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(Original Signature of Member)

107TH CONGRESS
1ST SESSION

H. R. _____

IN THE HOUSE OF REPRESENTATIVES

Mr. INSLEE (for himself, Mr. SHAYS, Mr. UDALL of Colorado, Mr. WAMP [see attached list of cosponsors]) introduced the following bill; which was referred to the Committee on _____

A BILL

To amend the Internal Revenue Code of 1986 to provide, expand, or extend tax incentives for renewable and alternative electric energy, alternative fuels and alternative fuel vehicles, energy efficiency and conservation, and demand management and distributive energy generation.

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

1 **SECTION 1. SHORT TITLE; REFERENCES; TABLE OF CON-**
2 **TENTS.**

3 (a) **SHORT TITLE.**—This Act may be cited as the
4 “Clean Energy Incentives Act”.

5 (b) **AMENDMENT OF 1986 CODE.**—Except as other-
6 wise expressly provided, whenever in this Act an amend-
7 ment or repeal is expressed in terms of an amendment
8 to, or repeal of, a section or other provision, the reference
9 shall be considered to be made to a section or other provi-
10 sion of the Internal Revenue Code of 1986.

11 (c) **TABLE OF CONTENTS.**—The table of contents of
12 this Act is as follows:

Sec. 1. Short title; references; table of contents.

TITLE I—RENEWABLE AND ALTERNATIVE ELECTRIC ENERGY

Sec. 101. Five-year extension of qualified facilities for renewable resource credit.

Sec. 102. Expansion of renewable resource credit to include additional alternative resources.

Sec. 103. Tradable renewable resource credit for public utilities and other tax exempt organizations.

TITLE II—ALTERNATIVE FUELS AND ENERGY EFFICIENT VEHICLES

Sec. 201. Credit for alternative motor vehicles and modification of credit for qualified electric vehicles.

Sec. 202. Credit for retail sale of alternative fuels as motor vehicle fuel.

Sec. 203. Extension of deduction for certain refueling property.

Sec. 204. Credit for installation of alternative fueling stations.

Sec. 205. Credit for property to convert waste to fuel.

TITLE III—ENERGY EFFICIENCY AND CONSERVATION

Sec. 301. Energy-efficient commercial building property deduction.

Sec. 302. Credit for construction of new highly energy-efficient homes.

Sec. 303. Credit for energy efficient appliances.

Sec. 304. Credit for adjustable speed drives.

Sec. 305. Credit for energy efficient recycling or remanufacturing equipment.

TITLE IV—DEMAND MANAGEMENT AND DISTRIBUTED ENERGY GENERATION

Sec. 401. Credit for distributed energy generation and demand management property used in business.

Sec. 402. Credit for distributed energy generation and demand management property used in residences.

Sec. 403. Credit for energy management systems using residential real time metering systems.

Sec. 404. Credit for flywheel property.

1 **TITLE I—RENEWABLE AND AL-**
2 **TERNATIVE ELECTRIC EN-**
3 **ERGY**

4 **SEC. 101. FIVE-YEAR EXTENSION OF QUALIFIED FACILITIES**
5 **FOR RENEWABLE RESOURCE CREDIT.**

6 (a) WIND AND POULTRY WASTE FACILITIES.—Sub-
7 paragraphs (A) and (C) of section 45(c)(3) (relating to
8 definitions) are each amended by striking “2002” and in-
9 serting “2007”.

10 (b) CLOSED-LOOP BIOMASS FACILITIES.—Subpara-
11 graph (B) of section 45(c)(3) is amended to read as fol-
12 lows:

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

14 In the case of a facility using closed-loop bio-
15 mass to produce electricity, the term ‘qualified
16 facility’ means any facility owned by the tax-
17 payer which is originally placed in service—

18 “(i) after December 31, 1992, and be-
19 fore January 1, 2007, or

20 “(ii) before January 1, 1993, and
21 modified to use closed-loop biomass to co-

1 fire with coal after December 31, 1992,
2 and before January 1, 2007.”.

3 (c) EFFECTIVE DATE.—The amendments made by
4 this section shall apply to electricity and other energy pro-
5 duced in taxable years beginning after the date of the en-
6 actment of this Act.

7 **SEC. 102. EXPANSION OF RENEWABLE RESOURCE CREDIT**
8 **TO INCLUDE ADDITIONAL ALTERNATIVE RE-**
9 **SOURCES.**

10 (a) IN GENERAL.—Section 45(c)(1) (relating to
11 qualified energy resources) is amended by striking “and”
12 at the end of subparagraph (B), by striking the period
13 at the end of subparagraph (C) and inserting “, and”, and
14 by adding at the end the following:

15 “(D) alternative resources.”.

16 (b) DEFINITION OF ALTERNATIVE RESOURCES.—
17 Section 45(c) (relating to definitions) is amended by add-
18 ing at the end the following:

19 “(5) ALTERNATIVE RESOURCES.—

20 “(A) IN GENERAL.—The term ‘alternative
21 resources’ means—

22 “(i) solar,

23 “(ii) biomass (other than closed loop
24 biomass),

25 “(iii) incremental hydropower,

1 “ (iv) incremental geothermal, and

2 “(v) geothermal energy.

3 “(B) BIOMASS.—The term ‘biomass’
4 means any nonhazardous, cellulosic waste mate-
5 rial, which is segregated from other waste mate-
6 rials, and which is derived from—

7 “(i) any of the following forest-related
8 resources: mill residues, precommercial
9 thinnings, slash, and brush, but not includ-
10 ing old-growth timber or black liquor,

11 “(ii) agriculture sources, including or-
12 chard tree crops, vineyard, grain, legumes,
13 sugar, and other crop by-products or resi-
14 dues,

15 “(iii) waste pallets, crates, dunnage,
16 manufacturing and construction wood
17 wastes (other than pressure-treated, chemi-
18 cally treated, or lead-painted wood wastes),
19 and landscape or right-of-way tree trim-
20 mings, but not including—

21 “(I) unsegregated municipal solid
22 waste (garbage), or

23 “(II) postconsumer wastepaper
24 which can be recycled affordably,

25 “(iv) landfill gas, or

1 “(v) animal waste (other than poultry
2 waste).

3 “(C) INCREMENTAL HYDROPOWER.—The
4 term ‘incremental hydropower’ means additional
5 generating capacity achieved from increased ef-
6 ficiency at a non-Federal hydroelectric facility
7 in existence on January 1, 2001, and licensed
8 by the Federal Energy Regulatory Commission.

9 “(D) INCREMENTAL GEOTHERMAL.—The
10 term ‘incremental geothermal’ means additional
11 generating capacity achieved from—

12 “(i) increased efficiency, or

13 “(ii) additions of new capacity,
14 at a geothermal power plant originally placed in
15 service before the date of the enactment of this
16 paragraph.

17 “(E) LANDFILL GAS.—The term ‘landfill
18 gas’ means gas generated from the decomposi-
19 tion of any household solid waste, commercial
20 solid waste, and industrial solid waste disposed
21 of in a municipal solid waste landfill unit (as
22 such terms are defined in regulations promul-
23 gated under subtitle D of the Solid Waste Dis-
24 posal Act (42 U.S.C. 6941 et seq.).”.

25 (c) QUALIFIED FACILITY.—

1 (1) IN GENERAL.—Section 45(c)(3) (defining
2 qualified facility) is amended by adding at the end
3 the following:

4 “(D) ALTERNATIVE RESOURCES FACIL-
5 ITY.—In the case of a facility using alternative
6 resources to produce electricity, the term ‘quali-
7 fied facility’ means—

8 “(i) any facility owned by the tax-
9 payer which is originally placed in service
10 after December 31, 2001, and before Jan-
11 uary 1, 2007,

12 “(ii) in the case of incremental hydro-
13 power and incremental geothermal, any fa-
14 cility originally placed in service before De-
15 cember 31, 2001, and modified with incre-
16 mental hydropower or incremental geo-
17 thermal after that date and before January
18 1, 2007, and

19 “(iii) in the case of biomass (other
20 than closed-loop biomass), any facility
21 owned by the taxpayer which is originally
22 placed in service before January 1, 2007,
23 or any facility modified to use biomass to
24 co-fire with coal after December 31, 2001,
25 and before January 1, 2007.”.

1 (2) SPECIAL RULE.—Section 45(d) (relating to
2 definitions and special rules) is amended by adding
3 at the end the following new paragraph:

4 “(8) SPECIAL RULE RELATING TO BIOMASS FA-
5 CILITIES.—In the case of a qualified facility de-
6 scribed in subsection (c)(3)(D)(iii)—

7 “(A) subsection (b)(3) shall not apply to
8 any such facility originally placed in service be-
9 fore January 1, 1997, and

10 “(B) if such facility is leased and the oper-
11 ator thereof is the lessee, such lessee (and not
12 the owner) shall be treated for purposes of this
13 section as owning such facility.”.

14 (d) GOVERNMENT-OWNED FACILITY.—The text and
15 heading of section 45(d)(6) (relating to credit eligibility
16 in the case of government-owned facilities using poultry
17 waste) is amended by inserting “or alternative resources”
18 after “poultry waste” each place it appears.

19 (e) QUALIFIED FACILITIES WITH CO-PRODUC-
20 TION.—Section 45(b) (relating to limitations and adjust-
21 ments) is amended by adding at the end the following:

22 “(4) INCREASED CREDIT FOR CO-PRODUCTION
23 FACILITIES.—

24 “(A) IN GENERAL.—In the case of a quali-
25 fied facility described in subsection (c)(3)(D)

1 which has a co-production facility or a qualified
2 facility described in subparagraph (A), (B), or
3 (C) of subsection (c)(3) which adds a co-pro-
4 duction facility after the date of the enactment
5 of this paragraph, the amount in effect under
6 subsection (a)(1) for an eligible taxable year of
7 a the taxpayer shall (after adjustment under
8 paragraphs (1), (2), and (3)) be increased by
9 .25 cents.

10 “(B) CO-PRODUCTION FACILITY.—For
11 purposes of subparagraph (A), the term ‘co-pro-
12 duction facility’ means a facility which—

13 “(i) enables a qualified facility to
14 produce heat, mechanical power, or min-
15 erals from qualified energy resources in ad-
16 dition to electricity, and

17 “(ii) produces such energy on a con-
18 tinuous basis.

19 “(C) ELIGIBLE TAXABLE YEAR.—For pur-
20 poses of subparagraph (A), the term ‘eligible
21 taxable year’ means any taxable year in which
22 the amount of gross receipts attributable to the
23 co-production facility of a qualified facility are
24 at least 10 percent of the amount of gross re-

1 receipts attributable to electricity produced by
2 such facility.”.

3 (f) QUALIFIED FACILITIES LOCATED WITHIN QUALI-
4 FIED INDIAN LANDS.—Section 45(b) (relating to limita-
5 tions and adjustments), as amended by subsection (e), is
6 amended by adding at the end the following:

7 “(5) INCREASED CREDIT FOR QUALIFIED FA-
8 CILITY LOCATED WITHIN QUALIFIED INDIAN
9 LAND.—In the case of a qualified facility described
10 in subsection (c)(3)(D) which—

11 “(A) is located within—

12 “(i) qualified Indian lands (as defined
13 in section 7871(c)(3)), or

14 “(ii) lands which are held in trust by
15 a Native Corporation (as defined in section
16 3(m) of the Alaska Native Claims Settle-
17 ment Act (43 U.S.C. 1602(m))) for Alaska
18 Natives, and

19 “(B) is operated with the explicit written
20 approval of the Indian tribal government or Na-
21 tive Corporation (as so defined) having jurisdic-
22 tion over such lands,

23 the amount in effect under subsection (a)(1) for a
24 taxable year shall (after adjustment under para-

1 graphs (1), (2), (3), and (4)) be increased by .25
2 cents.”.

3 (g) ELECTRICITY PRODUCED FROM BIOMASS CO-
4 FIRED IN COAL PLANTS.—Paragraph (1) of section 45(a)
5 is amended by inserting “(1.0 cents in the case of elec-
6 tricity produced from biomass, other than closed-loop bio-
7 mass, co-fired in a facility which produced electricity from
8 coal)” after “1.5 cents”.

9 (h) COORDINATION WITH OTHER CREDITS.—Section
10 45(d) (relating to definitions and special rules), as amend-
11 ed by subsection (e), is amended by adding at the end the
12 following:

13 “(9) COORDINATION WITH OTHER CREDITS.—
14 This section shall not apply to any qualified facility
15 with respect to which a credit under any other sec-
16 tion is allowed for the taxable year unless the tax-
17 payer elects to waive application of such credit to
18 such facility.”.

19 (i) TREATMENT OF QUALIFIED FACILITIES NOT IN
20 COMPLIANCE WITH POLLUTION LAWS.—Section 45(e)(3)
21 (relating to qualified facilities), as amended by subsection
22 (c), is amended by adding at the end the following:

23 “(E) NONCOMPLIANCE WITH POLLUTION
24 LAWS.—For purposes of this paragraph, a facil-
25 ity which is not in compliance with the applica-

1 ble State and Federal pollution prevention, con-
2 trol, and permit requirements for any period of
3 time shall not be considered to be a qualified
4 facility during such period.”.

5 (j) EFFECTIVE DATE.—The amendments made by
6 this section shall apply to electricity and other energy pro-
7 duced in taxable years beginning after the date of the en-
8 actment of this Act.

9 **SEC. 103. TRADABLE RENEWABLE RESOURCE CREDIT FOR**
10 **PUBLIC UTILITIES AND OTHER TAX EXEMPT**
11 **ORGANIZATIONS.**

12 (a) CREDITS FOR CERTAIN TAX EXEMPT ORGANIZA-
13 TIONS AND GOVERNMENTAL UNITS.—

14 (1) IN GENERAL.—Section 45(d) (relating to
15 definitions and special rules), as amended by section
16 102, is amended by adding at the end the following:

17 “(10) CREDITS FOR CERTAIN TAX EXEMPT OR-
18 GANIZATIONS AND GOVERNMENTAL UNITS.—

19 “(A) ALLOWANCE OF CREDIT.—Any credit
20 which would be allowable under subsection (a)
21 with respect to a qualified facility of an entity
22 if such entity were not exempt from tax under
23 this chapter shall be treated as a credit allow-
24 able under subpart D to such entity if such en-
25 tity is—

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

4 “(ii) an organization described in sec-
5 tion 1381(a)(2)(C),

6 “(iii) an entity the income of which is
7 excludable from gross income under section
8 115, or

9 “(iv) a State, the District of Colum-
10 bia, any territory or possession of the
11 United States, or any political subdivision
12 thereof.

13 “(B) USE OF CREDIT.—

14 “(i) TRANSFER OF CREDIT.—An enti-
15 ty described in subparagraph (A) may as-
16 sign, trade, sell, or otherwise transfer any
17 credit allowable to such entity under sub-
18 paragraph (A) to any taxpayer.

19 “(ii) USE OF CREDIT AS AN OFF-
20 SET.—Notwithstanding any other provision
21 of law, in the case of an entity described
22 in clause (i) or (ii) of subparagraph (A),
23 any credit allowable to such entity under
24 subparagraph (A) may be applied by such
25 entity, without penalty, as a prepayment of

1 any loan, debt, or other obligation the enti-
2 ty has incurred under subchapter I of
3 chapter 31 of title 7 of the Rural Elec-
4 trification Act of 1936 (7 U.S.C. 901 et
5 seq.).

6 “(C) CREDIT NOT INCOME.—Neither a
7 transfer under clause (i) nor a use under clause
8 (ii) of subparagraph (B) of any credit allowable
9 under subparagraph (A) shall result in income
10 for purposes of section 501(c)(12).

11 “(D) TRANSFER PROCEEDS TREATED AS
12 ARISING FROM ESSENTIAL GOVERNMENT FUNC-
13 TION.—Any proceeds derived by an entity de-
14 scribed in subparagraph (A)(iii) from the trans-
15 fer of any credit under subparagraph (B)(i)
16 shall be treated as arising from an essential
17 government function.

18 “(E) CREDITS NOT REDUCED BY TAX-EX-
19 EMPT BONDS OR CERTAIN OTHER SUBSIDIES.—
20 Subsection (b)(3) shall not apply to reduce any
21 credit allowable under subparagraph (A) with
22 respect to—

23 “(i) proceeds described in subpara-
24 graph (A)(ii) of such subsection, or

1 “(ii) any loan, debt, or other obliga-
2 tion incurred under subchapter I of chap-
3 ter 31 of title 7 of the Rural Electrification
4 Act of 1936 (7 U.S.C. 901 et seq.),
5 used to provide financing for any qualified facil-
6 ity.

7 “(F) TREATMENT OF UNRELATED PER-
8 SONS.—For purposes of this paragraph, sales
9 among and between entities described in sub-
10 paragraph (A) shall be treated as sales between
11 unrelated parties.”.

12 (2) INCLUSION OF INDIAN TRIBAL GOVERN-
13 MENTS.—Section 7871(a)(7) is amended by striking
14 “and” at the end of subparagraph (A), by striking
15 the period at the end of subparagraph (B), and by
16 adding at the end the following:

17 “(C) section 45 (relating to credit for elec-
18 tricity produced from certain renewable re-
19 sources).”.

20 (b) CREDIT ALLOWABLE AGAINST REGULAR AND
21 MINIMUM TAX.—

22 (1) IN GENERAL.—Section 38(c) (relating to
23 limitation based on amount of tax) is amended by
24 redesignating paragraph (3) as paragraph (4) and
25 inserting after paragraph (2) the following:

1 “(3) SPECIAL RULES FOR RENEWABLE ELEC-
2 TRICITY PRODUCTION CREDIT.—

3 “(A) IN GENERAL.—In the case of the re-
4 newable electricity production 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) subparagraphs (A) and (B)
11 thereof shall not apply, and

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

18 “(B) RENEWABLE ELECTRICITY PRODUC-
19 TION CREDIT.—For purposes of this subsection,
20 the term ‘renewable electricity production cred-
21 it’ means the credit allowable under subsection
22 (a) by reason of section 45(a).”.

23 (2) CONFORMING AMENDMENT.—Subclause (II)
24 of section 38(c)(2)(A)(ii) is amended by inserting

1 “or the renewable electricity production credit” after
2 “employment credit”.

3 (c) EFFECTIVE DATE.—The amendments made by
4 this section shall apply to electricity and other energy pro-
5 duced in taxable years beginning after the date of the en-
6 actment of this Act.

7 **TITLE II—ALTERNATIVE FUELS**
8 **AND ENERGY EFFICIENT VE-**
9 **HICLES**

10 **SEC. 201. CREDIT FOR ALTERNATIVE MOTOR VEHICLES**
11 **AND MODIFICATION OF CREDIT FOR QUALI-**
12 **FIED ELECTRIC VEHICLES.**

13 (a) CREDIT FOR ALTERNATIVE MOTOR VEHICLES.—

14 (1) IN GENERAL.—Subpart B of part IV of
15 subchapter A of chapter 1 (relating to foreign tax
16 credit, etc.) is amended by adding at the end the fol-
17 lowing:

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

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

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

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

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

3 “(b) NEW QUALIFIED FUEL CELL MOTOR VEHICLE
4 CREDIT.—

5 “(1) IN GENERAL.—For purposes of subsection
6 (a), the new qualified fuel cell motor vehicle credit
7 determined under this subsection with respect to a
8 new qualified fuel cell motor vehicle placed in service
9 by the taxpayer during the taxable year is—

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

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

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

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

22 “(2) INCREASE FOR FUEL EFFICIENCY.—

23 “(A) IN GENERAL.—The amount deter-
24 mined under paragraph (1)(A) with respect to
25 a new qualified fuel cell motor vehicle which is

1 a passenger automobile or light truck shall be
2 increased by—

3 “(i) \$1,000, if such vehicle achieves at
4 least 150 percent but less than 175 per-
5 cent of the 2000 model year city fuel econ-
6 omy,

7 “(ii) \$1,500, if such vehicle achieves
8 at least 175 percent but less than 200 per-
9 cent of the 2000 model year city fuel econ-
10 omy,

11 “(iii) \$2,000, if such vehicle achieves
12 at least 200 percent but less than 225 per-
13 cent of the 2000 model year city fuel econ-
14 omy,

15 “(iv) \$2,500, if such vehicle achieves
16 at least 225 percent but less than 250 per-
17 cent of the 2000 model year city fuel econ-
18 omy,

19 “(v) \$3,000, if such vehicle achieves
20 at least 250 percent but less than 275 per-
21 cent of the 2000 model year city fuel econ-
22 omy,

23 “(vi) \$3,500, if such vehicle achieves
24 at least 275 percent but less than 300 per-

1 cent of the 2000 model year city fuel econ-
 2 omy, and

3 “(vii) \$4,000, if such vehicle achieves
 4 at least 300 percent of the 2000 model
 5 year city fuel economy.

6 “(B) 2000 MODEL YEAR CITY FUEL ECON-
 7 OMY.—For purposes of subparagraph (A), the
 8 2000 model year city fuel economy with respect
 9 to a vehicle shall be determined in accordance
 10 with the following tables:

11 “(i) In the case of a passenger auto-
 12 mobile:

“If vehicle inertia weight	The 2000 model year city fuel
class is:	economy is:
1,500 or 1,750 lbs	43.7 mpg
2,000 lbs	38.3 mpg
2,250 lbs	34.1 mpg
2,500 lbs	30.7 mpg
2,750 lbs	27.9 mpg
3,000 lbs	25.6 mpg
3,500 lbs	22.0 mpg
4,000 lbs	19.3 mpg
4,500 lbs	17.2 mpg
5,000 lbs	15.5 mpg
5,500 lbs	14.1 mpg
6,000 lbs	12.9 mpg
6,500 lbs	11.9 mpg
7,000 or 8,500 lbs	11.1 mpg.

13 “(ii) In the case of a light truck:

“If vehicle inertia weight	The 2000 model year city fuel
class is:	economy is:
1,500 or 1,750 lbs	37.6 mpg
2,000 lbs	33.7 mpg
2,250 lbs	30.6 mpg
2,500 lbs	28.0 mpg
2,750 lbs	25.9 mpg
3,000 lbs	24.1 mpg
3,500 lbs	21.3 mpg
4,000 lbs	19.0 mpg

“If vehicle inertia weight class is:	The 2000 model year city fuel economy is:
4,500 lbs	17.3 mpg
5,000 lbs	15.8 mpg
5,500 lbs	14.6 mpg
6,000 lbs	13.6 mpg
6,500 lbs	12.8 mpg
7,000 or 8,500 lbs	12.0 mpg.

1 “(C) VEHICLE INERTIA WEIGHT CLASS.—

2 For purposes of subparagraph (B), the term
 3 ‘vehicle inertia weight class’ has the same
 4 meaning as when defined in regulations pre-
 5 scribed by the Administrator of the Environ-
 6 mental Protection Agency for purposes of the
 7 administration of title II of the Clean Air Act
 8 (42 U.S.C. 7521 et seq.).

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

13 “(A) which is propelled by power derived
 14 from—

15 “(i) one or more cells which convert
 16 chemical energy directly into electricity by
 17 combining oxygen with hydrogen fuel
 18 which is stored on board the vehicle in any
 19 form and may or may not require reforma-
 20 tion prior to use, or

1 “(ii) one or more cells described in
2 clause (i) used in conjunction with a re-
3 chargeable energy storage system.

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

6 “(i) for 2002 and later model vehicles,
7 has received a certificate of conformity
8 under the Clean Air Act and meets or ex-
9 ceeds the equivalent qualifying California
10 low emission vehicle standard under sec-
11 tion 243(e)(2) of the Clean Air Act for
12 that make and model year, and

13 “(ii) for 2004 and later model vehi-
14 cles, has received a certificate that such ve-
15 hicle meets or exceeds the Bin 5 Tier II
16 emission level established in regulations
17 prescribed by the Administrator of the En-
18 vironmental Protection Agency under sec-
19 tion 202(i) of the Clean Air Act for that
20 make and model year vehicle,

21 “(C) the original use of which commences
22 with the taxpayer,

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

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

1 “(c) NEW QUALIFIED HYBRID MOTOR VEHICLE
2 CREDIT.—

3 “(1) IN GENERAL.—For purposes of subsection
4 (a), the new qualified hybrid motor vehicle credit de-
5 termined under this subsection with respect to a new
6 qualified hybrid motor vehicle placed in service by
7 the taxpayer during the taxable year is the credit
8 amount determined under paragraph (2).

9 “(2) CREDIT AMOUNT.—

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

13 “(i) In the case of a new qualified hy-
14 brid motor vehicle which is a passenger
15 automobile or light truck and which pro-
16 vides the following percentage of the max-
17 imum available power:

**“If percentage of the max- The credit amount is:
imum available power is:**

At least 5 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.

18 “(ii) In the case of a new qualified hy-
19 brid motor vehicle which is a heavy duty
20 hybrid motor vehicle and which provides
21 the following percentage of the maximum
22 available power:

1 “(I) If such vehicle has a gross
 2 vehicle weight rating of not more than
 3 14,000 pounds:

“If percentage of the maximum available power is: The credit amount is:

At least 20 percent but less than 30 percent	\$1,500
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.

4 “(II) If such vehicle has a gross
 5 vehicle weight rating of more than
 6 14,000 but not more than 26,000
 7 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.

8 “(III) If such vehicle has a gross
 9 vehicle weight rating of more than
 10 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.

11 “(B) INCREASE FOR FUEL EFFICIENCY.—
 12 “(i) AMOUNT.—The amount deter-
 13 mined under subparagraph (A)(i) with re-
 14 spect to a passenger automobile or light
 15 truck shall be increased by—

25

1 “(I) \$500, if such vehicle
2 achieves at least 125 percent but less
3 than 150 percent of the 2000 model
4 year city fuel economy,

5 “(II) \$1,000, if such vehicle
6 achieves at least 150 percent but less
7 than 175 percent of the 2000 model
8 year city fuel economy,

9 “(III) \$1,500, if such vehicle
10 achieves at least 175 percent but less
11 than 200 percent of the 2000 model
12 year city fuel economy,

13 “(IV) \$2,000, if such vehicle
14 achieves at least 200 percent but less
15 than 225 percent of the 2000 model
16 year city fuel economy,

17 “(V) \$2,500, if such vehicle
18 achieves at least 225 percent but less
19 than 250 percent of the 2000 model
20 year city fuel economy, and

21 “(VI) \$3,000, if such vehicle
22 achieves at least 250 percent of the
23 2000 model year city fuel economy.

24 “(ii) 2000 MODEL YEAR CITY FUEL
25 ECONOMY.—For purposes of clause (i), the

1 2000 model year city fuel economy with re-
 2 spect to a vehicle shall be determined using
 3 the tables provided in subsection (b)(2)(B)
 4 with respect to such vehicle.

5 “(C) INCREASE FOR ACCELERATED EMIS-
 6 SIONS PERFORMANCE.—The amount deter-
 7 mined under subparagraph (A)(ii) with respect
 8 to an applicable heavy duty hybrid motor vehi-
 9 cle shall be increased by the increase credit
 10 amount determined in accordance with the fol-
 11 lowing tables:

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

“If the model year is:	The increase credit amount is:
2002	\$3,500
2003	\$3,000
2004	\$2,500
2005	\$2,000
2006	\$1,500.

15 “(ii) In the case of a vehicle which
 16 has a gross vehicle weight rating of more
 17 than 14,000 pounds but not more than
 18 26,000 pounds:

“If the model year is:	The increase credit amount is:
2002	\$9,000
2003	\$7,750
2004	\$6,500
2005	\$5,250
2006	\$4,000.

1 “(iii) In the case of a vehicle which
 2 has a gross vehicle weight rating of more
 3 than 26,000 pounds:

“If the model year is:	The increase credit amount is:
2002	\$14,000
2003	\$12,000
2004	\$10,000
2005	\$8,000
2006	\$6,000.

4 “(D) DEFINITIONS.—

5 “(i) APPLICABLE HEAVY DUTY HY-
 6 BRID MOTOR VEHICLE.—For purposes of
 7 subparagraph (C), the term ‘applicable
 8 heavy duty hybrid motor vehicle’ means a
 9 heavy duty hybrid motor vehicle which is
 10 powered by an internal combustion or heat
 11 engine which is certified as meeting the
 12 emission standards set in the regulations
 13 prescribed by the Administrator of the En-
 14 vironmental Protection Agency for 2007
 15 and later model year diesel heavy duty en-
 16 gines or 2008 and later model year
 17 ottocycle heavy duty engines, as applicable.

18 “(ii) HEAVY DUTY HYBRID MOTOR VE-
 19 HICLE.—For purposes of this paragraph,
 20 the term ‘heavy duty hybrid motor vehicle’
 21 means a new qualified hybrid motor vehicle
 22 which has a gross vehicle weight rating of

1 more than 10,000 pounds and draws pro-
2 pulsion energy from both of the following
3 onboard sources of stored energy:

4 “(I) An internal combustion or
5 heat engine using consumable fuel
6 which, for 2002 and later model vehi-
7 cles, has received a certificate of con-
8 formity under the Clean Air Act and
9 meets or exceeds a level of not greater
10 than 3.0 grams per brake horse-
11 power-hour of oxides of nitrogen and
12 0.01 per brake horsepower-hour of
13 particulate matter.

14 “(II) A rechargeable energy stor-
15 age system.

16 “(iii) MAXIMUM AVAILABLE POWER.—

17 “(I) PASSENGER AUTOMOBILE
18 OR LIGHT TRUCK.—For purposes of
19 subparagraph (A)(i), the term ‘max-
20 imum available power’ means the
21 maximum power available from the
22 battery or other electrical storage de-
23 vice, during a standard 10 second
24 pulse power test, divided by the sum
25 of the battery or other electrical stor-

1 age device and the SAE net power of
2 the heat engine.

3 “(II) HEAVY DUTY HYBRID
4 MOTOR VEHICLE.—For purposes of
5 subparagraph (A)(ii), the term ‘max-
6 imum available power’ means the
7 maximum power available from the
8 battery or other electrical storage de-
9 vice, during a standard 10 second
10 pulse power test, divided by the vehi-
11 cle’s total traction power. The term
12 ‘total traction power’ means the sum
13 of the electric motor peak power and
14 the heat engine peak power of the ve-
15 hicle, except that if the electric motor
16 is the sole means by which the vehicle
17 can be driven, the total traction power
18 is the peak electric motor power.

19 “(3) NEW QUALIFIED HYBRID MOTOR VEHI-
20 CLE.—For purposes of this subsection, the term
21 ‘new qualified hybrid motor vehicle’ means a motor
22 vehicle—

23 “(A) which draws propulsion energy from
24 onboard sources of stored energy which are
25 both—

1 “(i) an internal combustion or heat
2 engine using combustible fuel, and

3 “(ii) a rechargeable energy storage
4 system,

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

7 “(i) for 2002 and later model vehicles,
8 has received a certificate of conformity
9 under the Clean Air Act and meets or ex-
10 ceeds the equivalent qualifying California
11 low emission vehicle standard under sec-
12 tion 243(e)(2) of the Clean Air Act for
13 that make and model year, and

14 “(ii) for 2004 and later model vehi-
15 cles, has received a certificate that such ve-
16 hicle meets or exceeds the Bin 5 Tier II
17 emission level established in regulations
18 prescribed by the Administrator of the En-
19 vironmental Protection Agency under sec-
20 tion 202(i) of the Clean Air Act for that
21 make and model year vehicle,

22 “(C) the original use of which commences
23 with the taxpayer,

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

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

2 “(d) NEW QUALIFIED ALTERNATIVE FUEL MOTOR
3 VEHICLE CREDIT.—

4 “(1) ALLOWANCE OF CREDIT.—Except as pro-
5 vided in paragraph (5), the credit determined under
6 this subsection is an amount equal to the applicable
7 percentage of the incremental cost of any new quali-
8 fied alternative fuel motor vehicle placed in service
9 by the taxpayer during the taxable year.

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

14 “(A) 50 percent, plus

15 “(B) 30 percent, if such vehicle—

16 “(i) has received a certificate of con-
17 formity under the Clean Air Act and meets
18 or exceeds the most stringent standard
19 available for certification under the Clean
20 Air Act for that make and model year vehi-
21 cle (other than a zero emission standard),
22 or

23 “(ii) has received an order from an
24 applicable State certifying the vehicle for
25 sale or lease in California and meets or ex-

1 ceeds the most stringent standard available
2 for certification under the State laws of
3 California (enacted in accordance with a
4 waiver granted under section 209(b) of the
5 Clean Air Act) for that make and model
6 year vehicle (other than a zero emission
7 standard).

8 “(3) INCREMENTAL COST.—For purposes of
9 this subsection, the incremental cost of any new
10 qualified alternative fuel motor vehicle is equal to
11 the amount of the excess of the manufacturer’s sug-
12 gested retail price for such vehicle over such price
13 for a gasoline or diesel fuel motor vehicle of the
14 same model, to the extent such amount does not
15 exceed—

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

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

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

1 “(D) \$40,000, if such vehicle has a gross
2 vehicle weight rating of more than 26,000
3 pounds.

4 “(4) QUALIFIED ALTERNATIVE FUEL MOTOR
5 VEHICLE DEFINED.—For purposes of this
6 subsection—

7 “(A) IN GENERAL.—The term ‘qualified
8 alternative fuel motor vehicle’ means any motor
9 vehicle—

10 “(i) which is only capable of operating
11 on an alternative fuel,

12 “(ii) the original use of which com-
13 mences with the taxpayer,

14 “(iii) which is acquired by the tax-
15 payer for use or lease, but not for resale,
16 and

17 “(iv) which is made by a manufac-
18 turer.

19 “(B) ALTERNATIVE FUEL.—The term ‘al-
20 ternative fuel’ means compressed natural gas,
21 liquefied natural gas, liquefied petroleum gas,
22 hydrogen, and any liquid at least 85 percent of
23 the volume of which consists of methanol.

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

1 “(A) IN GENERAL.—In the case of a
2 mixed-fuel vehicle placed in service by the tax-
3 payer during the taxable year, the credit deter-
4 mined under this subsection is an amount equal
5 to—

6 “(i) in the case of a 75/25 mixed-fuel
7 vehicle, 70 percent of the credit which
8 would have been allowed under this sub-
9 section if such vehicle was a qualified alter-
10 native fuel motor vehicle, and

11 “(ii) in the case of a 95/5 mixed-fuel
12 vehicle, 95 percent of the credit which
13 would have been allowed under this sub-
14 section if such vehicle was a qualified alter-
15 native fuel motor vehicle.

16 “(B) MIXED-FUEL VEHICLE.—For pur-
17 poses of this subsection, the term ‘mixed-fuel
18 vehicle’ means any motor vehicle described in
19 subparagraph (C) or (D) of paragraph (3),
20 which—

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

25 “(ii) either—

1 “(I) has received a certificate of
2 conformity under the Clean Air Act,
3 or

4 “(II) has received an order from
5 an applicable State certifying the vehi-
6 cle for sale or lease in California and
7 meets or exceeds the low emission ve-
8 hicle standard under section 88.105-
9 94 of title 40, Code of Federal Regu-
10 lations, for that make and model year
11 vehicle,

12 “(iii) the original use of which com-
13 mences with the taxpayer,

14 “(iv) which is acquired by the tax-
15 payer for use or lease, but not for resale,
16 and

17 “(v) which is made by a manufac-
18 turer.

19 “(C) 75/25 MIXED-FUEL VEHICLE.—For
20 purposes of this subsection, the term ‘75/25
21 mixed-fuel vehicle’ means a mixed-fuel vehicle
22 which operates using at least 75 percent alter-
23 native fuel and not more than 25 percent petro-
24 leum-based fuel.

1 “(D) 95/5 MIXED-FUEL VEHICLE.—For
2 purposes of this subsection, the term ‘95/5
3 mixed-fuel vehicle’ means a mixed-fuel vehicle
4 which operates using at least 95 percent alter-
5 native fuel and not more than 5 percent petro-
6 leum-based fuel.

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, and 30, over

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

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

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

21 “(2) MOTOR VEHICLE.—The term ‘motor vehi-
22 cle’ has the meaning given such term by section
23 30(c)(2).

24 “(3) 2000 MODEL YEAR CITY FUEL ECON-
25 OMY.—The 2000 model year city fuel economy with

1 respect to any vehicle shall be measured under rules
2 similar to the rules under section 4064(c).

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

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

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

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

23 “(B) with respect to a vehicle described
24 under subsection (b) or (c), shall be reduced by

1 the amount of credit allowed under subsection
2 (a) for such vehicle for the taxable year.

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

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

23 “(9) PROPERTY USED OUTSIDE UNITED
24 STATES, ETC., NOT QUALIFIED.—No credit shall be
25 allowed under subsection (a) with respect to any

1 property referred to in section 50(b) or with respect
2 to the portion of the cost of any property taken into
3 account under section 179.

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

8 “(11) CARRYFORWARD ALLOWED.—

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

17 “(B) RULES.—Rules similar to the rules of
18 section 39 shall apply with respect to the credit
19 carryforward under subparagraph (A).

20 “(12) INTERACTION WITH AIR QUALITY AND
21 MOTOR VEHICLE SAFETY STANDARDS.—Unless oth-
22 erwise provided in this section, a motor vehicle shall
23 not be considered eligible for a credit under this sec-
24 tion unless such vehicle is in compliance with—

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

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

10 “(g) REGULATIONS.—

11 “(1) IN GENERAL.—The Secretary shall pro-
12 mulgate such regulations as necessary to carry out
13 the provisions of this section.

14 “(2) ADMINISTRATOR OF ENVIRONMENTAL
15 PROTECTION AGENCY.—The Administrator of the
16 Environmental Protection Agency, in coordination
17 with the Secretary of Transportation and the Sec-
18 retary of the Treasury, shall prescribe such regula-
19 tions as necessary to determine whether a motor ve-
20 hicle meets the requirements to be eligible for a
21 credit under this section.

22 “(h) TERMINATION.—This section shall not apply to
23 any property placed in service after December 31, 2007.”.

24 (2) CONFORMING AMENDMENTS.—

1 (A) Section 1016(a) is amended by strik-
2 ing “and” at the end of paragraph (27), by
3 striking the period at the end of paragraph (28)
4 and inserting “, and”, and by adding at the end
5 the following:

6 “(29) to the extent provided in section
7 30B(f)(4).”.

8 (B) Section 53(d)(1)(B)(iii) is amended by
9 inserting “, or not allowed under section 30B
10 solely by reason of the application of section
11 30B(e)(2)” before the period.

12 (C) Section 55(c)(2) is amended by insert-
13 ing “30B(e),” after “30(b)(3)”.

14 (D) Section 6501(m) is amended by insert-
15 ing “30B(f)(9),” after “30(d)(4),”.

16 (E) The table of sections for subpart B of
17 part IV of subchapter A of chapter 1 is amend-
18 ed by inserting after the item relating to section
19 30A the following:

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

20 (b) MODIFICATION OF CREDIT FOR QUALIFIED
21 ELECTRIC VEHICLES.—

22 (1) AMOUNT OF CREDIT.—

23 (A) IN GENERAL.—Section 30(a) (relating
24 to allowance of credit) is amended by striking
25 “10 percent of”.

1 (B) LIMITATION OF CREDIT ACCORDING
2 TO TYPE OF VEHICLE.—Section 30(b) (relating
3 to limitations) is amended—

4 (i) by striking paragraphs (1) and (2)
5 and inserting the following:

6 “(1) LIMITATION ACCORDING TO TYPE OF VE-
7 HICLE.—The amount of the credit allowed under
8 subsection (a) for any vehicle shall not exceed the
9 greatest of the following amounts applicable to such
10 vehicle:

11 “(A) In the case of a vehicle which con-
12 forms to the Motor Vehicle Safety Standard
13 500 prescribed by the Secretary of Transpor-
14 tation, the lesser of—

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

17 “(ii) \$4,000.

18 “(B) In the case of a vehicle with a gross
19 vehicle weight rating not exceeding 8,500
20 pounds—

21 “(i) \$4,000, or

22 “(ii) \$6,000, if such vehicle is—

23 “(I) capable of a driving range of
24 at least 100 miles on a single charge
25 of the vehicle’s rechargeable batteries

1 and measured pursuant to the urban
2 dynamometer schedules under appen-
3 dix I to part 86 of title 40, Code of
4 Federal Regulations, or

5 “(II) capable of a payload capaci-
6 ty of at least 1000 pounds.

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

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

13 “(E) In the case of a vehicle with a gross
14 vehicle weight rating exceeding 26,000 pounds,
15 \$40,000.”, and

16 (ii) by redesignating paragraph (3) as
17 paragraph (2).

18 (C) CONFORMING AMENDMENTS.—

19 (i) Section 53(d)(1)(B)(iii) is amend-
20 ed by striking “section 30(b)(3)(B)” and
21 inserting “section 30(b)(2)(B)”.

22 (ii) Section 55(c)(2) is amended by
23 striking “30(b)(3)” and inserting
24 “30(b)(2)”.

25 (2) QUALIFIED BATTERY ELECTRIC VEHICLE.—

1 (A) IN GENERAL.—Section 30(c)(1)(A)
2 (defining qualified electric vehicle) is amended
3 to read as follows:

4 “(A) which is—

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

7 “(ii) powered primarily through the
8 use of an electric battery or battery pack
9 using a flywheel or capacitor which stores
10 energy produced by an electric motor
11 through regenerative braking to assist in
12 vehicle operation,”.

13 (B) LEASED VEHICLES.—Section
14 30(c)(1)(C) is amended by inserting “or lease”
15 after “use”.

16 (C) CONFORMING AMENDMENTS.—

17 (i) Subsections (a), (b)(2), and (c) of
18 section 30 are each amended by inserting
19 “battery” after “qualified” each place it
20 appears.

21 (ii) The heading of subsection (c) of
22 section 30 is amended by inserting “BAT-
23 TERY” after “QUALIFIED”.

1 (iii) The heading of section 30 is
2 amended by inserting “**BATTERY**” after
3 “**QUALIFIED**”.

4 (iv) The item relating to section 30 in
5 the table of sections for subpart B of part
6 IV of subchapter A of chapter 1 is amend-
7 ed by inserting “battery” after “qualified”.

8 (v) Section 179A(c)(3) is amended by
9 inserting “battery” before “electric”.

10 (vi) The heading of paragraph (3) of
11 section 179A(c) is amended by inserting
12 “BATTERY” before “ELECTRIC”.

13 (3) **ADDITIONAL SPECIAL RULES.**—Section
14 30(d) (relating to special rules) is amended by add-
15 ing at the end the following:

16 “(5) **NO DOUBLE BENEFIT.**—The amount of
17 any deduction or credit allowable under this chapter
18 for any cost taken into account in computing the
19 amount of the credit determined under subsection
20 (a) shall be reduced by the amount of such credit at-
21 tributable to such cost.

22 “(6) **PROPERTY USED BY TAX-EXEMPT ENTI-**
23 **TIES.**—In the case of a credit amount which is al-
24 lowable with respect to a vehicle which is acquired
25 by an entity exempt from tax under this chapter, the

1 person which sells or leases such vehicle to the entity
2 shall be treated as the taxpayer with respect to the
3 vehicle for purposes of this section and the credit
4 shall be allowed to such person, but only if the per-
5 son clearly discloses to the entity in any sale or lease
6 contract the specific amount of any credit otherwise
7 allowable to the entity under this section and re-
8 duces the sale or lease price of such vehicle by an
9 equivalent amount of such credit.”.

10 (4) EXTENSION.—Section 30(e) (relating to ter-
11 mination) is amended by striking “2004” and insert-
12 ing “2007”.

13 (c) EFFECTIVE DATE.—The amendments made by
14 this section shall apply to property placed in service after
15 December 31, 2001, in taxable years ending after such
16 date.

17 **SEC. 202. CREDIT FOR RETAIL SALE OF ALTERNATIVE**
18 **FUELS AS MOTOR VEHICLE FUEL.**

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

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

24 “(a) GENERAL RULE.—For purposes of section 38,
25 the alternative fuel retail sales credit for any taxable year

1 is 25 cents for each gasoline gallon equivalent of alter-
2 native fuel sold at retail by the taxpayer during such year
3 as a fuel to propel any qualified motor vehicle, but only
4 if the taxpayer reduces the retail sales price of such fuel
5 by an equivalent amount of such credit.

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

7 “(1) ALTERNATIVE FUEL.—The term ‘alter-
8 native fuel’ means compressed natural gas, liquefied
9 natural gas, liquefied petroleum gas, hydrogen, and
10 any liquid at least 85 percent of the volume of which
11 consists of methanol.

12 “(2) GASOLINE GALLON EQUIVALENT.—The
13 term ‘gasoline gallon equivalent’ means, with respect
14 to any alternative fuel, the amount (determined by
15 the Secretary) of such fuel having a Btu content of
16 114,000.

17 “(3) QUALIFIED MOTOR VEHICLE.—The term
18 ‘qualified motor vehicle’ means any motor vehicle (as
19 defined in section 30(c)(2)) which meets any appli-
20 cable Federal or State emissions standards with re-
21 spect to each fuel by which such vehicle is designed
22 to be propelled.

23 “(4) SOLD AT RETAIL.—

24 “(A) IN GENERAL.—The term ‘sold at re-
25 tail’ means the sale, for a purpose other than

1 resale, after manufacture, production, or impor-
2 tation.

3 “(B) USE TREATED AS SALE.—If any per-
4 son uses alternative fuel (including any use
5 after importation) as a fuel to propel any quali-
6 fied alternative fuel motor vehicle (as defined in
7 section 30B(d)(4)) before such fuel is sold at
8 retail, then such use shall be treated in the
9 same manner as if such fuel were sold at retail
10 as a fuel to propel such a vehicle by such per-
11 son.

12 “(c) NO DOUBLE BENEFIT.—The amount of any de-
13 duction or credit allowable under this chapter for any fuel
14 taken into account in computing the amount of the credit
15 determined under subsection (a) shall be reduced by the
16 amount of such credit attributable to such fuel.

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

21 “(e) TERMINATION.—This section shall not apply to
22 any fuel sold at retail after December 31, 2007.”.

23 (b) CREDIT TREATED AS BUSINESS CREDIT.—Sec-
24 tion 38(b) (relating to current year business credit) is
25 amended by striking “plus” at the end of paragraph (14),

1 by striking the period at the end of paragraph (15) and
2 inserting “, plus”, and by adding at the end the following:

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

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

8 “(11) NO CARRYBACK OF SECTION 40A CREDIT
9 BEFORE EFFECTIVE DATE.—No portion of the un-
10 used business credit for any taxable year which is
11 attributable to the alternative fuel retail sales credit
12 determined under section 40A(a) may be carried
13 back to a taxable year ending before January 1,
14 2002.”.

15 (d) CLERICAL AMENDMENT.—The table of sections
16 for subpart D of part IV of subchapter A of chapter 1
17 is amended by inserting after the item relating to section
18 40 the following:

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

19 (e) EFFECTIVE DATE.—The amendments made by
20 this section shall apply to fuel sold at retail after Decem-
21 ber 31, 2001, in taxable years ending after such date.

1 **SEC. 203. EXTENSION OF DEDUCTION FOR CERTAIN RE-**
2 **FUELING PROPERTY.**

3 (a) IN GENERAL.—Section 179A(f) (relating to ter-
4 mination) is amended by striking “2004” and inserting
5 “2007”.

6 (b) CONFORMING AMENDMENT.—Section 179A(c)
7 (relating to qualified clean-fuel vehicle property defined)
8 is amended by striking paragraph (3).

9 (c) EFFECTIVE DATE.—The amendments made by
10 this section shall apply to property placed in service after
11 December 31, 2001, in taxable years ending after such
12 date.

13 **SEC. 204. 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 section 201, is amended by adding at the
18 end the following:

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—

24 “(1) 50 percent, in the case of retail clean-fuel
25 vehicle refueling property, and

1 “(2) 50 percent, in the case of residential clean-
2 fuel vehicle refueling property,
3 of the amount paid or incurred by the taxpayer during
4 the taxable year for the installation of clean-fuel vehicle
5 refueling property.

6 “(b) LIMITATION.—The credit allowed under—

7 “(1) subsection (a)(1) with respect to clean-fuel
8 vehicle refueling property, shall not exceed \$30,000,
9 and

10 “(2) subsection (a)(2) with respect to clean-fuel
11 vehicle refueling property, shall not exceed \$1,000.

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

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

17 “(1) CLEAN-FUEL VEHICLE REFUELING PROP-
18 ERTY.—The term ‘clean-fuel vehicle refueling prop-
19 erty’ has the same meaning given the term ‘qualified
20 clean-fuel vehicle refueling property’ under section
21 179A.

22 “(2) RESIDENTIAL CLEAN-FUEL VEHICLE RE-
23 FUELING PROPERTY.—The term ‘residential clean-
24 fuel vehicle refueling property’ means clean-fuel ve-
25 hicle refueling property which is installed on prop-

1 erty which is used as the principal residence (within
2 the meaning of section 121) of the taxpayer.

3 “(3) RETAIL CLEAN-FUEL VEHICLE REFUELING
4 PROPERTY.—The term ‘retail clean-fuel vehicle re-
5 fueling property’ means clean-fuel vehicle refueling
6 property—

7 “(A) which is installed on property used in
8 a trade or business of the taxpayer, and

9 “(B) if such refueling property—

10 “(i) is—

11 “(I) available to the public dur-
12 ing normal business hours, and

13 “(II) capable of serving at least 3
14 motor vehicles at the same time, or

15 “(ii) regularly serves at least 1 fleet of
16 10 or more motor vehicles.

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

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

23 “(2) the tentative minimum tax for the taxable
24 year.

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

5 “(g) NO DOUBLE BENEFIT.—No deduction shall be
6 allowed under section 179A with respect to any property
7 with respect to which a credit is allowed under subsection
8 (a).

9 “(h) REFUELING PROPERTY INSTALLED FOR TAX-
10 EXEMPT ENTITIES.—In the case of clean-fuel vehicle re-
11 fueling property installed on property owned or used by
12 an entity exempt from tax under this chapter, the person
13 which installs such refueling property for the entity shall
14 be treated as the taxpayer with respect to the refueling
15 property for purposes of this section (and such refueling
16 property shall be treated as retail clean-fuel vehicle refuel-
17 ing property) and the credit shall be allowed to such per-
18 son, but only if the person clearly discloses to the entity
19 in any installation contract the specific amount of the
20 credit allowable under this section and modifies the price
21 of such contract to take into account the amount of such
22 credit.

23 “(i) CARRYFORWARD ALLOWED.—

24 “(1) IN GENERAL.—If the credit amount allow-
25 able under subsection (a) for a taxable year exceeds

1 the amount of the limitation under subsection (b)
2 for such taxable year (referred to as the ‘unused
3 credit year’ in this subsection), such excess shall be
4 allowed as a credit carryforward for each of the 20
5 taxable years following the unused credit year.

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

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

11 “(k) REGULATIONS.—The Secretary shall prescribe
12 such regulations as necessary to carry out the provisions
13 of this section.

14 “(l) TERMINATION.—This section shall not apply to
15 any property placed in service after December 31, 2007.”.

16 (b) CONFORMING AMENDMENTS.—

17 (1) Section 1016(a), as amended by section
18 201, is amended by striking “and” at the end of
19 paragraph (28), by striking the period at the end of
20 paragraph (29) and inserting “, and”, and by add-
21 ing at the end the following:

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

24 (2) Section 53(d)(1)(B)(iii), as amended by sec-
25 tion 201, is amended by inserting “, or not allowed

1 under section 30C solely by reason of the application
2 of section 30C(e)(2)” before the period.

3 (3) Section 55(c)(2), as amended by section
4 201, is amended by inserting “30C(e),” after
5 “30B(e)”.

6 (4) The table of sections for subpart B of part
7 IV of subchapter A of chapter 1, as amended by sec-
8 tion 201, is amended by inserting after the item re-
9 lating to section 30B the following:

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

10 (c) EFFECTIVE DATE.—The amendments made by
11 this section shall apply to property placed in service after
12 December 31, 2001, in taxable years ending after such
13 date.

14 **SEC. 205. CREDIT FOR PROPERTY TO CONVERT WASTE TO**
15 **FUEL.**

16 (a) IN GENERAL.—Subparagraph (A) of section
17 48A(c)(1) (defining energy property), as added by section
18 401, is amended by striking “or” at the end of clause (vi),
19 by adding “or” at the end of clause (vii), and by inserting
20 after clause (vii) the following new clause:

21 “(viii) waste conversion property,”.

22 (b) WASTE CONVERSION PROPERTY.—Subsection (d)
23 of section 48A, as so added, is amended by adding at the
24 end the following new paragraph:

1 “(8) WASTE CONVERSION PROPERTY.—The
2 term ‘waste conversion property’ means equipment
3 used to produce a usable liquid or gaseous synthetic
4 fuel derived from a waste feedstock (including plas-
5 tic waste and biomass (as defined in section
6 29(c)).”.

7 (c) ENERGY PERCENTAGE IS 15 PERCENT.—Sub-
8 section (b) of section 48A, as so added, is amended in
9 paragraph (1)(C) by striking “subsection (c)(1)(A)(v)”
10 and inserting “clauses (v) and (viii) of subsection
11 (c)(1)(A)”.

12 **TITLE III—ENERGY EFFICIENCY** 13 **AND CONSERVATION**

14 **SEC. 301. ENERGY-EFFICIENT COMMERCIAL BUILDING** 15 **PROPERTY DEDUCTION.**

16 (a) IN GENERAL.—Part VI of subchapter B of chap-
17 ter 1 (relating to itemized deductions for individuals and
18 corporations) is amended by adding at the end the fol-
19 lowing:

20 **“SEC. 199. ENERGY-EFFICIENT COMMERCIAL BUILDING** 21 **PROPERTY.**

22 “(a) IN GENERAL.—There shall be allowed as a de-
23 duction for the taxable year an amount equal to the en-
24 ergy-efficient commercial building property expenditures
25 made by a taxpayer for the taxable year.

1 “(b) MAXIMUM AMOUNT OF DEDUCTION.—The
2 amount of energy-efficient commercial building property
3 expenditures taken into account under subsection (a) shall
4 not exceed an amount equal to the product of—

5 “(1) \$2.25, and

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

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

11 “(d) ENERGY-EFFICIENT COMMERCIAL BUILDING
12 PROPERTY EXPENDITURES.—For purposes of this
13 section—

14 “(1) IN GENERAL.—The term ‘energy-efficient
15 commercial building property expenditures’ means
16 an amount paid or incurred for energy-efficient com-
17 mercial building property installed on or in connec-
18 tion with new construction or reconstruction of
19 property—

20 “(A) for which depreciation is allowable
21 under section 167,

22 “(B) which is located in the United States,
23 and

24 “(C) the construction or erection of which
25 is completed by the taxpayer.

1 Such property includes all residential rental prop-
2 erty, including low-rise multifamily structures and
3 single family housing property which is not within
4 the scope of Standard 90.1–1999 (described in para-
5 graph (3)).

6 “(2) LABOR COSTS INCLUDED.—Such term in-
7 cludes expenditures for labor costs properly allocable
8 to the onsite preparation, assembly, or original in-
9 stallation of the property.

10 “(3) ENERGY EXPENDITURES EXCLUDED.—
11 Such term does not include any expenditures taken
12 into account in determining any credit allowed under
13 section 48A.

14 “(e) ENERGY-EFFICIENT COMMERCIAL BUILDING
15 PROPERTY.—For purposes of subsection (d)—

16 “(1) IN GENERAL.—The term ‘energy-efficient
17 commercial building property’ means any property
18 which reduces total annual energy and power costs
19 with respect to the lighting, heating, cooling, ventila-
20 tion, and hot water supply systems of the building
21 by 50 percent or more in comparison to a reference
22 building which meets the requirements of Standard
23 90.1–1999 of the American Society of Heating, Re-
24 frigerating, and Air Conditioning Engineers and the
25 Illuminating Engineering Society of North America

1 using methods of calculation under subparagraph
2 (B) and certified by qualified professionals as pro-
3 vided under paragraph (6).

4 “(2) METHODS OF CALCULATION.—The Sec-
5 retary, in consultation with the Secretary of Energy,
6 shall promulgate regulations which describe in detail
7 methods for calculating and verifying energy and
8 power consumption and cost, taking into consider-
9 ation the provisions of the 1998 California Nonresi-
10 dential ACM Manual. These procedures shall meet
11 the following requirements:

12 “(A) In calculating tradeoffs and energy
13 performance, the regulations shall prescribe the
14 costs per unit of energy and power, such as kil-
15 owatt hour, kilowatt, gallon of fuel oil, and
16 cubic foot or Btu of natural gas, which may be
17 dependent on time of usage.

18 “(B) The calculational methodology shall
19 require that compliance be demonstrated for a
20 whole building. If some systems of the building,
21 such as lighting, are designed later than other
22 systems of the building, the method shall pro-
23 vide that either—

24 “(i) the expenses taken into account
25 under paragraph (1) shall not occur until

1 the date designs for all energy-using sys-
2 tems of the building are completed, or

3 “(ii) the expenses taken into account
4 under paragraph (1) shall be a fraction of
5 such expenses based on the performance of
6 less than all energy-using systems in ac-
7 cordance with subparagraph (C), and the
8 energy performance of all systems and
9 components not yet designed shall be as-
10 sumed to comply minimally with the re-
11 quirements of such Standard 90.1–1999.

12 “(C) The expenditures in connection with
13 the design of subsystems in the building, such
14 as the envelope, the heating, ventilation, air
15 conditioning and water heating system, and the
16 lighting system shall be allocated to the appro-
17 priate building subsystem based on system-spe-
18 cific energy cost savings targets in regulations
19 promulgated by the Secretary of Energy which
20 are equivalent, using the calculation method-
21 ology, to the whole building requirement of 50
22 percent savings.

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

1 “(E) The calculational methods shall be
2 fuel neutral, such that the same energy effi-
3 ciency features shall qualify a building for the
4 deduction under this section regardless of
5 whether the heating source is a gas or oil fur-
6 nace or an electric heat pump.

7 “(F) The calculational methods shall pro-
8 vide appropriate calculated energy savings for
9 design methods and technologies not otherwise
10 credited in either such Standard 90.1–1999 or
11 in the 1998 California Nonresidential ACM
12 Manual, including the following:

13 “(i) Natural ventilation.

14 “(ii) Evaporative cooling.

15 “(iii) Automatic lighting controls such
16 as occupancy sensors, photocells, and time-
17 clocks.

18 “(iv) Daylighting.

19 “(v) Designs utilizing semi-condi-
20 tioned spaces which maintain adequate
21 comfort conditions without air conditioning
22 or without heating.

23 “(vi) Improved fan system efficiency,
24 including reductions in static pressure.

1 “(vii) Advanced unloading mecha-
2 nisms for mechanical cooling, such as mul-
3 tiple or variable speed compressors.

4 “(viii) The calculational methods may
5 take into account the extent of commis-
6 sioning in the building, and allow the tax-
7 payer to take into account measured per-
8 formance which exceeds typical perform-
9 ance.

10 “(3) COMPUTER SOFTWARE.—

11 “(A) IN GENERAL.—Any calculation under
12 this subsection shall be prepared by qualified
13 computer software.

14 “(B) QUALIFIED COMPUTER SOFTWARE.—
15 For purposes of this paragraph, the term
16 ‘qualified computer software’ means software—

17 “(i) for which the software designer
18 has certified that the software meets all
19 procedures and detailed methods for calcu-
20 lating energy and power consumption and
21 costs as required by the Secretary,

22 “(ii) which provides such forms as re-
23 quired to be filed by the Secretary in con-
24 nection with energy efficiency of property

1 and the deduction allowed under this sec-
2 tion, and

3 “(iii) which provides a notice form
4 which summarizes the energy efficiency
5 features of the building and its projected
6 annual energy costs.

7 “(4) ALLOCATION OF DEDUCTION FOR PUBLIC
8 PROPERTY.—In the case of energy-efficient commer-
9 cial building property installed on or in public prop-
10 erty, the Secretary shall promulgate a regulation to
11 allow the allocation of the deduction to the person
12 primarily responsible for designing the property in
13 lieu of the public entity which is the owner of such
14 property. Such person shall be treated as the tax-
15 payer for purposes of this section.

16 “(5) NOTICE TO OWNER.—The qualified indi-
17 vidual shall provide an explanation to the owner of
18 the building regarding the energy efficiency features
19 of the building and its projected annual energy costs
20 as provided in the notice under paragraph
21 (3)(B)(iii).

22 “(6) CERTIFICATION.—

23 “(A) IN GENERAL.—Except as provided in
24 this paragraph, the Secretary, in consultation
25 with the Secretary of Energy, shall establish re-

1 requirements for certification and compliance pro-
2 cedures similar to the procedures under section
3 45E(d).

4 “(B) QUALIFIED INDIVIDUALS.—Individuals
5 qualified to determine compliance shall be only
6 those individuals who are recognized by an or-
7 ganization certified by the Secretary for such
8 purposes.

9 “(C) PROFICIENCY OF QUALIFIED INDIVID-
10 UALS.—The Secretary shall consult with non-
11 profit organizations and State agencies with ex-
12 pertise in energy efficiency calculations and in-
13 spections to develop proficiency tests and train-
14 ing programs to qualify individuals to determine
15 compliance.

16 “(f) REGULATIONS.—The Secretary shall promulgate
17 such regulations as necessary to take into account new
18 technologies regarding energy efficiency and renewable en-
19 ergy for purposes of determining energy efficiency and
20 savings under this section.

21 “(g) TERMINATION.—This section shall not apply
22 with respect to any energy-efficient commercial building
23 property expenditures in connection with property—

1 **“SEC. 45E. NEW HIGHLY ENERGY-EFFICIENT HOME CREDIT.**

2 “(a) IN GENERAL.—For purposes of section 38, in
3 the case of an eligible contractor, the credit determined
4 under this section for the taxable year is an amount equal
5 to the credit amount specified in the following table for
6 a new, highly energy-efficient principal residence:

“New, highly energy-efficient principal residence:	Credit amount:
30 percent property	\$1,250
50 percent property	\$2,500.

7 “(b) HIGHLY ENERGY-EFFICIENT PRINCIPAL RESI-
8 DENCE.—For purposes of this section—

9 “(1) IN GENERAL.—The term ‘highly energy-ef-
10 ficient principal residence’ means a dwelling—

11 “(A) located in the United States,

12 “(B) the construction of which is substan-
13 tially completed after December 31, 2001,

14 “(C) the original use of which is as a prin-
15 cipal residence (within the meaning of section
16 121) which commences with the person who ac-
17 quires such dwelling from the eligible con-
18 tractor, and

19 “(D) which is certified before such use
20 commences as being 50 percent property or 30
21 percent property.

22 “(2) 50 OR 30 PERCENT PROPERTY.—

1 “(A) IN GENERAL.—For purposes of para-
2 graph (1), property is 50 percent property or
3 30 percent property if the projected heating and
4 cooling energy usage of such property, meas-
5 ured in terms of average annual energy cost to
6 taxpayer, is reduced by 50 percent, or 30 per-
7 cent, respectively, in comparison to the energy
8 usage of the standard design reference house as
9 determined using the procedures under sub-
10 paragraph (D).

11 “(B) STANDARD DESIGN REFERENCE
12 HOUSE.—For purposes of this subsection, the
13 term ‘standard design reference house’ means a
14 dwelling which conforms with the standards of
15 chapter 4 of the 2000 International Energy
16 Conservation Code of the International Code
17 Council and the minimum equipment efficiency
18 standards promulgated by the Department of
19 Energy under the National Appliance Energy
20 Conservation Act.

21 “(C) ENERGY EFFICIENT REFERENCE
22 HOUSE.—For purposes of this paragraph, the
23 term ‘energy efficient reference house’ means a
24 design of a dwelling which uses the same heat-
25 ing fuel type as the proposed design and which

1 uses minimum standards equipment, as re-
2 quired by the Department of Energy under the
3 National Appliance Energy Conservation Act
4 and which achieves, on average over fuel type
5 and house geometry, the required 30 percent or
6 50 percent reductions in annual energy cost as
7 calculated using the procedures under subpara-
8 graph (D).

9 “(D) PROCEDURES.—

10 “(i) IN GENERAL.—For purposes of
11 subparagraph (A), energy usage shall be
12 demonstrated either by a component-based
13 approach or a performance-based ap-
14 proach.

15 “(ii) COMPONENT APPROACH.—Com-
16 pliance by the component approach is
17 achieved when all of the components of the
18 house comply with the requirements of pre-
19 scriptive packages established by the Sec-
20 retary of Energy, in consultation with the
21 Administrator of the Environmental Pro-
22 tection Agency, such that they are equiva-
23 lent, for the strong majority of houses
24 which can use this method, to the results
25 of using the performance-based approach

1 of clause (iii) to achieve the required re-
2 duction in energy usage.

3 “(iii) PERFORMANCE-BASED AP-
4 PROACH.—Performance-based compliance
5 shall be demonstrated in terms of equiva-
6 lent or less energy usage when compared
7 to the energy efficient reference house of
8 the same heating fuel type as the dwelling
9 concerned or through an alternate method
10 prescribed by the Secretary which yields
11 equivalent results.

12 “(iv) COMPUTER SOFTWARE.—Com-
13 puter software shall be used in support of
14 performance-based compliance under
15 clause (iii) and such software shall meet all
16 of the procedures and methods for calcu-
17 lating energy savings reductions that are
18 promulgated by the Secretary of Energy.
19 Such regulations on the specifications for
20 software and verification protocols shall be
21 based on the 1998 California Residential
22 Alternative Calculation Method Approval
23 Manual.

24 “(v) FUEL PARITY.—In the case of
25 both the component and the performance-

1 based approaches, and any software used
2 in support of either such approach, the
3 Secretary shall assure fuel parity by re-
4 quiring both the energy efficient reference
5 house and the prescriptive package under
6 clause (ii) to employ the same envelope en-
7 ergy efficiency measures for a house heat-
8 ed by a gas furnace as for a house heated
9 by an electric air source heat pump or by
10 an oil furnace or boiler; and, for equipment
11 efficiency, to employ electric, oil, or gas
12 equipment efficiency of corresponding effi-
13 ciency improvement. Such determination of
14 corresponding efficiency improvement shall
15 be made on a linear scale between the min-
16 imum standard equipment efficiency and
17 the best available marketplace technology
18 efficiency as determined by the Secretary
19 after considering the information provided
20 by the Air Conditioning and Refrigeration
21 Institute (ARI) and the Gas Appliance
22 Manufacturers Association (GAMA) guides
23 for the respective electric, oil, and natural
24 gas equipment of such type (such as heat-
25 ing and cooling).

1 “(vi) APPROVAL OF SOFTWARE SUB-
2 MISSIONS.—The Secretary shall approve
3 software submissions that comply with the
4 calculation requirements of clause (iv).

5 “(vii) PROCEDURES FOR INSPECTION
6 AND TESTING OF HOMES.—The Secretary
7 shall ensure that procedures for the inspec-
8 tion and testing for compliance comply
9 with the calculation requirements under
10 clause (iv).

11 “(3) DETERMINATIONS OF COMPLIANCE.—A
12 determination of compliance made for the purposes
13 of this subsection shall be filed with the Secretary
14 within 1 year after the date of such determination
15 and shall include the TIN of the certifier, the ad-
16 dress of the building in compliance, and the identity
17 of the person for whom such determination was per-
18 formed. Determinations of compliance filed with the
19 Secretary shall be available for inspection by the
20 Secretary of Energy.

21 “(4) COMPLIANCE.—

22 “(A) IN GENERAL.—The Secretary, in con-
23 sultation with the Secretary of Energy shall es-
24 tablish requirements for certification and com-
25 pliance procedures after examining the require-

1 ments for energy consultants and home energy
2 ratings providers specified by the Mortgage In-
3 dustry National Accreditation Procedures for
4 Home Energy Rating Systems.

5 “(B) INDIVIDUALS QUALIFIED TO DETER-
6 MINE COMPLIANCE.—Individuals qualified to
7 determine compliance shall be only those indi-
8 viduals who are recognized by an organization
9 certified by the Secretary for such purposes.
10 The Secretary may qualify a Home Energy
11 Rating Systems Organization, a local building
12 code agency, a State or local energy office, a
13 utility, or other organizations which meet the
14 requirements prescribed under this section.

15 “(5) FORM PROVIDED TO BUYER.—

16 “(A) IN GENERAL.—A form documenting
17 the energy-efficiency of the dwelling, including
18 the rated energy efficiency performance of
19 equipment installed in the dwelling, shall be
20 provided to the buyer of the dwelling. The form
21 shall include labeled R-value for insulation
22 products, NFRC-labeled U-factor and Solar
23 Heat Gain Coefficient for windows, skylights,
24 and doors, labeled AFUE ratings for furnaces
25 and boilers, labeled HSPF ratings for electric

1 heat pumps, and labeled SEER ratings for air
2 conditioners.

3 “(B) RATINGS LABEL AFFIXED IN DWELL-
4 ING.—A permanent label documenting the rat-
5 ings in subparagraph (A) shall be affixed to the
6 front of the electrical distribution panel of the
7 dwelling, or shall be otherwise permanently dis-
8 played in a readily inspectable location in the
9 dwelling.

10 “(c) ADDITIONAL DEFINITIONS.—For purposes of
11 this section—

12 “(1) ELIGIBLE CONTRACTOR.—The term ‘eligi-
13 ble contractor’ means the person who constructed
14 the new energy-efficient home, or in the case of a
15 manufactured home which conforms to Federal
16 Manufactured Home Construction and Safety Stand-
17 ards (24 C.F.R. 3280), the manufactured home pro-
18 ducer of such home.

19 “(2) CONSTRUCTION.—The term ‘construction’
20 includes reconstruction and rehabilitation.

21 “(3) ACQUIRE.—The term ‘acquire’ includes
22 purchase and, in the case of reconstruction and re-
23 habilitation, such term includes a binding written
24 contract for such reconstruction or rehabilitation.

1 “(4) MANUFACTURED HOME INCLUDED.—The
2 term ‘dwelling’ includes a manufactured home con-
3 forming to Federal Manufactured Home Construc-
4 tion and Safety Standards (24 C.F.R. 3280).

5 “(–) COORDINATION WITH OTHER CREDITS.—Prop-
6 erty which would, but for this paragraph, be eligible for
7 credit under more than one provision of this section shall
8 be eligible only under one such provision, the provision
9 specified by the taxpayer.

10 “(e) BASIS ADJUSTMENT.—For purposes of this sub-
11 title, if a credit is allowed under this section for any ex-
12 penditure with respect to any property, the increase in the
13 basis of such property which would (but for this sub-
14 section) result from such expenditure shall be reduced by
15 the amount of the credit so allowed.

16 “(f) TERMINATION.—Subsection (a) shall apply to
17 dwellings purchased during the period beginning on Janu-
18 ary 1, 2001, and ending on December 31, 2005.”.

19 (b) CREDIT MADE PART OF GENERAL BUSINESS
20 CREDIT.—Section 38(b) (relating to current year business
21 credit), as amended by section 202, is amended by striking
22 “plus” at the end of paragraph (15), by striking the period
23 at the end of paragraph (16) and inserting “, plus”, and
24 by adding at the end the following:

1 “(17) the new highly energy-efficient home
2 credit determined under section 45E.”.

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:

6 “(d) NEW ENERGY-EFFICIENT HOME EXPENSES.—
7 No deduction shall be allowed for that portion of expenses
8 for a new highly energy-efficient home otherwise allowable
9 as a deduction for the taxable year which is equal to the
10 amount of the credit determined for such taxable year
11 under section 45E.”.

12 (d) CREDIT ALLOWED AGAINST REGULAR AND MIN-
13 IMUM TAX.—

14 (1) IN GENERAL.—Section 38(c) (relating to
15 limitation based on amount of tax), as amended by
16 section 102, is amended by redesignating paragraph
17 (4) as paragraph (5) and by inserting after para-
18 graph (3) the following new paragraph:

19 “(4) SPECIAL RULES FOR NEW ENERGY EFFI-
20 CIENT HOME CREDIT.—

21 “(A) IN GENERAL.—In the case of the new
22 energy efficient home credit—

23 “(i) this section and section 39 shall
24 be applied separately with respect to the
25 credit, and

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

3 “(I) subparagraphs (A) and (B)
4 thereof shall not apply, and

5 “(II) the limitation under para-
6 graph (1) (as modified by subclause
7 (I)) shall be reduced by the credit al-
8 lowed under subsection (a) for the
9 taxable year (other than the new en-
10 ergy efficient home credit).

11 “(B) NEW HIGHLY ENERGY EFFICIENT
12 HOME CREDIT.—For purposes of this sub-
13 section, the term ‘new highly energy efficient
14 home credit’ means the credit allowable under
15 subsection (a) by reason of section 45E.”.

16 (2) CONFORMING AMENDMENT.—Subclause (II)
17 of section 38(c)(2)(A)(ii) is amended by inserting
18 “or the new highly energy efficient home credit”
19 after “employment credit”.

20 (e) LIMITATION ON CARRYBACK.—Section 39(d) (re-
21 lating to transition rules), as amended by section 202, is
22 amended by adding at the end the following:

23 “(12) NO CARRYBACK OF NEW HIGHLY EN-
24 ERGY-EFFICIENT HOME CREDIT BEFORE EFFECTIVE
25 DATE.—No portion of the unused business credit for

1 any taxable year which is attributable to the credit
2 determined under section 45E may be carried back
3 to any taxable year ending before January 1,
4 2001.”.

5 (f) DEDUCTION FOR CERTAIN UNUSED BUSINESS
6 CREDITS.—Subsection (c) of section 196 is amended by
7 striking “and” at the end of paragraph (7), by striking
8 the period at the end of paragraph (8) and inserting “,
9 and”, and by adding after paragraph (8) the following:
10 “(9) the new highly energy-efficient home credit
11 determined under section 45E.”.

12 (g) CLERICAL AMENDMENT.—The table of sections
13 for subpart D of part IV of subchapter A of chapter 1
14 is amended by inserting after the item relating to section
15 45D the following:

“Sec. 45E. New highly energy-efficient home credit.”.

16 (h) EFFECTIVE DATE.—The amendments made by
17 this section shall apply to taxable years ending after De-
18 cember 31, 2001.

19 **SEC. 303. CREDIT FOR ENERGY EFFICIENT APPLIANCES.**

20 (a) IN GENERAL.—Subpart D of part IV of sub-
21 chapter A of chapter 1 (relating to business-related cred-
22 its), as amended by section 302, is amended by adding
23 at the end the following new section:

1 **“SEC. 45F. ENERGY EFFICIENT APPLIANCE CREDIT.**

2 “(a) GENERAL RULE.—For purposes of section 38,
3 the energy efficient appliance credit determined under this
4 section for the taxable year is an amount equal to the ap-
5 plicable amount determined under subsection (b) with re-
6 spect to qualified energy efficient appliances produced by
7 the taxpayer during the calendar year ending with or with-
8 in the taxable year.

9 “(b) APPLICABLE AMOUNT.—For purposes of sub-
10 section (a), the applicable amount determined under this
11 subsection with respect to a taxpayer is the sum of—

12 “(1) in the case of an energy efficient clothes
13 washer described in subsection (d)(2)(A) or an en-
14 ergy efficient refrigerator described in subsection
15 (d)(3)(B)(i), an amount equal to—

16 “(A) \$50, multiplied by

17 “(B) the number of such washers and re-
18 frigerators produced by the taxpayer during
19 such calendar year, and

20 “(2) in the case of an energy efficient clothes
21 washer described in subsection (d)(2)(B) or an en-
22 ergy efficient refrigerator described in subsection
23 (d)(3)(B)(ii), an amount equal to—

24 “(A) \$100, multiplied by

1 “(B) the number of such washers and re-
2 frigerators produced by the taxpayer during
3 such calendar year.

4 “(c) LIMITATION ON MAXIMUM CREDIT.—

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

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

10 “(B) \$30,000,000 with respect to the cred-
11 it determined under subsection (b)(2).

12 “(2) LIMITATION BASED ON GROSS RE-
13 CEIPTS.—The credit allowed under subsection (a)
14 with respect to a taxpayer for the taxable year shall
15 not exceed an amount equal to 2 percent of the aver-
16 age annual gross receipts of the taxpayer for the 3
17 taxable years preceding the taxable year in which
18 the credit is determined.

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

22 “(d) QUALIFIED ENERGY EFFICIENT APPLIANCE.—
23 For purposes of this section—

24 “(1) IN GENERAL.—The term ‘qualified energy
25 efficient appliance’ means—

1 “(A) an energy efficient clothes washer, or

2 “(B) an energy efficient refrigerator.

3 “(2) ENERGY EFFICIENT CLOTHES WASHER.—

4 The term ‘energy efficient clothes washer’ means a
5 residential clothes washer, including a residential
6 style coin operated washer, which is manufactured
7 with—

8 “(A) a 1.26 Modified Energy Factor (re-
9 ferred to in this paragraph as ‘MEF’) (as de-
10 termined by the Secretary of Energy), or

11 “(B) a 1.42 MEF (as determined by the
12 Secretary of Energy) (1.5 MEF for calendar
13 years beginning after 2004).

14 “(3) ENERGY EFFICIENT REFRIGERATOR.—The
15 term ‘energy efficient refrigerator’ means an auto-
16 matic defrost refrigerator-freezer which—

17 “(A) has an internal volume of at least
18 16.5 cubic feet, and

19 “(B) consumes—

20 “(i) 10 percent less kw/hr/yr than the
21 energy conservation standards promulgated
22 by the Department of Energy for such re-
23 frigerator for 2001, or

24 “(ii) 15 percent less kw/hr/yr than
25 such energy conservation standards.

1 “(e) SPECIAL RULES.—

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

5 “(2) AGGREGATION RULES.—All persons treat-
6 ed as a single employer under subsection (a) or (b)
7 of section 52 or subsection (m) or (o) of section 414
8 shall be treated as one person for purposes of sub-
9 section (a).

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

14 “(g) TERMINATION.—This section shall not apply to
15 qualified energy efficient appliances produced in calendar
16 years beginning after 2006.”.

17 (b) LIMITATION ON CARRYBACK.—Section 39(d) (re-
18 lating to transition rules), as amended by section 302, is
19 amended by adding at the end the following new para-
20 graph:

21 “(13) NO CARRYBACK OF ENERGY EFFICIENT
22 APPLIANCE CREDIT BEFORE EFFECTIVE DATE.—No
23 portion of the unused business credit for any taxable
24 year which is attributable to the energy efficient ap-
25 pliance credit determined under section 45F may be

1 carried to a taxable year ending before the date of
2 the enactment of section 45F.”.

3 (c) CONFORMING AMENDMENT.—Section 38(b) (re-
4 lating to general business credit), as amended by section
5 302, is amended by striking “plus” at the end of para-
6 graph (16), by striking the period at the end of paragraph
7 (17) and inserting “, plus”, and by adding at the end the
8 following new paragraph:

9 “(18) the energy efficient appliance credit de-
10 termined under section 45F(a).”.

11 (d) CLERICAL AMENDMENT.—The table of sections
12 for subpart D of part IV of subchapter A of chapter 1,
13 as amended by section 302, is amended by inserting after
14 the item relating to section 45E the following new item:

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

15 (e) EFFECTIVE DATE.—The amendments made by
16 this section shall apply to taxable years beginning after
17 December 31, 2001.

18 **SEC. 304. CREDIT FOR ADJUSTABLE SPEED DRIVES.**

19 (a) IN GENERAL.—Subparagraph (A) of section
20 48A(c)(1) (defining energy property), as added by section
21 401 and amended by section 206, is amended by striking
22 “or” at the end of clause (vii), by adding “or” at the end
23 of clause (viii), and by inserting after clause (viii) the fol-
24 lowing new clause:

1 “(ix) adjustable speed drive prop-
2 erty,”.

3 (b) ADJUSTABLE SPEED DRIVE PROPERTY.—Sub-
4 section (d) of section 48A, as so added, is amended by
5 adding at the end the following new paragraph:

6 “(9) ADJUSTABLE SPEED DRIVE PROPERTY.—

7 “(A) IN GENERAL.—The term ‘adjustable
8 speed drive property’ means equipment installed
9 as part of an electric motor driven system of 10
10 horsepower or greater—

11 “(i) that is used to adjust the speed
12 of the electric motor drive output to the re-
13 quirements of a fluctuating load, and

14 “(ii) that achieves an energy savings
15 of at least 20 percent during a complete
16 cycle of operation.

17 “(B) LIMITATION.—In the case of adjust-
18 able speed drive property placed in service dur-
19 ing the taxable year, the credit under sub-
20 section (a) for such year may not exceed
21 \$10,000 for each item of such property.

22 “(C) COORDINATION WITH DEDUCTION
23 FOR ENERGY-EFFICIENT COMMERCIAL BUILD-
24 ING PROPERTY.—The energy percentage shall
25 apply to the basis of adjustable speed drive

1 property after adjustment under section
2 1016(a)(31).”.

3 **SEC. 305. CREDIT FOR ENERGY EFFICIENT RECYCLING OR**
4 **REMANUFACTURING EQUIPMENT.**

5 (a) IN GENERAL.—Section 46 (relating to amount of
6 investment credit) is amended by striking “and” at the
7 end of paragraph (2), by striking the period at the end
8 of paragraph (3) and inserting “, and”, and by adding
9 at the end the following new paragraph:

10 “(4) the reclamation credit.”

11 (b) RECLAMATION CREDIT.—Section 48 (relating to
12 energy credit and reforestation credit), as amended by sec-
13 tion 401, is amended by adding at the end the following
14 new subsection:

15 “(c) RECLAMATION CREDIT.—

16 “(1) IN GENERAL.—For purposes of section 46,
17 the reclamation credit for any taxable year is 20
18 percent of the basis of each qualified reclamation
19 property placed in service during the taxable year.

20 “(2) QUALIFIED RECLAMATION PROPERTY.—

21 “(A) IN GENERAL.—For purposes of this
22 section, the term ‘qualified reclamation prop-
23 erty’ means property—

24 “(i) which is qualified recycling prop-
25 erty or qualified remanufacturing property,

1 “(ii) which is tangible property (not
2 including a building and its structural
3 components),

4 “(iii) with respect to which deprecia-
5 tion (or amortization in lieu of deprecia-
6 tion) is allowable,

7 “(iv) which has a useful life of at least
8 5 years, and

9 “(v) which is—

10 “(I) acquired by purchase (as de-
11 fined in section 179(d)(2)) by the tax-
12 payer if the original use of such prop-
13 erty commences with the taxpayer, or

14 “(II) constructed by or for the
15 taxpayer.

16 “(B) DOLLAR LIMITATION.—

17 “(i) IN GENERAL.—The basis of quali-
18 fied reclamation property taken into ac-
19 count under paragraph (1) for any taxable
20 year shall not exceed \$10,000,000 for a
21 taxpayer.

22 “(ii) TREATMENT OF CONTROLLED
23 GROUP.—For purposes of clause (i)—

1 “(I) all component members of a
2 controlled group shall be treated as
3 one taxpayer, and

4 “(II) the Secretary shall appor-
5 tion the dollar limitation in such
6 clause among the component members
7 of such controlled group in such man-
8 ner as he shall by regulation pre-
9 scribe.

10 “(iii) TREATMENT OF PARTNERSHIPS
11 AND S CORPORATIONS.—In the case of a
12 partnership, the dollar limitation in clause
13 (i) shall apply with respect to the partner-
14 ship and with respect to each partner. A
15 similar rule shall apply in the case of an
16 S corporation and its shareholders.

17 “(iv) CONTROLLED GROUP DE-
18 FINED.—For purposes of clause (ii), the
19 term ‘controlled group’ has the meaning
20 given such term by section 1563(a), except
21 that ‘more than 50 percent’ shall be sub-
22 stituted for ‘at least 80 percent’ each place
23 it appears in section 1563(a)(1).

24 “(3) CERTAIN PROGRESS EXPENDITURE RULES
25 MADE APPLICABLE.—Rules similar to the rules of

1 subsections (c)(4) and (d) of section 46 (as in effect
2 on the day before the date of the enactment of the
3 Revenue Reconciliation Act of 1990) shall apply for
4 purposes of this subsection.

5 “(4) DEFINITIONS.—For purposes of this
6 subsection—

7 “(A) QUALIFIED RECYCLING PROPERTY.—
8 The term ‘qualified recycling property’ means
9 equipment used exclusively to collect, distribute,
10 or sort used ferrous or nonferrous metals. The
11 term does not include equipment used to collect,
12 distribute, or sort precious metals such as gold,
13 silver, or platinum unless such use is coinci-
14 dental to the collection, distribution, or sorting
15 of other used ferrous or nonferrous metals.

16 “(B) QUALIFIED REMANUFACTURING
17 PROPERTY.—The term ‘qualified remanufac-
18 turing property’ means equipment used pri-
19 marily by the taxpayer in the business of re-
20 building or remanufacturing a used product or
21 part, but only if—

22 “(i) the rebuilt or remanufactured
23 product or part includes 50 percent or less
24 virgin material, and

1 “(ii) the equipment is not used pri-
2 marily in a process occurring after the
3 product or part is rebuilt or remanufac-
4 tured.

5 “(5) COORDINATION WITH REHABILITATION
6 AND ENERGY CREDITS.—For purposes of this
7 section—

8 “(A) the basis of any qualified reclamation
9 property shall be reduced by that portion of the
10 basis of any property which is attributable to
11 qualified rehabilitation expenditures (as defined
12 in section 47(c)(2)) or to the energy percentage
13 of energy property (as determined under section
14 48A), and

15 “(B) expenditures taken into account
16 under either section 47 or 48A shall not be
17 taken into account under this section.”.

18 (c) SPECIAL BASIS ADJUSTMENT RULE.—Paragraph
19 (3) of section 50(c) (relating to basis adjustment to invest-
20 ment credit property) is amended by striking “energy
21 credit or reforestation credit” and inserting “energy cred-
22 it, reforestation credit, or reclamation credit”.

23 (d) CLERICAL AMENDMENTS.—

1 (1) The section heading for section 48, as
2 amended by section 401, is amended to read as fol-
3 lows:

4 **“SEC. 48. REFORESTATION CREDIT; RECLAMATION CRED-
5 IT.”**

6 (2) The item relating to section 48 in the table
7 of sections for subpart E of part IV of subchapter
8 A of chapter 1 is amended to read as follows:

 “Sec. 48. Reforestation credit; reclamation credit.”

9 (e) EFFECTIVE DATE.—The amendments made by
10 this section shall apply to property placed in service after
11 December 31, 2001.

12 **TITLE IV—DEMAND MANAGEMENT AND DISTRIBUTED EN-
13 ERGY GENERATION**

14 **SEC. 401. CREDIT FOR DISTRIBUTED ENERGY GENERATION
15 AND DEMAND MANAGEMENT PROPERTY
16 USED IN BUSINESS.**

17 (a) IN GENERAL.—Subpart E of part IV of sub-
18 chapter A of chapter 1 (relating to rules for computing
19 investment credit) is amended by inserting after section
20 48 the following:
21 48 the following:

22 **“SEC. 48A. ENERGY CREDIT.**

23 “(a) IN GENERAL.—For purposes of section 46, the
24 energy credit for any taxable year is the energy percentage

1 of the basis of each energy property placed in service dur-
2 ing such taxable year.

3 “(b) ENERGY PERCENTAGE.—

4 “(1) IN GENERAL.—The energy percentage is—

5 “(A) except as otherwise provided in this
6 subparagraph, 10 percent,

7 “(B) in the case of energy property de-
8 scribed in clauses (i), (iii), and (vi) of sub-
9 section (c)(1)(A), 20 percent,

10 “(C) in the case of energy property de-
11 scribed in subsection (c)(1)(A)(v), 15 percent,
12 and

13 “(D) in the case of energy property de-
14 scribed in subsection (c)(1)(A)(ii) relating to a
15 high risk geothermal well, 20 percent.

16 “(2) COORDINATION WITH REHABILITATION.—

17 The energy percentage shall not apply to that por-
18 tion of the basis of any property which is attrib-
19 utable to qualified rehabilitation expenditures.

20 “(c) ENERGY PROPERTY DEFINED.—

21 “(1) IN GENERAL.—For purposes of this sub-
22 part, the term ‘energy property’ means any
23 property—

24 “(A) which is—

25 “(i) solar energy property,

- 1 “(ii) geothermal energy property,
- 2 “(iii) energy-efficient building prop-
- 3 erty other than property described in
- 4 clauses (iii)(I) and (v)(I) of subsection
- 5 (d)(3)(A),
- 6 “(iv) combined heat and power system
- 7 property,
- 8 “(v) low core loss distribution trans-
- 9 former property, or
- 10 “(vi) qualified anaerobic digester
- 11 property, or
- 12 “(B)(i) the construction, reconstruction, or
- 13 erection of which is completed by the taxpayer,
- 14 or
- 15 “(ii) which is acquired by the taxpayer if
- 16 the original use of such property commences
- 17 with the taxpayer.
- 18 “(C) which can reasonably be expected to
- 19 remain in operation for at least 5 years,
- 20 “(D) with respect to which depreciation (or
- 21 amortization in lieu of depreciation) is allow-
- 22 able, and
- 23 “(E) which meets the performance and
- 24 quality standards (if any) which—

1 “(i) have been prescribed by the Sec-
2 retary by regulations (after consultation
3 with the Secretary of Energy), and

4 “(ii) are in effect at the time of the
5 acquisition of the property.

6 “(2) EXCEPTION FOR PUBLIC UTILITY PROP-
7 ERTY.—Such term shall not include any property
8 which is public utility property (as defined in section
9 46(f)(5) as in effect on the day before the date of
10 the enactment of the Revenue Reconciliation Act of
11 1990), except for property described in paragraph
12 (1)(A)(iv).

13 “(d) DEFINITIONS RELATING TO TYPES OF ENERGY
14 PROPERTY.—For purposes of this section—

15 “(1) SOLAR ENERGY PROPERTY.—

16 “(A) IN GENERAL.—The term ‘solar en-
17 ergy property’ means equipment which uses
18 solar energy to generate electricity, to heat or
19 cool (or provide hot water for use in) a struc-
20 ture, or to provide solar process heat.

21 “(B) SWIMMING POOLS, ETC. USED AS
22 STORAGE MEDIUM.—The term ‘solar energy
23 property’ shall not include property with respect
24 to which expenditures are properly allocable to
25 a swimming pool, hot tub, or any other energy

1 storage medium which has a function other
2 than the function of such storage.

3 “(C) SOLAR PANELS.—No solar panel or
4 other property installed as a roof (or portion
5 thereof) shall fail to be treated as solar energy
6 property solely because it constitutes a struc-
7 tural component of the structure on which it is
8 installed.

9 “(2) GEOTHERMAL ENERGY PROPERTY.—

10 “(A) IN GENERAL.—The term ‘geothermal
11 energy property’ means equipment used to
12 produce, distribute, or use energy derived from
13 a geothermal deposit (within the meaning of
14 section 613(e)(2)), but only, in the case of elec-
15 tricity generated by geothermal power, up to
16 (but not including) the electrical transmission
17 stage.

18 “(B) HIGH RISK GEOTHERMAL WELL.—
19 The term ‘high risk geothermal well’ means a
20 geothermal deposit (within the meaning of sec-
21 tion 613(e)(2)) which requires high risk drilling
22 techniques. Such deposit may not be located in
23 a State or national park or in an area in which
24 the relevant State park authority or the Na-
25 tional Park Service determines the development

1 of such a deposit will negatively impact on a
2 State or national park.

3 “(3) ENERGY-EFFICIENT BUILDING PROP-
4 ERTY.—

5 “(A) IN GENERAL.—The term ‘energy-effi-
6 cient building property’ means—

7 “(i) a fuel cell which—

8 “(I) generates electricity using
9 an electrochemical process,

10 “(II) has an electricity-only gen-
11 eration efficiency greater than 30 per-
12 cent, and

13 “(III) has a minimum generating
14 capacity of 1 kilowatt,

15 “(ii) an electric heat pump hot water
16 heater which yields an energy factor of 1.7
17 or greater under test procedures prescribed
18 by the Secretary of Energy,

19 “(iii)(I) an electric heat pump which
20 has a heating system performance factor
21 (HSPF) of at least 8.5 but less than 9 and
22 a cooling seasonal energy efficiency ratio
23 (SEER) of at least 13.5 but less than 15
24 and an energy efficiency ratio (EER) of at
25 least 11.5,

1 “(II) an electric heat pump which has
2 a heating system performance factor
3 (HSPF) of 9 or greater and a cooling sea-
4 sonal energy efficiency ratio (SEER) of 15
5 or greater and an energy efficiency ratio
6 (EER) of at least 12.5,

7 “(iv) a natural gas heat pump which
8 has a coefficient of performance of not less
9 than 1.25 for heating and not less than
10 0.70 for cooling,

11 “(v)(I) a central air conditioner which
12 has a cooling seasonal energy efficiency
13 ratio (SEER) of at least 13.5 but less than
14 15 and an energy efficiency ratio (EER) of
15 at least 11.5,

16 “(II) a central air conditioner which
17 has a cooling seasonal energy efficiency
18 ratio (SEER) of 15 or greater and an en-
19 ergy efficiency ratio (EER) of at least
20 12.5,

21 “(vi) an advanced natural gas water
22 heater which—

23 “(I) increases steady state effi-
24 ciency and reduces standby and vent
25 losses, and

1 “(II) has an energy factor of at
2 least 0.65, and

3 “(vii) an advanced natural gas fur-
4 nace which achieves a 90 percent AFUE
5 and rated for seasonal electricity use of
6 less than 300 kWh per year.

7 “(B) LIMITATIONS.—The credit under sub-
8 section (a) for the taxable year may not
9 exceed—

10 “(i) \$500 in the case of property de-
11 scribed in subparagraph (A) other than
12 clauses (i) and (iv) thereof,

13 “(ii) \$500 for each kilowatt of capac-
14 ity in the case of any fuel cell described in
15 subparagraph (A)(i), and

16 “(iii) \$3,000 in the case of any nat-
17 ural gas heat pump described in subpara-
18 graph (A)(iv).

19 “(4) COMBINED HEAT AND POWER SYSTEM
20 PROPERTY.—

21 “(A) IN GENERAL.—The term ‘combined
22 heat and power system property’ means
23 property—

24 “(i) comprising a system for the same
25 energy source for the simultaneous or se-

1 quential generation of electrical power, me-
2 chanical shaft power, or both, in combina-
3 tion with steam, heat, or other forms of
4 useful energy,

5 “ (ii) which has an electrical capacity
6 of more than 20 kilowatts or a mechanical
7 energy capacity of more than 67 horse-
8 power or an equivalent combination of elec-
9 trical and mechanical energy capacities,

10 “ (iii) which produces—

11 “ (I) at least 20 percent of its
12 total useful energy in the form of
13 thermal energy, and

14 “ (II) at least 20 percent of its
15 total useful energy in the form of elec-
16 trical or mechanical power (or a com-
17 bination thereof), and

18 “ (iv) the energy efficiency percentage
19 of which exceeds—

20 “ (I) 60 percent in the case of a
21 system with an electrical capacity of
22 less than 1 megawatt),

23 “ (II) 65 percent in the case of a
24 system with an electrical capacity of

1 not less than 1 megawatt and not in
2 excess of 50 megawatts), and

3 “(III) 70 percent in the case of a
4 system with an electrical capacity in
5 excess of 50 megawatts).

6 “(B) SPECIAL RULES.—

7 “(i) ENERGY EFFICIENCY PERCENT-
8 AGE.—For purposes of subparagraph
9 (A)(iv), the energy efficiency percentage of
10 a system is the fraction—

11 “(I) the numerator of which is
12 the total useful electrical, thermal,
13 and mechanical power produced by
14 the system at normal operating rates,
15 and

16 “(II) the denominator of which is
17 the lower heating value of the primary
18 fuel source for the system.

19 “(ii) DETERMINATIONS MADE ON BTU
20 BASIS.—The energy efficiency percentage
21 shall be determined on a Btu basis.

22 “(iii) INPUT AND OUTPUT PROPERTY
23 NOT INCLUDED.—The term ‘combined heat
24 and power system property’ does not in-
25 clude property used to transport the en-

1 ergy source to the facility or to distribute
2 energy produced by the facility.

3 “(iv) ACCOUNTING RULE FOR PUBLIC
4 UTILITY PROPERTY.—If the combined heat
5 and power system property is public utility
6 property (as defined in section 46(f)(5) as
7 in effect on the day before the date of the
8 enactment of the Revenue Reconciliation
9 Act of 1990), the taxpayer may only claim
10 the credit under subsection (a)(1) if, with
11 respect to such property, the taxpayer uses
12 a normalization method of accounting.

13 “(5) LOW CORE LOSS DISTRIBUTION TRANS-
14 FORMER PROPERTY.—The term ‘low core loss dis-
15 tribution transformer property’ means a distribution
16 transformer that has an efficiency rating based on
17 the National Electrical Manufacturers Association
18 (NEMA) TP-2 test procedure equal to or
19 exceeding—

20 “(A) the NEMA TP-1 efficiency standard
21 for the type of transformer concerned, plus

22 “(B) 0.5 percent of the NEMA TP-1 effi-
23 ciency standard.

24 “(6) QUALIFIED ANAEROBIC DIGESTER PROP-
25 ERTY.—The term ‘qualified anaerobic digester prop-

1 erty' means an anaerobic digester for manure or
2 crop waste which achieves at least 65 percent effi-
3 ciency measured in terms of the fraction of energy
4 input converted to electricity and useful thermal en-
5 ergy.

6 “(e) SPECIAL RULES.—For purposes of this
7 section—

8 “(1) SPECIAL RULE FOR PROPERTY FINANCED
9 BY SUBSIDIZED ENERGY FINANCING OR INDUSTRIAL
10 DEVELOPMENT BONDS.—

11 “(A) REDUCTION OF BASIS.—For purposes
12 of applying the energy percentage to any prop-
13 erty, if such property is financed in whole or in
14 part by—

15 “(i) subsidized energy financing, or

16 “(ii) the proceeds of a private activity
17 bond (within the meaning of section 141)
18 the interest on which is exempt from tax
19 under section 103, the amount taken into
20 account as the basis of such property shall
21 not exceed the amount which (but for this
22 subparagraph) would be so taken into ac-
23 count multiplied by the fraction deter-
24 mined under subparagraph (B).

1 “(B) DETERMINATION OF FRACTION.—For
2 purposes of subparagraph (A), the fraction de-
3 termined under this subparagraph is 1 reduced
4 by a fraction—

5 “(i) the numerator of which is that
6 portion of the basis of the property which
7 is allocable to such financing or proceeds,
8 and

9 “(ii) the denominator of which is the
10 basis of the property.

11 “(C) SUBSIDIZED ENERGY FINANCING.—
12 For purposes of subparagraph (A), the term
13 ‘subsidized energy financing’ means financing
14 provided under a Federal, State, or local pro-
15 gram a principal purpose of which is to provide
16 subsidized financing for projects designed to
17 conserve or produce energy.

18 “(2) CERTAIN PROGRESS EXPENDITURE RULES
19 MADE APPLICABLE.—Rules similar to the rules of
20 subsections (c)(4) and (d) of section 46 (as in effect
21 on the day before the date of the enactment of the
22 Revenue Reconciliation Act of 1990) shall apply for
23 purposes of this section.

1 “(f) APPLICATION OF SECTION.—This section shall
2 apply to property placed in service after December 31,
3 2001, and before January 1, 2007.”.

4 (b) CONFORMING AMENDMENTS.—

5 (1) Section 48 is amended to read as follows:

6 **“SEC. 48. REFORESTATION CREDIT.**

7 “(a) IN GENERAL.—For purposes of section 46, the
8 reforestation credit for any taxable year is 20 percent of
9 the portion of the amortizable basis of any qualified timber
10 property which was acquired during such taxable year and
11 which is taken into account under section 194 (after the
12 application of section 194(b)(1)).

13 “(b) DEFINITIONS.—For purposes of this subpart,
14 the terms ‘amortizable basis’ and ‘qualified timber prop-
15 erty’ have the respective meanings given to such terms by
16 section 194.”.

17 (2) Section 39(d), as amended by section 303,
18 is amended by adding at the end the following:

19 “(14) NO CARRYBACK OF ENERGY CREDIT BE-
20 FORE EFFECTIVE DATE.—No portion of the unused
21 business credit for any taxable year which is attrib-
22 utable to the energy credit determined under section
23 48A may be carried back to a taxable year ending
24 before January 1, 2002.”.

1 (3) Section 280C, as amended by section 302,
2 is amended by adding at the end the following:

3 “(e) CREDIT FOR ENERGY PROPERTY EXPENSES.—

4 “(1) IN GENERAL.—No deduction shall be al-
5 lowed for that portion of the expenses for energy
6 property (as defined in section 48A(c)) otherwise al-
7 lowable as a deduction for the taxable year which is
8 equal to the amount of the credit determined for
9 such taxable year under section 48A(a).

10 “(2) SIMILAR RULE WHERE TAXPAYER CAP-
11 ITALIZES RATHER THAN DEDUCTS EXPENSES.—If—

12 “(A) the amount of the credit allowable for
13 the taxable year under section 48A (determined
14 without regard to section 38(c)), exceeds

15 “(B) the amount allowable as a deduction
16 for the taxable year for expenses for energy
17 property (determined without regard to para-
18 graph (1)), the amount chargeable to capital
19 account for the taxable year for such expenses
20 shall be reduced by the amount of such excess.

21 “(3) CONTROLLED GROUPS.—Paragraph (3) of
22 subsection (b) shall apply for purposes of this sub-
23 section.”.

1 (4) Section 29(b)(3)(A)(i)(III) is amended by
2 striking ‘section 48(a)(4)(C)’ and inserting ‘section
3 48A(e)(1)(C)’.

4 (5) Section 50(a)(2)(E) is amended by striking
5 ‘section 48(a)(5)’ and inserting ‘section 48A(e)(2)’.

6 (6) Section 168(e)(3)(B) is amended—

7 (A) by striking clause (vi)(I) and inserting
8 the following:

9 “(I) is described in paragraph (1) or
10 (2) of section 48A(d) (or would be so de-
11 scribed if ‘solar and wind’ were substituted
12 for ‘solar’ in paragraph (1)(B)),”, and

13 (B) in the last sentence by striking “sec-
14 tion 48(a)(3)” and inserting “section
15 48A(c)(2)(A)”.

16 (c) CLERICAL AMENDMENT.—The table of sections
17 for subpart E of part IV of subchapter A of chapter 1
18 is amended by striking the item relating to section 48 and
19 inserting the following:

“Sec. 48. Reforestation credit.

“Sec. 48A. Energy credit.”.

20 (d) EFFECTIVE DATE.—The amendments made by
21 this section shall apply to property placed in service after
22 December 31, 2001, under rules similar to the rules of
23 section 48(m) of the Internal Revenue Code of 1986 (as

1 in effect on the day before the date of the enactment of
2 the Revenue Reconciliation Act of 1990).

3 **SEC. 402. CREDIT FOR DISTRIBUTED ENERGY GENERATION**
4 **AND DEMAND MANAGEMENT PROPERTY**
5 **USED IN RESIDENCES .**

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

10 **“SEC. 25C. RESIDENTIAL DISTRIBUTED ENERGY GENERA-**
11 **TION AND DEMAND MANAGEMENT PROP-**
12 **ERTY.**

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

17 “(1) 15 percent of the qualified photovoltaic
18 property expenditures,

19 “(2) 15 percent of the qualified solar water
20 heating property expenditures,

21 “(3) 25 percent of the qualified wind energy
22 property expenditures, and

23 “(4) 20 percent for the qualified fuel cell prop-
24 erty expenditures,

1 “(5) 20 percent for qualified energy-efficient
2 building property expenditures (10 percent for ex-
3 penditures described in subsection (c)(5)(B)),
4 made by the taxpayer during the taxable year.

5 “(b) LIMITATIONS.—

6 “(1) MAXIMUM CREDIT.—

7 “(A) SOLAR.—The credit allowed under
8 subsection (a)(2) shall not exceed \$2,000 for
9 each system of solar energy property.

10 “(B) WIND.—The credit allowed under
11 subsection (a)(3) shall not exceed \$5,000 for
12 each system of wind energy property.

13 “(C) ENERGY-EFFICIENT BUILDING PROP-
14 ERTY.—The credit allowed under subsection
15 (a)(5) shall not exceed \$500 for each item of
16 energy-efficient building property.

17 “(2) TYPE OF PROPERTY.—No expenditure may
18 be taken into account under this section unless such
19 expenditure is made by the taxpayer for property in-
20 stalled on or in connection with a dwelling unit
21 which is located in the United States and which is
22 used as a residence.

23 “(3) SAFETY CERTIFICATIONS.—No credit shall
24 be allowed under this section for an item of property
25 unless—

1 “(A) in the case of solar water heating
2 property, such property is certified for perform-
3 ance and safety by the non-profit Solar Rating
4 Certification Corporation or a comparable enti-
5 ty endorsed by the government of the State in
6 which such property is installed, and

7 “(B) in the case of a photovoltaic, wind en-
8 ergy, or fuel cell property, such property meets
9 appropriate fire and electric code requirements.

10 “(c) DEFINITIONS AND SPECIAL RULES RELATING
11 TO EXPENDITURES.—For purposes of this section—

12 “(1) QUALIFIED PHOTOVOLTAIC PROPERTY EX-
13 PENDITURE.—The term ‘qualified photovoltaic prop-
14 erty expenditure’ means an expenditure for property
15 which uses solar energy to generate electricity for
16 use in a dwelling unit.

17 “(2) QUALIFIED SOLAR WATER HEATING PROP-
18 ERTY EXPENDITURE.—The term ‘qualified solar
19 water heating property expenditure’ means an ex-
20 penditure for property which uses solar energy to
21 heat water for use in a dwelling unit with respect to
22 which a majority of the energy is derived from the
23 sun.

24 “(3) QUALIFIED WIND ENERGY PROPERTY EX-
25 PENDITURE.—The term ‘qualified wind energy prop-

1 erty expenditure’ means an expenditure for property
2 which uses wind energy to generate electricity for
3 use in a dwelling unit.

4 “(4) QUALIFIED FUEL CELL PROPERTY EX-
5 PENDITURE.—The term ‘qualified fuel cell property
6 expenditure’ means an expenditure for property
7 which uses an electrochemical fuel cell system to
8 generate electricity for use in a dwelling unit.

9 “(5) QUALIFIED ENERGY-EFFICIENT BUILDING
10 PROPERTY EXPENDITURE.—

11 “(A) IN GENERAL.—The term ‘qualified
12 energy-efficient building property expenditure’
13 means an expenditure for energy efficient build-
14 ing property defined in clauses (ii), (iii), (iv),
15 (v), (vi), and (vii) of section 48A(d)(3)(A).

16 “(B) 10 PERCENT CREDIT FOR CERTAIN
17 PROPERTY.—For purposes of subsection (a)(5),
18 the expenditures described in this subparagraph
19 are expenditures for energy efficient building
20 property defined in clauses (iii)(II) and (iv)(II)
21 of section 48A(d)(3)(A).

22 “(6) SOLAR PANELS.—No expenditure relating
23 to a solar panel or other property installed as a roof
24 (or portion thereof) shall fail to be treated as prop-
25 erty described in paragraph (1) or (2) solely because

1 it constitutes a structural component of the struc-
2 ture on which it is installed.

3 “(7) LABOR COSTS.—Expenditures for labor
4 costs properly allocable to the onsite preparation, as-
5 sembly, or original installation of the property de-
6 scribed in paragraph (1), (2), (3), (4), or (5) and for
7 piping or wiring to interconnect such property to the
8 dwelling unit shall be taken into account for pur-
9 poses of this section.

10 “(8) ENERGY STORAGE MEDIUM.—Expendi-
11 tures which are properly allocable to a swimming
12 pool, hot tub, or any other energy storage medium
13 which has a function other than the function of such
14 storage shall not be taken into account for purposes
15 of this section.

16 “(d) SPECIAL RULES.—For purposes of this
17 section—

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

23 “(A) The amount of the credit allowable
24 under subsection (a) by reason of expenditures
25 (as the case may be) made during such cal-

1 endar year by any of such individuals with re-
2 spect to such dwelling unit shall be determined
3 by treating all of such individuals as 1 taxpayer
4 whose taxable year is such calendar year.

5 “(B) There shall be allowable with respect
6 to such expenditures to each of such individ-
7 uals, a credit under subsection (a) for the tax-
8 able year in which such calendar year ends in
9 an amount which bears the same ratio to the
10 amount determined under subparagraph (A) as
11 the amount of such expenditures made by such
12 individual during such calendar year bears to
13 the aggregate of such expenditures made by all
14 of such individuals during such calendar year.

15 “(2) TENANT-STOCKHOLDER IN COOPERATIVE
16 HOUSING CORPORATION.—In the case of an indi-
17 vidual who is a tenant-stockholder (as defined in sec-
18 tion 216) in a cooperative housing corporation (as
19 defined in such section), such individual shall be
20 treated as having made his tenant-stockholder’s pro-
21 portionate share (as defined in section 216(b)(3)) of
22 any expenditures of such corporation.

23 “(3) CONDOMINIUMS.—

24 “(A) IN GENERAL.—In the case of an indi-
25 vidual who is a member of a condominium man-

1 agement association with respect to a condo-
2 minium which such individual owns, such indi-
3 vidual shall be treated as having made his pro-
4 portionate share of any expenditures of such as-
5 sociation.

6 “(B) CONDOMINIUM MANAGEMENT ASSO-
7 CIATION.—For purposes of this paragraph, the
8 term ‘condominium management association’
9 means an organization which meets the require-
10 ments of paragraph (1) of section 528(c) (other
11 than subparagraph (E) thereof) with respect to
12 a condominium project substantially all of the
13 units of which are used as residences.

14 “(4) JOINT OWNERSHIP OF ITEMS OF SOLAR OR
15 WIND ENERGY PROPERTY.—

16 “(A) IN GENERAL.—Any expenditure oth-
17 erwise qualifying as an expenditure described in
18 paragraph (1), (2), or (3) of subsection (c) shall
19 not be treated as failing to so qualify merely be-
20 cause such expenditure was made with respect
21 to 2 or more dwelling units.

22 “(B) LIMITS APPLIED SEPARATELY.—In
23 the case of any expenditure described in sub-
24 paragraph (A), the amount of the credit allow-
25 able under subsection (a) shall (subject to para-

1 graph (1)) be computed separately with respect
2 to the amount of the expenditure made for each
3 dwelling unit.

4 “(5) ALLOCATION IN CERTAIN CASES.—If less
5 than 80 percent of the use of an item is for nonbusi-
6 ness residential purposes, only that portion of the
7 expenditures for such item which is properly allo-
8 cable to use for nonbusiness residential purposes
9 shall be taken into account. For purposes of this
10 paragraph, use for a swimming pool shall be treated
11 as use which is not for residential purposes.

12 “(6) WHEN EXPENDITURE MADE; AMOUNT OF
13 EXPENDITURE.—

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

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

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

3 “(7) REDUCTION OF CREDIT FOR GRANTS, TAX-
4 EXEMPT BONDS, AND SUBSIDIZED ENERGY FINANC-
5 ING.—The rules of section 29(b)(3) shall apply for
6 purposes of this section.

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

13 “(f) TERMINATION.—The credit allowed under this
14 section shall not apply to taxable years beginning after
15 December 31, 2006.”.

16 (b) CONFORMING AMENDMENTS.—

17 (1) Section 1016(a), as amended by section
18 301(b), is amended by striking “and” at the end of
19 paragraph (30), by striking the period at the end of
20 paragraph (31) and inserting “; and”, and by add-
21 ing at the end the following:

22 “(32) to the extent provided in section 25C(e),
23 in the case of amounts with respect to which a credit
24 has been allowed under section 25C.”.

1 (2) The table of sections for subpart A of part
2 IV of subchapter A of chapter 1 is amended by in-
3 serting after the item relating to section 25B the fol-
4 lowing:

 “Sec. 25C. Residential solar, wind, and fuel cell energy prop-
 erty.”.

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

9 **SEC. 403. CREDIT FOR ENERGY MANAGEMENT SYSTEMS**
10 **USING RESIDENTIAL REAL TIME METERING**
11 **SYSTEMS.**

12 (a) CREDIT FOR ENERGY MANAGEMENT SYSTEMS.—

13 (1) IN GENERAL.—Subpart B of part IV of
14 subchapter A of chapter 1 (relating to foreign tax
15 credits, etc.), as amended by section 204, is amend-
16 ed by inserting after section 30C the following new
17 section:

18 **“SEC. 30D. CREDIT FOR ENERGY MANAGEMENT SYSTEMS.**

19 “(a) ALLOWANCE OF CREDIT.—There shall be al-
20 lowed as a credit against the tax imposed by this chapter
21 for the taxable year—

22 “(1) an amount equal to \$20 for each qualified
23 energy management device originally placed in serv-
24 ice during the taxable year, and

1 “(2) for each qualified retrofitted meter origi-
2 nally placed in service during the taxable year, an
3 amount equal to the lesser of—

4 “(A) \$20, or

5 “(B) the adjusted basis of such meter.

6 “(b) DEFINITIONS.—

7 “(1) QUALIFIED ENERGY MANAGEMENT DE-
8 VICE.—For purposes of this section, the term ‘quali-
9 fied energy management device’ means any meter or
10 metering device acquired and used by an electric en-
11 ergy or natural gas supplier or service provider to
12 enable consumers or others to manage their pur-
13 chase, sale, or use of electricity or natural gas in re-
14 sponse to energy price and usage signals.

15 “(2) QUALIFIED RETROFITTED METER.—For
16 purposes of this section, the term ‘qualified retro-
17 fitted meter’ means an electric energy or natural gas
18 meter or metering device that has been modified by
19 the addition of equipment designed to enable users
20 to manage the purchase, sale, or use of electricity
21 and natural gas in response to energy price and
22 usage signals.

23 “(3) PLACED IN SERVICE.—For purposes of
24 this section, the term ‘placed in service’ means inter-
25 connected with other devices in a manner that per-

1 mits reading of energy price and usage signals on at
2 least a daily basis.

3 “(4) COST OF METERS INCLUDES COST OF IN-
4 STALLATION.—The cost of any qualified energy
5 management device or qualified retrofitted meter re-
6 ferred to in paragraph (1) or (2) shall include the
7 cost of the original installation of such property.

8 “(c) SPECIAL RULES.—

9 “(1) BASIS REDUCTION.—The basis of any
10 property for which a credit is allowed under sub-
11 section (a) shall be reduced by the amount of such
12 credit.

13 “(2) 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 that ceases to be property eligible for
17 such credit.

18 “(3) PROPERTY USED OUTSIDE THE UNITED
19 STATES, ETC., NOT QUALIFIED.—No credit shall be
20 allowed under subsection (a) with respect to any
21 property referred to in section 50(b)(1) or with re-
22 spect to the portion of the cost of any property
23 taken into account under section 179.

24 “(4) ELECTION TO NOT TAKE CREDIT.—No
25 credit shall be allowed under subsection (a) for any

1 energy management device if the taxpayer elects to
2 not have this section apply to such device.

3 “(5) CREDITS FOR CERTAIN TAX EXEMPT OR-
4 GANIZATIONS AND GOVERNMENTAL UNITS.—

5 “(A) ALLOWANCE OF CREDIT.—Any credit
6 which would be allowable under subsection (a)
7 with respect to a qualified energy management
8 device or a qualified retrofitted meter placed in
9 service by an entity if such entity were not ex-
10 empt from tax under this chapter shall be treat-
11 ed as a credit allowable under subpart B to
12 such entity if such entity is—

13 “(i) an organization described in sec-
14 tion 501(c)(12)(C) and exempt from tax
15 under section 501(a),

16 “(ii) an organization described in sec-
17 tion 1381(a)(2)(C),

18 “(iii) an entity the income of which is
19 excludable from gross income under section
20 115, or

21 “(iv) a State, the District of Colum-
22 bia, any territory or possession of the
23 United States, or any political subdivision
24 thereof.

25 “(B) USE OF CREDIT.—

1 “(i) TRANSFER OF CREDIT.—An enti-
2 ty described in subparagraph (A) may as-
3 sign, trade, sell, or otherwise transfer any
4 credit allowable to such entity under sub-
5 paragraph (A) to any taxpayer.

6 “(ii) USE OF CREDIT AS AN OFF-
7 SET.—Notwithstanding any other provision
8 of law, in the case of an entity described
9 in clause (i) or (ii) of subparagraph (A),
10 any credit allowable to such entity under
11 subparagraph (A) may be applied by such
12 entity, without penalty, as a prepayment of
13 any loan, debt, or other obligation the enti-
14 ty has incurred under subchapter I of
15 chapter 31 of title 7 of the Rural Elec-
16 trification Act of 1936 (7 U.S.C. 901 et
17 seq.).

18 “(C) CREDIT NOT INCOME.—Neither a
19 transfer under clause (i) nor a use under clause
20 (ii) of subparagraph (B) of any credit allowable
21 under subparagraph (A) shall result in income
22 for purposes of section 501(c)(12).

23 “(D) TRANSFER PROCEEDS TREATED AS
24 ARISING FROM ESSENTIAL GOVERNMENT FUNC-
25 TION.—Any proceeds derived by an entity de-

1 scribed in subparagraph (A)(iii) from the trans-
2 fer of any credit under subparagraph (B)(i)
3 shall be treated as arising from an essential
4 government function.

5 “(d) TERMINATION.—This section shall not apply to
6 any property placed in service after December 31, 2007.”.

7 (2) INCLUSION OF INDIAN TRIBAL GOVERN-
8 MENTS.—Section 7871(a)(7), as amended by section
9 103, is amended by striking “and” at the end of
10 subparagraph (B), by striking the period at the end
11 of subparagraph (C), and by adding at the end the
12 following:

13 “(D) section 30D (relating to credit for en-
14 ergy management systems).”.

15 (3) CONFORMING AMENDMENTS.—

16 (A) The table of contents for subpart B of
17 part IV of subchapter A of chapter 1 is amend-
18 ed by inserting after the item relating to section
19 30C the following new item:

 “Sec. 30D. Credit for energy management systems.”.

20 (B) Section 1016(a), as amended by sec-
21 tion 402, is amended by striking “and” at the
22 end of paragraph (31), by striking the period at
23 the end of paragraph (32) and inserting “,
24 and”, and by adding at the end the following
25 new paragraph:

1 “(33) to the extent provided in section
2 30D(c)(1).”.

3 (4) EFFECTIVE DATE.—The amendments made
4 by this subsection shall apply to qualified energy
5 management devices placed in service after the date
6 of the enactment of this Act and to qualified retro-
7 fitted meters that are placed in service on or after,
8 or that are in use as of, January 1, 2002.

9 (b) 5-YEAR APPLICABLE RECOVERY PERIOD FOR DE-
10 PRECIATION OF QUALIFIED ENERGY MANAGEMENT DE-
11 VICES.—

12 (1) IN GENERAL.—Subparagraph (B) of section
13 168(e)(3) of the Internal Revenue Code of 1986 (re-
14 lating to classification of property) is amended by
15 striking “and” at the end of clause (v), by striking
16 the period at the end of clause (vi) and inserting “,
17 and”, and by adding at the end the following new
18 clause:

19 “(vii) any qualified energy manage-
20 ment device.”.

21 (2) DEFINITION OF QUALIFIED ENERGY MAN-
22 AGEMENT DEVICE.—Section 168(i) of such Code (re-
23 lating to definitions and special rules) is amended by
24 inserting at the end the following new paragraph:

1 “(15) QUALIFIED ENERGY MANAGEMENT DE-
2 VICE.—The term ‘qualified energy management de-
3 vice’ means a meter or metering device that is ac-
4 quired and used by an electric energy or natural gas
5 supplier or service provider to enable consumers and
6 others to manage their purchase, sale, and use of
7 electricity or natural gas in response to energy price
8 and usage signals that are readable on at least a
9 daily basis. For purposes of the preceding sentence,
10 the cost of any qualified energy management device
11 shall (at the election of the taxpayer) include the
12 cost of the original installation of such property.”.

13 (3) EFFECTIVE DATE.—The amendments made
14 by this subsection shall apply to property placed in
15 service after December 31, 2000, and before Janu-
16 ary 1, 2007.

17 **SEC. 404. CREDIT FOR FLYWHEEL PROPERTY.**

18 (a) IN GENERAL.—Subpart B of part IV of sub-
19 chapter A of chapter 1 (relating to foreign tax credits,
20 etc.), as amended by section 403, is amended by inserting
21 after section 30D the following new section:

22 **“SEC. 30E. CREDIT FOR FLYWHEEL PROPERTY.**

23 “(a) ALLOWANCE OF CREDIT.—There shall be al-
24 lowed as a credit against the tax imposed by this chapter
25 for the taxable year an amount equal to 10 percent of the

1 cost of any qualified flywheel property placed in service
2 by the taxpayer during the taxable year.

3 “(b) LIMITATION.—The credit allowed under sub-
4 section (a) shall not exceed \$2,000 for a taxable year.

5 “(c) QUALIFIED FLYWHEEL PROPERTY.—For pur-
6 poses of this section, the term ‘qualified flywheel property’
7 means a flywheel designed exclusively to store energy that
8 is used to generate electricity.

9 “(d) SPECIAL RULES.—

10 “(1) BASIS REDUCTION.—The basis of any
11 property for which a credit is allowable under sub-
12 section (a) shall be reduced by the amount of such
13 credit.

14 “(2) RECAPTURE.—The Secretary shall, by reg-
15 ulations, provide for recapturing the benefit of any
16 credit allowable under subsection (a) with respect to
17 any property that ceases to be property eligible for
18 such credit.

19 “(3) PROPERTY USED OUTSIDE THE UNITED
20 STATES, ETC., NOT QUALIFIED.—No credit shall be
21 allowed under subsection (a) with respect to any
22 property referred to in section 50(b)(1) or with re-
23 spect to the portion of the cost of any property
24 taken into account under section 179.

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

5 “(d) TERMINATION.—This section shall not apply to
6 any property placed in service after December 31, 2007.”.

7 (b) CONFORMING AMENDMENTS.—

8 (1) The table of contents for subpart B of part
9 IV of subchapter A of chapter 1, as amended by sec-
10 tion 403, is amended by inserting after the item re-
11 lating to section 30D the following new item:

 “Sec. 30E. Credit for qualified flywheel property.”.

12 (2) Section 1016(a), as amended by section
13 403, is amended by striking “and” at the end of
14 paragraph (32), by striking the period at the end of
15 paragraph (33) and inserting “, and”, and by add-
16 ing at the end the following new paragraph:

17 “(34) to the extent provided in section
18 30E(c)(1).”.

19 (c) EFFECTIVE DATE.—The amendments made by
20 this section shall apply to property placed in service after
21 December 31, 2001, in taxable years ending after such
22 date.