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# Incentives for Wind Energy and the Fiscal Cliff

 [David Perry](#)  December 26, 2012

The fiscal cliff bodes ill for the U.S. wind industry. Along with many other tax-rate cuts, deductions and credits, the production tax credit (PTC) for wind energy expires at the end of 2012 and, to compound the fiscal pressure, [critics](#) and competitors are [contending](#) that wind is a mature industry that does not need further subsidies.

In the past five years, there has been a huge increase in wind capacity. Although wind has become more cost-competitive, the capacity gains would probably not have happened without government support, which now looks to total up to \$6.8 billion [through 2015](#) for capacity built before the end of 2012, under current law.

In 2008, the Department of Energy [set a goal](#) of meeting 20 percent of energy needs through wind by 2030. While states like Iowa and North Dakota are already close to hitting that target, the country as a whole has a ways to go and, unless the PTC is preserved for the near future, will likely fall short. The [American Wind Energy Association](#), for instance, has floated a six-year phase-out of the PTC but has conceded that, for now, the industry depends on the tax break.

The Obama administration has attracted bipartisan support for a proposal to extend the credit through 2016. (In an amusing recent show of support for wind generally, Bill Clinton [rued](#) to a Chicago crowd that wind projects could not link to transmission grids: “I think it’s just appalling that we’ve got 300,000 megawatts of wind energy projects all dressed up and ready to go to the prom that can’t find a connection.”)

Along with Democrats, Senator Charles Grassley (R-IA) – who, not coincidentally, hails from a state that has long been a leading [wind producer](#) – has pushed for a continuation. But House Republicans disagree, and have not shown enthusiasm for an alternative [extender](#) that the Senate Finance Committee has accepted.

The PTC for wind at section [26 U.S.C. § 45](#) was first passed by Congress in 1992 and today provides producers with a tax credit of \$0.022 per kilowatt-hour of electricity produced. Deep-pocket investors have looked to reduce their tax burdens through part- or full-ownership of wind turbines, to the tune of [\\$1.1 billion](#) in credits in 2011.

The PTC is attractive to wind investors for several reasons. It rewards projects that expand capacity and that maximize production. Additionally, the credit strengthens the marketability of already-installed wind-farms, as the purchaser of an operating concern acquires the right to credits still pending for the years between the purchase date and the ten-year to horizon.

From the standpoint of the Treasury, the current PTC seems to be the best way to promote wind goals. First, the government need not make the tax benefit available in a single lump sum—instead, any benefit is amortized: Under the law, owners receive tax credits over the first 10 years after the unit is placed into service. Government costs are spread all the way to 2022.

Indeed, the government’s loss of revenue can be attenuated over even more time. Businesses may not use the credits for years to come: Owners owing an amount of tax (net of other credits, etc.) for the year that is less than the amount of wind-energy PTC accrued for that year don’t usually lose the credit.

Instead, owners are usually entitled to “carry over” credits from the year the electricity is produced—say, 2022—to a future tax year when the owner does have sufficient tax liability; and this future year can be one of the [next twenty](#). So credits could conceivably be used for some entity’s 2042 taxes. (A tax credit can be “carried back” to the first preceding year too, by filing amended tax returns).

Even if the PTC is not extended into 2013, the wind industry can count on two other sorts of tax incentives currently or recently available. The owner of a new wind farm will still be entitled to take depreciation deductions for the property at an accelerated schedule—the deductions are 20% of its basis (roughly, its cost) per year over 5 years, rather than ratably over a lengthier period (up to 20 years) in the case of property that’s not eligible. See [section 168\(e\)\(3\)\(B\)\(vi\)](#).

These front-loaded deductions are very favorable to investors looking to reduce tax burdens they easily foresee for the next few years—but the benefits are just as unfavorable to the Treasury, with heavy, front-loaded revenue reductions. Even more so, once the five years of depreciation deductions have been taken, there is no (tax incentive) to continue maintenance or production of the item, and no tax incentive to sell. (A similar timing effect may be found in the one-time election to take a [30%-of-basis](#) investment tax credit in the year of project completion.)

The other less-optimal tax incentive is the so-called [section 1603 grant](#) to producers—intended to incentivize owners (at the time of the 2008 economic crisis) who didn’t expect to have taxes to reduce with the production tax credit. As with depreciation deductions, the grants have the downside for the Treasury of being an immediately larger expenditure than the credits.

The grants also provide less certainty that the public will get more clean energy. The Solyndra debacle is the prime case of this—a loan guarantee made to that soon-to-collapse solar-energy company famously meant the public did not get a thriving alternative-energy supplier for its money. Consequently the chances of voter blowback and cries of government waste are much stronger than in the case of the PTC (or, for that matter, of the depreciation deduction regime).

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