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Tax Provisions in Administration’s FY 2016 Budget Proposals

Business Tax Credits

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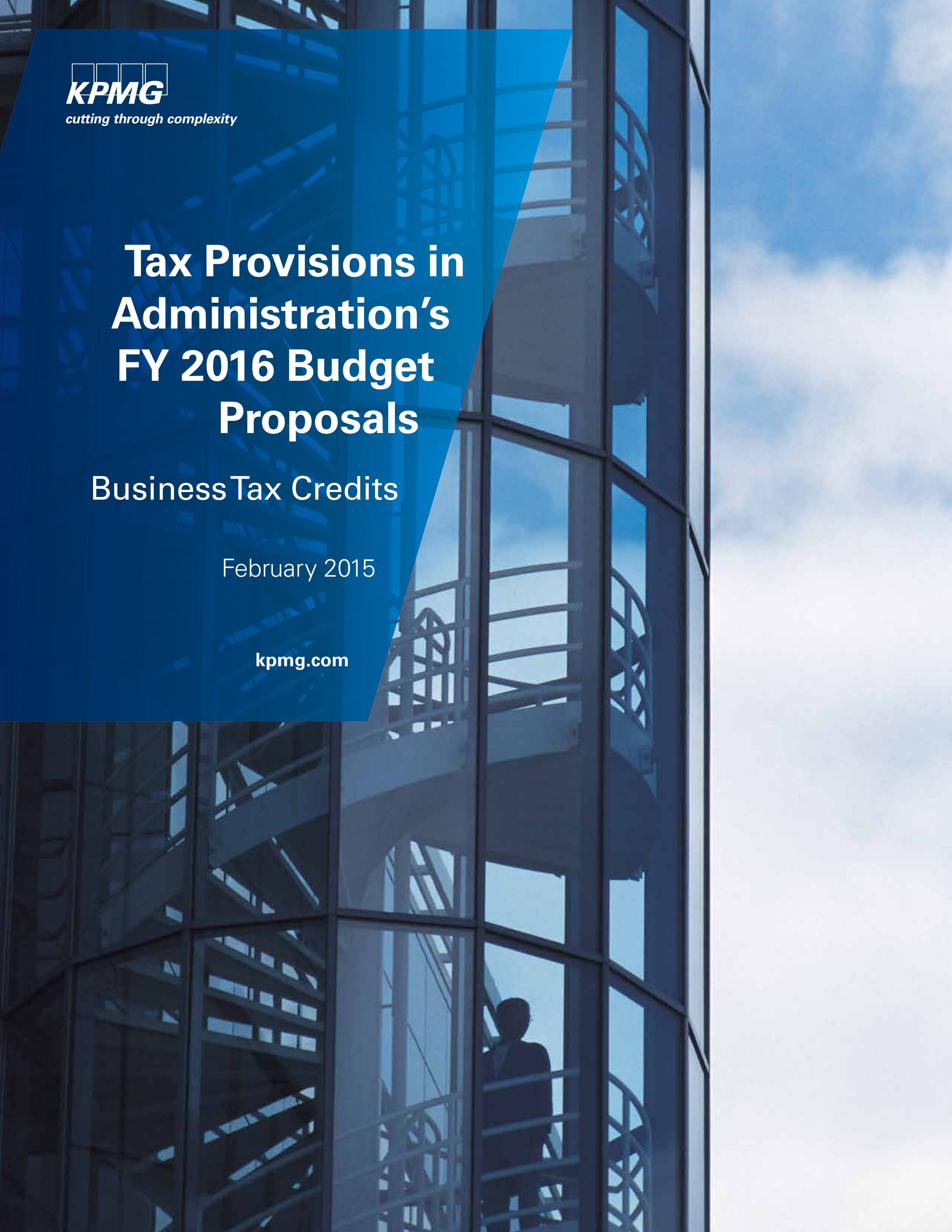

HIGHLIGHTS OF TAX PROPOSALS IN THE ADMINISTRATION'S FISCAL YEAR 2016 BUDGET RELATING TO BUSINESS TAX CREDITS

KPMG has prepared a 111-page **book** that summarizes and makes observations about the revenue proposals in the Administration's FY 2016 budget. For ease of reference, we have compiled our summaries and observations relating to certain specific industries and topics in separate booklets. This booklet highlights revenue proposals relating to business tax credits. Other booklets will address proposals relating to the following topics:

- International Tax
- General Corporate Tax
- Tax Accounting
- Financial Institutions & Products
- Passthrough Entities
- Closely Held Businesses & Their Owners
- Practice, Procedures, & Administration
- Charitable Deductions & Exempt Organizations
- Compensation, Benefits, & Qualified Plans
- Energy & Natural Resources
- Insurance
- Real Estate

Background

On February 2, 2015, President Obama transmitted to Congress the administration's recommendations to Congress for spending and taxation for the fiscal year that begins on October 1, 2015 (i.e., FY 2016).

Among many other things, the president proposed a six-year $478 billion program for transportation infrastructure, the cost of which would be offset in part by a one-time tax on the unrepatriated foreign earnings of U.S. multinational corporations. This tax would be part of a transition to a proposed fundamental change in the taxation of the future foreign earnings of U.S. corporations that would effectively eliminate deferral of tax on foreign earnings, causing them generally to be taxed on a current basis at a reduced rate.

The president also proposed a reserve for business tax reform, but not one of sufficient magnitude for significant rate reduction. The president has called for reducing the corporate income tax rate to 28%, but the budget does not provide revenue to offset the cost of such a reduction. Instead, the budget refers only to eliminating tax expenditures, such as accelerated depreciation and "reducing the tax preference for debt financed investment."

Many of the “general” business tax proposals in the FY 2016 budget are familiar, having been raised in previous budgets. These proposals include, for example:

- Reforms to the international tax system
- Repeal of natural resources production preferences
- Repeal of LIFO and LCM accounting
- Taxation of carried interests in partnerships as ordinary income
- Insurance industry reforms
- Mark-to-market of financial derivatives
- Modification of the like-kind exchange rules
- Modification of the depreciation rules for corporate aircraft
- Denial of a deduction for punitive damages
- Make permanent and reform the credit for research and experimentation
- Make permanent the Subpart F exception for active financing income
- Make permanent look-through treatment of payments between related CFCs

The president also re-proposed a tax on the liabilities of financial institutions with assets in excess of $50 billion. The rate would be reduced relative to the prior proposal from 17 basis points to 7 basis points, but the base of the tax would be different and the application of the tax would be significantly broadened to include insurance companies, savings and loan holding companies, exchanges, asset managers, broker-dealers, specialty finance corporations, and financial captives. These changes have roughly doubled the revenue raised relative to the proposal in the FY 2015 budget.

The budget also includes a host of proposed changes to the individual income tax system. These include increasing the highest tax on capital gains from 23.8% (including the 3.8% net investment income tax) to 28%. In addition, a transfer of appreciated property would generally be treated as a sale of the property, subject to various exceptions and exclusions. For example, relief would be provided to lessen the immediate impact of the proposed change on the transfers of small businesses.

Business Tax Credit Tax Proposals

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New "Insourcing" Credit

Provide tax incentives for locating jobs and business activity in the United States and remove tax deductions for shipping jobs overseas

The administration's FY 2016 proposal would create a new general business credit against income tax equal to 20% of the eligible expenses paid or incurred in connection with insourcing a U.S. trade or business, i.e., related to reducing or eliminating a trade or business (or line of business) currently conducted outside the United States and starting up, expanding, or otherwise moving the same trade or business within the United States, to the extent that this action results in an increase in U.S. jobs. Any creditable costs incurred by a foreign subsidiary would allow a tax credit to be claimed by the U.S. parent company.

In addition, the proposal would disallow deductions for expenses paid or incurred in connection with outsourcing a U.S. trade or business, i.e., related to reducing or eliminating a trade or business or line of business currently conducted inside the United States and starting up, expanding, or otherwise moving the same trade or business outside the United States, to the extent that this action results in a loss of U.S. jobs. In determining the subpart F income of a controlled foreign company (CFC), no reduction would be allowed for any expenses associated with moving a U.S. trade or business outside the United States.

For purposes of the proposal, expenses paid or incurred in connection with insourcing or outsourcing a U.S. trade or business would be limited solely to expenses associated with the relocation of the trade or business and would not include capital expenditures or costs for severance pay and other assistance to displaced workers. The proposal would be effective for expenses paid or incurred after the date of enactment.

KPMG observation

Neither the tax credit nor the expense disallowance would apply unless there is an impact on U.S. jobs from the insourcing or outsourcing, respectively, of a U.S. trade or business. The budget proposal does not specify the required degree of such impact or ways to determine it. The proposal also does not specify the extent to which there must be a simultaneous impact on the foreign trade or business (and jobs).

Research Credit

Enhance and make permanent research incentives

The research credit has always been a temporary provision, and it expired for research expenses paid or incurred after December 31, 2014. It has been extended 16 times previously.

The administration's FY 2016 proposal would make the research credit permanent. The traditional credit method would be eliminated for amounts paid or incurred after December 31, 2015. Other changes would also apply after 2015. The rate of the alternative simplified credit would be raised to 18% from 14%; there would be no special rate for start-up companies. Additional types of contract expenses would be allowed a 75% qualified research expense. Individual owners of partnerships and S corporations would be allowed to use the credits generated by the entity regardless of the income generated by the entity.

The research credit would be allowed against alternative minimum tax (AMT). For individuals, the requirement to amortize research expenses over 10 years for AMT purposes would be eliminated.

KPMG observation

Prior administration proposals have supported a permanent research credit, but would have retained the traditional credit method. The substantive changes, especially allowing the credit against AMT, would likely make the credit much more attractive to many taxpayers.

Community Development Credits

Provide new manufacturing communities tax credit

The administration's FY 2016 proposal would create a new allocated tax credit to support investments in communities that have suffered a major job loss event. For this purpose, a major job loss event occurs when a military base closes or a major employer closes or substantially reduces a facility or operating unit, resulting in a long-term mass layoff. Applicants for the credit would be required to consult with relevant state or local economic development agencies (or similar entities) in selecting those investments that qualify for the credit. The administration proposes to work with Congress on many details of the credit, and indicates that the credit could be structured using the mechanism of the new markets tax credit or as an allocated investment credit similar to the qualifying advanced energy project credit. The proposal would provide about $2 billion in credits for qualified investments approved in each of the three years, 2016 through 2018.

Modify and permanently extend the new markets tax credit (NMTC)

The NMTC is a credit for qualified equity investments (QEIs) made to acquire stock in a corporation, or a capital interest in a partnership, that is a qualified community development entity (CDE), held for a period of seven years. The allowable credit totals 39% of the amount paid to the CDE for the investment at its original issue, and it is apportioned over the seven-year period after the purchase (5% for each of the first three years, 6% for each of the remaining four years). The credit may be recaptured if the entity ceases to be a qualified CDE during this seven-year period, if the proceeds of the investment cease to be used as required, or if the equity investment is redeemed. Only a specific dollar amount of QEIs can be designated each year; the NMTC expired on December 31, 2014.

The administration's FY 2016 proposal would make the NMTC permanent, with an allocation amount of $5 billion for each year, and would permit NMTC amounts resulting from QEIs made after December 31, 2014, to offset alternative minimum tax (AMT) liability. The proposal would be effective upon enactment.

Reform and expand the low-income housing tax credit (LIHTC)

For private activity bonds (PABs) to be tax-exempt (i.e., to be "qualified private activity bonds"), the face amount of PABs issued by the issuing authority in any state must not exceed the maximum amount of such bonds that the authority may issue for the year ("PAB volume cap"). Under the Code, a state is allowed a limited amount of PAB volume cap per year.

Also, each year, a state is provided with a limited amount of low-income housing tax credits (LIHTCs) for the state to allocate among proposed low-income housing projects. Often, states are faced with more proposed low-income housing projects than their LITHC allocation can support. Increasing the amount of LIHTCs could allow deserving projects that would not otherwise be viable to obtain the LIHTC needed to go forward.

Allow conversion of private activity bond (PAB) volume cap into LIHTCs

The administration's FY 2016 proposal would provide two ways in which the PAB volume cap could be converted into LIHTCs.

First, states would be allowed to convert an annual maximum PAB volume cap into LIHTC allocations for the same year. The conversion ratio would be reset each calendar year to respond to changing interest rates. For each $1,000 of PAB volume cap surrendered, the state would receive additional allocable LIHTCs equal to: $1000 × twice the applicable percentage that applies for PAB-financed buildings (30% present value applicable percentage) based upon the appropriate percentages as of December of the preceding calendar year. The aggregate amount of PAB volume cap that a state may convert with respect to a calendar year is 18% of its PAB volume cap for that year. The proposal would be effective for PAB volume cap received in, and additional LIHTC allocation authority received for calendar years beginning after the date of enactment.

Second, a taxpayer would be able to qualify for the 30% present value LIHTC—generally allowed for projects at least 50% financed with tax exempt bonds—without actually getting such financing if there is an allocation of PAB volume cap in the required amount of financing. Such allocation would reduce the state's remaining volume cap as if tax-exempt bonds had been issued. The proposal would be effective for projects that are allocated volume cap after the date of enactment.

Encourage mixed income occupancy by allowing LIHTC-supported projects to elect a criterion employing a restriction on average income

An investor in low-income rental housing can qualify for a low-income housing tax credit (LIHTC), generally for the first 10 years in which the housing project is in service, if the building meets various requirements. Currently, a taxpayer may elect between two criteria for a building: (1) at least 20% of the units must be rent restricted and occupied by tenants with income at or below 50% of area median income (AMI); or (2) at least 40% of the units must be rent restricted and occupied by tenants with incomes at or below 60% of AMI.

The administration's FY 2016 proposal would add a third elective criterion to qualify a building for the LIHTC. Under this new criterion, at least 40% of the units would have to be occupied by tenants with incomes that average no more than 60% of AMI. At the election of the owner, a special rule would apply for income qualification for tenants in HUD or the Department of Agriculture subsidized units. These proposals would be effective for elections made after the date of enactment.

Change formulas for 70% PV and 30% PV LIHTCs

The owner of rental housing occupied by tenants having incomes below specified levels may claim the LIHTC over a 10-year period. The credits earned each year generally depend on, among other things, a credit rate, called the "applicable percentage." There are two applicable percentages—the 70% present value credit rate and the 30% present value credit rate. The applicable percentage is generally set monthly, for credit allocations made in that month, and applies to the future LIHTCs related to that allocation. There has been a statutorily set temporary minimum applicable percentage of 9% for the 70% present value credit rate. This minimum 9% rate expired for credit allocations made before January 1, 2014.

The administration's FY 2016 proposal would not extend the 9% temporary minimum applicable percentage, but would increase the discount rate used in the present value calculation for allocated LIHTCs. The change would apply to both 70% and 30% LIHTCs. Under the proposal, the discount rate to be used would be the average of the mid-term and long-term applicable federal rates for the relevant month, plus 200 basis points (although the 30% present value credit rate for LIHTCs that result from tax-exempt bond financing would continue to be computed under current law). The proposal would be effective for buildings that receive allocations on or after the date of enactment.

Add preservation of federally assisted affordable housing to allocation criteria

Under current law, each state must adopt a qualified allocation plan (QAP) to guide the allocation of LIHTCs. The Code requires 10 selection criteria to be included in every plan. The administration's FY 2016 proposal would add preservation of federally assisted affordable housing as an eleventh selection criterion that QAPs must include.

The proposal would be effective for allocations made in calendar years beginning after the date of enactment.

Remove the qualified census tracts (QCT) population cap

LIHTC projects located in qualified census tracts (QCTs) receive a “basis boost” of up to 30% of their eligible basis thus increasing the owner’s LIHTCs by 30%. A QCT is designated by the Department of Housing and Urban Development (HUD). The combined aggregate population of census tracts in a metropolitan statistical area (MSA) designated as QCTs cannot exceed 20% of population of the MSA.

The administration’s FY 2016 proposal would allow HUD to designate as a QCT any census tract that meets the current statutory criteria of a poverty rate of at least 25% or 50% or more of households with an income less than 60% of AMI. That is, the proposal would remove the current limit under which the aggregate population in census tracts designated as QCTs cannot exceed 20% of the metropolitan area's population. This proposal would apply to buildings that receive allocations of LIHTCs or volume cap after the date of enactment.

Implement requirement that LIHTC-supported housing protect victims of domestic abuse

The administration’s FY 2016 proposal would require protections for victims of domestic abuse to be included in the “long-term use agreement” that is entered between the owner of a low-income housing project and the state housing credit agency.

In addition, the proposal would clarify that occupancy restrictions or preferences that favor persons who have experienced domestic abuse would qualify for the “special needs” exception to the general public use requirement.

The proposed change would be effective for agreements that are either first executed, or subsequently modified, 30 days or more after enactment. The proposed clarification of the general public use requirement would be effective for tax years ending after the date of enactment.

Employment-Related Credits

Extend and modify certain employment tax credits, including incentives for hiring veterans

The administration’s FY 2016 proposal would permanently extend the Work Opportunity Tax Credit (WOTC) to apply to wages paid to qualified individuals who begin work for the employer after December 31, 2014, when the current credit expired. The WOTC is currently available for employers hiring individuals from one or more of nine targeted groups (one of which is veterans).

The proposals would expand the definition of a qualified veteran, effective for individuals who begin work for the employer after December 31, 2015, to include disabled veterans who use G.I. Bill benefits to attend a qualified educational institution or training program within one year of being discharged or released from active duty, if they are hired within six months of ending attendance at the qualified educational institution or training. Under this proposal, $12,000 of their wages paid in their first year of employment would be eligible for the credit.

The proposal would also permanently extend the Indian employment credit to apply to wages paid to qualified employees in tax years beginning after December 31, 2014, when the current credit expired. In addition, the proposal would modify the calculation of the Indian employment credit. For tax years beginning after December 31, 2015, the credit would be equal to 20% of the excess of qualified wages and health insurance costs paid or incurred by an employer in the current tax year over the average amount of such wages and costs paid or incurred by the employer in the two preceding tax years.

Repeal Federal Insurance Contributions Act (FICA) tip credit

The administration's FY 2016 proposal would repeal the income tax credit for FICA taxes an employer pays on tips. Currently, tip income is treated as employer-provided wages subject to employment taxes under FICA. Employers are responsible for withholding and reporting the employee's portion of FICA and paying the employer's portion of FICA. An eligible employer may claim a credit against the business's income taxes for FICA taxes paid on certain tip wages.

The provision would apply for tax years beginning after December 31, 2015.

Employment credit for "Promise Zone" residents

The administration's FY 2016 proposal would designate 20 promise zones (14 in urban areas and six in rural areas), including zones that competed for and received a promise zone designation in 2014 and 2015. Zone designations for the purpose of the tax incentives would be in effect from January 1, 2016 through December 31, 2025. The zones would be chosen through a competitive application process, inclusive of zones that were awarded promise zone designation in 2014 and 2015.

Two tax incentives would be applicable to promise zones. First, an employment credit would be provided to businesses that employ zone residents. The credit would apply to the first $15,000 of annual qualifying zone employee wages. The credit rate would be 20% for zone residents who are employed within the zone and 10% for zone residents employed outside of the zone. The definition of a qualified zone employee would follow rules for a qualified empowerment zone employee.

Second, qualified property placed in service within the zone would be eligible for additional first-year depreciation of 100% of the adjusted basis of the property. Qualified property for this purpose includes tangible property with a recovery period of 20 years or less, water utility property, certain computer software, and qualified leasehold improvement property.

The proposal would be effective upon date of enactment.

Energy and Natural Resource Related Credits

A separate "mini-booklet" addresses energy and natural resources budget proposals. Several of those proposals relate to tax credits.

Modify and permanently extend renewable electricity production tax credit and investment tax credit

The administration's FY 2016 proposal would expand existing federal income tax incentives for renewable energy projects.

Section 45 provides a production tax credit (PTC) for the production of electricity from wind energy at facilities that began construction prior to 2015 and also provides a PTC for the production of electricity from biomass, geothermal, trash combustion, hydropower, landfill gas, and marine and hydrokinetic facilities if construction begins on the facility prior to 2015. The PTC is available for a 10-year period beginning with the date the facility is originally placed in service. In order to claim the PTC, the electricity produced by the facility must be sold to third parties.

In addition, section 48 provides an investment tax credit (ITC) for 10% or 30% of energy credit property placed in service prior to 2017. Energy-credit property includes solar, geothermal, fuel cell, microturbine, combined heat and power, and small wind property. A 10% ITC is available for solar property placed in service after 2016. There is no expiration date for a 10% ITC for geothermal property (non-heat pump). In addition, PTC-qualifying facilities may elect to claim the ITC instead of the PTC, but only for PTC-qualifying facilities that began construction by their PTC mandated deadline (i.e., construction must begin before 2015).

The administration's FY 2016 proposal would extend the current law PTC for facilities on which construction begins before 2016. For facilities on which construction begins after December 31, 2015, the proposal would permanently extend the PTC and make it refundable. The proposal would also eliminate the third-party sales requirement, making the PTC available in cases where the electricity is consumed directly by the producer, to the extent that production can be independently verified.

A PTC would be allowed for residential energy efficient property installed in a dwelling unit; the current credit for energy efficient property would expire at the end of 2016.

Solar facilities that currently qualify for the ITC would be eligible for the PTC in lieu of the ITC for construction that begins after 2015.

The FY 2016 proposal would make the ITC permanent. It would also make permanent the election to use the ITC, rather than the PTC, for facilities for which production is allowed the PTC

KPMG observation

By making the PTC refundable, the proposal would lessen the need for renewable energy developers to obtain tax-equity financing. Tax-equity financing is a form of equity financing whereby a renewable energy developer seeks an outside investor that can efficiently utilize the tax attributes. In a tax-equity transaction, the credits are specially allocated to the outside investor through the use of a partnership flip transaction.

The elimination of the third-party sales requirement would make the PTC more valuable for technologies such as solar and open-loop biomass, the electricity from which is most often consumed on-site.

Previous administrative proposals would have repealed the ITC.

Provide a carbon dioxide investment and sequestration tax credit

Current law allows a tax credit to taxpayers that sequester carbon dioxide (CO2) emissions. The credit is equal to $20 per metric ton if the CO2 is properly stored and $10 per ton if it is used as a tertiary injectant in an enhanced oil or natural gas recovery project. The credit is available through the tax year in which an aggregate of 75 million tons has been sequestered. The credit is indexed for inflation.

To facilitate technological advances that will assist in controlling future greenhouse gas emissions, the administration's FY 2016 budget proposes a new refundable investment tax credit for up to 30% of the installed cost of transportation and storage infrastructure to be used in CO2 sequestration at certain electric generating units. Apparently, the credit would be available to generating units that capture more than 75% of their CO2 emissions. Both new and retrofitted units would be eligible; a retrofitted unit would need to have a capacity greater than 250 megawatts and capture and store more than 1 million metric tons of CO2 a year.

The investment tax credit would be allocated to applicants, based on numerous specified factors, for all or part of their qualified investment. A total of $2 billion of credits would be available. At least 70% of the credits would be required to flow to projects fueled by greater than 75% coal. Applications would be due 18 months after the date of enactment, and the allocations would occur after that.

The proposal would also provide a new, refundable sequestration credit, $10 per metric ton of CO2 if permanently sequestered and beneficially used, such as in an enhanced oil recovery operation, and $50 per metric ton if permanently sequestered and not beneficially reused. The credit would be allowed for a maximum of 20 years of production. The rate would be indexed for inflation.

The proposal would be effective after the date of enactment.

Provide additional tax credits for investment in qualified property used in a qualifying advanced energy manufacturing project

The administration's FY 2016 proposal would extend the qualified advanced energy property (QAEP) credit.

The QAEP credit under section 48C is a 30% investment tax credit that is available for the construction, re-equipping, or expansion of a manufacturing facility that constructs QAEP. Included in the definition of QAEP is property such as solar, wind and other renewable energy component property, electric grids, carbon dioxide capture and sequestration property, plug-in electric vehicles and component parts, etc. QAEP credits were first enacted as part of the *American Recovery and Reinvestment Act of 2009,* and $2.3 billion in QAEP credits were originally authorized. All of the credits were allocated by Treasury in two separate allocation rounds.

The administration's FY 2016 proposal would authorize an additional $2.5 billion of QAEP credits. Up to $200 million of the credits may be allocated to the construction of infrastructure that contributes to networks of refueling stations that serve alternative fuel vehicles. Under the proposal, taxpayers would be allowed to apply for a credit with respect to either all or only **a part of** the qualified investment in the project. If a taxpayer applies for a credit with respect to only a portion of its qualified investment, the taxpayer's increased cost sharing and the reduced cost to the government would be taken into account in the allocation process.

The proposal would be effective as of the date of enactment.

Provide a tax credit for the production of advanced technology vehicles

The administration's FY 2016 proposal would expand the types of alternative vehicles that are eligible for a tax credit.

Section 30D provides a credit for placing in service qualified plug-in electric drive motor vehicles. The maximum credit available for qualified vehicles is $7,500 with a 200,000 vehicle per manufacturer limitation.

The administration's FY 2016 proposal would replace the credit for plug-in electric drive motor vehicles with a credit for "advanced technology vehicles." An advanced technology vehicle is a vehicle meeting the following criteria:

- The vehicle operates primarily on an alternative to petroleum;

- As of January 1, 2014, there were few vehicles in operation in the United States using the same technology as such vehicle; and
- The technology used by the vehicle exceeds the footprint-based target miles-per-gallon gasoline equivalent (MPGe) by at least 25%.

The credit would be limited to vehicles weighing no more than 14,000 pounds. Generally the credit would be the sum of $5,000 and the product of 100 and the amount by which the vehicle's miles per gallon equivalent exceeds its footprint-based target miles per gallon, but would be capped at $10,000 ($7,500 for vehicles with an MSRP above $45,000). The credit for a battery-powered vehicle would be determined under the current rules under section 30D if that computation results in a larger credit.

Under the administration's FY 2016 proposal, the credit would be available to the manufacturer of the vehicle, but the manufacturer would have the option to transfer the credit to a dealer that sells the vehicle to the end-use purchaser of the vehicle. If the credit is transferred to an end-use business purchaser, the purchaser would not be required to reduce the basis of the depreciable property by the amount of the credit.

The credit would be allowed for vehicles placed in service after 2015 and before January 1, 2023, though the credit would step down by 25% each year starting in 2020.

Provide a tax credit for medium- and heavy-duty alternative-fuel commercial vehicles

The administration's FY 2016 proposal would provide a tax credit for certain medium and heavy-duty weight vehicles that are powered by alternative fuels.

Section 30B provides credits for a taxpayer who places in service alternative motor vehicles. Currently, section 30B provides a credit for fuel-cell vehicles, and the credit is available for vehicles purchased before 2015. Section 30B also provides a credit for alternative-fuel motor vehicles; however, that credit expired in 2011.

The administration's FY 2106 proposal would allow a tax credit for dedicated alternative fuel vehicles weighing more than 14,000 pounds (i.e., trucks and buses). The administration would allow a credit of $25,000 for vehicles weighing up to 26,000 pounds and a credit of $40,000 for vehicles weighing more than 26,000 pounds.

The credit would be available to the manufacturer of the vehicle, but the manufacturer would have the option to transfer the credit to a dealer that sells the vehicle or the vehicle's end-use purchaser. If the credit is transferred to an end-use business purchaser, the purchaser would not be required to reduce the basis of the depreciable property by the amount of the credit.

The credit would be allowed for vehicles placed in service after 2015, and before 2022. For vehicles placed in service in calendar year 2021, the credit would be limited to 50% of the otherwise allowable amount.

Modify and extend the tax credit for the construction of energy-efficient new homes

The administration's FY 2016 proposal would modify and extend the section 45L credit for the construction of new energy efficient homes.

Under section 45L, the credit is $1,000 per home for homes 30% more efficient in terms of heating and cooling than a comparable dwelling constructed in accordance with certain prescribed standards. The section 45L credit is $2,000 per home for homes 50% more efficient than the standard. The credit applies to homes acquired before January 1, 2015.

For homes acquired after December 31, 2015, and before January 1, 2026, the proposal would provide a $1,000 energy efficient new home tax credit for the construction of a qualified ENERGY STAR certified new home acquired for use as a residence. In addition, a $4,000 tax credit would be provided for the construction of a qualified DOE Zero Energy Ready Home acquired for use as a residence. To provide that a new home meets ENERGY STAR or DOE Zero Energy Ready guidelines, verification by a qualified third party would be required.

Extend the tax credit for cellulosic biofuels

The administration's FY 2016 proposal would extend the tax credit for cellulosic biofuels producers.

Section 40 provides a $1.01 per gallon tax credit for the production of cellulosic biofuels, however, the credit expired on December 31, 2014.

The proposal would retroactively extend the credit from January 1, 2015, through December 31, 2020. Beginning in 2021, the amount of the credit would be reduced by 20.2 cents per gallon in each subsequent year, so that the credit would expire after December 31, 2024.

Fossil fuel related credits

A number of fossil-fuel related proposals have been carried over from previous budgets and appear to be unchanged (except for effective dates), including:

- Repeal the section 43 enhanced oil recovery credit
- Repeal the section 45I credit for qualified crude oil and natural gas production from a marginal well

The repeal of these additional items would generally be effective after December 31, 2015.

Other

Repeal the excise tax credit for distilled spirits with flavor and wine additives

Current law allows a credit against the $13.50 per proof-gallon excise tax on distilled spirits for flavor and wine additives.

The administration's FY 2016 proposal would repeal this credit and tax all distilled spirit beverages at the $13.50 per proof-gallon rate.

The proposal would be effective for all spirits produced in or imported into the United States after December 31, 2015.

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