

110TH CONGRESS
1ST SESSION

S. 768

To increase fuel economy standards for automobiles and for other purposes.

IN THE SENATE OF THE UNITED STATES

MARCH 6, 2007

Mr. OBAMA (for himself, Mr. LUGAR, Mr. BIDEN, Mr. SMITH, Mr. BINGAMAN, Mr. COLEMAN, and Mr. SPECTER) introduced the following bill; which was read twice and referred to the Committee on Finance

A BILL

To increase fuel economy standards for automobiles and for other purposes.

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.**

4 This Act may be cited as the “Fuel Economy Reform
5 Act”.

6 **SEC. 2. FINDINGS.**

7 Congress makes the following findings:

8 (1) United States dependence on oil imports im-
9 poses tremendous burdens on the economy, foreign
10 policy, and military of the United States.

1 (2) According to the Energy Information Ad-
2 ministration, 60 percent of the crude oil and petro-
3 leum products consumed in the United States be-
4 tween April 2005 and March 2006 (12,400,000 bar-
5 rels per day) were imported. At a cost of \$75 per
6 barrel of oil, people in the United States remit more
7 than \$600,000 per minute to other countries for pe-
8 troleum.

9 (3) A significant percentage of these petroleum
10 imports originate in countries controlled by regimes
11 that are unstable or openly hostile to the interests
12 of the United States. Dependence on production
13 from these countries contributes to the volatility of
14 domestic and global markets and the “risk pre-
15 mium” paid by consumers in the United States.

16 (4) The Energy Information Administration
17 projects that the total petroleum demand in the
18 United States will increase by 23 percent between
19 2006 and 2026, while domestic crude production is
20 expected to decrease by 11 percent, resulting in an
21 anticipated 28 percent increase in petroleum im-
22 ports. Absent significant action, the United States
23 will become more vulnerable to oil price increases,
24 more dependent upon foreign oil, and less able to
25 pursue national interests.

1 (5) Two-thirds of all domestic oil use occurs in
2 the transportation sector, which is 97 percent reliant
3 upon petroleum-based fuels. Passenger vehicles, in-
4 cluding light trucks under 10,000 pounds gross vehi-
5 cle weight, represent over 60 percent of the oil used
6 in the transportation sector.

7 (6) Corporate average fuel economy of all cars
8 and trucks improved by 70 percent between 1975
9 and 1987. Between 1987 and 2006, fuel economy
10 improvements have stagnated and the fuel economy
11 of the United States is lower than many developed
12 countries and some developing countries.

13 (7) Significant improvements in engine tech-
14 nology occurred between 1986 and 2006. These ad-
15 vances have been used to make vehicles larger and
16 more powerful, and have not focused solely on in-
17 creasing fuel economy.

18 (8) According to a 2002 fuel economy report by
19 the National Academies of Science, fuel economy can
20 be increased without negatively impacting the safety
21 of cars and trucks in the United States. Some new
22 technologies can increase both safety and fuel econ-
23 omy (such as high strength materials, unibody de-
24 sign, lower bumpers). Design changes related to fuel
25 economy also present opportunities to reduce the in-

compatibility of tall, stiff, heavy vehicles with the majority of vehicles on the road.

(9) Significant change must occur to strengthen the economic competitiveness of the domestic auto industry. According to a recent study by the University of Michigan, a sustained gasoline price of \$2.86 per gallon would lead Detroit's Big 3 automakers' profits to shrink by \$7,000,000,000 as they absorb 75 percent of the lost vehicle sales. This would put nearly 300,000 people in the United States out of work.

(10) Opportunities exist to strengthen the domestic vehicle industry while improving fuel economy. A 2004 study performed by the University of Michigan concludes that providing \$1,500,000,000 in tax incentives over a 10-year period to encourage domestic manufacturers and parts facilities to produce clean cars will lead to a gain of nearly 60,000 domestic jobs and pay for itself through the resulting increase in domestic tax receipts.

**SEC. 3. DEFINITION OF AUTOMOBILE AND PASSENGER
AUTOMOBILE.**

(a) DEFINITION OF AUTOMOBILE.—

(1) IN GENERAL.—Paragraph (3) of section 32901(a) of title 49, United States Code, is amend-

1 ed by striking “rated at—” and all that follows
 2 through the period at the end and inserting “rated
 3 at not more than 10,000 pounds gross vehicle
 4 weight.”.

5 (2) FUEL ECONOMY INFORMATION.—Section
 6 32908(a) of such title is amended, by striking “sec-
 7 tion—” and all that follows through “(2)” and in-
 8 serting “section, the term”.

9 (3) EFFECTIVE DATE.—The amendments made
 10 by paragraphs (1) and (2) shall apply to model year
 11 2010 and each subsequent model year.

12 (b) DEFINITION OF PASSENGER AUTOMOBILE.—

13 (1) IN GENERAL.—Paragraph (16) of section
 14 32901(a) of such title is amended by striking “, but
 15 does not include” and all that follows through the
 16 end and inserting a period.

17 (2) EFFECTIVE DATE.—The amendment made
 18 by paragraph (1) shall apply to model year 2012
 19 and each subsequent model year.

20 **SEC. 4. AVERAGE FUEL ECONOMY STANDARDS.**

21 (a) STANDARDS.—Section 32902 of title 49, United
 22 States Code, is amended—

23 (1) in subsection (a)—

1 (A) in the heading, by inserting “MANU-
 2 FACTURED BEFORE MODEL YEAR 2013” after
 3 “NON-PASSENGER AUTOMOBILES”; and

4 (B) by adding at the end the following:
 5 “This subsection shall not apply to automobiles
 6 manufactured after model year 2012.”;

7 (2) in subsection (b)—

8 (A) in the heading, by inserting “MANU-
 9 FACTURED BEFORE MODEL YEAR 2013” after
 10 “PASSENGER AUTOMOBILES”;

11 (B) by inserting “and before model year
 12 2010” after “1984”; and

13 (C) by adding at the end the following:
 14 “Such standard shall be increased by 4 percent
 15 per year for model years 2010 through 2012
 16 (rounded to the nearest 1/10 mile per gallon)”;

17 (3) by amending subsection (c) to read as fol-
 18 lows:

19 “(c) AUTOMOBILES MANUFACTURED AFTER MODEL
 20 YEAR 2012.—(1)(A) Not later than 18 months before the
 21 beginning of each model year after model year 2012, the
 22 Secretary of Transportation shall prescribe, by regula-
 23 tion—

1 “(i) an average fuel economy standard for auto-
2 mobiles manufactured by a manufacturer in that
3 model year; or

4 “(ii) based on 1 or more vehicle attributes that
5 relate to fuel economy—

6 “(I) separate average fuel economy stand-
7 ards for different classes of automobiles; or

8 “(II) average fuel economy standards ex-
9 pressed in the form of a mathematical function.

10 “(B)(i) Except as provided under paragraphs (3) and
11 (4) and subsection (d), average fuel economy standards
12 under subparagraph (A) shall attain a projected aggregate
13 level of average fuel economy of 27.5 miles per gallon for
14 all automobiles manufactured by all manufacturers for
15 model year 2013.

16 “(ii) The projected aggregate level of average fuel
17 economy for model year 2014 and each model year there-
18 after shall be increased by 4 percent over the level of the
19 prior model year (rounded to the nearest 1/10 mile per
20 gallon).

21 “(2) In addition to the average fuel economy stand-
22 ards under paragraph (1), each manufacturer of pas-
23 senger automobiles shall be subject to an average fuel
24 economy standard for passenger automobiles manufac-
25 tured by a manufacturer in a model year that shall be

1 equal to 92 percent of the average fuel economy projected
 2 by the Secretary for all passenger automobiles manufac-
 3 tured by all manufacturers in that model year. An average
 4 fuel economy standard under this subparagraph for a
 5 model year shall be promulgated at the same time as the
 6 standard under paragraph (1) for such model year.

7 “(3) If the actual aggregate level of average fuel
 8 economy achieved by manufacturers for each of 3 consecu-
 9 tive model years is 5 percent or more less than the pro-
 10 jected aggregate level of average fuel economy for such
 11 model year, the Secretary may make appropriate adjust-
 12 ments to the standards prescribed under this subsection.

13 “(4)(A) Notwithstanding paragraphs (1) through (3)
 14 and subsection (b), the Secretary of Transportation may
 15 prescribe a lower average fuel economy standard for 1 or
 16 more model years if the Secretary of Transportation, in
 17 consultation with the Secretary of Energy, finds, by clear
 18 and convincing evidence, that the minimum standards pre-
 19 scribed under paragraph (1)(B) or (3) or subsection (b)
 20 for each model year—

21 “(i) are technologically not achievable;

22 “(ii) cannot be achieved without materially re-
 23 ducing the overall safety of automobiles manufac-
 24 tured or sold in the United States and no offsetting

1 safety improvements can be practicably implemented
 2 for that model year; or

3 “(iii) is shown not to be cost effective.

4 “(B) If a lower standard is prescribed for a model
 5 year under subparagraph (A), such standard shall be the
 6 maximum standard that—

7 “(i) is technologically achievable;

8 “(ii) can be achieved without materially reduc-
 9 ing the overall safety of automobiles manufactured
 10 or sold in the United States; and

11 “(iii) is cost effective.

12 “(5) In determining cost effectiveness under para-
 13 graph (4)(A)(iii), the Secretary of Transportation shall
 14 take into account the total value to the United States of
 15 reduced petroleum use, including the value of reducing ex-
 16 ternal costs of petroleum use, using a value for such costs
 17 equal to 50 percent of the value of a gallon of gasoline
 18 saved or the amount determined in an analysis of the ex-
 19 ternal costs of petroleum use that considers—

20 “(A) value to consumers;

21 “(B) economic security;

22 “(C) national security;

23 “(D) foreign policy;

24 “(E) the impact of oil use—

1 “(i) on sustained cartel rents paid to for-
2 eign suppliers;

3 “(ii) on long-run potential gross domestic
4 product due to higher normal-market oil price
5 levels, including inflationary impacts;

6 “(iii) on import costs, wealth transfers,
7 and potential gross domestic product due to in-
8 creased trade imbalances;

9 “(iv) on import costs and wealth transfers
10 during oil shocks;

11 “(v) on macroeconomic dislocation and ad-
12 justment costs during oil shocks;

13 “(vi) on the cost of existing energy security
14 policies, including the management of the Stra-
15 tegic Petroleum Reserve;

16 “(vii) on the timing and severity of the oil
17 peaking problem;

18 “(viii) on the risk, probability, size, and
19 duration of oil supply disruptions;

20 “(ix) on OPEC strategic behavior and
21 long-run oil pricing;

22 “(x) on the short term elasticity of energy
23 demand and the magnitude of price increases
24 resulting from a supply shock;

1 “(xi) on oil imports, military costs, and re-
2 lated security costs, including intelligence,
3 homeland security, sea lane security and infra-
4 structure, and other military activities;

5 “(xii) on oil imports, diplomatic and for-
6 eign policy flexibility, and connections to geo-
7 political strife, terrorism, and international de-
8 velopment activities;

9 “(xiii) on all relevant environmental haz-
10 ards under the jurisdiction of the Environ-
11 mental Protection Agency; and

12 “(xiv) on well-to-wheels urban and local air
13 emissions of ‘pollutants’ and their
14 uninternalized costs;

15 “(F) the impact of the oil or energy intensity
16 of the United States economy on the sensitivity of
17 the economy to oil price changes, including the mag-
18 nitude of gross domestic product losses in response
19 to short term price shocks or long term price in-
20 creases;

21 “(G) the impact of United States payments for
22 oil imports on political, economic, and military devel-
23 opments in unstable or unfriendly oil exporting
24 countries;

1 “(H) the uninternalized costs of pipeline and
2 storage oil seepage, and for risk of oil spills from
3 production, handling, and transport, and related
4 landscape damage; and

5 “(I) additional relevant factors, as determined
6 by the Secretary.

7 “(6) When considering the value to consumers of a
8 gallon of gasoline saved, the Secretary of Transportation
9 may not use a value that is less than the greatest of—

10 “(A) the average national cost of a gallon of
11 gasoline sold in the United States during the 12-
12 month period ending on the date on which the new
13 fuel economy standard is proposed;

14 “(B) the most recent weekly estimate by the
15 Energy Information Administration of the Depart-
16 ment of Energy of the average national cost of a
17 gallon of gasoline (all grades) sold in the United
18 States; or

19 “(C) the gasoline prices projected by the En-
20 ergy Information Administration for the 20-year pe-
21 riod beginning in the year following the year in
22 which the standards are established.

23 “(7) In prescribing standards under this subsection,
24 the Secretary may prescribe standards for 1 or more
25 model years.

1 “(8)(A) Not later than December 31, 2016, the Sec-
2 retary of Transportation, the Secretary of Energy, and the
3 Administrator of the Environmental Protection Agency
4 shall submit a joint report to Congress on the state of
5 global automotive efficiency technology development, and
6 on the accuracy of tests used to measure fuel economy
7 of automobiles under section 32904(c), utilizing the study
8 and assessment of the National Academy of Sciences re-
9 ferred to in subparagraph (B).

10 “(B) The Secretary of Transportation shall enter into
11 appropriate arrangements with the National Academy of
12 Sciences to conduct a comprehensive study of the techno-
13 logical opportunities to enhance fuel economy and an anal-
14 ysis and assessment of the accuracy of fuel economy tests
15 used by the Administrator of the Environmental Protec-
16 tion Agency to measure fuel economy for each model
17 under section 32904(c). Such analysis and assessment
18 shall identify any additional factors or methods that
19 should be included in tests to measure fuel economy for
20 each model to more accurately reflect actual fuel economy
21 of automobiles. The Secretary of Transportation and the
22 Administrator of the Environmental Protection Agency
23 shall furnish, at the request of the Academy, any informa-
24 tion that the Academy determines to be necessary to con-

1 duct the study, analysis, and assessment under this sub-
2 paragraph.

3 “(C) The report submitted under subparagraph (A)
4 shall include—

5 “(i) the study of the National Academy of
6 Sciences referred to in subparagraph (B); and

7 “(ii) an assessment by the Secretary of Trans-
8 portation of technological opportunities to enhance
9 fuel economy and opportunities to increase overall
10 fleet safety.

11 “(D) The report submitted under subparagraph (A)
12 shall identify and examine additional opportunities to re-
13 form the regulatory structure under this chapter, includ-
14 ing approaches that seek to merge vehicle and fuel require-
15 ments into a single system that achieves equal or greater
16 reduction in petroleum use and environmental benefits
17 than the amount of petroleum use and environmental ben-
18 efits that have been achieved as of the date of the enact-
19 ment of this Act.

20 “(E) The report submitted under subparagraph (A)
21 shall—

22 “(i) include conclusions reached by the Admin-
23 istrator of the Environmental Protection Agency, as
24 a result of detailed analysis and public comment, on
25 the accuracy of fuel economy tests as in use during

the period beginning on the date that is 5 years before the completion of the report and ends on the date of such completion;

“(ii) identify any additional factors that the Administrator determines should be included in tests to measure fuel economy for each model to more accurately reflect actual fuel economy of automobiles; and

“(iii) include a description of options, formulated by the Secretary of Transportation and the Administrator, to incorporate such additional factors in fuel economy tests in a manner that will not effectively increase or decrease average fuel economy for any automobile manufacturer.”; and

(4) in subsection (g)(2), by striking “(and submit the amendment to Congress when required under subsection (c)(2) of this section)”.

(b) CONFORMING AMENDMENTS.—

(1) IN GENERAL.—Chapter 329 of title 49, United States Code, is amended—

(A) in section 32903—

(i) by striking “passenger” each place it appears;

(ii) by striking “section 32902(b)–(d) of this title” each place it appears and in-

1 serting “subsection (c) or (d) of section
2 32902”;

3 (iii) by striking subsection (e); and

4 (iv) by redesignating subsection (f) as
5 subsection (e); and

6 (B) in section 32904—

7 (i) in subsection (a)—

8 (I) by striking “passenger” each
9 place it appears; and

10 (II) in paragraph (1), by striking
11 “subject to” and all that follows
12 through “section 32902(b)–(d) of this
13 title” and inserting “subject to sub-
14 section (c) or (d) of section 32902”;
15 and

16 (ii) in subsection (b)(1)(B), by strik-
17 ing “under this chapter” and inserting
18 “under section 32902(c)(2)”.

19 (2) EFFECTIVE DATE.—The amendments made
20 by this section shall apply to automobiles manufac-
21 tured after model year 2012.

22 **SEC. 5. CREDIT TRADING, COMPLIANCE, AND JUDICIAL RE-**
23 **VIEW.**

24 (a) CREDIT TRADING.—Section 32903(a) of title 49,
25 United States Code, is amended—

1 (1) by inserting “Credits earned by a manufac-
 2 turer under this section may be sold to any other
 3 manufacturer and used as if earned by that manu-
 4 facturer, except that credits earned by a manufac-
 5 turer described in clause (i) of section
 6 32904(b)(1)(A) may only be sold to a manufacturer
 7 described such clause (i) and credits earned by a
 8 manufacturer described in clause (ii) of such section
 9 may only be sold to a manufacturer described in
 10 such clause (ii).” after “earns credits.”;

11 (2) by striking “3 consecutive model years im-
 12 mediately” each place it appears and inserting
 13 “model years”; and

14 (3) effective for model years after 2012, the
 15 sentence added by paragraph (1) of this subsection
 16 is amended by inserting “for purposes of compliance
 17 with section 32902(c)(2)” after “except that”.

18 (b) MULTI-YEAR COMPLIANCE PERIOD.—Section
 19 32904(c) of such title is amended—

20 (1) by inserting “(1)” before “The Adminis-
 21 trator”; and

22 (2) by adding at the end the following:

23 “(2) The Secretary, by rule, may allow a manufac-
 24 turer to elect a multi-year compliance period of not more
 25 than 4 consecutive model years in lieu of the single model

1 year compliance period otherwise applicable under this
2 chapter.”.

3 (c) JUDICIAL REVIEW OF REGULATIONS.—Section
4 32909(a)(1) of such title is amended by striking out “ad-
5 versely affected by” and inserting “aggrieved or adversely
6 affected by, or suffering a legal wrong because of,”.

7 **SEC. 6. CONSUMER TAX CREDIT.**

8 (a) ELIMINATION ON NUMBER OF NEW QUALIFIED
9 HYBRID AND ADVANCED LEAN BURN TECHNOLOGY VE-
10 HICLES ELIGIBLE FOR ALTERNATIVE MOTOR VEHICLE
11 CREDIT.—

12 (1) IN GENERAL.—Section 30B of the Internal
13 Revenue Code of 1986 is amended—

14 (A) by striking subsection (f); and
15 (B) by redesignating subsections (g)
16 through (j) as subsections (f) through (i), re-
17 spectively.

18 (2) CONFORMING AMENDMENTS.—

19 (A) Paragraphs (4) and (6) of section
20 30B(h) of such Code are each amended by
21 striking “(determined without regard to sub-
22 section (g))” and inserting “determined without
23 regard to subsection (f))”.

1 (B) Section 38(b)(25) of such Code is
 2 amended by striking “section 30B(g)(1)” and
 3 inserting “section 30B(f)(1)”.

4 (C) Section 55(c)(2) of such Code is
 5 amended by striking “section 30B(g)(2)” and
 6 inserting “section 30B(f)(2)”.

7 (D) Section 1016(a)(36) of such Code is
 8 amended by striking “section 30B(h)(4)” and
 9 inserting “section 30B(g)(4)”.

10 (E) Section 6501(m) of such Code is
 11 amended by striking “section 30B(h)(9)” and
 12 inserting “section 30B(g)(9)”.

13 (b) EXTENSION OF ALTERNATIVE VEHICLE CREDIT
 14 FOR NEW QUALIFIED HYBRID MOTOR VEHICLES.—Para-
 15 graph (3) of section 30B(i) of such Code (as redesignated
 16 by subsection (a)) is amended by striking “December 31,
 17 2009” and inserting “December 31, 2011”.

18 (c) COMPUTATION OF CREDIT.—Section 30B of such
 19 Code is amended by striking “city” each place it appears
 20 and inserting “combined”.

21 (d) EFFECTIVE DATES.—The amendments made by
 22 subsections (a) and (b) of this section shall apply to prop-
 23 erty placed in service after December 31, 2007, in taxable
 24 years ending after such date. The amendments made by

1 subsection (c) shall apply to vehicles acquired after the
 2 date of the enactment of this Act.

3 **SEC. 7. ADVANCED TECHNOLOGY MOTOR VEHICLES MANU-**
 4 **FACTURING CREDIT.**

5 (a) IN GENERAL.—Subpart B of part IV of sub-
 6 chapter A of chapter 1 of the Internal Revenue Code of
 7 1986 (relating to foreign tax credit, etc.) is amended by
 8 adding at the end the following new section:

9 **“SEC. 30D. ADVANCED TECHNOLOGY MOTOR VEHICLES**
 10 **MANUFACTURING CREDIT.**

11 “(a) CREDIT ALLOWED.—There shall be allowed as
 12 a credit against the tax imposed by this chapter for the
 13 taxable year an amount equal to 35 percent of the quali-
 14 fied investment of an eligible taxpayer for such taxable
 15 year.

16 “(b) QUALIFIED INVESTMENT.—For purposes of this
 17 section—

18 “(1) IN GENERAL.—The qualified investment
 19 for any taxable year is equal to the incremental costs
 20 incurred during such taxable year—

21 “(A) to re-equip, expand, or establish any
 22 manufacturing facility in the United States of
 23 the eligible taxpayer to produce advanced tech-
 24 nology motor vehicles or to produce eligible
 25 components,

1 “(B) for engineering integration performed
 2 in the United States of such vehicles and com-
 3 ponents as described in subsection (d),

4 “(C) for research and development per-
 5 formed in the United States related to advanced
 6 technology motor vehicles and eligible compo-
 7 nents, and

8 “(D) for employee retraining with respect
 9 to the manufacturing of such vehicles or compo-
 10 nents (determined without regard to wages or
 11 salaries of such retrained employees).

12 “(2) ATTRIBUTION RULES.—In the event a fa-
 13 cility of the eligible taxpayer produces both advanced
 14 technology motor vehicles and conventional motor
 15 vehicles, or eligible and non-eligible components, only
 16 the qualified investment attributable to production
 17 of advanced technology motor vehicles and eligible
 18 components shall be taken into account.

19 “(c) DEFINITIONS.—In this section:

20 “(1) ADVANCED TECHNOLOGY MOTOR VEHI-
 21 CLE.—The term ‘advanced technology motor vehicle’
 22 means—

23 “(A) any qualified electric vehicle (as de-
 24 fined in section 30(c)(1)),

1 “(B) any new qualified fuel cell motor ve-
2 hicle (as defined in section 30B(b)(3)),

3 “(C) any new advanced lean burn tech-
4 nology motor vehicle (as defined in section
5 30B(c)(3)),

6 “(D) any new qualified hybrid motor vehi-
7 cle (as defined in section 30B(d)(2)(A) and de-
8 termined without regard to any gross vehicle
9 weight rating),

10 “(E) any new qualified alternative fuel
11 motor vehicle (as defined in section 30B(e)(4),
12 including any mixed-fuel vehicle (as defined in
13 section 30B(e)(5)(B)), and

14 “(F) any other motor vehicle using electric
15 drive transportation technology (as defined in
16 paragraph (3)).

17 “(2) ELECTRIC DRIVE TRANSPORTATION TECH-
18 NOLOGY.—The term ‘electric drive transportation
19 technology’ means technology used by vehicles that
20 use an electric motor for all or part of their motive
21 power and that may or may not use off-board elec-
22 tricity, such as battery electric vehicles, fuel cell ve-
23 hicles, engine dominant hybrid electric vehicles, plug-
24 in hybrid electric vehicles, and plug-in hybrid fuel
25 cell vehicles.

1 “(3) ELIGIBLE COMPONENTS.—The term ‘eligi-
2 ble component’ means any component inherent to
3 any advanced technology motor vehicle, including—

4 “(A) with respect to any gasoline or diesel-
5 electric new qualified hybrid motor vehicle—

6 “(i) electric motor or generator;

7 “(ii) power split device;

8 “(iii) power control unit;

9 “(iv) power controls;

10 “(v) integrated starter generator; or

11 “(vi) battery;

12 “(B) with respect to any hydraulic new
13 qualified hybrid motor vehicle—

14 “(i) accumulator or other energy stor-
15 age device;

16 “(ii) hydraulic pump;

17 “(iii) hydraulic pump-motor assembly;

18 “(iv) power control unit; and

19 “(v) power controls;

20 “(C) with respect to any new advanced
21 lean burn technology motor vehicle—

22 “(i) diesel engine;

23 “(ii) turbo charger;

24 “(iii) fuel injection system; or

1 “(iv) after-treatment system, such as
2 a particle filter or NOx absorber; and

3 “(D) with respect to any advanced tech-
4 nology motor vehicle, any other component sub-
5 mitted for approval by the Secretary.

6 “(4) ELIGIBLE TAXPAYER.—The term ‘eligible
7 taxpayer’ means any taxpayer if more than 20 per-
8 cent of the taxpayer’s gross receipts for the taxable
9 year is derived from the manufacture of motor vehi-
10 cles or any component parts of such vehicles.

11 “(d) ENGINEERING INTEGRATION COSTS.—For pur-
12 poses of subsection (b)(1)(B), costs for engineering inte-
13 gration are costs incurred prior to the market introduction
14 of advanced technology vehicles for engineering tasks re-
15 lated to—

16 “(1) establishing functional, structural, and
17 performance requirements for component and sub-
18 systems to meet overall vehicle objectives for a spe-
19 cific application,

20 “(2) designing interfaces for components and
21 subsystems with mating systems within a specific ve-
22 hicle application,

23 “(3) designing cost effective, efficient, and reli-
24 able manufacturing processes to produce components

1 and subsystems for a specific vehicle application,
2 and

3 “(4) validating functionality and performance of
4 components and subsystems for a specific vehicle ap-
5 plication.

6 “(e) LIMITATION BASED ON AMOUNT OF TAX.—The
7 credit allowed under subsection (a) for the taxable year
8 shall not exceed the excess of—

9 “(1) the sum of—

10 “(A) the regular tax liability (as defined in
11 section 26(b)) for such taxable year, plus

12 “(B) the tax imposed by section 55 for
13 such taxable year and any prior taxable year
14 beginning after 1986 and not taken into ac-
15 count under section 53 for any prior taxable
16 year, over

17 “(2) the sum of the credits allowable under sub-
18 part A and sections 27, 30, and 30B for the taxable
19 year.

20 “(f) REDUCTION IN BASIS.—For purposes of this
21 subtitle, if a credit is allowed under this section for any
22 expenditure with respect to any property, the increase in
23 the basis of such property which would (but for this para-
24 graph) result from such expenditure shall be reduced by
25 the amount of the credit so allowed.

1 “(g) NO DOUBLE BENEFIT.—

2 “(1) COORDINATION WITH OTHER DEDUCTIONS
3 AND CREDITS.—Except as provided in paragraph
4 (2), the amount of any deduction or other credit al-
5 lowable under this chapter for any cost taken into
6 account in determining the amount of the credit
7 under subsection (a) shall be reduced by the amount
8 of such credit attributable to such cost.

9 “(2) RESEARCH AND DEVELOPMENT COSTS.—

10 “(A) IN GENERAL.—Except as provided in
11 subparagraph (B), any amount described in
12 subsection (b)(1)(C) taken into account in de-
13 termining the amount of the credit under sub-
14 section (a) for any taxable year shall not be
15 taken into account for purposes of determining
16 the credit under section 41 for such taxable
17 year.

18 “(B) COSTS TAKEN INTO ACCOUNT IN DE-
19 TERMINING BASE PERIOD RESEARCH EX-
20 PENSES.—Any amounts described in subsection
21 (b)(1)(C) taken into account in determining the
22 amount of the credit under subsection (a) for
23 any taxable year which are qualified research
24 expenses (within the meaning of section 41(b))
25 shall be taken into account in determining base

1 period research expenses for purposes of apply-
2 ing section 41 to subsequent taxable years.

3 “(h) BUSINESS CARRYOVERS ALLOWED.—If the
4 credit allowable under subsection (a) for a taxable year
5 exceeds the limitation under subsection (e) for such tax-
6 able year, such excess (to the extent of the credit allowable
7 with respect to property subject to the allowance for depre-
8 ciation) shall be allowed as a credit carryback to each of
9 the 15 taxable years immediately preceding the unused
10 credit year and as a carryforward to each of the 20 taxable
11 years immediately following the unused credit year.

12 “(i) SPECIAL RULES.—For purposes of this section,
13 rules similar to the rules of section 179A(e)(4) and para-
14 graphs (1) and (2) of section 41(f) shall apply.

15 “(j) ALLOCATION OF CREDIT TO PURCHASERS.—

16 “(1) ELECTION TO ALLOCATE.—

17 “(A) IN GENERAL.—In the case of an eligi-
18 ble taxpayer, any portion of the credit deter-
19 mined under subsection (a) for the taxable year
20 may, at the election of such taxpayer, be appor-
21 tioned among purchasers of qualifying vehicles
22 from the taxpayer in the taxable year (or in any
23 year in which the credit may be carried over).

24 “(B) QUALIFYING VEHICLES.—For pur-
25 poses of this subsection, the term ‘qualifying ve-

hicle' means an advanced technology vehicle manufactured at a facility described in subsection (b)(1)(A).

“(C) FORM AND EFFECT OF ELECTION.—

An election under subparagraph (A) for any taxable year shall be made on a timely filed return for such year. Such election, once made, shall be irrevocable for such taxable year.

“(2) TREATMENT OF TAXPAYER AND PUR-

CHASERS.—The amount of the credit apportioned to any purchaser under paragraph (1)—

“(A) shall not be included in the amount determined under subsection (a) with respect to the eligible taxpayer for the taxable year; and

“(B) shall be treated as an amount determined under subsection (a) for the taxable year of the purchaser which ends in the calendar year of purchase.

“(3) SPECIAL RULES FOR DECREASE IN CRED-

ITS FOR TAXABLE YEAR.—If the amount of the credit of an eligible taxpayer determined under subsection (a) for a taxable year is less than the amount of such credit shown on the return of the taxpayer for such year, an amount equal to the excess of—

1 “(A) such reduction, over

2 “(B) the amount not apportioned to such
3 purchasers under paragraph (1) for the taxable
4 year,

5 shall be treated as an increase in tax imposed by
6 this chapter on the eligible taxpayer.

7 “(4) WRITTEN NOTICE TO PURCHASERS.—If
8 any portion of the credit available under subsection
9 (a) is allocated to purchasers under paragraph (1),
10 the eligible taxpayer shall provide any purchaser re-
11 ceiving an allocation written notice of the amount of
12 the allocation. Such notice may be provided either at
13 the time of purchase or at any time not later than
14 60 days after the close of the calendar year in which
15 the vehicle is purchased.

16 “(k) ELECTION NOT TO TAKE CREDIT.—No credit
17 shall be allowed under subsection (a) for any property if
18 the taxpayer elects not to have this section apply to such
19 property.

20 “(l) REGULATIONS.—The Secretary shall prescribe
21 such regulations as necessary to carry out the provisions
22 of this section.

23 “(m) TERMINATION.—This section shall not apply to
24 any qualified investment after December 31, 2011.”.

25 (b) CONFORMING AMENDMENTS.—

1 (1) Section 1016(a) of the Internal Revenue
 2 Code of 1986 is amended by striking “and” at the
 3 end of paragraph (36), by striking the period at the
 4 end of paragraph (37) and inserting “, and”, and by
 5 adding at the end the following new paragraph:

6 “(38) to the extent provided in section
 7 30D(g).”.

8 (2) Section 6501(m) of such Code is amended
 9 by inserting “30D(k),” after “30C(e)(5),”.

10 (3) The table of sections for subpart B of part
 11 IV of subchapter A of chapter 1 of such Code is
 12 amended by inserting after the item relating to sec-
 13 tion 30C the following new item:

“Sec. 30D. Advanced technology motor vehicles manufacturing credit.”.

14 (c) EFFECTIVE DATE.—The amendments made by
 15 this section shall apply to amounts incurred in taxable
 16 years beginning after December 31, 1999.

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