 (F) thereof, and

24 “(ii) in all cases, the oil gravity shall
25 be measured from the initial well-head

1 samples, drill cuttings, or down hole sam-
2 ples.

3 “(C) WAIVER OF UNRELATED PERSON RE-
4 QUIREMENT.—In the case of viscous oil, the re-
5 quirement under subsection (a)(1)(B)(i) of a
6 sale to an unrelated person shall not apply to
7 any sale to the extent that the viscous oil is not
8 consumed in the immediate vicinity of the well-
9 head.

10 “(4) COALMINE METHANE GAS.—

11 “(A) IN GENERAL.—This section shall
12 apply to coalmine methane gas—

13 “(i) captured or extracted by the tax-
14 payer after the date of the enactment of
15 this subsection and before January 1,
16 2005, and

17 “(ii) utilized as a fuel source or sold
18 by or on behalf of the taxpayer to an unre-
19 lated person after the date of the enact-
20 ment of this subsection and before January
21 1, 2005.

22 “(B) COALMINE METHANE GAS.—For pur-
23 poses of this paragraph, the term ‘coalmine
24 methane gas’ means any methane gas which
25 is—

1 “(i) liberated during qualified coal
2 mining operations, or

3 “(ii) extracted up to 5 years in ad-
4 vance of qualified coal mining operations
5 as part of a specific plan to mine a coal
6 deposit.

7 “(C) SPECIAL RULE FOR ADVANCED EX-
8 TRACTION.—In the case of coalmine methane
9 gas which is captured in advance of qualified
10 coal mining operations, the credit under sub-
11 section (a) shall be allowed only after the date
12 the coal extraction occurs in the immediate area
13 where the coalmine methane gas was removed.

14 “(D) NONCOMPLIANCE WITH POLLUTION
15 LAWS.—For purposes of subparagraphs (B)
16 and (C), coal mining operations which are not
17 in compliance with the applicable State and
18 Federal pollution prevention, control, and per-
19 mit requirements for any period of time shall
20 not be considered to be qualified coal mining
21 operations during such period.

22 “(5) FACILITIES PRODUCING FUELS FROM AG-
23 RICULTURAL AND ANIMAL WASTE.—

24 “(A) IN GENERAL.—In the case of facility
25 for producing liquid, gaseous, or solid fuels

1 from qualified agricultural and animal wastes,
2 including such fuels when used as feedstocks,
3 which was placed in service after the date of the
4 enactment of this subsection and before Janu-
5 ary 1, 2005, this section shall apply with re-
6 spect to fuel produced at such facility not later
7 than the close of the 3-year period beginning on
8 the date such facility is placed in service.

9 “(B) QUALIFIED AGRICULTURAL AND ANI-
10 MAL WASTE.—For purposes of this paragraph,
11 the term ‘qualified agricultural and animal
12 waste’ means agriculture and animal waste, in-
13 cluding by-products, packaging, and any mate-
14 rials associated with the processing, feeding,
15 selling, transporting, or disposal of agricultural
16 or animal products or wastes, including wood
17 shavings, straw, rice hulls, and other bedding
18 for the disposition of manure.

19 “(6) CREDIT AMOUNT.—In determining the
20 amount of credit allowable under this section solely
21 by reason of this subsection, the dollar amount ap-
22 plicable under subsection (a)(1) shall be \$3 (without
23 regard to subsection (b)(2)).”.

24 (b) EXTENSION FOR CERTAIN FUEL PRODUCED
25 AT EXISTING FACILITIES.—Paragraph (2) of section

1 29(f) (relating to application of section) is amended
 2 by inserting “(January 1, 2005, in the case of any
 3 coke, coke gas, or natural gas and byproducts pro-
 4 duced by coal gasification from lignite in a facility
 5 described in paragraph (1)(B))” after “January 1,
 6 2003”.

7 (c) EFFECTIVE DATE.—The amendment made by
 8 this section shall apply to fuel sold after the date of the
 9 enactment of this Act, in taxable years ending after such
 10 date.

11 **SEC. 511. NATURAL GAS DISTRIBUTION LINES TREATED AS**
 12 **15-YEAR PROPERTY.**

13 (a) IN GENERAL.—Subparagraph (E) of section
 14 168(e)(3) (relating to classification of certain property) is
 15 amended by striking “and” at the end of clause (ii), by
 16 striking the period at the end of clause (iii) and by insert-
 17 ing “, and”, and by adding at the end the following new
 18 clause:

19 “(iv) any natural gas distribution
 20 line.”.

21 (b) ALTERNATIVE SYSTEM.—The table contained in
 22 section 168(g)(3)(B), as amended by this Act, is amended
 23 by adding after the item relating to subparagraph (E)(iii)
 24 the following new item:

“(E)(iv) 20”.

1 (c) EFFECTIVE DATE.—The amendments made by
2 this section shall apply to property placed in service after
3 the date of the enactment of this Act, in taxable years
4 ending after such date.

5 **TITLE VI—ELECTRIC UTILITY**
6 **RESTRUCTURING PROVISIONS**

7 **SEC. 601. ONGOING STUDY AND REPORTS REGARDING TAX**
8 **ISSUES RESULTING FROM FUTURE RESTRUC-**
9 **TURING DECISIONS.**

10 (a) ONGOING STUDY.—The Secretary of the Treas-
11 ury, after consultation with the Federal Energy Regu-
12 latory Commission, shall undertake an ongoing study of
13 Federal tax issues resulting from nontax decisions on the
14 restructuring of the electric industry. In particular, the
15 study shall focus on the effect on tax-exempt bonding au-
16 thority of public power entities and on corporate restruc-
17 turing which results from the restructuring of the electric
18 industry.

19 (b) REGULATORY RELIEF.—In connection with the
20 study described in subsection (a), the Secretary of the
21 Treasury should exercise the Secretary’s authority, as ap-
22 propriate, to modify or suspend regulations that may im-
23 pede an electric utility company’s ability to reorganize its
24 capital stock structure to respond to a competitive market-
25 place.

1 (c) REPORTS.—The Secretary of the Treasury shall
2 report to the Committee on Finance of the Senate and
3 the Committee on Ways and Means of the House of Rep-
4 resentatives not later than December 31, 2003, regarding
5 Federal tax issues identified under the study described in
6 subsection (a), and at least annually thereafter, regarding
7 such issues identified since the preceding report. Such re-
8 ports shall also include such legislative recommendations
9 regarding changes to the private business use rules under
10 subpart A of part IV of subchapter B of chapter 1 of the
11 Internal Revenue Code of 1986 as the Secretary of the
12 Treasury deems necessary. The reports shall continue
13 until such time as the Federal Energy Regulatory Com-
14 mission has completed the restructuring of the electric in-
15 dustry.

16 **SEC. 602. MODIFICATIONS TO SPECIAL RULES FOR NU-**
17 **CLEAR DECOMMISSIONING COSTS.**

18 (a) REPEAL OF LIMITATION ON DEPOSITS INTO
19 FUND BASED ON COST OF SERVICE; CONTRIBUTIONS
20 AFTER FUNDING PERIOD.—Subsection (b) of section
21 468A is amended to read as follows:

22 “(b) LIMITATION ON AMOUNTS PAID INTO FUND.—
23 The amount which a taxpayer may pay into the Fund for
24 any taxable year shall not exceed the ruling amount appli-
25 cable to such taxable year.”.

1 (b) CLARIFICATION OF TREATMENT OF FUND
2 TRANSFERS.—Subsection (e) of section 468A is amended
3 by adding at the end the following new paragraph:

4 “(8) TREATMENT OF FUND TRANSFERS.—If, in
5 connection with the transfer of the taxpayer’s inter-
6 est in a nuclear power plant, the taxpayer transfers
7 the Fund with respect to such power plant to the
8 transferee of such interest and the transferee elects
9 to continue the application of this section to such
10 Fund—

11 “(A) the transfer of such Fund shall not
12 cause such Fund to be disqualified from the ap-
13 plication of this section, and

14 “(B) no amount shall be treated as distrib-
15 uted from such Fund, or be includible in gross
16 income, by reason of such transfer.”.

17 (c) DEDUCTION FOR NUCLEAR DECOMMISSIONING
18 COSTS WHEN PAID.—Paragraph (2) of section 468A(c)
19 is amended to read as follows:

20 “(2) DEDUCTION OF NUCLEAR DECOMMIS-
21 SIONING COSTS.—In addition to any deduction under
22 subsection (a), nuclear decommissioning costs paid
23 or incurred by the taxpayer during any taxable year
24 shall constitute ordinary and necessary expenses in
25 carrying on a trade or business under section 162.”.

1 (d) EFFECTIVE DATE.—The amendments made by
2 this section shall apply to taxable years beginning after
3 the date of the enactment of this Act.

4 **SEC. 603. TREATMENT OF CERTAIN INCOME OF COOPERA-**
5 **TIVES.**

6 (a) INCOME FROM OPEN ACCESS AND NUCLEAR DE-
7 COMMISSIONING TRANSACTIONS.—

8 (1) IN GENERAL.—Subparagraph (C) of section
9 501(c)(12) is amended by striking “or” at the end
10 of clause (i), by striking clause (ii), and by adding
11 at the end the following new clauses:

12 “(ii) from any open access transaction
13 (other than income received or accrued di-
14 rectly or indirectly from a member),

15 “(iii) from any nuclear decommis-
16 sioning transaction,

17 “(iv) from any asset exchange or con-
18 version transaction, or

19 “(v) from the prepayment of any loan,
20 debt, or obligation made, insured, or guar-
21 anteed under the Rural Electrification Act
22 of 1936.”.

23 (2) DEFINITIONS AND SPECIAL RULES.—Para-
24 graph (12) of section 501(c) is amended by adding
25 at the end the following new subparagraphs:

1 “(E) For purposes of subparagraph
2 (C)(ii)—

3 “(i) The term ‘open access trans-
4 action’ means any transaction meeting the
5 open access requirements of any of the fol-
6 lowing subclauses with respect to a mutual
7 or cooperative electric company:

8 “(I) The provision or sale of
9 transmission service or ancillary serv-
10 ices meets the open access require-
11 ments of this subclause only if such
12 services are provided on a nondiscrim-
13 inatory open access basis pursuant to
14 an open access transmission tariff
15 filed with and approved by FERC, in-
16 cluding an acceptable reciprocity tar-
17 iff, or under a regional transmission
18 organization agreement approved by
19 FERC.

20 “(II) The provision or sale of
21 electric energy distribution services or
22 ancillary services meets the open ac-
23 cess requirements of this subclause
24 only if such services are provided on a
25 nondiscriminatory open access basis to

1 end-users served by distribution facili-
2 ties owned by the mutual or coopera-
3 tive electric company (or its mem-
4 bers).

5 “(III) The delivery or sale of
6 electric energy generated by a genera-
7 tion facility meets the open access re-
8 quirements of this subclause only if
9 such facility is directly connected to
10 distribution facilities owned by the
11 mutual or cooperative electric com-
12 pany (or its members) which owns the
13 generation facility, and such distribu-
14 tion facilities meet the open access re-
15 quirements of subclause (II).

16 “(ii) Clause (i)(I) shall apply in the
17 case of a voluntarily filed tariff only if the
18 mutual or cooperative electric company
19 files a report with FERC within 90 days
20 after the date of the enactment of this sub-
21 paragraph relating to whether or not such
22 company will join a regional transmission
23 organization.

24 “(iii) A mutual or cooperative electric
25 company shall be treated as meeting the

1 open access requirements of clause (i)(I) if
2 a regional transmission organization con-
3 trols the transmission facilities.

4 “(iv) References to FERC in this sub-
5 paragraph shall be treated as including
6 references to the Public Utility Commis-
7 sion of Texas with respect to any ERCOT
8 utility (as defined in section 212(k)(2)(B)
9 of the Federal Power Act (16 U.S.C.
10 824k(k)(2)(B))) or references to the Rural
11 Utilities Service with respect to any other
12 facility not subject to FERC jurisdiction.

13 “(v) For purposes of this subpara-
14 graph—

15 “(I) The term ‘transmission facil-
16 ity’ means an electric output facility
17 (other than a generation facility) that
18 operates at an electric voltage of 69
19 kV or greater. To the extent provided
20 in regulations, such term includes any
21 output facility that FERC determines
22 is a transmission facility under stand-
23 ards applied by FERC under the Fed-
24 eral Power Act (as in effect on the

1 date of the enactment of the Energy
2 Tax Incentives Act of 2003).

3 “(II) The term ‘regional trans-
4 mission organization’ includes an
5 independent system operator.

6 “(III) The term ‘FERC’ means
7 the Federal Energy Regulatory Com-
8 mission.

9 “(F) The term ‘nuclear decommissioning
10 transaction’ means—

11 “(i) any transfer into a trust, fund, or
12 instrument established to pay any nuclear
13 decommissioning costs if the transfer is in
14 connection with the transfer of the mutual
15 or cooperative electric company’s interest
16 in a nuclear power plant or nuclear power
17 plant unit,

18 “(ii) any distribution from any trust,
19 fund, or instrument established to pay any
20 nuclear decommissioning costs, or

21 “(iii) any earnings from any trust,
22 fund, or instrument established to pay any
23 nuclear decommissioning costs.

24 “(G) The term ‘asset exchange or conver-
25 sion transaction’ means any voluntary exchange

1 or involuntary conversion of any property re-
2 lated to generating, transmitting, distributing,
3 or selling electric energy by a mutual or cooper-
4 ative electric company, the gain from which
5 qualifies for deferred recognition under section
6 1031 or 1033, but only if the replacement prop-
7 erty acquired by such company pursuant to
8 such section constitutes property which is used,
9 or to be used, for—

10 “(i) generating, transmitting, distrib-
11 uting, or selling electric energy, or

12 “(ii) producing, transmitting, distrib-
13 uting, or selling natural gas.”.

14 (b) TREATMENT OF INCOME FROM LOAD LOSS
15 TRANSACTIONS.—Paragraph (12) of section 501(c), as
16 amended by subsection (a)(2), is amended by adding after
17 subparagraph (G) the following new subparagraph:

18 “(H)(i) In the case of a mutual or coopera-
19 tive electric company described in this para-
20 graph or an organization described in section
21 1381(a)(2)(C), income received or accrued from
22 a load loss transaction shall be treated as an
23 amount collected from members for the sole
24 purpose of meeting losses and expenses.

1 “(ii) For purposes of clause (i), the term
2 ‘load loss transaction’ means any wholesale or
3 retail sale of electric energy (other than to
4 members) to the extent that the aggregate sales
5 during the recovery period does not exceed the
6 load loss mitigation sales limit for such period.

7 “(iii) For purposes of clause (ii), the load
8 loss mitigation sales limit for the recovery pe-
9 riod is the sum of the annual load losses for
10 each year of such period.

11 “(iv) For purposes of clause (iii), a mutual
12 or cooperative electric company’s annual load
13 loss for each year of the recovery period is the
14 amount (if any) by which—

15 “(I) the megawatt hours of electric
16 energy sold during such year to members
17 of such electric company are less than

18 “(II) the megawatt hours of electric
19 energy sold during the base year to such
20 members.

21 “(v) For purposes of clause (iv)(II), the
22 term ‘base year’ means—

23 “(I) the calendar year preceding the
24 start-up year, or

1 “(II) at the election of the electric
2 company, the second or third calendar
3 years preceding the start-up year.

4 “(vi) For purposes of this subparagraph,
5 the recovery period is the 7-year period begin-
6 ning with the start-up year.

7 “(vii) For purposes of this subparagraph,
8 the start-up year is the calendar year which in-
9 cludes the date of the enactment of this sub-
10 paragraph or, if later, at the election of the mu-
11 tual or cooperative electric company—

12 “(I) the first year that such electric
13 company offers nondiscriminatory open ac-
14 cess, or

15 “(II) the first year in which at least
16 10 percent of such electric company’s sales
17 are not to members of such electric com-
18 pany.

19 “(viii) A company shall not fail to be treat-
20 ed as a mutual or cooperative company for pur-
21 poses of this paragraph or as a corporation op-
22 erating on a cooperative basis for purposes of
23 section 1381(a)(2)(C) by reason of the treat-
24 ment under clause (i).

1 “(ix) In the case of a mutual or coopera-
2 tive electric company, income from any open ac-
3 cess transaction received, or accrued, indirectly
4 from a member shall be treated as an amount
5 collected from members for the sole purpose of
6 meeting losses and expenses.”.

7 (c) EXCEPTION FROM UNRELATED BUSINESS TAX-
8 ABLE INCOME.—Subsection (b) of section 512 (relating to
9 modifications) is amended by adding at the end the fol-
10 lowing new paragraph:

11 “(18) TREATMENT OF MUTUAL OR COOPERA-
12 TIVE ELECTRIC COMPANIES.—In the case of a mu-
13 tual or cooperative electric company described in sec-
14 tion 501(c)(12), there shall be excluded income
15 which is treated as member income under subpara-
16 graph (H) thereof.”.

17 (d) CROSS REFERENCE.—Section 1381 is amended
18 by adding at the end the following new subsection:

19 “(c) CROSS REFERENCE.—

**“For treatment of income from load loss trans-
actions of organizations described in subsection
(a)(2)(C), see section 501(c)(12)(H).”.**

20 (e) EFFECTIVE DATE.—The amendments made by
21 this section shall apply to taxable years beginning after
22 the date of the enactment of this Act.

1 **SEC. 604. SALES OR DISPOSITIONS TO IMPLEMENT FED-**
2 **ERAL ENERGY REGULATORY COMMISSION**
3 **OR STATE ELECTRIC RESTRUCTURING POL-**
4 **ICY.**

5 (a) IN GENERAL.—Section 451 (relating to general
6 rule for taxable year of inclusion) is amended by adding
7 at the end the following new subsection:

8 “(i) SPECIAL RULE FOR SALES OR DISPOSITIONS TO
9 IMPLEMENT FEDERAL ENERGY REGULATORY COMMIS-
10 SION OR STATE ELECTRIC RESTRUCTURING POLICY.—

11 “(1) IN GENERAL.—For purposes of this sub-
12 title, if a taxpayer elects the application of this sub-
13 section to a qualifying electric transmission trans-
14 action in any taxable year—

15 “(A) any ordinary income derived from
16 such transaction which would be required to be
17 recognized under section 1245 or 1250 for such
18 taxable year (determined without regard to this
19 subsection), and

20 “(B) any income derived from such trans-
21 action in excess of such ordinary income which
22 is required to be included in gross income for
23 such taxable year,

24 shall be so recognized and included ratably over the
25 8-taxable year period beginning with such taxable
26 year.

1 “(2) QUALIFYING ELECTRIC TRANSMISSION
2 TRANSACTION.—For purposes of this subsection, the
3 term ‘qualifying electric transmission transaction’
4 means any sale or other disposition before January
5 1, 2007, of—

6 “(A) property used by the taxpayer in the
7 trade or business of providing electric trans-
8 mission services, or

9 “(B) any stock or partnership interest in a
10 corporation or partnership, as the case may be,
11 whose principal trade or business consists of
12 providing electric transmission services,

13 but only if such sale or disposition is to an inde-
14 pendent transmission company.

15 “(3) INDEPENDENT TRANSMISSION COM-
16 PANY.—For purposes of this subsection, the term
17 ‘independent transmission company’ means—

18 “(A) a regional transmission organization
19 approved by the Federal Energy Regulatory
20 Commission,

21 “(B) a person—

22 “(i) who the Federal Energy Regu-
23 latory Commission determines in its au-
24 thorization of the transaction under section
25 203 of the Federal Power Act (16 U.S.C.

1 824b) is not a market participant within
2 the meaning of such Commission’s rules
3 applicable to regional transmission organi-
4 zations, and

5 “(ii) whose transmission facilities to
6 which the election under this subsection
7 applies are under the operational control of
8 a Federal Energy Regulatory Commission-
9 approved regional transmission organiza-
10 tion before the close of the period specified
11 in such authorization, but not later than
12 the close of the period applicable under
13 paragraph (1), or

14 “(C) in the case of facilities subject to the
15 exclusive jurisdiction of the Public Utility Com-
16 mission of Texas, a person which is approved by
17 that Commission as consistent with Texas State
18 law regarding an independent transmission or-
19 ganization.

20 “(4) ELECTION.—An election under paragraph
21 (1), once made, shall be irrevocable.

22 “(5) NONAPPLICATION OF INSTALLMENT SALES
23 TREATMENT.—Section 453 shall not apply to any
24 qualifying electric transmission transaction with re-

1 spect to which an election to apply this subsection
2 is made.”.

3 (b) **EFFECTIVE DATE.**—The amendment made by
4 this section shall apply to transactions occurring after the
5 date of the enactment of this Act.

6 **SEC. 605. TREATMENT OF CERTAIN DEVELOPMENT INCOME**
7 **OF COOPERATIVES.**

8 (a) **IN GENERAL.**—Subparagraph (C) of section
9 501(c)(12), as amended by this Act, is amended by strik-
10 ing “or” at the end of clause (iv), by striking the period
11 at the end of clause (v) and insert “, or”, and by adding
12 at the end the following new clause:

13 “(vi) from the receipt before January
14 1, 2007, of any money, property, capital,
15 or any other contribution in aid of con-
16 struction or connection charge intended to
17 facilitate the provision of electric service
18 for the purpose of developing qualified
19 fuels from nonconventional sources (within
20 the meaning of section 29).”.

21 (b) **EFFECTIVE DATE.**—The amendments made by
22 this section shall apply to taxable years beginning after
23 the date of the enactment of this Act.

1 **TITLE VII—ADDITIONAL**
2 **PROVISIONS**

3 **SEC. 701. EXTENSION OF ACCELERATED DEPRECIATION**
4 **AND WAGE CREDIT BENEFITS ON INDIAN**
5 **RESERVATIONS.**

6 (a) SPECIAL RECOVERY PERIOD FOR PROPERTY ON
7 INDIAN RESERVATIONS.—Section 168(j)(8) (relating to
8 termination), as amended by section 613(b) of the Job
9 Creation and Worker Assistance Act of 2002, is amended
10 by striking “2004” and inserting “2005”.

11 (b) INDIAN EMPLOYMENT CREDIT.—Section 45A(f)
12 (relating to termination), as amended by section 613(a)
13 of the Job Creation and Worker Assistance Act of 2002,
14 is amended by striking “2004” and inserting “2005”.

15 **SEC. 702. STUDY OF EFFECTIVENESS OF CERTAIN PROVI-**
16 **SIONS BY GAO.**

17 (a) STUDY.—The Comptroller General of the United
18 States shall undertake an ongoing analysis of—

19 (1) the effectiveness of the alternative motor ve-
20 hicles and fuel incentives provisions under title II
21 and the conservation and energy efficiency provisions
22 under title III, and

23 (2) the recipients of the tax benefits contained
24 in such provisions, including an identification of

1 such recipients by income and other appropriate
2 measurements.

3 Such analysis shall quantify the effectiveness of such pro-
4 visions by examining and comparing the Federal Govern-
5 ment's forgone revenue to the aggregate amount of energy
6 actually conserved and tangible environmental benefits
7 gained as a result of such provisions.

8 (b) REPORTS.—The Comptroller General of the
9 United States shall report the analysis required under sub-
10 section (a) to Congress not later than December 31, 2003,
11 and annually thereafter.

12 **SEC. 703. CREDIT FOR PRODUCTION OF ALASKA NATURAL**
13 **GAS.**

14 (a) IN GENERAL.—Subpart D of part IV of sub-
15 chapter A of chapter 1 (relating to business related cred-
16 its), as amended by this Act, is amended by adding at
17 the end the following new section:

18 **“SEC. 45M. ALASKA NATURAL GAS.**

19 “(a) IN GENERAL.—For purposes of section 38, the
20 Alaska natural gas credit of any taxpayer for any taxable
21 year is the credit amount per 1,000,000 Btu of Alaska
22 natural gas entering any intake or tie-in point which was
23 derived from an area of the State of Alaska lying north
24 of 64 degrees North latitude, which is attributable to the
25 taxpayer and sold by or on behalf of the taxpayer to an

1 unrelated person during such taxable year (within the
2 meaning of section 45).

3 “(b) CREDIT AMOUNT.—For purposes of this sec-
4 tion—

5 “(1) IN GENERAL.—The credit amount per
6 1,000,000 Btu of Alaska natural gas entering any
7 intake or tie-in point which was derived from an
8 area of the State of Alaska lying north of 64 degrees
9 North latitude (determined in United States dol-
10 lars), is the excess of—

11 “(A) \$3.25, over

12 “(B) the average monthly price at the
13 AECO C Hub in Alberta, Canada, for Alaska
14 natural gas for the month in which occurs the
15 date of such entering.

16 “(2) INFLATION ADJUSTMENT.—In the case of
17 any taxable year beginning in a calendar year after
18 the first calendar year ending after the date de-
19 scribed in subsection (g)(1), the dollar amount con-
20 tained in paragraph (1)(A) shall be increased to an
21 amount equal to such dollar amount multiplied by
22 the inflation adjustment factor for such calendar
23 year (determined under section 43(b)(3)(B) by sub-
24 stituting ‘the calendar year ending before the date
25 described in section 45M(g)(1)’ for ‘1990’).

1 “(c) ALASKA NATURAL GAS.—For purposes of this
2 section, the term ‘Alaska natural gas’ means natural gas
3 entering any intake or tie-in point which was derived from
4 an area of the State of Alaska lying north of 64 degrees
5 North latitude produced in compliance with the applicable
6 State and Federal pollution prevention, control, and per-
7 mit requirements from the area generally known as the
8 North Slope of Alaska (including the continental shelf
9 thereof within the meaning of section 638(l)), determined
10 without regard to the area of the Alaska National Wildlife
11 Refuge (including the continental shelf thereof within the
12 meaning of section 638(l)).

13 “(d) RECAPTURE.—

14 “(1) IN GENERAL.—With respect to each
15 1,000,000 Btu of Alaska natural gas entering any
16 intake or tie-in point which was derived from an
17 area of the State of Alaska lying north of 64 degrees
18 North latitude after the date which is 3 years after
19 the date described in subsection (g)(1), if the aver-
20 age monthly price described in subsection (b)(1)(B)
21 exceeds 150 percent of the amount described in sub-
22 section (b)(1)(A) for the month in which occurs the
23 date of such entering, the taxpayer’s tax under this
24 chapter for the taxable year shall be increased by an
25 amount equal to the lesser of—

1 “(A) such excess, or

2 “(B) the aggregate decrease in the credits
3 allowed under section 38 for all prior taxable
4 years which would have resulted if the Alaska
5 natural gas credit received by the taxpayer for
6 such years had been zero.

7 “(2) SPECIAL RULES.—

8 “(A) TAX BENEFIT RULE.—The tax for
9 the taxable year shall be increased under para-
10 graph (1) only with respect to credits allowed
11 by reason of this section which were used to re-
12 duce tax liability. In the case of credits not so
13 used to reduce tax liability, the carryforwards
14 and carrybacks under section 39 shall be appro-
15 priately adjusted.

16 “(B) NO CREDITS AGAINST TAX.—Any in-
17 crease in tax under this subsection shall not be
18 treated as a tax imposed by this chapter for
19 purposes of determining the amount of any
20 credit under this chapter or for purposes of sec-
21 tion 55.

22 “(e) APPLICATION OF RULES.—For purposes of this
23 section, rules similar to the rules of paragraphs (3), (4),
24 and (5) of section 45(d) shall apply.

1 “(f) NO DOUBLE BENEFIT.—The amount of any de-
2 duction or other credit allowable under this chapter for
3 any fuel taken into account in computing the amount of
4 the credit determined under subsection (a) shall be re-
5 duced by the amount of such credit attributable to such
6 fuel.

7 “(g) APPLICATION OF SECTION.—This section shall
8 apply to Alaska natural gas entering any intake or tie-
9 in point which was derived from an area of the State of
10 Alaska lying north of 64 degrees North latitude for the
11 period—

12 “(1) beginning with the later of—

13 “(A) January 1, 2010, or

14 “(B) the initial date for the interstate
15 transportation of such Alaska natural gas, and

16 “(2) except with respect to subsection (d), end-
17 ing with the date which is 15 years after the date
18 described in paragraph (1).”.

19 (b) CREDIT TREATED AS BUSINESS CREDIT.—Sec-
20 tion 38(b), as amended by this Act, is amended by striking
21 “plus” at the end of paragraph (22), by striking the period
22 at the end of paragraph (23) and inserting “, plus”, and
23 by adding at the end the following new paragraph:

24 “(24) The Alaska natural gas credit determined
25 under section 45M(a).”.

1 (c) ALLOWING CREDIT AGAINST ENTIRE REGULAR
2 TAX AND MINIMUM TAX.—

3 (1) IN GENERAL.—Subsection (c) of section 38
4 (relating to limitation based on amount of tax), as
5 amended by this Act, is amended by redesignating
6 paragraph (5) as paragraph (6) and by inserting
7 after paragraph (4) the following new paragraph:

8 “(5) SPECIAL RULES FOR ALASKA NATURAL
9 GAS CREDIT.—

10 “(A) IN GENERAL.—In the case of the
11 Alaska natural gas credit—

12 “(i) this section and section 39 shall
13 be applied separately with respect to the
14 credit, and

15 “(ii) in applying paragraph (1) to the
16 credit—

17 “(I) the amounts in subpara-
18 graphs (A) and (B) thereof shall be
19 treated as being zero, and

20 “(II) the limitation under para-
21 graph (1) (as modified by subclause
22 (I)) shall be reduced by the credit al-
23 lowed under subsection (a) for the
24 taxable year (other than the Alaska
25 natural gas credit).

1 “(B) ALASKA NATURAL GAS CREDIT.—
 2 For purposes of this subsection, the term ‘Alas-
 3 ka natural gas credit’ means the credit allow-
 4 able under subsection (a) by reason of section
 5 45M(a).”.

6 (2) CONFORMING AMENDMENTS.—Subclause
 7 (II) of section 38(c)(2)(A)(ii), as amended by this
 8 Act, subclause (II) of section 38(c)(3)(A)(ii), as
 9 amended by this Act, and subclause (II) of section
 10 38(c)(4)(A)(ii), as added by this Act, are each
 11 amended by inserting “or the Alaska natural gas
 12 credit” after “producer credit”.

13 (d) CLERICAL AMENDMENT.—The table of sections
 14 for subpart D of part IV of subchapter A of chapter 1,
 15 as amended by this Act, is amended by adding at the end
 16 the following new item:

 “Sec. 45M. Alaska natural gas.”.

17 **SEC. 704. SALE OF GASOLINE AND DIESEL FUEL AT DUTY-**
 18 **FREE SALES ENTERPRISES.**

19 (a) PROHIBITION.—Section 555(b) of the Tariff Act
 20 of 1930 (19 U.S.C. 1555(b)) is amended—

21 (1) by redesignating paragraphs (6) through
 22 (8) as paragraphs (7) through (9), respectively; and
 23 (2) by inserting after paragraph (5) the fol-
 24 lowing:

1 “(6) Any gasoline or diesel fuel sold at a duty-
2 free sales enterprise shall be considered to be en-
3 tered for consumption into the customs territory of
4 the United States.”.

5 (b) CONSTRUCTION.—The amendments made by this
6 section shall not be construed to create any inference with
7 respect to the interpretation of any provision of law as
8 such provision was in effect on the day before the date
9 of enactment of this Act.

10 (c) EFFECTIVE DATE.—The amendments made by
11 this section shall take effect on the date of enactment of
12 this Act.

13 **SEC. 705. CLARIFICATION OF EXCISE TAX EXEMPTIONS FOR**
14 **AGRICULTURAL AERIAL APPLICATORS.**

15 (a) NO WAIVER BY FARM OWNER, TENANT, OR OP-
16 ERATOR NECESSARY.—Subparagraph (B) of section
17 6420(c)(4) (relating to certain farming use other than by
18 owner, etc.) is amended to read as follows:

19 “(B) if the person so using the gasoline is
20 an aerial or other applicator of fertilizers or
21 other substances and is the ultimate purchaser
22 of the gasoline, then subparagraph (A) of this
23 paragraph shall not apply and the aerial or
24 other applicator shall be treated as having used
25 such gasoline on a farm for farming purposes.”.

1 (b) EXEMPTION INCLUDES FUEL USED BETWEEN
 2 AIRFIELD AND FARM.—Section 6420(c)(4), as amended
 3 by subsection (a), is amended by adding at the end the
 4 following new flush sentence:

5 “For purposes of this paragraph, in the case of an
 6 aerial applicator, gasoline shall be treated as used on
 7 a farm for farming purposes if the gasoline is used
 8 for the direct flight between the airfield and 1 or
 9 more farms.”.

10 (c) EXEMPTION FROM TAX ON AIR TRANSPOR-
 11 TATION OF PERSONS FOR FORESTRY PURPOSES EX-
 12 TENDED TO FIXED-WING AIRCRAFT.—Subsection (f) of
 13 section 4261 (relating to tax on air transportation of per-
 14 sons) is amended to read as follows:

15 “(f) EXEMPTION FOR CERTAIN USES.—No tax shall
 16 be imposed under subsection (a) or (b) on air transpor-
 17 tation—

18 “(1) by helicopter for the purpose of trans-
 19 porting individuals, equipment, or supplies in the ex-
 20 ploration for, or the development or removal of, hard
 21 minerals, oil, or gas, or

22 “(2) by helicopter or by fixed-wing aircraft for
 23 the purpose of the planting, cultivation, cutting, or
 24 transportation of, or caring for, trees (including log-
 25 ging operations),

1 but only if the helicopter or fixed-wing aircraft does not
2 take off from, or land at, a facility eligible for assistance
3 under the Airport and Airway Development Act of 1970,
4 or otherwise use services provided pursuant to section
5 44509 or 44913(b) or subchapter I of chapter 471 of title
6 49, United States Code, during such use. In the case of
7 helicopter transportation described in paragraph (1), this
8 subsection shall be applied by treating each flight segment
9 as a distinct flight.”.

10 (d) EFFECTIVE DATE.—The amendments made by
11 this section shall apply to fuel use or air transportation
12 after December 31, 2002, and before January 1, 2004.

13 **SEC. 706. MODIFICATION OF RURAL AIRPORT DEFINITION.**

14 (a) IN GENERAL.—Clause (ii) of section
15 4261(e)(1)(B) (defining rural airport) is amended by
16 striking the period at the end of subclause (II) and insert-
17 ing “, or” and by adding at the end the following new
18 subclause:

19 “(III) is not connected by paved
20 roads to another airport.”.

21 (b) EFFECTIVE DATE.—The amendments made by
22 this section shall apply to calendar years beginning after
23 2003.

1 **SEC. 707. EXEMPTION FROM TICKET TAXES FOR TRANS-**
2 **PORTATION PROVIDED BY SEAPLANES.**

3 (a) **IN GENERAL.**—The taxes imposed by sections
4 4261 and 4271 shall not apply to transportation by a sea-
5 plane with respect to any segment consisting of a takeoff
6 from, and a landing on, water.

7 (b) **EFFECTIVE DATE.**—The amendments made by
8 this section shall apply to calendar years beginning after
9 2003.

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