AMENDMENT NO. ____ Calendar No. ____

Purpose: To amend the Internal Revenue Code of 1986 to provide energy tax incentives, and for other purposes.

IN THE SENATE OF THE UNITED STATES—109th Cong., 1st Sess.

H.R. 6

To ensure jobs for our future with secure, affordable, and reliable energy.

Referred to the Committee on _____ and ordered to be printed

Ordered to lie on the table and to be printed

AMENDMENT intended to be proposed by Mr. GRASSLEY (for himself and Mr. BAUCUS)

Viz:

At the end add the following:

TITLE XV—ENERGY POLICY TAX INCENTIVES

SEC. 1500. SHORT TITLE; AMENDMENT OF 1986 CODE; TABLE OF CONTENTS.

(a) SHORT TITLE.—This title may be cited as the ''Energy Policy Tax Incentives Act of 2005''.

(b) AMENDMENT OF 1986 CODE.—Except as otherwise expressly provided, whenever in this title an amend-

ment or repeal is expressed in terms of an amendment to, or repeal of, a section or other provision, the reference shall be considered to be made to a section or other provision of the Internal Revenue Code of 1986.

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

Subtitle A—Electricity Infrastructure

SEC. 1501. EXTENSION AND MODIFICATION OF RENEWABLE ELECTRICITY PRODUCTION CREDIT.

(a) 3-YEAR EXTENSION FOR CERTAIN FACILITIES.—Section 45(d) (relating to qualified facilities) is amended—

(1) by striking ''January 1, 2006'' each place it appears in paragraphs (1), (2), (3), (5), (6), and (7) and inserting ''January 1, 2009'', and

(2) by striking ''January 1, 2006'' in paragraph (4) and inserting ''January 1, 2009 (January 1, 2006, in the case of a facility using solar energy)''.

(b) INCREASE IN CREDIT PERIOD.—Section 45(b)(4)(B) (relating to credit period) is amended—

(1) by inserting ''or clause (iii)'' after ''clause (ii)'' in clause (i), and

(2) by adding at the end the following:

''(iii) TERMINATION.—Clause (i) shall not apply to any facility placed in service after the date of the enactment of this clause.''.

(c) EXPANSION OF QUALIFIED RESOURCES TO INCLUDE FUEL CELLS.—

(1) IN GENERAL.—Section 45(c)(1) (defining qualified energy resources) is amended by striking ''and'' at the end of subparagraph (F), by striking the period at the end of subparagraph (G) and inserting '', and'', and by adding at the end the following new subparagraph:

''(H) fuel cells.''.

(2) FUEL CELL FACILITY.—Section 45(d) (relating to qualified facilities) is amended by adding at the end the following new paragraph:

''(9) FUEL CELL FACILITY.—In the case of a facility using an integrated system comprised of a fuel cell stack assembly and associated balance of plant components which converts a fuel into electricity using electrochemical means, the term 'qualified facility' means any facility owned by the taxpayer which—

''(A) is originally placed in service after December 31, 2005, and before January 1, 2009,

''(B) has a nameplate capacity rating of at least 0.5 megawatt of electricity, and

''(C) has an electricity-only generation efficiency greater than 30 percent.''.

(3) CONFORMING AMENDMENTS RELATING TO COORDINATION WITH ENERGY CREDIT.—

(A) IN GENERAL.—Section 45(e) (relating to definitions and special rules) is amended by adding at the end the following new paragraph:

''(10) COORDINATION WITH ENERGY CREDIT.—The term 'qualified facility' shall not include any property described in section 48(a)(3) the basis of

which is taken into account by the taxpayer for purposes of determining the energy credit under section 48.''.

(B) CONFORMING AMENDMENT.—Section 45(d)(4) is amended by striking the last sentence.

(d) EXPANSION OF QUALIFIED RESOURCES TO CERTAIN HYDROPOWER.—

(1) IN GENERAL.—Section 45(c)(1) (defining qualified energy resources), as amended by this Act, is amended by striking ''and'' at the end of subparagraph (G), by striking the period at the end of subparagraph (H) and inserting '', and'', and by adding at the end the following new subparagraph:

''(I) qualified hydropower production.''.

(2) CREDIT RATE.—Section 45(b)(4)(A) (relating to credit rate) is amended by striking ''or (7)'' and inserting ''(7), or (10)''.

(3) DEFINITION OF RESOURCES.—Section 45(c) (relating to qualified energy resources and refined coal) is amended by adding at the end the following new paragraph:

''(8) QUALIFIED HYDROPOWER PRODUCTION.—

''(A) IN GENERAL.—The term 'qualified hydropower production' means—

"(i) in the case of any hydroelectric dam which was placed in service on or before the date of the enactment of this paragraph, the incremental hydropower production for the taxable year, and

"(ii) in the case of any low-head hydroelectric facility or nonhydroelectric dam described in subparagraph (C), the hydropower production from the facility for the taxable year.

"(B) DETERMINATION OF INCREMENTAL HYDROPOWER PRODUCTION.—

"(i) IN GENERAL.—For purposes of subparagraph (A), incremental hydropower production for any taxable year shall be equal to the percentage of average annual hydropower production at the facility attributable to the efficiency improvements or additions of capacity placed in service after the date of the enactment of this paragraph, determined by using the same water flow information used to determine an historic average annual hydropower production baseline for such facility. Such percentage and baseline shall be certified by

the Federal Energy Regulatory Commission.

''(ii) OPERATIONAL CHANGES DISREGARDED.—For purposes of clause (i), the determination of incremental hydropower production shall not be based on any operational changes at such facility not directly associated with the efficiency improvements or additions of capacity.

''(C) LOW-HEAD HYDROELECTRIC FACILITY OR NONHYDROELECTRIC DAM.—For purposes of subparagraph (A), a facility is described in this subparagraph if—

''(i) the facility is licensed by the Federal Energy Regulatory Commission and meets all other applicable environmental, licensing, and regulatory requirements,

''(ii) the facility did not produce hydroelectric power on the date of the enactment of this paragraph, and

''(iii) turbines or other generating devices are to be added to the facility after such date to produce hydroelectric power, but only if the installation of the turbine or other generating device does not require

any enlargement of the diversion structure or the impoundment or any withholding of any additional water from the natural stream channel.

''(D) LOW-HEAD HYDROELECTRIC FACILITY DEFINED.—For purposes of this paragraph, the term 'low-head hydroelectric facility' means a minor diversion structure which is less than 10 feet in height.''.

(3) FACILITIES.—Section 45(d) (relating to qualified facilities), as amended by this Act, is amended by adding at the end the following new paragraph:

''(10) QUALIFIED HYDROPOWER FACILITY.—In the case of a facility producing qualified hydroelectric production described in subsection (c)(8), the term 'qualified facility' means—

''(A) in the case of any facility producing incremental hydropower production, such facility but only to the extent of its incremental hydropower production attributable to efficiency improvements or additions to capacity described in subsection (c)(8)(B) placed in service after the date of the enactment of this paragraph and before January 1, 2009, and

''(B) any other facility placed in service after the date of the enactment of this paragraph and before January 1, 2009.

''(C) CREDIT PERIOD.—In the case of a qualified facility described in subparagraph (A), the 10-year period referred to in subsection (a) shall be treated as beginning on the date the efficiency improvements or additions to capacity are placed in service.''.

(e) TECHNICAL AMENDMENT RELATED TO TRASH COMBUSTION FACILITIES.—Section 45(d)(7) (relating to trash combustion facilities) is amended by adding at the end the following: ''Such term shall include a new unit placed in service in connection with a facility placed in service on or before the date of the enactment of this paragraph, but only to the extent of the increased amount of electricity produced at the facility by reason of such new unit.''.

(f) ADDITIONAL TECHNICAL AMENDMENTS RELATED TO SECTION 710 OF THE AMERICAN JOBS CREATION ACT OF 2004.—

(1) Clause (ii) of section 45(b)(4)(B) is amended by striking ''the date of the enactment of this Act'' and inserting ''January 1, 2005,''.

(2) Clause (ii) of section 45(c)(3)(A) is amended by inserting ''or any nonhazardous lignin waste material'' after ''cellulosic waste material''.

(3) Subsection (e) of section 45 is amended by striking paragraph (6).

(4)(A) Paragraph (9) of section 45(e) is amended to read as follows:

''(9) COORDINATION WITH CREDIT FOR PRODUCING FUEL FROM A NONCONVENTIONAL SOURCE.—

''(A) IN GENERAL.—The term 'qualified facility' shall not include any facility which produces electricity from gas derived from the biodegradation of municipal solid waste if such biodegradation occurred in a facility (within the meaning of section 29) the production from which is allowed as a credit under section 29 for the taxable year or any prior taxable year.

''(B) REFINED COAL FACILITIES.—The term 'refined coal production facility' shall not include any facility the production from which is allowed as a credit under section 29 for the taxable year or any prior taxable year.''.

(B) Subparagraph (C) of section 45(e)(8) is amended by striking ''and (9)''.

(5) Subclause (I) of section 168(e)(3)(B)(vi) is amended to read as follows:

"'(I) is described in subparagraph (A) of section 48(a)(3) (or would be so described if 'solar and wind' were substituted for 'solar' in clause (i) thereof and the last sentence of such section did not apply to such subparagraph),".

(6) Paragraph (4) of section 710(g) of the American Jobs Creation Act of 2004 is amended by striking "January 1, 2004" and inserting "January 1, 2005".

(g) EFFECTIVE DATES.—

(1) IN GENERAL.—Except as provided in paragraph (2), the amendments made by this section shall take effect of the date of the enactment of this Act.

(2) TECHNICAL AMENDMENTS.—The amendments made by subsections (e) and (f) shall take effect as if included in the amendments made by section 710 of the American Jobs Creation Act of 2004.

SEC. 1502. CLEAN RENEWABLE ENERGY BONDS.

(a) IN GENERAL.—Part IV of subchapter A of chapter 1 (relating to credits against tax) is amended by adding at the end the following new subpart:

"Subpart H—Nonrefundable Credit to Holders of Certain Bonds

"Sec. 54. Credit to holders of clean renewable energy bonds.

"SEC. 54. CREDIT TO HOLDERS OF CLEAN RENEWABLE ENERGY BONDS.

"(a) ALLOWANCE OF CREDIT.—If a taxpayer holds a clean renewable energy bond on 1 or more credit allowance dates of the bond occurring during any taxable year, there shall be allowed as a credit against the tax imposed by this chapter for the taxable year an amount equal to the sum of the credits determined under subsection (b) with respect to such dates.

"(b) AMOUNT OF CREDIT.—

"(1) IN GENERAL.—The amount of the credit determined under this subsection with respect to any credit allowance date for a clean renewable energy bond is 25 percent of the annual credit determined with respect to such bond.

"(2) ANNUAL CREDIT.—The annual credit determined with respect to any clean renewable energy bond is the product of—

"(A) the credit rate determined by the Secretary under paragraph (3) for the day on which such bond was sold, multiplied by

"(B) the outstanding face amount of the bond.

"(3) DETERMINATION.—For purposes of paragraph (2), with respect to any clean renewable energy bond, the Secretary shall determine daily or cause to be determined daily a credit rate which shall apply to the first day on which there is a binding, written contract for the sale or exchange of the bond. The credit rate for any day is the credit rate which the Secretary or the Secretary's designee estimates will permit the issuance of clean renewable energy bonds with a specified maturity or redemption date without discount and without interest cost to the qualified issuer.

"(4) CREDIT ALLOWANCE DATE.—For purposes of this section, the term 'credit allowance date' means—

"(A) March 15,

"(B) June 15,

"(C) September 15, and

"(D) December 15.

Such term also includes the last day on which the bond is outstanding.

''(5) SPECIAL RULE FOR ISSUANCE AND REDEMPTION.—In the case of a bond which is issued during the 3-month period ending on a credit allowance date, the amount of the credit determined under this subsection with respect to such credit allowance date shall be a ratable portion of the credit otherwise determined based on the portion of the 3-month period during which the bond is outstanding. A similar rule shall apply when the bond is redeemed or matures.

''(c) LIMITATION BASED ON AMOUNT OF TAX.—The credit allowed under subsection (a) for any taxable year shall not exceed the excess of—

''(1) the sum of the regular tax liability (as defined in section 26(b)) plus the tax imposed by section 55, over

''(2) the sum of the credits allowable under this part (other than subpart C thereof (relating to refundable credits) and this subpart) and section 1397E.

''(d) CLEAN RENEWABLE ENERGY BOND.—For purposes of this section—

''(1) IN GENERAL.—The term 'clean renewable energy bond' means any bond issued as part of an issue if—

''(A) the bond is issued by a qualified issuer pursuant to an allocation by the Secretary to such issuer of a portion of the national clean renewable energy bond limitation under subsection (f)(2),

''(B) 95 percent or more of the proceeds from the sale of such issue are to be used for capital expenditures incurred by qualified borrowers for 1 or more qualified projects,

''(C) the qualified issuer designates such bond for purposes of this section and the bond is in registered form, and

''(D) the issue meets the requirements of subsection (h).

''(2) QUALIFIED PROJECT; SPECIAL USE RULES.—

''(A) IN GENERAL.—The term 'qualified project' means any qualified facility (as determined under section 45(d) without regard to any placed in service date) owned by a qualified borrower.

"(B) REFINANCING RULES.—For purposes of paragraph (1)(B), a qualified project may be refinanced with proceeds of a clean renewable energy bond only if the indebtedness being refinanced (including any obligation directly or indirectly refinanced by such indebtedness) was originally incurred by a qualified borrower after the date of the enactment of this section.

"(C) REIMBURSEMENT.—For purposes of paragraph (1)(B), a clean renewable energy bond may be issued to reimburse a qualified borrower for amounts paid after the date of the enactment of this section with respect to a qualified project, but only if—

"(i) prior to the payment of the original expenditure, the qualified borrower declared its intent to reimburse such expenditure with the proceeds of a clean renewable energy bond,

"(ii) not later than 60 days after payment of the original expenditure, the qualified issuer adopts an official intent to reimburse the original expenditure with such proceeds, and

"(iii) the reimbursement is made not later than 18 months after the date the original expenditure is paid.

"(D) TREATMENT OF CHANGES IN USE.—For purposes of paragraph (1)(B), the proceeds of an issue shall not be treated as used for a qualified project to the extent that a qualified borrower takes any action within its control which causes such proceeds not to be used for a qualified project. The Secretary shall prescribe regulations specifying remedial actions that may be taken (including conditions to taking such remedial actions) to prevent an action described in the preceding sentence from causing a bond to fail to be a clean renewable energy bond.

"(e) MATURITY LIMITATIONS.—

"(1) DURATION OF TERM.—A bond shall not be treated as a clean renewable energy bond if the maturity of such bond exceeds the maximum term determined by the Secretary under paragraph (2) with respect to such bond.

"(2) MAXIMUM TERM.—During each calendar month, the Secretary shall determine the maximum term permitted under this paragraph for bonds

issued during the following calendar month. Such maximum term shall be the term which the Secretary estimates will result in the present value of the obligation to repay the principal on the bond being equal to 50 percent of the face amount of such bond. Such present value shall be determined using as a discount rate the average annual interest rate of tax of tax-exempt obligations having a term of 10 years or more which are issued during the month. If the term as so determined is not a multiple of a whole year, such term shall be rounded to the next highest whole year.

''(3) RATABLE PRINCIPAL AMORTIZATION REQUIRED.—A bond shall not be treated as a clean renewable energy bond unless it is part of an issue which provides for an equal amount of principal to be paid by the qualified issuer during each calendar year that the issue is outstanding.

''(f) LIMITATION ON AMOUNT OF BONDS DESIGNATED.—

''(1) NATIONAL LIMITATION.—There is a national clean renewable energy bond limitation of $1,000,000,000.

''(2) ALLOCATION BY SECRETARY.—The Secretary shall allocate the amount described in para-

graph (1) among qualified projects in such manner as the Secretary determines appropriate.

''(g) CREDIT INCLUDED IN GROSS INCOME.—Gross income includes the amount of the credit allowed to the taxpayer under this section (determined without regard to subsection (c)) and the amount so included shall be treated as interest income.

''(h) SPECIAL RULES RELATING TO EXPENDITURES.—

''(1) IN GENERAL.—An issue shall be treated as meeting the requirements of this subsection if, as of the date of issuance, the qualified issuer reasonably expects—

''(A) at least 95 percent of the proceeds from the sale of the issue are to be spent for 1 or more qualified projects within the 5-year period beginning on the date of issuance of the clean energy bond,

''(B) a binding commitment with a third party to spend at least 10 percent of the proceeds from the sale of the issue will be incurred within the 6-month period beginning on the date of issuance of the clean energy bond or, in the case of a clean energy bond the proceeds of which are to be loaned to 2 or more qualified

borrowers, such binding commitment will be incurred within the 6-month period beginning on the date of the loan of such proceeds to a qualified borrower, and

''(C) such projects will be completed with due diligence and the proceeds from the sale of the issue will be spent with due diligence.

''(2) EXTENSION OF PERIOD.—Upon submission of a request prior to the expiration of the period described in paragraph (1)(A), the Secretary may extend such period if the qualified issuer establishes that the failure to satisfy the 5-year requirement is due to reasonable cause and the related projects will continue to proceed with due diligence.

''(3) FAILURE TO SPEND REQUIRED AMOUNT OF BOND PROCEEDS WITHIN 5 YEARS.—To the extent that less than 95 percent of the proceeds of such issue are expended by the close of the 5-year period beginning on the date of issuance (or if an extension has been obtained under paragraph (2), by the close of the extended period), the qualified issuer shall redeem all of the nonqualified bonds within 90 days after the end of such period. For purposes of this paragraph, the amount of the nonqualified

bonds required to be redeemed shall be determined in the same manner as under section 142.

''(i) SPECIAL RULES RELATING TO ARBITRAGE.—A bond which is part of an issue shall not be treated as a clean renewable energy bond unless, with respect to the issue of which the bond is a part, the qualified issuer satisfies the arbitrage requirements of section 148 with respect to proceeds of the issue.

''(j) COOPERATIVE ELECTRIC COMPANY; QUALIFIED ENERGY TAX CREDIT BOND LENDER; GOVERNMENTAL BODY; QUALIFIED BORROWER.—For purposes of this section—

''(1) COOPERATIVE ELECTRIC COMPANY.—The term 'cooperative electric company' means a mutual or cooperative electric company described in section 501(c)(12) or section 1381(a)(2)(C), or a not-for-profit electric utility which has received a loan or loan guarantee under the Rural Electrification Act.

''(2) CLEAN RENEWABLE ENERGY BOND LENDER.—The term 'clean renewable energy bond lender' means a lender which is a cooperative which is owned by, or has outstanding loans to, 100 or more cooperative electric companies and is in existence on February 1, 2002, and shall include any affiliated entity which is controlled by such lender.

''(3) GOVERNMENTAL BODY.—The term 'governmental body' means any State, territory, possession of the United States, the District of Columbia, Indian tribal government, and any political subdivision thereof.

''(4) QUALIFIED ISSUER.—The term 'qualified issuer' means—

''(A) a clean renewable energy bond lender,

''(B) a cooperative electric company,

''(C) a governmental body, or

''(D) the Tennessee Valley Authority.

''(5) QUALIFIED BORROWER.—The term 'qualified borrower' means—

''(A) a mutual or cooperative electric company described in section 501(c)(12) or 1381(a)(2)(C),

''(B) a governmental body, or

''(C) the Tennessee Valley Authority.

''(k) SPECIAL RULES RELATING TO POOL BONDS.—No portion of a pooled financing bond may be allocable to any loan unless the borrower has entered into a written loan commitment for such portion prior to the issue date of such issue.

''(l) OTHER DEFINITIONS AND SPECIAL RULES.—For purposes of this section—

"(1) BOND.—The term 'bond' includes any obligation.

"(2) POOLED FINANCING BOND.—The term 'pooled financing bond' shall have the meaning given such term by section 149(f)(4)(A).

"(3) PARTNERSHIP; S CORPORATION; AND OTHER PASS-THRU ENTITIES.—

"(A) IN GENERAL.—Under regulations prescribed by the Secretary, in the case of a partnership, trust, S corporation, or other pass-thru entity, rules similar to the rules of section 41(g) shall apply with respect to the credit allowable under subsection (a).

"(B) NO BASIS ADJUSTMENT.—Rules similar to the rules under section 1397E(i)(2) shall apply.

"(4) BONDS HELD BY REGULATED INVESTMENT COMPANIES.—If any clean renewable energy bond is held by a regulated investment company, the credit determined under subsection (a) shall be allowed to shareholders of such company under procedures prescribed by the Secretary.

"(5) TREATMENT FOR ESTIMATED TAX PURPOSES.—Solely for purposes of sections 6654 and 6655, the credit allowed by this section to a tax-

payer by reason of holding a clean renewable energy bond on a credit allowance date shall be treated as if it were a payment of estimated tax made by the taxpayer on such date.

''(6) REPORTING.—Issuers of clean renewable energy bonds shall submit reports similar to the reports required under section 149(e).

''(m) TERMINATION.—This section shall not apply with respect to any bond issued after December 31, 2008.''.

(b) REPORTING.—Subsection (d) of section 6049 (relating to returns regarding payments of interest) is amended by adding at the end the following new paragraph:

''(8) REPORTING OF CREDIT ON CLEAN RENEWABLE ENERGY BONDS.—

''(A) IN GENERAL.—For purposes of subsection (a), the term 'interest' includes amounts includible in gross income under section 54(g) and such amounts shall be treated as paid on the credit allowance date (as defined in section 54(b)(4)).

''(B) REPORTING TO CORPORATIONS, ETC.—Except as otherwise provided in regulations, in the case of any interest described in

subparagraph (A), subsection (b)(4) shall be applied without regard to subparagraphs (A), (H), (I), (J), (K), and (L)(i) of such subsection.

''(C) REGULATORY AUTHORITY.—The Secretary may prescribe such regulations as are necessary or appropriate to carry out the purposes of this paragraph, including regulations which require more frequent or more detailed reporting.''.

(c) CONFORMING AMENDMENTS.—

(1) The table of subparts for part IV of subchapter A of chapter 1 is amended by adding at the end the following new item:

''SUBPART H. NONREFUNDABLE CREDIT TO HOLDERS OF CERTAIN BONDS.''.

(2) Section 1397E(c)(2) is amended by inserting ''and H'' after ''subpart C''.

(3) Section 6401(b)(1) is amended by striking ''and G'' and inserting ''G, and H''.

(d) ISSUANCE OF REGULATIONS.—The Secretary of Treasury shall issue regulations required under section 54 of the Internal Revenue Code of 1986 (as added by this section) not later than 120 days after the date of the enactment of this Act.

(e) EFFECTIVE DATE.—The amendments made by this section shall apply to bonds issued after December 31, 2005.

SEC. 1503. TREATMENT OF INCOME OF CERTAIN ELECTRIC COOPERATIVES.

(a) ELIMINATION OF SUNSET ON TREATMENT OF INCOME FROM OPEN ACCESS AND NUCLEAR DECOMMISSIONING TRANSACTIONS.—Section 501(c)(12)(C) is amended by striking the last sentence.

(b) ELIMINATION OF SUNSET ON TREATMENT OF INCOME FROM LOAD LOSS TRANSACTIONS.—Section 501(c)(12)(H) is amended by striking clause (x).

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

SEC. 1504. DISPOSITIONS OF TRANSMISSION PROPERTY TO IMPLEMENT FERC RESTRUCTURING POLICY.

(a) IN GENERAL.—Section 451(i)(3) (defining qualifying electric transmission transaction) is amended by striking ''2007'' and inserting ''2008''.

(b) TECHNICAL AMENDMENT RELATED TO SECTION 909 OF THE AMERICAN JOBS CREATION ACT OF 2004.—Clause (ii) of section 451(i)(4)(B) is amended by striking ''the close of the period applicable under subsection (a)(2)(B) as extended under paragraph (2)'' and inserting ''December 31, 2007''.

(c) EFFECTIVE DATES.—

(1) IN GENERAL.—The amendment made by subsection (a) shall apply to transactions occurring after the date of the enactment of this Act.

(2) TECHNICAL AMENDMENT.—The amendment made by subsection (b) shall take effect as if included in the amendments made by section 909 of the American Jobs Creation Act of 2004.

SEC. 1505. CREDIT FOR PRODUCTION FROM ADVANCED NUCLEAR POWER FACILITIES.

(a) IN GENERAL.—Subpart D of part IV of subchapter A of chapter 1 (relating to business related credits) is amended by adding after section 45I the following new section:

"SEC. 45J. CREDIT FOR PRODUCTION FROM ADVANCED NUCLEAR POWER FACILITIES.

''(a) GENERAL RULE.—For purposes of section 38, the advanced nuclear power facility production credit of any taxpayer for any taxable year is equal to the product of—

''(1) 1.8 cents, multiplied by

''(2) the kilowatt hours of electricity—

''(A) produced by the taxpayer at an advanced nuclear power facility during the 8-year period beginning on the date the facility was originally placed in service, and

"(B) sold by the taxpayer to an unrelated person during the taxable year.

"(b) NATIONAL LIMITATION.—

"(1) IN GENERAL.—The amount of credit which would (but for this subsection and subsection (c)) be allowed with respect to any facility for any taxable year shall not exceed the amount which bears the same ratio to such amount of credit as—

"(A) the national megawatt capacity limitation allocated to the facility, bears to

"(B) the total megawatt nameplate capacity of such facility.

"(2) AMOUNT OF NATIONAL LIMITATION.—The national megawatt capacity limitation shall be 6,000 megawatts.

"(3) ALLOCATION OF LIMITATION.—The Secretary shall allocate the national megawatt capacity limitation in such manner as the Secretary may prescribe.

"(4) REGULATIONS.—Not later than 6 months after the date of the enactment of this section, the Secretary shall prescribe such regulations as may be necessary or appropriate to carry out the purposes of this subsection. Such regulations shall provide a certification process under which the Secretary, after

consultation with the Secretary of Energy, shall approve and allocate the national megawatt capacity limitation.

''(c) OTHER LIMITATIONS.—

''(1) ANNUAL LIMITATION.—The amount of the credit allowable under subsection (a) (after the application of subsection (b)) for any taxable year with respect to any facility shall not exceed an amount which bears the same ratio to $125,000,000 as—

''(A) the national megawatt capacity limitation allocated under subsection (b) to the facility, bears to

''(B) 1,000.

''(2) OTHER LIMITATIONS.—Rules similar to the rules of section 45(b)(1) shall apply for purposes of this section.

''(d) ADVANCED NUCLEAR POWER FACILITY.—For purposes of this section—

''(1) IN GENERAL.—The term 'advanced nuclear power facility' means any advanced nuclear facility—

''(A) which is owned by the taxpayer and which uses nuclear energy to produce electricity, and

''(B) which is placed in service after the date of the enactment of this paragraph and before January 1, 2021.

''(2) ADVANCED NUCLEAR FACILITY.—For purposes of paragraph (1), the term 'advanced nuclear facility' means any nuclear facility the reactor design for which is approved after December 31, 1993, by the Nuclear Regulatory Commission (and such design or a substantially similar design of comparable capacity was not approved on or before such date).

''(e) OTHER RULES TO APPLY.—Rules similar to the rules of paragraphs (1), (2), (3), (4), and (5) of section 45(e) shall apply for purposes of this section.''

(b) CREDIT TREATED AS BUSINESS CREDIT.—Section 38(b) is amended by striking ''plus'' at the end of paragraph (18), by striking the period at the end of paragraph (19) and inserting '', plus'', and by adding at the end the following:

''(20) the advanced nuclear power facility production credit determined under section 45J(a).''.

(c) CLERICAL AMENDMENT.—The table of sections for subpart D of part IV of subchapter A of chapter 1 is amended by adding at the end the following:

''Sec. 45J. Credit for production from advanced nuclear power facilities.''.

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

SEC. 1506. CREDIT FOR INVESTMENT IN CLEAN COAL FACILITIES.

(a) IN GENERAL.—Section 46 (relating to amount of credit) is amended by striking ''and'' at the end of paragraph (1), by striking the period at the end of paragraph (2), and by adding at the end the following new paragraphs:

''(3) the qualifying advanced coal project credit, and

''(4) the qualifying gasification project credit.''.

(b) AMOUNT OF CREDITS.—Subpart E of part IV of subchapter A of chapter 1 (relating to rules for computing investment credit) is amended by inserting after section 48 the following new sections:

''SEC. 48A. QUALIFYING ADVANCED COAL PROJECT CREDIT.

''(a) IN GENERAL.—For purposes of section 46, the qualifying advanced coal project credit for any taxable year is an amount equal to 20 percent of the qualified investment for such taxable year.

''(b) QUALIFIED INVESTMENT.—

''(1) IN GENERAL.—For purposes of subsection (a), the qualified investment for any taxable year is the basis of property placed in service by the taxpayer during such taxable year which is part of a qualifying advanced coal project—

''(A)(i) the construction, reconstruction, or erection of which is completed by the taxpayer, or

''(ii) which is acquired by the taxpayer if the original use of such property commences with the taxpayer, and

''(B) with respect to which depreciation (or amortization in lieu of depreciation) is allowable.

''(2) APPLICABLE RULES.—For purposes of this section, rules similar to the rules of subsection (a)(4) and (b) of section 48 shall apply.

''(c) DEFINITIONS.—For purposes of this section—

''(1) QUALIFYING ADVANCED COAL PROJECT.—The term 'qualifying advanced coal project' means a project which meets the requirements of subsection (e).

''(2) ADVANCED COAL-BASED GENERATION TECHNOLOGY.—The term 'advanced coal-based gen-

eration technology' means a technology which meets the requirements of subsection (g).

''(3) COAL.—The term 'coal' means any carbonized or semicarbonized matter, including peat.

''(4) GREENHOUSE GAS CAPTURE CAPABILITY.—The term 'greenhouse gas capture capability' means an integrated gasification combined cycle technology facility capable of adding components which can capture, separate on a long-term basis, isolate, remove, and sequester greenhouse gases which result from the generation of electricity.

''(5) ELECTRIC GENERATION UNIT.—The term 'electric generation unit' means any facility at least 50 percent of the total annual net output of which is electrical power, including an otherwise eligible facility which is used in an industrial application.

''(6) INTEGRATED GASIFICATION COMBINED CYCLE.—The term 'integrated gasification combined cycle' means an electric generation unit which produces electricity by converting coal to synthesis gas which is used to fuel a combined-cycle plant which produces electricity from both a combustion turbine (including a combustion turbine/fuel cell hybrid) and a steam turbine.

''(d) QUALIFYING ADVANCED COAL PROJECT PROGRAM.—

''(1) ESTABLISHMENT.—Not later than 180 days after the date of enactment of this section, the Secretary, in consultation with the Secretary of Energy, shall establish a qualifying advanced coal project program for the deployment of advanced coal-based generation technologies.

''(2) CERTIFICATION.—

''(A) IN GENERAL.—The Secretary may certify a qualifying advanced coal project as eligible for a credit under this section.

''(B) PERIOD OF ISSUANCE.—A certificate of eligibility under this paragraph may be issued only during the 10-fiscal year period beginning on October 1, 2005.

''(3) AGGREGATE GENERATING CAPACITY.—

''(A) IN GENERAL.—The aggregate generating capacity of projects certified by the Secretary under paragraph (2) may not exceed 7,500 megawatts.

''(B) PARTICULAR PROJECTS.—Of the total megawatts of capacity which the Secretary is authorized to certify—

"(i) 4,125 megawatts shall be available only for use for integrated gasification combined cycle projects, and

"(ii) 3,375 megawatts shall be available only for use for projects which use other advanced coal-based generation technologies.

"(C) DETERMINATION OF CAPACITY.—In determining capacity under this paragraph in the case of a retrofitted or repowered plant, capacity shall be determined based on total design capacity after the retrofit or repowering of the existing facility is accomplished.

"(4) APPLICATIONS.—The Secretary shall act on applications for certification as the applications are received.

"(5) DETERMINATION.—In determining whether to certify a qualifying advanced coal project, the Secretary shall take into account any written statement from the Governor of the State in which the project is to be sited that the construction and operation of the project is consistent with State environmental and energy policy and requirements.

"(6) REVIEW AND REDISTRIBUTION.—

"(A) REVIEW.—Not later than 6 years after the date of enactment of this section, the Secretary shall review the projects certified and megawatts allocated under this section as of the date which is 6 years after the date of enactment of this section.

"(B) REDISTRIBUTION.—The Secretary may reallocate the megawatts available under clauses (i) and (ii) of paragraph (3)(B) if the Secretary determines that—

"(i) capacity cannot be used because there is an insufficient quantity of qualifying applications for certification pending for any available capacity at the time of the review, or

"(ii) any certification commitment made pursuant to subsection (e)(4)(B) has not been revoked pursuant to subsection (f)(2)(B)(ii) because the project subject to the certification commitment has been delayed as a result of third party opposition or litigation to the proposed project.

"(e) QUALIFYING ADVANCED COAL PROJECTS.—

"(1) REQUIREMENTS.—For purposes of subsection (c)(1), a project shall be considered a quali-

fying advanced coal project that the Secretary may certify under subsection (d)(2) if the Secretary determines that, at a minimum—

"(A) the project uses an advanced coal-based generation technology—

"(i) to power a new electric generation or polygeneration unit, or

"(ii) to retrofit or repower an existing electric generation unit (including an existing natural gas-fired combined cycle unit),

"(B) the fuel input for the project, when completed, is at least 75 percent coal,

"(C) the applicant provides an assurance satisfactory to the Secretary that—

"(i) the project is technologically feasible, and

"(ii) the project is not financially feasible without the Federal financial incentives, after taking into account—

"(I) regulatory approvals or power purchase contracts referred to in subparagraph (D),

"(II) arrangements for the supply of fuel to the project,

"(III) contracts or other arrangements for construction of the project facilities,

"(IV) any performance guarantees to be provided by contractors and equipment vendors, and

"(V) evidence of the availability of funds to develop and construct the project,

"(D) the applicant demonstrates that the applicant has obtained—

"(i) approval by the appropriate regulatory commission of the recovery of the cost of the project, or

"(ii) a power purchase agreement (or letter of intent, subject to paragraph (3)) which has been approved by the board of directors of, and executed by, a creditworthy purchasing party,

"(E) except as provided in subsection (f)(2), the applicant demonstrates that the applicant has, or will, obtain all project agreements and approvals, and

"(F) the project will be located in the United States.

"(2) PRIORITY FOR INTEGRATED GASIFICATION COMBINED CYCLE PROJECTS.—In determining which qualifying advanced coal projects to certify under subsection (d)(3)(B)(i), the Secretary shall—

"(A) certify capacity to—

"(i) projects using bituminous coal as a primary feedstock,

"(ii) projects using subbituminous coal as a primary feedstock, and

"(iii) projects using lignite as a primary feedstock, and

"(B) give high priority to projects which include, as determined by the Secretary—

"(i) greenhouse gas capture capability,

"(ii) increased by-product utilization, and

"(iii) other benefits.

"(3) LETTER OF INTENT.—A letter of intent described in paragraph (1)(D)(ii) shall be replaced by a binding contract before a certificate may be issued.

"(f) PROJECT AGREEMENTS AND APPROVALS.—

"(1) DEFINITION OF PROJECT AGREEMENTS AND APPROVALS.—For purposes of this subsection,

the term 'project agreements and approvals' means—

''(A) all necessary power purchase agreements, and all other contracts, which the Secretary determines are necessary to construct, finance, and operate a project, and

''(B) all authorizations by Federal, State, and local agencies which are required to construct, operate, and recover the cost of the project.

''(2) CERTIFICATION COMMITMENT.—

''(A) IN GENERAL.—If the applicant has not obtained all agreements and approvals prior to application, the Secretary may issue a certification commitment.

''(B) REQUIREMENTS.—

''(i) IN GENERAL.—An applicant which receives a certification commitment shall obtain any remaining project agreements and approvals not later than 4 years after the issuance of the certification commitment.

''(ii) REVOCATION.—If all project agreements and approvals are not obtained during the 4-year period described in

clause (i), the certification commitment is terminated without any other action by the Secretary.

''(iii) FINAL CERTIFICATE.—No certificate may be issued until all project agreements and approvals are obtained.

''(g) ADVANCED COAL-BASED GENERATION TECHNOLOGY.—

''(1) IN GENERAL.—For the purpose of this section, an electric generation unit uses advanced coal-based generation technology if—

''(A) the unit—

''(i) uses integrated gasification combined cycle technology, or

''(ii) except as provided in paragraph (3), has a design net heat rate of 8530 Btu/kWh (40 percent efficiency), and

''(B) the vendor warrants that the unit is designed to meet the performance requirements in the following table:

Performance characteristic:	**Design level for project:**
SO_2 (percent removal)	99 percent
NO_x (emissions)	0.07 lbs/MMBTU
PM* (emissions)	0.015 lbs/MMBTU
Hg (percent removal)	90 percent

"(2) DESIGN NET HEAT RATE.—For purposes of this subsection, design net heat rate with respect to an electric generation unit shall—

"(A) be measured in Btu per kilowatt hour (higher heating value),

"(B) be based on the design annual heat input to the unit and the rated net electrical power, fuels, and chemicals output of the unit (determined without regard to the cogeneration of steam by the unit),

"(C) be adjusted for the heat content of the design coal to be used by the unit—

"(i) if the heat content is less than 13,500 Btu per pound, but greater than 7,000 Btu per pound, according to the following formula: design net heat rate = unit net heat rate x [1–{((13,500-design coal heat content, Btu per pound)/1,000)* 0.013}], and

"(ii) if the heat content is less than or equal to 7,000 Btu per pound, according to the following formula: design net heat rate = unit net heat rate x [1–{((13,500-design coal heat content, Btu per pound)/ 1,000)* 0.018}], and

"(D) be corrected for the site reference conditions of—

"(i) elevation above sea level of 500 feet,

"(ii) air pressure of 14.4 pounds per square inch absolute,

"(iii) temperature, dry bulb of 63/o/F,

"(iv) temperature, wet bulb of 54/o/F, and

"(v) relative humidity of 55 percent.

(3) EXISTING UNITS.—In the case of any electric generation unit in existence on the date of the enactment of this section, such unit uses advanced coal-based generation technology if, in lieu of the requirements under paragraph (1)(A)(ii), such unit achieves a minimum efficiency of 35 percent and an overall thermal design efficiency improvement, compared to the efficiency of the unit as operated, of not less than—

(A) 7 percentage points for coal of more than 9,000 Btu,

(B) 6 percentage points for coal of 7,000 to 9,000 Btu, or

(C) 4 percentage points for coal of less than 7,000 Btu.

"SEC. 48B. QUALIFYING GASIFICATION PROJECT CREDIT.

"(a) IN GENERAL.—For purposes of section 46, the qualifying gasification project credit for any taxable year is an amount equal to 20 percent of the qualified investment for such taxable year.

"(b) QUALIFIED INVESTMENT.—

"(1) IN GENERAL.—For purposes of subsection (a), the qualified investment for any taxable year is the basis of property placed in service by the taxpayer during such taxable year which is part of a qualifying gasification project—

"(A)(i) the construction, reconstruction, or erection of which is completed by the taxpayer, or

"(ii) which is acquired by the taxpayer if the original use of such property commences with the taxpayer, and

"(B) with respect to which depreciation (or amortization in lieu of depreciation) is allowable.

"(2) APPLICABLE RULES.—For purposes of this section, rules similar to the rules of subsection (a)(4) and (b) of section 48 shall apply.

"(c) DEFINITIONS.—For purposes of this section—

''(1) QUALIFYING GASIFICATION PROJECT.—The term 'qualifying gasification project' means any project which—

''(A) employs gasification technology,

''(B) will be carried out by an eligible entity, and

''(C) any portion of the qualified investment in which is certified under the qualifying gasification program as eligible for credit under this section in an amount (not to exceed $1,000,000,000) determined by the Secretary.

''(2) GASIFICATION TECHNOLOGY.—The term 'gasification technology' means any process which converts a solid or liquid product from coal, petroleum residue, biomass, or other materials which are recovered for their energy or feedstock value into a synthesis gas composed primarily of carbon monoxide and hydrogen for direct use or subsequent chemical or physical conversion.

''(3) BIOMASS.—

''(A) IN GENERAL.—The term 'biomass' means any—

''(i) agricultural or plant waste,

''(ii) byproduct of wood or paper mill operations, including lignin in spent pulping liquors, and

''(iii) other products of forestry maintenance.

''(B) EXCLUSION.—The term 'biomass' does not include paper which is commonly recycled.

''(4) CARBON CAPTURE CAPABILITY.—The term 'carbon capture capability' means a gasification plant design which is determined by the Secretary to reflect reasonable consideration for, and be capable of, accommodating the equipment likely to be necessary to capture carbon dioxide from the gaseous stream, for later use or sequestration, which would otherwise be emitted in the flue gas from a project which uses a nonrenewable fuel.

''(5) COAL.—The term 'coal' means any carbonized or semicarbonized matter, including peat.

''(6) ELIGIBLE ENTITY.—The term 'eligible entity' means any person whose application for certification is principally intended for use in a domestic project which employs domestic gasification applications related to—

''(A) chemicals,

"(B) fertilizers,

"(C) glass,

"(D) steel,

"(E) petroleum residues,

"(F) forest products, and

"(G) agriculture, including feedlots and dairy operations.

"(7) PETROLEUM RESIDUE.—The term 'petroleum residue' means the carbonized product of high-boiling hydrocarbon fractions obtained in petroleum processing.

"(d) QUALIFYING GASIFICATION PROJECT PROGRAM.—

"(1) IN GENERAL.—The Secretary, in consultation with the Secretary of Energy, shall establish a qualifying gasification project program to consider and award certifications for qualified investment eligible for credits under this section to qualifying gasification project sponsors under this section. The total qualified investment which may be awarded eligibility for credit under the program shall not exceed $4,000,000,000.

"(2) PERIOD OF ISSUANCE.—A certificate of eligibility under paragraph (1) may be issued only

during the 10-fiscal year period beginning on October 1, 2005.

''(3) SELECTION CRITERIA.—The Secretary shall not make a competitive certification award for qualified investment for credit eligibility under this section unless the recipient has documented to the satisfaction of the Secretary that—

''(A) the award recipient is financially viable without the receipt of additional Federal funding associated with the proposed project,

''(B) the recipient will provide sufficient information to the Secretary for the Secretary to ensure that the qualified investment is spent efficiently and effectively,

''(C) a market exists for the products of the proposed project as evidenced by contracts or written statements of intent from potential customers,

''(D) the fuels identified with respect to the gasification technology for such project will comprise at least 90 percent of the fuels required by the project for the production of chemical feedstocks, liquid transportation fuels, or coproduction of electricity,

"(E) the award recipient's project team is competent in the construction and operation of the gasification technology proposed, with preference given to those recipients with experience which demonstrates successful and reliable operations of the technology on domestic fuels so identified, and

"(F) the award recipient has met other criteria established and published by the Secretary.".

(c) CONFORMING AMENDMENTS.—

(1) Section 49(a)(1)(C) is amended by striking "and" at the end of clause (ii), by striking clause (iii), and by adding after clause (ii) the following new clauses:

"(iii) the basis of any property which is part of a qualifying advanced coal project under section 48A, and

"(iv) the basis of any property which is part of a qualifying gasification project under section 48B.".

(2) The table of sections for subpart E of part IV of subchapter A of chapter 1 is amended by inserting after the item relating to section 48 the following new items:

''48A. Qualifying advanced coal project credit.
''48B. Qualifying gasification project credit.''.

(e) EFFECTIVE DATE.—The amendments made by this section shall apply to periods after the date of the enactment of this Act, under rules similar to the rules of section 48(m) of the Internal Revenue Code of 1986 (as in effect on the day before the date of the enactment of the Revenue Reconciliation Act of 1990).

SEC. 1507. CLEAN ENERGY COAL BONDS.

(a) IN GENERAL.—Subpart H of part IV of subchapter A of chapter 1 (relating to credits against tax), as added by this Act, is amended by adding at the end the following new section:

''SEC. 54A. CREDIT TO HOLDERS OF CLEAN ENERGY COAL BONDS.

''(a) ALLOWANCE OF CREDIT.—If a taxpayer holds a clean energy coal bond on 1 or more credit allowance dates of the bond occurring during any taxable year, there shall be allowed as a credit against the tax imposed by this chapter for the taxable year an amount equal to the sum of the credits determined under subsection (b) with respect to such dates.

''(b) AMOUNT OF CREDIT.—

''(1) IN GENERAL.—The amount of the credit determined under this subsection with respect to any credit allowance date for a clean energy coal bond is

25 percent of the annual credit determined with respect to such bond.

''(2) ANNUAL CREDIT.—The annual credit determined with respect to any clean energy coal bond is the product of—

''(A) the credit rate determined by the Secretary under paragraph (3) for the day on which such bond was sold, multiplied by

''(B) the outstanding face amount of the bond.

''(3) DETERMINATION.—For purposes of paragraph (2), with respect to any clean energy coal bond, the Secretary shall determine daily or cause to be determined daily a credit rate which shall apply to the first day on which there is a binding, written contract for the sale or exchange of the bond. The credit rate for any day is the credit rate which the Secretary or the Secretary's designee estimates will permit the issuance of clean energy coal bonds with a specified maturity or redemption date without discount and without interest cost to the qualified issuer.

''(4) CREDIT ALLOWANCE DATE.—For purposes of this section, the term 'credit allowance date' means—

"(A) March 15,

"(B) June 15,

"(C) September 15, and

"(D) December 15.

Such term also includes the last day on which the bond is outstanding.

"(5) SPECIAL RULE FOR ISSUANCE AND REDEMPTION.—In the case of a bond which is issued during the 3-month period ending on a credit allowance date, the amount of the credit determined under this subsection with respect to such credit allowance date shall be a ratable portion of the credit otherwise determined based on the portion of the 3-month period during which the bond is outstanding. A similar rule shall apply when the bond is redeemed or matures.

"(c) LIMITATION BASED ON AMOUNT OF TAX.—The credit allowed under subsection (a) for any taxable year shall not exceed the excess of—

"(1) the sum of the regular tax liability (as defined in section 26(b)) plus the tax imposed by section 55, over

"(2) the sum of the credits allowable under this part (other than subpart C thereof (relating to re-

fundable credits) and this section) and section 1397E.

''(d) CLEAN ENERGY COAL BOND.—For purposes of this section—

''(1) IN GENERAL.—The term 'clean energy coal bond' means any bond issued as part of an issue if—

''(A) the bond is issued by a qualified issuer pursuant to an allocation by the Secretary to such issuer of a portion of the national clean energy coal bond limitation under subsection (f)(2),

''(B) 95 percent or more of the proceeds from the sale of such issue are to be used for capital expenditures incurred by qualified borrowers for 1 or more qualified projects,

''(C) the qualified issuer designates such bond for purposes of this section and the bond is in registered form, and

''(D) the issue meets the requirements of subsection (h).

''(2) QUALIFIED PROJECT; SPECIAL USE RULES.—

''(A) IN GENERAL.—The term 'qualified project' means a qualifying advanced coal

project (as defined in section 48A(c)(1)) placed in service by a qualified borrower.

''(B) REFINANCING RULES.—For purposes of paragraph (1)(B), a qualified project may be refinanced with proceeds of a clean energy coal bond only if the indebtedness being refinanced (including any obligation directly or indirectly refinanced by such indebtedness) was originally incurred by a qualified borrower after the date of the enactment of this section.

''(C) REIMBURSEMENT.—For purposes of paragraph (1)(B), a clean energy coal bond may be issued to reimburse a qualified borrower for amounts paid after the date of the enactment of this section with respect to a qualified project, but only if—

''(i) prior to the payment of the original expenditure, the qualified borrower declared its intent to reimburse such expenditure with the proceeds of a clean energy coal bond,

''(ii) not later than 60 days after payment of the original expenditure, the qualified issuer adopts an official intent to re-

imburse the original expenditure with such proceeds, and

"(iii) the reimbursement is made not later than 18 months after the date the original expenditure is paid.

"(D) TREATMENT OF CHANGES IN USE.—For purposes of paragraph (1)(B), the proceeds of an issue shall not be treated as used for a qualified project to the extent that a qualified borrower takes any action within its control which causes such proceeds not to be used for a qualified project. The Secretary shall prescribe regulations specifying remedial actions that may be taken (including conditions to taking such remedial actions) to prevent an action described in the preceding sentence from causing a bond to fail to be a clean energy coal bond.

"(e) MATURITY LIMITATIONS.—

"(1) DURATION OF TERM.—A bond shall not be treated as a clean energy coal bond if the maturity of such bond exceeds the maximum term determined by the Secretary under paragraph (2) with respect to such bond.

"(2) MAXIMUM TERM.—During each calendar month, the Secretary shall determine the maximum term permitted under this paragraph for bonds issued during the following calendar month. Such maximum term shall be the term which the Secretary estimates will result in the present value of the obligation to repay the principal on the bond being equal to 50 percent of the face amount of such bond. Such present value shall be determined using as a discount rate the average annual interest rate of tax of tax-exempt obligations having a term of 10 years or more which are issued during the month. If the term as so determined is not a multiple of a whole year, such term shall be rounded to the next highest whole year.

"(3) RATABLE PRINCIPAL AMORTIZATION REQUIRED.—A bond shall not be treated as a clean energy coal bond unless it is part of an issue which provides for an equal amount of principal to be paid by the qualified issuer during each calendar year that the issue is outstanding.

"(f) LIMITATION ON AMOUNT OF BONDS DESIGNATED.—

''(1) NATIONAL LIMITATION.—There is a national clean energy coal bond limitation of $1,000,000,000.

''(2) ALLOCATION BY SECRETARY.—The Secretary shall allocate the amount described in paragraph (1) among qualified projects in such manner as the Secretary determines appropriate.

''(g) CREDIT INCLUDED IN GROSS INCOME.—Gross income includes the amount of the credit allowed to the taxpayer under this section (determined without regard to subsection (c)) and the amount so included shall be treated as interest income.

''(h) SPECIAL RULES RELATING TO EXPENDITURES.—

''(1) IN GENERAL.—An issue shall be treated as meeting the requirements of this subsection if, as of the date of issuance, the qualified issuer reasonably expects—

''(A) at least 95 percent of the proceeds from the sale of the issue are to be spent for 1 or more qualified projects within the 5-year period beginning on the date of issuance of the clean energy bond,

''(B) a binding commitment with a third party to spend at least 10 percent of the pro-

ceeds from the sale of the issue will be incurred within the 6-month period beginning on the date of issuance of the clean energy bond or, in the case of a clean energy bond the proceeds of which are to be loaned to 2 or more qualified borrowers, such binding commitment will be incurred within the 6-month period beginning on the date of the loan of such proceeds to a qualified borrower, and

''(C) such projects will be completed with due diligence and the proceeds from the sale of the issue will be spent with due diligence.

''(2) EXTENSION OF PERIOD.—Upon submission of a request prior to the expiration of the period described in paragraph (1)(A), the Secretary may extend such period if the qualified issuer establishes that the failure to satisfy the 5-year requirement is due to reasonable cause and the related projects will continue to proceed with due diligence.

''(3) FAILURE TO SPEND REQUIRED AMOUNT OF BOND PROCEEDS WITHIN 5 YEARS.—To the extent that less than 95 percent of the proceeds of such issue are expended by the close of the 5-year period beginning on the date of issuance (or if an extension has been obtained under paragraph (2), by

the close of the extended period), the qualified issuer shall redeem all of the nonqualified bonds within 90 days after the end of such period. For purposes of this paragraph, the amount of the nonqualified bonds required to be redeemed shall be determined in the same manner as under section 142.

''(i) SPECIAL RULES RELATING TO ARBITRAGE.—A bond which is part of an issue shall not be treated as a clean energy coal bond unless, with respect to the issue of which the bond is a part, the qualified issuer satisfies the arbitrage requirements of section 148 with respect to proceeds of the issue.

''(j) COOPERATIVE ELECTRIC COMPANY; QUALIFIED ENERGY TAX CREDIT BOND LENDER; GOVERNMENTAL BODY; QUALIFIED BORROWER.—For purposes of this section—

''(1) COOPERATIVE ELECTRIC COMPANY.—The term 'cooperative electric company' means a mutual or cooperative electric company described in section 501(c)(12) or section 1381(a)(2)(C), or a not-for-profit electric utility which has received a loan or loan guarantee under the Rural Electrification Act.

''(2) CLEAN ENERGY BOND LENDER.—The term 'clean energy bond lender' means a lender which is a cooperative which is owned by, or has out-

standing loans to, 100 or more cooperative electric companies and is in existence on February 1, 2002, and shall include any affiliated entity which is controlled by such lender.

''(3) GOVERNMENTAL BODY.—The term 'governmental body' means any State, territory, possession of the United States, the District of Columbia, Indian tribal government, and any political subdivision thereof.

''(4) QUALIFIED ISSUER.—The term 'qualified issuer' means—

''(A) a clean energy bond lender,

''(B) a cooperative electric company,

''(C) a governmental body, or

''(D) the Tennessee Valley Authority.

''(5) QUALIFIED BORROWER.—The term 'qualified borrower' means—

''(A) a mutual or cooperative electric company described in section 501(c)(12) or 1381(a)(2)(C),

''(B) a governmental body, or

''(C) the Tennessee Valley Authority.

''(k) SPECIAL RULES RELATING TO POOL BONDS.—No portion of a pooled financing bond may be allocable to any loan unless the borrower has entered into a written

loan commitment for such portion prior to the issue date of such issue.

''(l) OTHER DEFINITIONS AND SPECIAL RULES.—For purposes of this section—

''(1) BOND.—The term 'bond' includes any obligation.

''(2) POOLED FINANCING BOND.—The term 'pooled financing bond' shall have the meaning given such term by section 149(f)(4)(A).

''(3) PARTNERSHIP; S CORPORATION; AND OTHER PASS-THRU ENTITIES.—

''(A) IN GENERAL.—Under regulations prescribed by the Secretary, in the case of a partnership, trust, S corporation, or other pass-thru entity, rules similar to the rules of section 41(g) shall apply with respect to the credit allowable under subsection (a).

''(B) NO BASIS ADJUSTMENT.—Rules similar to the rules under section 1397E(i)(2) shall apply.

''(4) BONDS HELD BY REGULATED INVESTMENT COMPANIES.—If any clean energy coal bond is held by a regulated investment company, the credit determined under subsection (a) shall be allowed to

shareholders of such company under procedures prescribed by the Secretary.

''(5) TREATMENT FOR ESTIMATED TAX PURPOSES.—Solely for purposes of sections 6654 and 6655, the credit allowed by this section to a taxpayer by reason of holding a clean energy coal bond on a credit allowance date shall be treated as if it were a payment of estimated tax made by the taxpayer on such date.

''(6) REPORTING.—Issuers of clean energy coal bonds shall submit reports similar to the reports required under section 149(e).

''(m) TERMINATION.—This section shall not apply with respect to any bond issued after December 31, 2010.''.

(b) REPORTING.—Subsection (d) of section 6049 (relating to returns regarding payments of interest), as amended by this Act, is amended by adding at the end the following new paragraph:

''(9) REPORTING OF CREDIT ON CLEAN ENERGY COAL BONDS.—

''(A) IN GENERAL.—For purposes of subsection (a), the term 'interest' includes amounts includible in gross income under section 54A(g) and such amounts shall be treated as paid on

the credit allowance date (as defined in section 54A(b)(4)).

''(B) REPORTING TO CORPORATIONS, ETC.—Except as otherwise provided in regulations, in the case of any interest described in subparagraph (A), subsection (b)(4) shall be applied without regard to subparagraphs (A), (H), (I), (J), (K), and (L)(i) of such subsection.

''(C) REGULATORY AUTHORITY.—The Secretary may prescribe such regulations as are necessary or appropriate to carry out the purposes of this paragraph, including regulations which require more frequent or more detailed reporting.''.

(c) CLERICAL AMENDMENT.—The table of sections for subpart H of part IV of subchapter A of chapter 1, as added by this Act, is amended by adding at the end the following new item:

''Sec. 54A. Credit to holders of clean energy coal bonds.''.

(d) ISSUANCE OF REGULATIONS.—The Secretary of Treasury shall issue regulations required under section 54A of the Internal Revenue Code of 1986 (as added by this section) not later than 120 days after the date of the enactment of this Act.

(e) EFFECTIVE DATE.—The amendments made by this section shall apply to bonds issued after December 31, 2005.

Subtitle B—Domestic Fossil Fuel Security

SEC. 1511. CREDIT FOR INVESTMENT IN CLEAN COKE/COGENERATION MANUFACTURING FACILITIES.

(a) ALLOWANCE OF CLEAN COKE/COGENERATION MANUFACTURING FACILITIES CREDIT.—Section 46 (relating to amount of credit), as amended by this Act, is amended by striking ''and'' at the end of paragraph (3), by striking the period at the end of paragraph (4), and inserting '', and'', and by adding at the end the following new paragraph:

''(5) the clean coke/cogeneration manufacturing facilities credit.''.

(b) AMOUNT OF CLEAN COKE/COGENERATION MANUFACTURING FACILITIES CREDIT.—Subpart E of part IV of subchapter A of chapter 1 (relating to rules for computing investment credit), as amended by this Act, is amended by inserting after section 48B the following new section:

"SEC. 48C. CLEAN COKE/COGENERATION MANUFACTURING FACILITIES CREDIT.

"(a) IN GENERAL.—For purposes of section 46, the clean coke/cogeneration manufacturing facilities credit for any taxable year is an amount equal to 20 percent of the qualified investment for such taxable year.

"(b) QUALIFIED INVESTMENT.—

"(1) IN GENERAL.—For purposes of subsection (a), the qualified investment for any taxable year is the basis of each clean coke/cogeneration manufacturing facilities property placed in service by the taxpayer during such taxable year.

"(2) CLEAN COKE/COGENERATION MANUFACTURING FACILITIES PROPERTY.—For purposes of this section, the term 'clean coke/cogeneration manufacturing facilities property' means real and tangible personal property which—

"(A) is depreciable under section 167,

"(B) is located in the United States,

"(C) is used for the manufacture of metallurgical coke or for the production of steam or electricity from waste heat generated during the production of metallurgical coke, and

"(D) does not exceed any of the following emission limitations—

''(i) 0.0 percent leaking for any coke oven doors unless the operation of ovens is under negative pressure,

''(ii) 0.0 percent leaking for any topside port lids,

''(iii) 0.0 percent leaking for any offtake system,

determined as provided for in section 63.303(b)(1)(ii) or 63.309(d)(1) of title 40, Code of Federal Regulations.

''(c) TERMINATION.—This subsection shall not apply to property for periods after December 31, 2009.''.

(c) TECHNICAL AMENDMENT.—Section 50(c) is amended by adding at the end the following new paragraph:

''(6) SPECIAL RULE FOR COKE/COGENERATION FACILITIES.—Paragraphs (1) and (2) shall not apply to any property with respect to the credit determined under section 48C.''.

(d) CONFORMING AMENDMENTS.—

(1) Section 49(a)(1)(C), as amended by this Act, is amended by striking ''and'' at the end of clause (iii), by striking the period at the end of clause (iv) and inserting '', and'', and by adding at the end the following new clause:

''(v) the basis of any clean coke/cogeneration manufacturing facilities property.''

(2) The table of sections for subpart E of part IV of subchapter A of chapter 1, as amended by this Act, is amended by inserting after the item relating to section 48B the following new item:

''48C. Clean coke/cogeneration manufacturing facilities credit.''.

(e) EFFECTIVE DATE.—The amendments made by this section shall apply to periods after the date of the enactment of this Act, under rules similar to the rules of section 48(m) of the Internal Revenue Code of 1986 (as in effect on the day before the date of the enactment of the Revenue Reconciliation Act of 1990).

SEC. 1512. TEMPORARY EXPENSING FOR EQUIPMENT USED IN REFINING OF LIQUID FUELS.

(A) IN GENERAL.—Part VI of subchapter B of chapter 1 is amended by inserting after section 179B the following new section:

''SEC. 179C. ELECTION TO EXPENSE CERTAIN REFINERIES.

''(a) TREATMENT AS EXPENSES.—A taxpayer may elect to treat the cost of any qualified refinery property as an expense which is not chargeable to capital account. Any cost so treated shall be allowed as a deduction for the taxable year in which the qualified refinery is placed in service.

''(b) ELECTION.—

''(1) IN GENERAL.—An election under this section for any taxable year shall be made on the taxpayer's return of the tax imposed by this chapter for the taxable year. Such election shall be made in such manner as the Secretary may by regulations prescribe.

''(2) ELECTION IRREVOCABLE.—Any election made under this section may not be revoked except with the consent of the Secretary.

''(c) QUALIFIED REFINERY PROPERTY.—The term 'qualified refinery property' means any refinery or portion of a refinery—

''(1) the original use of which commences with the taxpayer,

''(2) the construction of which—

''(A) except as provided in subparagraph (B), is subject to a binding construction contract entered into after June 14, 2005, and before January 1, 2008, but only if there was no written binding construction contract entered into on or before June 14, 2005, or

''(B) in the case of self-constructed property, began after June 14, 2005,

''(3) which is placed in service by the taxpayer after the date of the enactment of this section and before January 1, 2012,

''(4) in the case of any portion of a refinery, which meets the requirements of subsection (d), and

''(5) which meets all applicable environmental laws in effect on the date such refinery or portion thereof was placed in service.

A waiver under the Clean Air Act shall not be taken into account in determining whether the requirements of paragraph (5) are met.

''(d) PRODUCTION CAPACITY.—The requirements of this subsection are met if the portion of the refinery—

''(1) increases the rated capacity of the existing refinery by 5 percent or more over the capacity of such refinery as reported by the Energy Information Agency on January 1, 2005, or

''(2) enables the existing refinery to process qualified fuels (as defined in section 29(c)) at a rate which is equal to or greater than 25 percent of the total throughput of such refinery on an average daily basis.

''(e) ELECTION TO ALLOCATE DEDUCTION TO COOPERATIVE OWNER.—If—

''(1) a taxpayer to which subsection (a) applies is an organization to which part I of subchapter T applies, and

''(2) one or more persons directly holding an ownership interest in the taxpayer are organizations to which part I of subchapter T apply,

the taxpayer may elect to allocate all or a portion of the deduction allowable under subsection (a) to such persons. Such allocation shall be equal to the person's ratable share of the total amount allocated, determined on the basis of the person's ownership interest in the taxpayer. The taxable income of the taxpayer shall not be reduced under section 1382 by reason of any amount to which the preceding sentence applies.

''(f) INELIGIBLE REFINERIES.—No deduction shall be allowed under subsection (a) for any qualified refinery property—

''(1) the primary purpose of which is for use as a topping plant, asphalt plant, lube oil facility, crude or product terminal, or blending facility, or

''(2) which is built solely to comply with Federally mandated projects or consent decrees.

''(g) REPORTING.—No deduction shall be allowed under subsection (a) to any taxpayer for any taxable year unless such taxpayer files with the Secretary a report con-

taining such information with respect to the operation of the refineries of the taxpayer as the Secretary shall require.''.

(b) CONFORMING AMENDMENTS.—

(1) Section 1245(a) is amended by inserting ''179C,'' after ''179B,'' both places it appears in paragraphs (2)(C) and (3)(C).

(2) Section 263(a)(1) is amended by striking ''or'' at the end of subparagraph (H), by striking the period at the end of subparagraph (I) and inserting '', or'', and by inserting after subparagraph (I) the following new subparagraph:

''(J) expenditures for which a deduction is allowed under section 179C.''.

(3) Section 312(k)(3)(B) is amended by striking ''179 179A, or 179B'' each place it appears in the heading and text and inserting ''179, 179A, 179B, or 179C''.

(4) The table of sections for part VI of subchapter B of chapter 1 is amended by inserting after the item relating to section 179B the following new item:

''Sec. 179C. Election to expense certain refineries.''.

(c) EFFECTIVE DATE.— The amendments made by this section shall apply to properties placed in service after the date of the enactment of this Act.

SEC. 1513. PASS THROUGH TO PATRONS OF DEDUCTION FOR CAPITAL COSTS INCURRED BY SMALL REFINER COOPERATIVES IN COMPLYING WITH ENVIRONMENTAL PROTECTION AGENCY SULFUR REGULATIONS .

(a) IN GENERAL.—Section 179B (relating to deduction for capital costs incurred in complying with Environmental Protection Agency sulfur regulations) is amended by adding at the end the following new subsection:

''(e) ELECTION TO ALLOCATE DEDUCTION TO COOPERATIVE OWNER.—If—

''(1) a small business refiner to which subsection (a) applies is an organization to which part I of subchapter T applies, and

''(2) one or more persons directly holding an ownership interest in the refiner are organizations to which part I of subchapter T apply,

the refiner may elect to allocate all or a portion of the deduction allowable under subsection (a) to such persons. Such allocation shall be equal to the person's ratable share of the total amount allocated, determined on the basis of the person's ownership interest in the taxpayer. The taxable income of the refiner shall not be reduced under section 1382 by reason of any amount to which the preceding sentence applies.''.

(b) EFFECTIVE DATE.—The amendment made by this section shall take effect as if included in the amendment made by section 338(a) of the American Jobs Creation Act of 2004.

SEC. 1514. MODIFICATIONS TO ENHANCED OIL RECOVERY CREDIT.

(a) ENHANCED CREDIT FOR CARBON DIOXIDE INJECTIONS.—Section 43 is amended by adding at the end the following new subsection:

''(f) ENHANCED CREDIT FOR PROJECTS USING QUALIFIED CARBON DIOXIDE.—

''(1) IN GENERAL.—In the case of any qualified enhanced oil recovery project described in paragraph (2), subsection (a) shall be applied by substituting '20 percent' for '15 percent'.

''(2) SPECIFIED QUALIFIED ENHANCED OIL RECOVERY PROJECT.—

''(A) IN GENERAL.—A qualified enhanced oil recovery project is described in this paragraph if—

''(i) the project begins or is substantially expanded after December 31, 2005, and

"(ii) the project uses qualified carbon dioxide in an oil recovery method which involves flooding or injection.

"(B) QUALIFIED CARBON DIOXIDE.—For purposes of this subsection, the term 'qualified carbon dioxide' means carbon dioxide that is—

"(i) from an industrial source, or

"(ii) separated from natural gas and natural gas liquids at a natural gas processing plant.

"(3) TERMINATION.—This subsection shall not apply to costs paid or incurred for any qualified enhanced oil recovery project after December 31, 2009.".

(b) DEEP GAS WELL PROJECTS.—Section 43(c) is amended by adding at the end the following new paragraph:

"(6) APPLICATION OF SECTION TO QUALIFIED DEEP GAS WELL PROJECTS.—

"(A) IN GENERAL.—For purposes of this section, the taxpayer's qualified deep gas well project costs for any taxable year shall be treated in the same manner as if they were qualified enhanced oil recovery costs.

''(B) QUALIFIED DEEP GAS WELL PROJECT COSTS.—For purposes of this paragraph, the term 'qualified deep gas well project costs' shall be the costs determined under paragraph (1) by substituting 'qualified deep gas well project' for 'qualified enhanced oil recovery project' each place it appears.

''(C) QUALIFIED DEEP GAS WELL PROJECT.—For purposes of this paragraph, the term 'qualified deep gas well project' means any project—

''(i) which involves the production of natural gas from onshore formations deeper than 20,000 feet, and

''(ii) which is located in the United States.

''(D) TERMINATION.—This paragraph shall not apply to qualified deep gas well project costs paid or incurred after December 31, 2009.''.

(c) EFFECTIVE DATE.—The amendments made by this section shall apply to costs paid or incurred in taxable years ending after December 31, 2005.

SEC. 1515. NATURAL GAS DISTRIBUTION LINES TREATED AS 15-YEAR PROPERTY.

(a) IN GENERAL.—Section 168(e)(3)(E) (defining 15-year property) is amended by striking ''and'' at the end of clause (v), by striking the period at the end of clause (vi) and by inserting '', and'', and by adding at the end the following new clause:

''(vii) any natural gas distribution line the original use of which commences with the taxpayer and which is placed in service before January 1, 2008.''.

(b) ALTERNATIVE SYSTEM.—The table contained in section 168(g)(3)(B) (relating to special rule for certain property assigned to classes) is amended by adding after the item relating to subparagraph (E)(vi) the following new item:

''(E)(vii) ..... 35''.

(c) EFFECTIVE DATE.—

(1) IN GENERAL.—The amendments made by this section shall apply to property placed in service after the date of the enactment of this Act.

(2) EXCEPTION.—The amendments made by this section shall not apply to any property with respect to which the taxpayer or a related party has entered into a binding contract for the construction thereof on or before June 14, 2005, or, in the case

of self-constructed property, has started construction on or before such date.

Subtitle C—Conservation and Energy Efficiency Provisions

SEC. 1521. ENERGY EFFICIENT COMMERCIAL BUILDINGS DEDUCTION.

(a) IN GENERAL.—Part VI of subchapter B of chapter 1 (relating to itemized deductions for individuals and corporations), as amended by this Act, is amended by inserting after section 179C the following new section:

"SEC. 179D. ENERGY EFFICIENT COMMERCIAL BUILDINGS DEDUCTION.

''(a) IN GENERAL.—There shall be allowed as a deduction an amount equal to the cost of energy efficient commercial building property placed in service during the taxable year.

''(b) MAXIMUM AMOUNT OF DEDUCTION.—The deduction under subsection (a) with respect to any building for any taxable year shall not exceed the excess (if any) of—

''(1) the product of—

''(A) $2.25, and

''(B) the square footage of the building, over

''(2) the aggregate amount of the deductions under subsection (a) with respect to the building for all prior taxable years.

''(c) DEFINITIONS.—For purposes of this section—

''(1) ENERGY EFFICIENT COMMERCIAL BUILDING PROPERTY.—The term 'energy efficient commercial building property' means property—

''(A) with respect to which depreciation (or amortization in lieu of depreciation) is allowable,

''(B) which is installed on or in any building which is—

''(i) located in the United States, and

''(ii) within the scope of Standard 90.1-2001,

''(C) which is installed as part of—

''(i) the interior lighting systems,

''(ii) the heating, cooling, ventilation, and hot water systems, or

''(iii) the building envelope, and

''(D) which is certified in accordance with subsection (d)(6) as being installed as part of a plan designed to reduce the total annual energy and power costs with respect to the interior lighting systems, heating, cooling, ventila-

tion, and hot water systems of the building by 50 percent or more in comparison to a reference building which meets the minimum requirements of Standard 90.1–2001 using methods of calculation under subsection (d)(2).

''(2) STANDARD 90.1–2001.—The term 'Standard 90.1–2001' means Standard 90.1–2001 of the American Society of Heating, Refrigerating, and Air Conditioning Engineers and the Illuminating Engineering Society of North America (as in effect on April 2, 2003).

''(d) SPECIAL RULES.—

''(1) PARTIAL ALLOWANCE.—

''(A) IN GENERAL.—Except as provided in subsection (f), if—

''(i) the requirement of subsection (c)(1)(D) is not met, but

''(ii) there is a certification in accordance with paragraph (6) that any system referred to in subsection (c)(1)(C) satisfies the energy-savings targets established by the Secretary under subparagraph (B) with respect to such system,

then the requirement of subsection (c)(1)(D) shall be treated as met with respect to such sys-

tem, and the deduction under subsection (a) shall be allowed with respect to energy efficient commercial building property installed as part of such system and as part of a plan to meet such targets, except that subsection (b) shall be applied to such property by substituting '$.75' for '$2.25'.

''(B) REGULATIONS.—The Secretary, after consultation with the Secretary of Energy, shall establish a target for each system described in subsection (c)(1)(C) which, if such targets were met for all such systems, the building would meet the requirements of subsection (c)(1)(D).

''(2) METHODS OF CALCULATION.—The Secretary, after consultation with the Secretary of Energy, shall promulgate regulations which describe in detail methods for calculating and verifying energy and power consumption and cost, based on the provisions of the 2005 California Nonresidential Alternative Calculation Method Approval Manual.

''(3) COMPUTER SOFTWARE.—

''(A) IN GENERAL.—Any calculation under paragraph (2) shall be prepared by qualified computer software.

''(B) QUALIFIED COMPUTER SOFTWARE.—For purposes of this paragraph, the term 'qualified computer software' means software—

''(i) for which the software designer has certified that the software meets all procedures and detailed methods for calculating energy and power consumption and costs as required by the Secretary,

''(ii) which provides such forms as required to be filed by the Secretary in connection with energy efficiency of property and the deduction allowed under this section, and

''(iii) which provides a notice form which documents the energy efficiency features of the building and its projected annual energy costs.

''(4) ALLOCATION OF DEDUCTION FOR PUBLIC PROPERTY.—In the case of energy efficient commercial building property installed on or in property owned by a Federal, State, or local government or a political subdivision thereof, the Secretary shall promulgate a regulation to allow the allocation of the deduction to the person primarily responsible for designing the property in lieu of the owner of such

property. Such person shall be treated as the taxpayer for purposes of this section.

''(5) NOTICE TO OWNER.—Each certification required under this section shall include an explanation to the building owner regarding the energy efficiency features of the building and its projected annual energy costs as provided in the notice under paragraph (3)(B)(iii).

''(6) CERTIFICATION.—

''(A) IN GENERAL.—The Secretary shall prescribe the manner and method for the making of certifications under this section.

''(B) PROCEDURES.—The Secretary shall include as part of the certification process procedures for inspection and testing by qualified individuals described in subparagraph (C) to ensure compliance of buildings with energy-savings plans and targets. Such procedures shall be comparable, given the difference between commercial and residential buildings, to the requirements in the Mortgage Industry National Accreditation Procedures for Home Energy Rating Systems.

''(C) QUALIFIED INDIVIDUALS.—Individuals qualified to determine compliance shall be

only those individuals who are recognized by an organization certified by the Secretary for such purposes.

''(e) BASIS REDUCTION.—For purposes of this subtitle, if a deduction is allowed under this section with respect to any energy efficient commercial building property, the basis of such property shall be reduced by the amount of the deduction so allowed.

''(f) INTERIM RULES FOR LIGHTING SYSTEMS.—Until such time as the Secretary issues final regulations under subsection (d)(1)(B) with respect to property which is part of a lighting system—

''(1) IN GENERAL.—The lighting system target under subsection (d)(1)(A)(ii) shall be a reduction in lighting power density of 25 percent (50 percent in the case of a warehouse) of the minimum requirements in Table 9.3.1.1 or Table 9.3.1.2 (not including additional interior lighting power allowances) of Standard 90.1–2001.

''(2) REDUCTION IN DEDUCTION IF REDUCTION LESS THAN 40 PERCENT.—

''(A) IN GENERAL.—If, with respect to the lighting system of any building other than a warehouse, the reduction in lighting power density of the lighting system is not at least 40

percent, only the applicable percentage of the amount of deduction otherwise allowable under this section with respect to such property shall be allowed.

''(B) APPLICABLE PERCENTAGE.—For purposes of subparagraph (A), the applicable percentage is the number of percentage points (not greater than 100) equal to the sum of—

''(i) 50, and

''(ii) the amount which bears the same ratio to 50 as the excess of the reduction of lighting power density of the lighting system over 25 percentage points bears to 15.

''(C) EXCEPTIONS.—This subsection shall not apply to any system—

''(i) the controls and circuiting of which do not comply fully with the mandatory and prescriptive requirements of Standard 90.1–2001 and which do not include provision for bilevel switching in all occupancies except hotel and motel guest rooms, store rooms, restrooms, and public lobbies, or

''(ii) which does not meet the minimum requirements for calculated lighting levels as set forth in the Illuminating Engineering Society of North America Lighting Handbook, Performance and Application, Ninth Edition, 2000.

''(g) COORDINATION WITH OTHER TAX BENEFITS.—In any case in which a deduction under section 200 or a credit under section 25C has been allowed with respect to property in connection with a building for which a deduction is allowable under subsection (a)—

''(1) the annual energy and power costs of the reference building referred to in subsection (c)(1)(D) shall be determined assuming such reference building contains the property for which such deduction or credit has been allowed, and

''(2) any cost of such property taken into account under such sections shall not be taken into account under this section.

''(h) REGULATIONS.—The Secretary shall promulgate such regulations as necessary—

''(1) to take into account new technologies regarding energy efficiency and renewable energy for purposes of determining energy efficiency and savings under this section, and

''(2) to provide for a recapture of the deduction allowed under this section if the plan described in subsection (c)(1)(D) or (d)(1)(A) is not fully implemented.

''(i) TERMINATION.—This section shall not apply with respect to property placed in service after December 31, 2009.''.

(b) CONFORMING AMENDMENTS.—

(1) Section 1016(a) is amended by striking ''and'' at the end of paragraph (30), by striking the period at the end of paragraph (31) and inserting '', and'', and by adding at the end the following new paragraph:

''(32) to the extent provided in section 179D(e).''.

(2) Section 1245(a), as amended by this Act, is amended by inserting ''179D,'' after ''179C,'' both places it appears in paragraphs (2)(C) and (3)(C).

(3) Section 1250(b)(3) is amended by inserting before the period at the end of the first sentence ''or by section 179D''.

(4) Section 263(a)(1), as amended by this Act, is amended by striking ''or'' at the end of subparagraph (I), by striking the period at the end of subparagraph (J) and inserting '', or'', and by inserting

after subparagraph (J) the following new subparagraph:

"(K) expenditures for which a deduction is allowed under section 179D.".

(5) Section 312(k)(3)(B), as amended by this Act, is amended by striking "179, 179A, 179B, or 179C" each place it appears in the heading and text and inserting "179, 179A, 179B, 179C, or 179D".

(c) CLERICAL AMENDMENT.—The table of sections for part VI of subchapter B of chapter 1, as amended by this Act, is amended by inserting after section 179C the following new item:

"Sec. 179D. Energy efficient commercial buildings deduction.".

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

SEC. 1522. CREDIT FOR CONSTRUCTION OF NEW ENERGY EFFICIENT HOMES.

(a) IN GENERAL.—Subpart D of part IV of subchapter A of chapter 1 (relating to business related credits), as amended by this Act, is amended by adding at the end the following new section:

"SEC. 45K. NEW ENERGY EFFICIENT HOME CREDIT.

"(a) ALLOWANCE OF CREDIT.—

''(1) IN GENERAL.—For purposes of section 38, in the case of an eligible contractor, the new energy efficient home credit for the taxable year is the applicable amount for each qualified new energy efficient home which is—

''(A) constructed by the eligible contractor, and

''(B) acquired by a person from such eligible contractor for use as a residence during the taxable year.

''(2) APPLICABLE AMOUNT.—For purposes of paragraph (1), the applicable amount is an amount equal to—

''(i) in the case of a dwelling unit described in paragraph (1) or (3) of subsection (c), $1,000, and

''(ii) in the case of a dwelling unit described in paragraph (2) or (4) of subsection (c), $2,000.

''(b) DEFINITIONS.—For purposes of this section—

''(1) ELIGIBLE CONTRACTOR.—The term 'eligible contractor' means—

''(A) the person who constructed the qualified new energy efficient home, or

''(B) in the case of a qualified new energy efficient home which is a manufactured home, the manufactured home producer of such home.

If more than 1 person is described in subparagraph (A) or (B) with respect to any qualified new energy efficient home, such term means the person designated as such by the owner of such home.

''(2) QUALIFIED NEW ENERGY EFFICIENT HOME.—The term 'qualified new energy efficient home' means a dwelling unit—

''(A) located in the United States,

''(B) the construction of which is substantially completed after the date of the enactment of this section, and

''(C) which meets the energy saving requirements of subsection (c).

''(3) CONSTRUCTION.—The term 'construction' includes substantial reconstruction and rehabilitation.

''(4) ACQUIRE.—The term 'acquire' includes purchase and, in the case of reconstruction and rehabilitation, such term includes a binding written contract for such reconstruction or rehabilitation.

''(c) ENERGY SAVING REQUIREMENTS.—A dwelling unit meets the energy saving requirements of this subsection if such unit is—

''(1) certified—

''(A) to have a level of annual heating and cooling energy consumption which is at least 30 percent below the annual level of heating and cooling energy consumption of a comparable dwelling unit—

''(i) which is constructed in accordance with the standards of chapter 4 of the 2003 International Energy Conservation Code, as such Code (including supplements) is in effect on the date of the enactment of this section, and

''(ii) for which the heating and cooling equipment efficiencies correspond to the minimum allowed under the regulations established by the Department of Energy pursuant to the National Appliance Energy Conservation Act of 1987 and in effect at the time of construction, and

''(B) to have building envelope component improvements account for at least ⅓ of such 30 percent,

"(2) certified—

"(A) to have a level of annual heating and cooling energy consumption which is at least 50 percent below such annual level, and

"(B) to have building envelope component improvements account for at least ⅕ of such 50 percent,

"(3) a manufactured home which conforms to Federal Manufactured Home Construction and Safety Standards (section 3280 of title 24, Code of Federal Regulations) and which—

"(A) meets the requirements of clause (i), or

"(B) meets the requirements established by the Administrator of the Environmental Protection Agency under the Energy Star Labeled Homes program, or

"(4) a manufactured home which conforms to Federal Manufactured Home Construction and Safety Standards (section 3280 of title 24, Code of Federal Regulations) and which meets the requirements of clause (ii).

"(d) CERTIFICATION.—

"(1) METHOD OF CERTIFICATION.—A certification described in paragraphs (1) and (2) of sub-

section (c) shall be made in accordance with guidance prescribed by the Secretary, after consultation with the Secretary of Energy. Such guidance shall specify procedures and methods for calculating energy and cost savings.

''(2) FORM.—Any certification described in subsection (c) shall be made in writing in a manner which specifies in readily verifiable fashion the energy efficient building envelope components and energy efficient heating or cooling equipment installed and their respective rated energy efficiency performance.

''(e) BASIS ADJUSTMENT.—For purposes of this subtitle, if a credit is allowed under this section in connection with any expenditure for any property, the increase in the basis of such property which would (but for this subsection) result from such expenditure shall be reduced by the amount of the credit so determined.

''(f) COORDINATION WITH OTHER CREDITS AND DEDUCTIONS.—

''(1) SPECIAL RULE WITH RESPECT TO BUILDINGS WITH ENERGY EFFICIENT PROPERTY.—In the case of property which is described in section 200 which is installed in connection with a dwelling unit, the level of annual heating and cooling energy con-

sumption of the comparable dwelling unit referred to in paragraphs (1) and (2) of subsection (c) shall be determined assuming such comparable dwelling unit contains the property for which such deduction or credit has been allowed.

''(2) COORDINATION WITH INVESTMENT CREDIT.—For purposes of this section, expenditures taken into account under section 47 or 48(a) shall not be taken into account under this section.

''(g) APPLICATION OF SECTION.—

''(1) 50 PERCENT HOMES.—In the case of any dwelling unit described in paragraph (2) or (4) of subsection (c), subsection (a) shall apply to qualified new energy efficient homes acquired during the period beginning on the date of the enactment of this section and ending on December 31, 2009.

''(2) 30 PERCENT HOMES.—In the case of any dwelling unit described in paragraph (1) or (3) of subsection (c), subsection (a) shall apply to qualified new energy efficient homes acquired during the period beginning on the date of the enactment of this section and ending on December 31, 2007.''.

(b) CREDIT MADE PART OF GENERAL BUSINESS CREDIT.—Section 38(b) (relating to current year business credit), as amended by this Act, is amended by striking

''plus'' at the end of paragraph (19), by striking the period at the end of paragraph (20) and inserting '', plus'', and by adding at the end the following new paragraph:

''(21) the new energy efficient home credit determined under section 45K(a).''.

(c) BASIS ADJUSTMENT.—Subsection (a) of section 1016, as amended by this Act, is amended by striking ''and'' at the end of paragraph (31), by striking the period at the end of paragraph (32) and inserting '', and'', and by adding at the end the following new paragraph:

''(33) to the extent provided in section 45K(e), in the case of amounts with respect to which a credit has been allowed under section 45K.''.

(d) DEDUCTION FOR CERTAIN UNUSED BUSINESS CREDITS.—Section 196(c) (defining qualified business credits) is amended by striking ''and'' at the end of paragraph (11), by striking the period at the end of paragraph (12) and inserting '', and'', and by adding after paragraph (12) the following new paragraph:

''(13) the new energy efficient home credit determined under section 45K(a).''.

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

''Sec. 45K. New energy efficient home credit.''.

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

SEC. 1523. DEDUCTION FOR BUSINESS ENERGY PROPERTY.

(a) IN GENERAL.—Part VI of subchapter B of chapter 1 is amended by adding at the end the following new section:

"SEC. 200. ENERGY PROPERTY DEDUCTION.

''(a) IN GENERAL.—There shall be allowed as a deduction for the taxable year an amount equal to the greater of—

''(1) the amount determined under subsection (b) for each energy property of the taxpayer placed in service during such taxable year, or

''(2) the energy efficient residential rental building property deduction determined under subsection (e).

''(b) AMOUNT FOR ENERGY PROPERTY.—The amount determined under this subsection for the taxable year shall be—

''(1) $150 for any advanced main air circulating fan,

''(2) $450 for any qualified natural gas, propane, or oil furnace or hot water boiler, and

''(2) $900 for any energy efficient building property.

''(c) ENERGY PROPERTY DEFINED.—

''(1) IN GENERAL.—For purposes of this part, the term 'energy property' means any property—

''(A) which is—

''(i) energy-efficient building property,

''(ii) a qualified natural gas, propane, or oil furnace or hot water boiler, or

''(iii) an advanced main air circulating fan,

''(B)(i) the construction, reconstruction, or erection of which is completed by the taxpayer, or

''(ii) which is acquired by the taxpayer if the original use of such property commences with the taxpayer,

''(C) with respect to which depreciation (or amortization in lieu of depreciation) is allowable, and

''(D) which meets the performance and quality standards, and the certification requirements (if any), which—

''(i) have been prescribed by the Secretary by regulations (after consultation

with the Secretary of Energy or the Administrator of the Environmental Protection Agency, as appropriate),

"(ii) in the case of the energy efficiency ratio (EER) for central air conditioners and electric heat pumps—

"(I) require measurements to be based on published data which is tested by manufacturers at 95 degrees Fahrenheit, and

"(II) may be based on the certified data of the Air Conditioning and Refrigeration Institute that are prepared in partnership with the Consortium for Energy Efficiency,

"(iii) in the case of geothermal heat pumps—

"(I) shall be based on testing under the conditions of ARI/ISO Standard 13256–1 for Water Source Heat Pumps or ARI 870 for Direct Expansion GeoExchange Heat Pumps (DX), as appropriate, and

"(II) shall include evidence that water heating services have been pro-

vided through a desuperheater or integrated water heating system connected to the storage water heater tank, and

"(iv) are in effect at the time of the acquisition of the property, or at the time of the completion of the construction, reconstruction, or erection of the property, as the case may be.

"(2) EXCEPTION.—Such term shall not include any property which is public utility property (as defined in section 46(f)(5) as in effect on the day before the date of the enactment of the Revenue Reconciliation Act of 1990).

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

"(1) ENERGY-EFFICIENT BUILDING PROPERTY.—The term 'energy-efficient building property' means—

"(A) an electric heat pump water heater which yields an energy factor of at least 2.0 in the standard Department of Energy test procedure,

"(B) an electric heat pump which has a heating seasonal performance factor (HSPF) of

at least 9, a seasonal energy efficiency ratio (SEER) of at least 15, and an energy efficiency ratio (EER) of at least 13,

"(C) a geothermal heat pump which—

"(i) in the case of a closed loop product, has an energy efficiency ratio (EER) of at least 14.1 and a heating coefficient of performance (COP) of at least 3.3,

"(ii) in the case of an open loop product, has an energy efficiency ratio (EER) of at least 16.2 and a heating coefficient of performance (COP) of at least 3.6, and

"(iii) in the case of a direct expansion (DX) product, has an energy efficiency ratio (EER) of at least 15 and a heating coefficient of performance (COP) of at least 3.5,

"(D) a central air conditioner which has a seasonal energy efficiency ratio (SEER) of at least 15 and an energy efficiency ratio (EER) of at least 13, and

"(E) a natural gas, propane, or oil water heater which has an energy factor of at least 0.80.

''(2) QUALIFIED NATURAL GAS, PROPANE, OR OIL FURNACE OR HOT WATER BOILER.—The term 'qualified natural gas, propane, or oil furnace or hot water boiler' means a natural gas, propane, or oil furnace or hot water boiler which achieves an annual fuel utilization efficiency rate of not less than 95.

''(3) ADVANCED MAIN AIR CIRCULATING FAN.—The term 'advanced main air circulating fan' means a fan used in a natural gas, propane, or oil furnace originally placed in service by the taxpayer during the taxable year and which has an annual electricity use of no more than 2 percent of the total annual energy use of the furnace (as determined in the standard Department of Energy test procedures).

''(e) ENERGY EFFICIENT RESIDENTIAL RENTAL BUILDING PROPERTY DEDUCTION.—

''(1) DEDUCTION ALLOWED.—For purposes of subsection (a)—

''(A) IN GENERAL.—The energy efficient residential rental building property deduction determined under this subsection is an amount equal to energy efficient residential rental building property expenditures made by a taxpayer for the taxable year.

"(B) MAXIMUM AMOUNT OF DEDUCTION.—The amount of energy efficient residential rental building property expenditures taken into account under subparagraph (A) with respect to each dwelling unit shall not exceed—

"(i) $6,000 in the case of a percentage reduction of 50 percent or more as determined under paragraph (2)(B)(ii), and

"(ii) $12,000 times the percentage reduction in the case of a percentage reduction which is less than 50 percent as determined under paragraph (2)(B)(ii).

"(C) YEAR DEDUCTION ALLOWED.—The deduction under subparagraph (A) shall be allowed in the taxable year in which the construction, reconstruction, erection, or rehabilitation of the property is completed.

"(2) ENERGY EFFICIENT RESIDENTIAL RENTAL BUILDING PROPERTY EXPENDITURES.—For purposes of this subsection—

"(A) IN GENERAL.—The term 'energy efficient residential rental building property expenditures' means an amount paid or incurred for energy efficient residential rental building property—

"(i) in connection with construction, reconstruction, erection, or rehabilitation of residential rental property (as defined in section 168(e)(2)(A)) other than property for which a deduction is allowable under section 179D,

"(ii) for which depreciation is allowable under section 167,

"(iii) which is located in the United States, and

"(iv) the construction, reconstruction, erection, or rehabilitation of which is completed by the taxpayer.

Such term includes expenditures for labor costs properly allocable to the onsite preparation, assembly, or original installation of the property.

"(B) ENERGY EFFICIENT RESIDENTIAL RENTAL BUILDING PROPERTY.—

"(i) IN GENERAL.—The term 'energy efficient residential rental building property' means any property which, individually or in combination with other property, reduces total annual energy and power costs with respect to heating and

cooling of the building by 20 percent or more when compared to—

"(I) in the case of an existing building, the original condition of the building, and

"(II) in the case of a new building, the standards for residential buildings of the same type which are built in compliance with the applicable building construction codes.

"(ii) PROCEDURES.—

"(I) IN GENERAL.—For purposes of clause (i), energy usage and costs shall be demonstrated by performance-based compliance in accordance with the requirements of clause (iv).

"(II) COMPUTER SOFTWARE.—Computer software shall be used in support of performance-based compliance under subclause (I) and such software shall meet all of the procedures and methods for calculating energy savings reductions which are promulgated by the Secretary of Energy. Such regulations on the specifications

for software and verification protocols shall be based on the 2005 California Residential Alternative Calculation Method Approval Manual.

"(III) CALCULATION REQUIREMENTS.—In calculating tradeoffs and energy performance, the regulations prescribed under this clause shall prescribe for the taxable year the costs per unit of energy and power, such as kilowatt hour, kilowatt, gallon of fuel oil, and cubic foot or Btu of natural gas, which may be dependent on time of usage. If a State has developed annual energy usage and cost calculation procedures based on time of usage costs for use in the performance standards of the State's building energy code prior to the effective date of this section, the State may use those annual energy usage and cost calculation procedures in lieu of those adopted by the Secretary.

"(IV) APPROVAL OF SOFTWARE SUBMISSIONS.—The Secretary shall

approve software submissions which comply with the requirements of subclause (II).

"(V) PROCEDURES FOR INSPECTION AND TESTING OF HOMES.—The Secretary shall ensure that procedures for the inspection and testing for compliance comply with the calculation requirements under subclause (III) of this clause and clause (iv).

"(iii) DETERMINATIONS OF COMPLIANCE.—A determination of compliance with respect to energy efficient residential rental building property made for the purposes of this subparagraph shall be filed with the Secretary not later than 1 year after the date of such determination and shall include the TIN of the certifier, the address of the building in compliance, and the identity of the person for whom such determination was performed. Determinations of compliance filed with the Secretary shall be available for inspection by the Secretary of Energy.

"(iv) COMPLIANCE.—

"(I) IN GENERAL.—The Secretary, after consultation with the Secretary of Energy, shall establish requirements for certification and compliance procedures after examining the requirements for energy consultants and home energy ratings providers specified by the Mortgage Industry National Home Energy Rating Standards.

"(II) INDIVIDUALS QUALIFIED TO DETERMINE COMPLIANCE.—The determination of compliance may be provided by a local building regulatory authority, a utility, a manufactured home production inspection primary inspection agency (IPIA), or an accredited home energy rating system provider. All providers shall be accredited, or otherwise authorized to use approved energy performance measurement methods, by the Residential Energy Services Network (RESNET).

"(C) ALLOCATION OF DEDUCTION FOR PUBLIC PROPERTY.—In the case of energy effi-

cient residential rental building property which is property owned by a Federal, State, or local government or a political subdivision thereof, the Secretary shall promulgate a regulation to allow the allocation of the deduction to the person primarily responsible for designing the improvements to the property in lieu of the owner of such property. Such person shall be treated as the taxpayer for purposes of this subsection.

''(f) BASIS REDUCTION.—For purposes of this subtitle, if a deduction is allowed under this section with respect to any property, the basis of such property shall be reduced by the amount of the deduction so allowed.

''(g) REGULATIONS.—The Secretary shall promulgate such regulations as necessary to take into account new technologies regarding energy efficiency and renewable energy for purposes of determining energy efficiency and savings under this section.

''(h) TERMINATION.—This section shall not apply with respect to any property placed in service after December 31, 2008.''.

(b) CONFORMING AMENDMENT.—Section 1016(a), as amended by this Act, is amended by striking ''and'' at the end of paragraph (32), by striking the period at the end

of paragraph (33) and inserting ", and", and by inserting the following new paragraph:

"(34) for amounts allowed as a deduction under section 200(a).".

(c) CLERICAL AMENDMENT.—The table of sections for part VI of subchapter B of chapter 1 is amended by adding at the end the following new item:

"Sec. 200. Energy property deduction.".

(d) EFFECTIVE DATE.—The amendments made by this section shall apply to property placed in service after the date of the enactment of this Act.

SEC. 1524. CREDIT FOR CERTAIN NONBUSINESS ENERGY PROPERTY.

(a) IN GENERAL.—Subpart A of part IV of subchapter A of chapter 1 (relating to nonrefundable personal credits) is amended by inserting after section 25B the following new section:

"SEC. 25C. NONBUSINESS ENERGY PROPERTY.

"(a) ALLOWANCE OF CREDIT.—

"(1) IN GENERAL.—In the case of an individual, there shall be allowed as a credit against the tax imposed by this chapter for the taxable year an amount equal to the greater of—

"(A) the amount of residential energy property expenditures made by the taxpayer during such taxable year, or

''(B) the amount specified in paragraph (2) for any building owned by the taxpayer which is certified as a highly energy-efficient principal residence during such taxable year.

''(2) CREDIT AMOUNT.—For purposes of paragraph (1)(B), the credit amount with respect to a highly energy-efficient principal residence is—

''(A) $2,000 in the case of a percentage reduction of 50 percent or more as determined under subsection (c)(4)(C), and

''(B) $4,000 times the percentage reduction in the case of a percentage reduction which is 20 percent or more but less than 50 percent as determined under subsection (c)(4)(C).

''(b) LIMITATION.—The amount of the credit allowed under this section by reason of subsection (a)(1)(A) shall not exceed—

''(1) $50 for any advanced main air circulating fan,

''(2) $150 for any qualified natural gas, propane, or oil furnace or hot water boiler, and

''(2) $300 for any item of energy efficient property.

''(c) DEFINITIONS AND SPECIAL RULES.—For purposes of this section—

''(1) RESIDENTIAL ENERGY PROPERTY EXPENDITURES.—The term 'residential energy property expenditures' means expenditures made by the taxpayer for qualified energy property installed on or in connection with a dwelling unit which—

''(A) is located in the United States, and

''(B) is used as a principal residence.

Such term includes expenditures for labor costs properly allocable to the onsite preparation, assembly, or original installation of the property.

''(2) QUALIFIED ENERGY PROPERTY.—

''(A) IN GENERAL.—The term 'qualified energy property' means—

''(i) energy-efficient building property,

''(ii) a qualified natural gas, propane, or oil furnace or hot water boiler, or

''(iii) an advanced main air circulating fan.

''(B) REQUIRED STANDARDS.—Property described under subparagraph (A) shall meet the performance and quality standards and certification standards of section 200(c)(1)(D).

''(3) ENERGY-EFFICIENT BUILDING PROPERTY; QUALIFIED NATURAL GAS, PROPANE, OR OIL FURNACE OR HOT WATER BOILER; ADVANCED MAIN AIR

CIRCULATING FAN.—The terms 'energy-efficient building property', 'qualified natural gas, propane, or oil furnace or hot water boiler', and 'advanced main air circulating fan' have the meanings given such terms in section 200.

"(4) HIGHLY ENERGY-EFFICIENT PRINCIPAL RESIDENCE.—

"(A) IN GENERAL.—A building is a highly energy-efficient principal residence if—

"(i) such building is located in the United States,

"(ii) the building is used as a principal residence,

"(iii) in the case of a new building, the building is not acquired from an eligible contractor (within the meaning of section 45K(b)(1)), and

"(iv) the building is certified in accordance with subparagraph (D) as meeting the requirements of subparagraph (C).

"(B) PRINCIPAL RESIDENCE.—

"(i) IN GENERAL.—The term 'principal residence' has the same meaning as when used in section 121, except that—

''(I) no ownership requirement shall be imposed, and

''(II) the period for which a building is treated as used as a principal residence shall also include the 60-day period ending on the 1st day on which it would (but for this subparagraph) first be treated as used as a principal residence.

''(ii) MANUFACTURED HOUSING.—The term 'residence' shall include a dwelling unit which is a manufactured home conforming to Federal Manufactured Home Construction and Safety Standards (24 C.F.R. 3280).

''(C) REQUIREMENTS.—The requirements of this subparagraph are met if the projected heating and cooling energy usage of the building, measured in terms of average annual energy cost to taxpayer, is reduced by 20 percent or more in comparison to—

''(i) in the case of an existing building, the original condition of the building, and

''(ii) in the case of a new building, a comparable building—

''(I) which is constructed in accordance with the standards of chapter 4 of the 2003 International Energy Conservation Code, as such Code (including supplements) is in effect on the date of the enactment of this section, and

''(II) for which the heating and cooling equipment efficiencies correspond to the minimum allowed under the regulations established by the Department of Energy pursuant to the National Appliance Energy Conservation Act of 1987 and in effect at the time of construction.

''(D) CERTIFICATION PROCEDURES.—

''(i) IN GENERAL.—For purposes of subparagraph (A)(iv), energy usage shall be demonstrated by performance-based compliance in accordance with the requirements of subsection (d)(2).

''(ii) COMPUTER SOFTWARE.—Computer software shall be used in support of

performance-based compliance under clause (i) and such software shall meet all of the procedures and methods for calculating energy savings reductions which are promulgated by the Secretary of Energy. Such regulations on the specifications for software and verification protocols shall be based on the 2005 California Residential Alternative Calculation Method Approval Manual.

''(iii) CALCULATION REQUIREMENTS.—In calculating tradeoffs and energy performance, the regulations shall prescribe the costs per unit of energy and power, such as kilowatt hour, kilowatt, gallon of fuel oil, and cubic foot or Btu of natural gas, which may be dependent on time of usage. If a State has developed annual energy usage and cost calculation procedures based on time of usage costs for use in the performance standards of the State's building energy code before the effective date of this section, the State may use those annual energy usage and cost

calculation procedures in lieu of those adopted by the Secretary.

''(iv) APPROVAL OF SOFTWARE SUBMISSIONS.—The Secretary shall approve software submissions which comply with the calculation requirements of clause (ii).

''(v) PROCEDURES FOR INSPECTION AND TESTING OF DWELLING UNITS.—The Secretary shall ensure that procedures for the inspection and testing for compliance comply with the calculation requirements under clause (iii) and subsection (d)(2).

''(d) SPECIAL RULES.—For purposes of this section—

''(1) DETERMINATIONS OF COMPLIANCE.—A determination of compliance made for the purposes of this section shall be filed with the Secretary within 1 year of the date of such determination and shall include the TIN of the certifier, the address of the building in compliance, and the identity of the person for whom such determination was performed. Determinations of compliance filed with the Secretary shall be available for inspection by the Secretary of Energy.

''(2) COMPLIANCE.—

"(A) IN GENERAL.—The Secretary, after consultation with the Secretary of Energy, shall establish requirements for certification and compliance procedures after examining the requirements for energy consultants and home energy ratings providers specified by the Mortgage Industry National Home Energy Rating Standards.

"(B) INDIVIDUALS QUALIFIED TO DETERMINE COMPLIANCE.—The determination of compliance may be provided by a local building regulatory authority, a utility, a manufactured home production inspection primary inspection agency (IPIA), or an accredited home energy rating system provider. All providers shall be accredited, or otherwise authorized to use approved energy performance measurement methods, by the Residential Energy Services Network (RESNET).

"(3) DOLLAR AMOUNTS IN CASE OF JOINT OCCUPANCY.—In the case of any dwelling unit which is jointly occupied and used during any calendar year as a principal residence by 2 or more individuals, the following rules shall apply:

"(A) The amount of the credit allowable under subsection (a) by reason of expenditures made during such calendar year by any of such individuals with respect to such dwelling unit shall be determined by treating all of such individuals as 1 taxpayer whose taxable year is such calendar year.

"(B) There shall be allowable with respect to such expenditures to each of such individuals, a credit under subsection (a) for the taxable year in which such calendar year ends in an amount which bears the same ratio to the amount determined under subparagraph (A) as the amount of such expenditures made by such individual during such calendar year bears to the aggregate of such expenditures made by all of such individuals during such calendar year.

"(4) TENANT-STOCKHOLDER IN COOPERATIVE HOUSING CORPORATION.—In the case of an individual who is a tenant-stockholder (as defined in section 216) in a cooperative housing corporation (as defined in such section), such individual shall be treated as having made his tenant-stockholder's proportionate share (as defined in section 216(b)(3)) of

any expenditures of such corporation and such credit shall be allocated pro rata to such individual.

''(5) CONDOMINIUMS.—

''(A) IN GENERAL.—In the case of an individual who is a member of a condominium management association with respect to a condominium which he owns, such individual shall be treated as having made his proportionate share of any expenditures of such association and any credit shall be allocated appropriately.

''(B) CONDOMINIUM MANAGEMENT ASSOCIATION.—For purposes of this paragraph, the term 'condominium management association' means an organization which meets the requirements of paragraph (1) of section 528(c) (other than subparagraph (E) thereof) with respect to a condominium project substantially all of the units of which are used as principal residences.

''(6) JOINT OWNERSHIP OF ENERGY ITEMS.—

''(A) IN GENERAL.—Any expenditure otherwise qualifying as an expenditure under this section shall not be treated as failing to so qualify merely because such expenditure was made with respect to 2 or more dwelling units.

''(B) LIMITS APPLIED SEPARATELY.—In the case of any expenditure described in subparagraph (A), the amount of the credit allowable under subsection (a) shall (subject to paragraph (1)) be computed separately with respect to the amount of the expenditure made for each dwelling unit.

''(7) ALLOCATION IN CERTAIN CASES.—If less than 80 percent of the use of an item is for nonbusiness purposes, only that portion of the expenditures for such item which is properly allocable to use for nonbusiness purposes shall be taken into account.

''(8) YEAR CREDIT ALLOWED.—The credit under subsection (a)(2) shall be allowed in the taxable year in which the percentage reduction with respect to the principal residence is certified.

''(9) WHEN EXPENDITURE MADE; AMOUNT OF EXPENDITURE.—

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

''(B) EXPENDITURES PART OF BUILDING CONSTRUCTION.—In the case of an expenditure in connection with the construction of a struc-

ture, such expenditure shall be treated as made when the original use of the constructed structure by the taxpayer begins.

''(10) PROPERTY FINANCED BY SUBSIDIZED ENERGY FINANCING.—

''(A) REDUCTION OF EXPENDITURES.—

''(i) IN GENERAL.—Except as provided in subparagraph (C), for purposes of determining the amount of expenditures made by any individual with respect to any dwelling unit, there shall not be taken into account expenditures which are made from subsidized energy financing.

''(ii) SUBSIDIZED ENERGY FINANCING.—For purposes of clause (i), the term 'subsidized energy financing' has the same meaning given such term in section 48(a)(4)(C).

''(B) DOLLAR LIMITS REDUCED.—The dollar amounts in subsection (b)(3) with respect to each property purchased for such dwelling unit for any taxable year of such taxpayer shall be reduced proportionately by an amount equal to the sum of—

"(i) the amount of the expenditures made by the taxpayer during such taxable year with respect to such dwelling unit and not taken into account by reason of subparagraph (A), and

"(ii) the amount of any Federal, State, or local grant received by the taxpayer during such taxable year which is used to make residential energy property expenditures with respect to the dwelling unit and is not included in the gross income of such taxpayer.

"(C) EXCEPTION FOR STATE PROGRAMS.—Subparagraphs (A) and (B) shall not apply to expenditures made with respect to property for which the taxpayer has received a loan, State tax credit, or grant under any State energy program.

"(11) COORDINATION WITH SECTION 25D.—In any case in which a credit under section 25D has been allowed with respect to property in connection with a building for which a credit is allowable under this section by reason of subsection (a)(1)(B)—

"(A) for purposes of subsection (c)(4)(C), the average annual energy cost with respect to heating and cooling of—

"(i) for purposes of subsection (c)(4)(C)(i), the original condition of the building, and

"(ii) for purposes of subsection (c)(4)(C)(ii), the comparable building,

shall be determined assuming such building contains the property for which such credit has been allowed, and

"(B) any cost of such property taken into account under such section shall not be taken into account under this section.

"(e) BASIS ADJUSTMENTS.—For purposes of this subtitle, if a credit is allowed under this section for any expenditure with respect to any property, the increase in the basis of such property which would (but for this subsection) result from such expenditure shall be reduced by the amount of the credit so allowed.

"(f) REGULATIONS.—The Secretary shall promulgate such regulations as necessary to take into account new technologies regarding energy efficiency and renewable energy for purposes of determining energy efficiency and savings under this section.

''(g) TERMINATION.—This section shall not apply with respect to any property placed in service after December 31, 2008.''.

(b) CONFORMING AMENDMENTS.—

(1) Subsection (a) of section 1016, as amended by this Act, is amended by striking ''and'' at the end of paragraph (33), by striking the period at the end of paragraph (34) and inserting '', and'', and by adding at the end the following new paragraph:

''(35) to the extent provided in section 25C(e), in the case of amounts with respect to which a credit has been allowed under section 25C.''.

(2) The table of sections for subpart A of part IV of subchapter A of chapter 1 is amended by inserting after the item relating to section 25B the following new item:

''Sec. 25C. Nonbusiness energy property.''.

(c) EFFECTIVE DATES.—The amendments made by this section shall apply to property placed in service after December 31, 2005.

SEC. 1525. ENERGY CREDIT FOR COMBINED HEAT AND POWER SYSTEM PROPERTY.

(a) IN GENERAL.—Section 48(a)(3)(A) (defining energy property) is by striking ''or'' at the end of clause (i), by inserting ''or'' at the end of clause (ii), and by adding at the end the following new clause:

"(iii) combined heat and power system property,".

(b) COMBINED HEAT AND POWER SYSTEM PROPERTY.—Section 48 (relating to energy credit; reforestation credit) is amended by adding at the end the following new subsection:

"(c) COMBINED HEAT AND POWER SYSTEM PROPERTY.—For purposes of subsection (a)(3)(A)(iii)—

"(1) COMBINED HEAT AND POWER SYSTEM PROPERTY.—The term 'combined heat and power system property' means property comprising a system—

"(A) which uses the same energy source for the simultaneous or sequential generation of electrical power, mechanical shaft power, or both, in combination with the generation of steam or other forms of useful thermal energy (including heating and cooling applications),

"(B) which has an electrical capacity of not more than 15 megawatts or a mechanical energy capacity of not more than 2,000 horsepower or an equivalent combination of electrical and mechanical energy capacities,

"(C) which produces—

''(i) at least 20 percent of its total useful energy in the form of thermal energy which is not used to produce electrical or mechanical power (or combination thereof), and

''(ii) at least 20 percent of its total useful energy in the form of electrical or mechanical power (or combination thereof),

''(D) the energy efficiency percentage of which exceeds 60 percent, and

''(E) which is placed in service before January 1, 2008.

''(2) SPECIAL RULES.—

''(A) ENERGY EFFICIENCY PERCENTAGE.—For purposes of this subsection, the energy efficiency percentage of a system is the fraction—

''(i) the numerator of which is the total useful electrical, thermal, and mechanical power produced by the system at normal operating rates, and expected to be consumed in its normal application, and

''(ii) the denominator of which is the lower heating value of the fuel sources for the system.

"(B) DETERMINATIONS MADE ON BTU BASIS.—The energy efficiency percentage and the percentages under paragraph (1)(C) shall be determined on a Btu basis.

"(C) INPUT AND OUTPUT PROPERTY NOT INCLUDED.—The term 'combined heat and power system property' does not include property used to transport the energy source to the facility or to distribute energy produced by the facility.

"(D) CERTAIN EXCEPTION NOT TO APPLY.—The first sentence of the matter in subsection (a)(3) which follows subparagraph (D) thereof shall not apply to combined heat and power system property.

"(3) SYSTEMS USING BAGASSE.—If a system is designed to use bagasse for at least 90 percent of the energy source—

"(A) paragraph (1)(D) shall not apply, but

"(B) the amount of credit determined under subsection (a) with respect to such system shall not exceed the amount which bears the same ratio to such amount of credit (determined without regard to this paragraph) as the

energy efficiency percentage of such system bears to 60 percent.''.

(c) EFFECTIVE DATE.—The amendments made by this section shall apply to periods after the date of the enactment of this Act, in taxable years ending after such date, under rules similar to the rules of section 48(m) of the Internal Revenue Code of 1986 (as in effect on the day before the date of the enactment of the Revenue Reconciliation Act of 1990).

SEC. 1526. CREDIT FOR ENERGY EFFICIENT APPLIANCES.

(a) IN GENERAL.—Subpart D of part IV of subchapter A of chapter 1 (relating to business-related credits), as amended by this Act, is amended by adding at the end the following new section:

''SEC. 45L. ENERGY EFFICIENT APPLIANCE CREDIT.

''(a) GENERAL RULE.—

''(1) IN GENERAL.—For purposes of section 38, the energy efficient appliance credit determined under this section for any taxable year is an amount equal to the sum of the credit amounts determined under paragraph (2) for each type of qualified energy efficient appliance produced by the taxpayer during the calendar year ending with or within the taxable year.

''(2) CREDIT AMOUNTS.—The credit amount determined for any type of qualified energy efficient appliance is—

''(A) the applicable amount determined under subsection (b) with respect to such type, multiplied by

''(B) the eligible production for such type.

''(b) APPLICABLE AMOUNT.—

''(1) IN GENERAL.—For purposes of subsection (a)—

''(A) DISHWASHERS.—The applicable amount is the energy savings amount in the case of a dishwasher which—

''(i) is manufactured in calendar year 2006 or 2007, and

''(ii) meets the requirements of the Energy Star program which are in effect for dishwashers in 2007.

''(B) CLOTHES WASHERS.—The applicable amount is—

''(i) $50, in the case of a clothes washer which—

''(I) is manufactured in calendar year 2005, and

"(II) has an MEF of at least 1.42,

"(ii) $100, in the case of a clothes washer which—

"(I) is manufactured in calendar year 2005, 2006, or 2007, and

"(II) meets the requirements of the Energy Star program which are in effect for clothes washers in 2007, and

"(iii) the energy and water savings amount, in the case of a clothes washer which—

"(I) is manufactured in calendar year 2008, 2009, or 2010, and

"(II) meets the requirements of the Energy Star program which are in effect for clothes washers in 2010.

"(C) REFRIGERATORS.—

"(i) 15 PERCENT SAVINGS.—The applicable amount is $75 in the case of a refrigerator which—

"(I) is manufactured in calendar year 2005 or 2006, and

"(II) consumes at least 15 percent but not more than 20 percent less kilowatt hours per year than the 2001 energy conservation standard.

"(ii) 20 PERCENT SAVINGS.—In the case of a refrigerator which consumes at least 20 percent but not more than 25 percent less kilowatt hours per year than the 2001 energy conservation standards, the applicable amount is—

"(I) $125 for a refrigerator which is manufactured in calendar year 2005, 2006, or 2007, and

"(II) $100 for a refrigerator which is manufactured in calendar year 2008.

"(iii) 25 PERCENT SAVINGS.—In the case of a refrigerator which consumes at least 25 percent less kilowatt hours per year than the 2001 energy conservation standards, the applicable amount is—

"(I) $175 for a refrigerator which is manufactured in calendar year 2005, 2006, or 2007, and

"(II) $150 for a refrigerator which is manufactured in calendar year 2008, 2009, or 2010.

"(2) ENERGY SAVINGS AMOUNT.—For purposes of paragraph (1)(A)—

"(A) IN GENERAL.—The energy savings amount is the lesser of—

"(i) the product of—

"(I) $3, and

"(II) 100 multiplied by the energy savings percentage, or

"(ii) $100.

"(B) ENERGY SAVINGS PERCENTAGE.—For purposes of subparagraph (A), the energy savings percentage is the ratio of—

"(i) the EF required by the Energy Star program for dishwashers in 2007 minus the EF required by the Energy Star program for dishwashers in 2005, to

"(ii) the EF required by the Energy Star program for dishwashers in 2007.

"(3) ENERGY AND WATER SAVINGS AMOUNT.—For purposes of paragraph (1)(B)(iii)—

"(A) IN GENERAL.—The energy and water savings amount is the lesser of—

"(i) the product of—

"(I) $10, and

"(II) 100 multiplied by the energy and water savings percentage, or

"(ii) $200.

"(B) ENERGY AND WATER SAVINGS PERCENTAGE.—For purposes of subparagraph (A), the energy and water savings percentage is the average of the MEF savings percentage and the WF savings percentage.

"(C) MEF SAVINGS PERCENTAGE.—For purposes of this paragraph, the MEF savings percentage is the ratio of—

"(i) the MEF required by the Energy Star program for clothes washers in 2010 minus the MEF required by the Energy Star program for clothes washers in 2007, to

"(ii) the MEF required by the Energy Star program for clothes washers in 2010.

"(D) WF SAVINGS PERCENTAGE.—For purposes of this paragraph, the WF savings percentage is the ratio of—

"(i) the WF required by the Energy Star program for clothes washers in 2007

minus the WF required by the Energy Star program for clothes washers in 2010, to

"(ii) the WF required by the Energy Star program for clothes washers in 2007.

"(c) ELIGIBLE PRODUCTION.—

"(1) IN GENERAL.—Except as provided in paragraphs (2) and (3), the eligible production in a calendar year with respect to each type of energy efficient appliance is the excess of—

"(A) the number of appliances of such type which are produced by the taxpayer in the United States during such calendar year, over

"(B) the average number of appliances of such type which were produced by the taxpayer (or any predecessor) in the United States during the preceding 3-calendar year period.

"(2) SPECIAL RULE FOR REFRIGERATORS.—The eligible production in a calendar year with respect to each type of refrigerator described in subsection (b)(1)(C) is the excess of—

"(A) the number of appliances of such type which are produced by the taxpayer in the United States during such calendar year, over

"(B) 110 percent of the average number of appliances of such type which were produced by the taxpayer (or any predecessor) in the United States during the preceding 3-calendar year period.

"(3) SPECIAL RULE FOR 2005 PRODUCTION.—For purposes of determining eligible production for calendar year 2005—

"(A) only production after the date of enactment of this section shall be taken into account under paragraphs (1)(A) and (2)(A), and

"(B) the amount taken into account under paragraphs (1)(B) and (2)(B) shall be an amount which bears the same ratio to the amount which would (but for this paragraph) be taken into account under such paragraph as—

"(i) the number of days in calendar year 2005 after the date of enactment of this section, bears to

"(ii) 365.

"(d) TYPES OF ENERGY EFFICIENT APPLIANCE.—For purposes of this section, the types of energy efficient appliances are—

"(1) dishwashers described in subsection (b)(1)(A),

"(2) clothes washers described in subsection (b)(1)(B)(i),

"(3) clothes washers described in subsection (b)(1)(B)(ii),

"(4) clothes washers described in subsection (b)(1)(B)(iii),

"(5) refrigerators described in subsection (b)(1)(C)(i),

"(6) refrigerators described in subsection (b)(1)(C)(ii)(I),

"(7) refrigerators described in subsection (b)(1)(C)(ii)(II),

"(8) refrigerators described in subsection (b)(1)(C)(iii)(I), and

"(9) refrigerators described in subsection (b)(1)(C)(iii)(II).

"(e) LIMITATIONS.—

"(1) AGGREGATE CREDIT AMOUNT ALLOWED.—The aggregate amount of credit allowed under subsection (a) with respect to a taxpayer for any taxable year shall not exceed $75,000,000 reduced by the amount of the credit allowed under subsection

(a) to the taxpayer (or any predecessor) for all prior taxable years.

''(2) AMOUNT ALLOWED FOR CERTAIN APPLIANCES.—

''(A) IN GENERAL.—In the case of appliances described in subparagraph (C), the aggregate amount of the credit allowed under subsection (a) with respect to a taxpayer for any taxable year shall not exceed $20,000,000 reduced by the amount of the credit allowed under subsection (a) to the taxpayer (or any predecessor) for all prior taxable years with respect to such appliances.

''(B) ELECTION TO INCREASE ALLOWABLE CREDIT.—In the case of any taxpayer who makes an election under this subparagraph—

''(i) subparagraph (A) shall be applied by substituting '$25,000,000' for '$20,000,000', and

''(ii) the aggregate amount of the credit allowed under subsection (a) with respect to such taxpayer for any taxable year for appliances described in subparagraph (C) and the additional appliances described in subparagraph (D) shall not exceed

$50,000,000 reduced by the amount of the credit allowed under subsection (a) to the taxpayer (or any predecessor) for all prior taxable years with respect to such appliances.

''(C) APPLIANCES DESCRIBED.—The appliances described in this subparagraph are—

''(i) clothes washers described in subsection (b)(1)(B)(i), and

''(ii) refrigerators described in subsection (b)(1)(C)(i).

''(D) ADDITIONAL APPLIANCES.—The additional appliances described in this subparagraph are—

''(i) refrigerators described in subsection (b)(1)(C)(ii)(I), and

''(ii) refrigerators described in subsection (b)(1)(C)(ii)(II).

''(3) LIMITATION BASED ON GROSS RECEIPTS.—The credit allowed under subsection (a) with respect to a taxpayer for the taxable year shall not exceed an amount equal to 2 percent of the average annual gross receipts of the taxpayer for the 3 taxable years preceding the taxable year in which the credit is determined.

''(4) GROSS RECEIPTS.—For purposes of this subsection, the rules of paragraphs (2) and (3) of section 448(c) shall apply.

''(f) DEFINITIONS.—For purposes of this section—

''(1) QUALIFIED ENERGY EFFICIENT APPLIANCE.—The term 'qualified energy efficient appliance' means—

''(A) any dishwasher described in subsection (b)(1)(A),

''(B) any clothes washer described in subsection (b)(1)(B), and

''(C) any refrigerator described in subsection (b)(1)(C).

''(2) DISHWASHER.—The term 'dishwasher' means a residential dishwasher subject to the energy conservation standards established by the Department of Energy.

''(3) CLOTHES WASHER.—The term 'clothes washer' means a residential model clothes washer, including a residential style coin operated washer.

''(4) REFRIGERATOR.—The term 'refrigerator' means a residential model automatic defrost refrigerator-freezer which has an internal volume of at least 16.5 cubic feet.

''(5) MEF.—The term 'MEF' means the modified energy factor established by the Department of Energy for compliance with the Federal energy conservation standards.

''(6) EF.—The term 'EF' means the energy factor established by the Department of Energy for compliance with the Federal energy conservation standards.

''(7) WF.—The term 'WF' means Water Factor (as determined by the Secretary of Energy).

''(8) PRODUCED.—The term 'produced' includes manufactured.

''(9) 2001 ENERGY CONSERVATION STANDARD.—The term '2001 energy conservation standard' means the energy conservation standards promulgated by the Department of Energy and effective July 1, 2001.

''(g) SPECIAL RULES.—For purposes of this section—

''(1) IN GENERAL.—Rules similar to the rules of subsections (c), (d), and (e) of section 52 shall apply.

''(2) CONTROLLED GROUP.—

''(A) IN GENERAL.—All persons treated as a single employer under subsection (a) or (b) of

section 52 or subsection (m) or (o) of section 414 shall be treated as a single producer.

''(B) INCLUSION OF FOREIGN CORPORATIONS.—For purposes of subparagraph (A), in applying subsections (a) and (b) of section 52 to this section, section 1563 shall be applied without regard to subsection (b)(2)(C) thereof.

''(3) VERIFICATION.—No amount shall be allowed as a credit under subsection (a) with respect to which the taxpayer has not submitted such information or certification as the Secretary, in consultation with the Secretary of Energy, determines necessary.''.

(b) CONFORMING AMENDMENT.—Section 38(b) (relating to general business credit), as amended by this Act, is amended by striking ''plus'' at the end of paragraph (20), by striking the period at the end of paragraph (21) and inserting '', plus'', and by adding at the end the following new paragraph:

''(22) the energy efficient appliance credit determined under section 45L(a).''.

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

''Sec. 45L. Energy efficient appliance credit''.

(d) EFFECTIVE DATE.—The amendments made by this section shall apply to appliances produced after the date of the enactment of this Act, in taxable years ending after such date.

SEC. 1527. CREDIT FOR RESIDENTIAL ENERGY EFFICIENT PROPERTY.

(a) IN GENERAL.—Subpart A of part IV of subchapter A of chapter 1 (relating to nonrefundable personal credits), as amended by this Act, is amended by inserting after section 25C the following new section:

"SEC. 25D. RESIDENTIAL ENERGY EFFICIENT PROPERTY.

''(a) ALLOWANCE OF CREDIT.—In the case of an individual, there shall be allowed as a credit against the tax imposed by this chapter for the taxable year an amount equal to the sum of—

''(1) 30 percent of the qualified photovoltaic property expenditures made by the taxpayer during such year,

''(2) 30 percent of the qualified solar water heating property expenditures made by the taxpayer during such year,

''(3) 30 percent of the qualified fuel cell property expenditures made by the taxpayer during such year,

''(b) LIMITATIONS.—

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

"(A) $2,000 for property described in paragraph (1) or (2) of subsection (d), and

"(B) $500 for each 0.5 kilowatt of capacity of property described in subsection (d)(4).

"(2) CERTIFICATIONS.—No credit shall be allowed under this section for an item of property unless—

"(A) in the case of solar water heating property, such property is certified for performance by the non-profit Solar Rating Certification Corporation or a comparable entity endorsed by the government of the State in which such property is installed, and

"(B) in the case of a photovoltaic property or a fuel cell property such property meets appropriate fire and electric code requirements.

"(c) CARRYFORWARD OF UNUSED CREDIT.—If the credit allowable under subsection (a) exceeds the limitation imposed by section 26(a) for such taxable year reduced by the sum of the credits allowable under this subpart (other than this section), such excess shall be carried to the succeeding taxable year and added to the credit al-

lowable under subsection (a) for such succeeding taxable year.

''(d) DEFINITIONS.—For purposes of this section—

''(1) QUALIFIED SOLAR WATER HEATING PROPERTY EXPENDITURE.—The term 'qualified solar water heating property expenditure' means an expenditure for property to heat water for use in a dwelling unit located in the United States and used as a residence by the taxpayer if at least half of the energy used by such property for such purpose is derived from the sun.

''(2) QUALIFIED PHOTOVOLTAIC PROPERTY EXPENDITURE.—The term 'qualified photovoltaic property expenditure' means an expenditure for property which uses solar energy to generate electricity for use in a dwelling unit located in the United States and used as a residence by the taxpayer.

''(3) SOLAR PANELS.—No expenditure relating to a solar panel or other property installed as a roof (or portion thereof) shall fail to be treated as property described in paragraph (1) or (2) solely because it constitutes a structural component of the structure on which it is installed.

''(4) QUALIFIED FUEL CELL PROPERTY EXPENDITURE.—The term 'qualified fuel cell property

expenditure' means an expenditure for qualified fuel cell property (as defined in section 48(d)(1)) installed on or in connection with a dwelling unit located in the United States and used as a principal residence (within the meaning of section 121) by the taxpayer.

''(5) LABOR COSTS.—Expenditures for labor costs properly allocable to the onsite preparation, assembly, or original installation of the property described in paragraph (1), (2), (4), (5), or (6) and for piping or wiring to interconnect such property to the dwelling unit shall be taken into account for purposes of this section.

''(6) SWIMMING POOLS, ETC., USED AS STORAGE MEDIUM.—Expenditures which are properly allocable to a swimming pool, hot tub, or any other energy storage medium which has a function other than the function of such storage shall not be taken into account for purposes of this section.

''(e) SPECIAL RULES.—For purposes of this section—

''(1) DOLLAR AMOUNTS IN CASE OF JOINT OCCUPANCY.—In the case of any dwelling unit which is jointly occupied and used during any calendar year

as a residence by 2 or more individuals the following rules shall apply:

"(A) The amount of the credit allowable, under subsection (a) by reason of expenditures (as the case may be) made during such calendar year by any of such individuals with respect to such dwelling unit shall be determined by treating all of such individuals as 1 taxpayer whose taxable year is such calendar year.

"(B) There shall be allowable, with respect to such expenditures to each of such individuals, a credit under subsection (a) for the taxable year in which such calendar year ends in an amount which bears the same ratio to the amount determined under subparagraph (A) as the amount of such expenditures made by such individual during such calendar year bears to the aggregate of such expenditures made by all of such individuals during such calendar year.

"(2) TENANT-STOCKHOLDER IN COOPERATIVE HOUSING CORPORATION.—In the case of an individual who is a tenant-stockholder (as defined in section 216) in a cooperative housing corporation (as defined in such section), such individual shall be treated as having made his tenant-stockholder's pro-

portionate share (as defined in section 216(b)(3)) of any expenditures of such corporation.

''(3) CONDOMINIUMS.—

''(A) IN GENERAL.—In the case of an individual who is a member of a condominium management association with respect to a condominium which the individual owns, such individual shall be treated as having made the individual's proportionate share of any expenditures of such association.

''(B) CONDOMINIUM MANAGEMENT ASSOCIATION.—For purposes of this paragraph, the term 'condominium management association' means an organization which meets the requirements of paragraph (1) of section 528(c) (other than subparagraph (E) thereof) with respect to a condominium project substantially all of the units of which are used as residences.

''(4) ALLOCATION IN CERTAIN CASES.—If less than 80 percent of the use of an item is for nonbusiness purposes, only that portion of the expenditures for such item which is properly allocable to use for nonbusiness purposes shall be taken into account.

''(5) WHEN EXPENDITURE MADE; AMOUNT OF EXPENDITURE.—

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

"(B) EXPENDITURES PART OF BUILDING CONSTRUCTION.—In the case of an expenditure in connection with the construction or reconstruction of a structure, such expenditure shall be treated as made when the original use of the constructed or reconstructed structure by the taxpayer begins.

"(C) AMOUNT.—The amount of any expenditure shall be the cost thereof.

"(6) PROPERTY FINANCED BY SUBSIDIZED ENERGY FINANCING.—For purposes of determining the amount of expenditures made by any individual with respect to any dwelling unit, there shall not be taken into account expenditures which are made from subsidized energy financing (as defined in section 48(a)(4)(C)).

"(f) BASIS ADJUSTMENTS.—For purposes of this subtitle, if a credit is allowed under this section for any expenditure with respect to any property, the increase in the basis of such property which would (but for this sub-

section) result from such expenditure shall be reduced by the amount of the credit so allowed.

''(g) TERMINATION.—The credit allowed under this section shall not apply to property placed in service after December 31, 2009.''.

(b) CONFORMING AMENDMENTS.—

(1) Section 1016(a), as amended by this Act, is amended by striking ''and'' at the end of paragraph (34), by striking the period at the end of paragraph (35) and inserting '', and'', and by adding at the end the following new paragraph:

''(36) to the extent provided in section 25D(f), in the case of amounts with respect to which a credit has been allowed under section 25D.''.

(2) The table of sections for subpart A of part IV of subchapter A of chapter 1, as amended by this Act, is amended by inserting after the item relating to section 25C the following new item:

''Sec. 25D. Residential energy efficient property.''.

(c) EFFECTIVE DATES.—Except as provided by paragraph (2), the amendments made by this section shall apply to property placed in service after December 31, 2005, in taxable years ending after such date.

SEC. 1528. CREDIT FOR BUSINESS INSTALLATION OF QUALIFIED FUEL CELLS AND STATIONARY MICROTURBINE POWER PLANTS.

(a) IN GENERAL.—Section 48(a)(3)(A) (defining energy property), as amended by this Act, is amended by striking ''or'' at the end of clause (ii), by adding ''or'' at the end of clause (iii), and by inserting after clause (iii) the following new clause:

''(iv) qualified fuel cell property or qualified microturbine property,''.

(b) QUALIFIED FUEL CELL PROPERTY; QUALIFIED MICROTURBINE PROPERTY.—Section 48 (relating to energy credit) is amended by adding at the end the following new subsection:

''(d) QUALIFIED FUEL CELL PROPERTY; QUALIFIED MICROTURBINE PROPERTY.—For purposes of this subsection—

''(1) QUALIFIED FUEL CELL PROPERTY.—

''(A) IN GENERAL.—The term 'qualified fuel cell property' means a fuel cell power plant which—

''(i) has a nameplate capacity of at least 0.5 kilowatt of electricity using an electrochemical process, and

''(ii) has an electricity-only generation efficiency greater than 30 percent.

"(B) LIMITATION.—In the case of qualified fuel cell property placed in service during the taxable year, the credit otherwise determined under paragraph (1) for such year with respect to such property shall not exceed an amount equal to $500 for each 0.5 kilowatt of capacity of such property.

"(C) FUEL CELL POWER PLANT.—The term 'fuel cell power plant' means an integrated system comprised of a fuel cell stack assembly and associated balance of plant components which converts a fuel into electricity using electrochemical means.

"(D) SPECIAL RULE.—The first sentence of the matter in subsection (a)(3) which follows subparagraph (D) thereof shall not apply to qualified fuel cell property which is used predominantly in the trade or business of the furnishing or sale of telephone service, telegraph service by means of domestic telegraph operations, or other telegraph services (other than international telegraph services).

"(E) TERMINATION.—The term 'qualified fuel cell property' shall not include any property for any period after December 31, 2009.

''(2) QUALIFIED MICROTURBINE PROPERTY.—

''(A) IN GENERAL.—The term 'qualified microturbine property' means a stationary microturbine power plant which—

''(i) has a nameplate capacity of less than 2,000 kilowatts, and

''(ii) has an electricity-only generation efficiency of not less than 26 percent at International Standard Organization conditions.

''(B) LIMITATION.—In the case of qualified microturbine property placed in service during the taxable year, the credit otherwise determined under paragraph (1) for such year with respect to such property shall not exceed an amount equal $200 for each kilowatt of capacity of such property.

''(C) STATIONARY MICROTURBINE POWER PLANT.—The term 'stationary microturbine power plant' means an integrated system comprised of a gas turbine engine, a combustor, a recuperator or regenerator, a generator or alternator, and associated balance of plant components which converts a fuel into electricity and thermal energy. Such term also includes all sec-

ondary components located between the existing infrastructure for fuel delivery and the existing infrastructure for power distribution, including equipment and controls for meeting relevant power standards, such as voltage, frequency, and power factors.

''(D) SPECIAL RULE.—The first sentence of the matter in subsection (a)(3) which follows subparagraph (D) thereof shall not apply to qualified microturbine property which is used predominantly in the trade or business of the furnishing or sale of telephone service, telegraph service by means of domestic telegraph operations, or other telegraph services (other than international telegraph services).

''(E) TERMINATION.—The term 'qualified microturbine property' shall not include any property for any period after December 31, 2008.''.

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

''(A) IN GENERAL.—The energy percentage is—

''(i) in the case of qualified fuel cell property, 30 percent, and

"(ii) in the case of any other energy property, 10 percent.".

(d) CONFORMING AMENDMENT.— Section 48(a)(1) is amended by inserting "except as provided in paragraph (1)(B) or (2)(B) of subsection (d)," before "the energy".

(e) EFFECTIVE DATE.—The amendments made by this section shall apply to periods after December 31, 2005, in taxable years ending after such date, under rules similar to the rules of section 48(m) of the Internal Revenue Code of 1986 (as in effect on the day before the date of the enactment of the Revenue Reconciliation Act of 1990).

SEC. 1529. BUSINESS SOLAR INVESTMENT TAX CREDIT.

(a) INCREASE IN ENERGY PERCENTAGE.—Section 48(a)(2)(A) (relating to energy percentage), as amended by this Act, is amended to read as follows:

"(A) IN GENERAL.—The energy percentage is—

"(i) in the case of energy property described in paragraph (3)(A)(i) and qualified fuel cell property, 30 percent, and

"(ii) in the case of any other energy property, 10 percent.".

(b) HYBRID SOLAR LIGHTING SYSTEMS.—Clause (i) of section 48(a)(3)(A) is amended to read as follows:

"(i) equipment which uses solar energy to generate electricity for use in a structure, to heat or cool (or provide hot water for use in) a structure, to illuminate the inside of a structure using fiber-optic distributed sunlight or to provide solar process heat, excepting property used to generate energy for the purposes of heating a swimming pool,".

(c) EFFECTIVE DATE.—The amendments made by this section shall apply to periods after December 31, 2005, in taxable years ending after such date, and before January 1, 2010, under rules similar to the rules of section 48(m) of the Internal Revenue Code of 1986 (as in effect on the day before the date of the enactment of the Revenue Reconciliation Act of 1990).

Subtitle D—Alternative Motor Vehicles and Fuels Incentives

SEC. 1531. ALTERNATIVE MOTOR VEHICLE CREDIT.

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

"SEC. 30B. ALTERNATIVE MOTOR VEHICLE CREDIT.

"(a) ALLOWANCE OF CREDIT.—There shall be allowed as a credit against the tax imposed by this chapter for the taxable year an amount equal to the sum of—

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

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

"(3) the new qualified alternative fuel motor vehicle credit determined under subsection (d).

"(b) NEW QUALIFIED FUEL CELL MOTOR VEHICLE CREDIT.—

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

"(A) $8,000 ($4,000 in the case of a vehicle placed in service after December 31, 2009), if such vehicle has a gross vehicle weight rating of not more than 8,500 pounds,

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

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

''(D) $40,000, if such vehicle has a gross vehicle weight rating of more than 26,000 pounds.

''(2) INCREASE FOR FUEL EFFICIENCY.—

''(A) IN GENERAL.—The amount determined under paragraph (1)(A) with respect to a new qualified fuel cell motor vehicle which is a passenger automobile or light truck shall be increased by—

''(i) $1,000, if such vehicle achieves at least 150 percent but less than 175 percent of the 2002 model year city fuel economy,

''(ii) $1,500, if such vehicle achieves at least 175 percent but less than 200 percent of the 2002 model year city fuel economy,

''(iii) $2,000, if such vehicle achieves at least 200 percent but less than 225 percent of the 2002 model year city fuel economy,

"(iv) $2,500, if such vehicle achieves at least 225 percent but less than 250 percent of the 2002 model year city fuel economy,

"(v) $3,000, if such vehicle achieves at least 250 percent but less than 275 percent of the 2002 model year city fuel economy,

"(vi) $3,500, if such vehicle achieves at least 275 percent but less than 300 percent of the 2002 model year city fuel economy, and

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

"(B) 2002 MODEL YEAR CITY FUEL ECONOMY.—For purposes of subparagraph (A), the 2002 model year city fuel economy with respect to a vehicle shall be determined in accordance with the following tables:

"(i) In the case of a passenger automobile:

"If vehicle inertia weight class is:	The 2002 model year city fuel economy is:
1,500 or 1,750 lbs	45.2 mpg
2,000 lbs	39.6 mpg
2,250 lbs	35.2 mpg
2,500 lbs	31.7 mpg
2,750 lbs	28.8 mpg
3,000 lbs	26.4 mpg

"If vehicle inertia weight class is:	The 2002 model year city fuel economy is:
3,500 lbs	22.6 mpg
4,000 lbs	19.8 mpg
4,500 lbs	17.6 mpg
5,000 lbs	15.9 mpg
5,500 lbs	14.4 mpg
6,000 lbs	13.2 mpg
6,500 lbs	12.2 mpg
7,000 to 8,500 lbs	11.3 mpg.

"(ii) In the case of a light truck:

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

"(C) VEHICLE INERTIA WEIGHT CLASS.—For purposes of subparagraph (B), the term 'vehicle inertia weight class' has the same meaning as when defined in regulations prescribed by the Administrator of the Environmental Protection Agency for purposes of the administration of title II of the Clean Air Act (42 U.S.C. 7521 et seq.).

"(3) NEW QUALIFIED FUEL CELL MOTOR VEHICLE.—For purposes of this subsection, the term 'new qualified fuel cell motor vehicle' means a motor vehicle—

"(A) which is propelled by power derived from 1 or more cells which convert chemical energy directly into electricity by combining oxygen with hydrogen fuel which is stored on board the vehicle in any form and may or may not require reformation prior to use,

"(B) which, in the case of a passenger automobile or light truck, has received on or after the date of the enactment of this section a certificate that such vehicle meets or exceeds the Bin 5 Tier II emission level established in regulations prescribed by the Administrator of the Environmental Protection Agency under section 202(i) of the Clean Air Act for that make and model year vehicle,

"(C) the original use of which commences with the taxpayer,

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

"(E) which is made by a manufacturer.

"(c) NEW QUALIFIED HYBRID MOTOR VEHICLE CREDIT.—

"(1) IN GENERAL.—For purposes of subsection (a), the new qualified hybrid motor vehicle credit determined under this subsection with respect to a new

qualified hybrid motor vehicle placed in service by the taxpayer during the taxable year is the credit amount determined under paragraph (2) or (3).

''(2) CREDIT AMOUNT FOR LIGHTER VEHICLES.—

''(A) IN GENERAL.—In the case of a new qualified hybrid motor vehicle which is a passenger automobile, medium duty passenger vehicle, or light truck, the credit amount determined under this paragraph shall be—

''(i) $400, if such vehicle achieves at least 125 percent but less than 150 percent of the 2002 model year city fuel economy,

''(ii) $800, if such vehicle achieves at least 150 percent but less than 175 percent of the 2002 model year city fuel economy,

''(iii) $1,200, if such vehicle achieves at least 175 percent but less than 200 percent of the 2002 model year city fuel economy,

''(iv) $1,600, if such vehicle achieves at least 200 percent but less than 225 per-

cent of the 2002 model year city fuel economy,

''(v) $2,000, if such vehicle achieves at least 225 percent but less than 250 percent of the 2002 model year city fuel economy, and

''(vi) $2,400, if such vehicle achieves at least 250 percent of the 2002 model year city fuel economy.

''(B) 2002 MODEL YEAR CITY FUEL ECONOMY.—For purposes of subparagraph (A), the 2002 model year city fuel economy with respect to a vehicle shall be determined on a gasoline gallon equivalent basis as determined by the Administrator of the Environmental Protection Agency using the tables provided in subsection (b)(2)(B) with respect to such vehicle.

''(3) CREDIT AMOUNT FOR HEAVIER VEHICLES.—

''(A) IN GENERAL.—In the case of a new qualified hybrid motor vehicle which is a heavy duty hybrid motor vehicle, the credit amount determined under this paragraph is an amount equal to the applicable percentage of the incre-

mental cost of such vehicle placed in service by the taxpayer during the taxable year.

''(B) INCREMENTAL COST.—For purposes of this paragraph, the incremental cost of any heavy duty hybrid motor vehicle is equal to the amount of the excess of the manufacturer's suggested retail price for such vehicle over such price for a comparable gasoline or diesel fuel motor vehicle of the same model, to the extent such amount does not exceed—

''(i) $7,500, if such vehicle has a gross vehicle weight rating of more than 8,500 pounds but not more than 14,000 pounds,

''(ii) $15,000, if such vehicle has a gross vehicle weight rating of more than 14,000 pounds but not more than 26,000 pounds, and

''(iii) $30,000, if such vehicle has a gross vehicle weight rating of more than 26,000 pounds.

''(C) APPLICABLE PERCENTAGE.—For purposes of subparagraph (A), the applicable percentage shall be determined in accordance with the following table:

"If percent increase in fuel economy of hybrid over comparable vehicle is:	The applicable percentage is:
At least 30 but less than 40 percent.	20 percent.
At least 40 but less than 50 percent.	30 percent.
At least 50 percent	40 percent.

''(4) NEW QUALIFIED HYBRID MOTOR VEHICLE.—For purposes of this subsection—

''(A) IN GENERAL.—The term 'new qualified hybrid motor vehicle' means a motor vehicle—

''(i) which draws propulsion energy from onboard sources of stored energy which are both—

''(I) an internal combustion or heat engine using consumable fuel, and

''(II) a rechargeable energy storage system,

''(ii) which, in the case of a passenger automobile, medium duty passenger vehicle, or light truck—

''(I) has received a certificate that such vehicle meets or exceeds the Bin 5 Tier II emission level established in regulations prescribed by the Administrator of the Environmental

Protection Agency under section 202(i) of the Clean Air Act for that make and model year vehicle, and

"(II) has a maximum available power of at least 5 percent,

"(iii) which, in the case of a heavy duty hybrid motor vehicle—

"(I) which has a gross vehicle weight rating of more than 8,500 but not more than 14,000 pounds, has a maximum available power of at least 10 percent, and

"(II) which has a gross vehicle weight rating of more than 14,000 pounds, has a maximum available power of at least 15 percent,

"(iv) the original use of which commences with the taxpayer,

"(v) which is acquired for use or lease by the taxpayer and not for resale, and

"(vi) which is made by a manufacturer.

"(B) CONSUMABLE FUEL.—For purposes of subparagraph (A)(i)(I), the term 'consumable fuel' means any solid, liquid, or gaseous matter

which releases energy when consumed by an auxiliary power unit.

"(C) MAXIMUM AVAILABLE POWER.—

"(i) PASSENGER AUTOMOBILE, MEDIUM DUTY PASSENGER VEHICLE, OR LIGHT TRUCK.—For purposes of subparagraph (A)(ii)(II), the term 'maximum available power' means the maximum power available from the rechargeable energy storage system, during a standard 10 second pulse power or equivalent test, divided by such maximum power and the SAE net power of the heat engine.

"(ii) HEAVY DUTY HYBRID MOTOR VEHICLE.—For purposes of subparagraph (A)(iii), the term 'maximum available power' means the maximum power available from the rechargeable energy storage system, during a standard 10 second pulse power or equivalent test, divided by the vehicle's total traction power. The term 'total traction power' means the sum of the peak power from the rechargeable energy storage system and the heat engine peak power of the vehicle, except that if such

storage system is the sole means by which the vehicle can be driven, the total traction power is the peak power of such storage system.

''(4) HEAVY DUTY HYBRID MOTOR VEHICLE.—For purposes of this subsection, the term 'heavy duty hybrid motor vehicle' means a new qualified hybrid motor vehicle which has a gross vehicle weight rating of more than 8,500 pounds. Such term does not include a medium duty passenger vehicle.

''(d) NEW QUALIFIED ALTERNATIVE FUEL MOTOR VEHICLE CREDIT.—

''(1) ALLOWANCE OF CREDIT.—Except as provided in paragraph (5), the new qualified alternative fuel motor vehicle credit determined under this subsection is an amount equal to the applicable percentage of the incremental cost of any new qualified alternative fuel motor vehicle placed in service by the taxpayer during the taxable year.

''(2) APPLICABLE PERCENTAGE.—For purposes of paragraph (1), the applicable percentage with respect to any new qualified alternative fuel motor vehicle is—

''(A) 50 percent, plus

''(B) 30 percent, if such vehicle—

"(i) has received a certificate of conformity under the Clean Air Act and meets or exceeds the most stringent standard available for certification under the Clean Air Act for that make and model year vehicle (other than a zero emission standard), or

"(ii) has received an order certifying the vehicle as meeting the same requirements as vehicles which may be sold or leased in California and meets or exceeds the most stringent standard available for certification under the State laws of California (enacted in accordance with a waiver granted under section 209(b) of the Clean Air Act) for that make and model year vehicle (other than a zero emission standard).

For purposes of the preceding sentence, in the case of any new qualified alternative fuel motor vehicle which weighs more than 14,000 pounds gross vehicle weight rating, the most stringent standard available shall be such standard available for certification on the date of the enactment of the Energy Tax Incentives Act.

"(3) INCREMENTAL COST.—For purposes of this subsection, the incremental cost of any new qualified alternative fuel motor vehicle is equal to the amount of the excess of the manufacturer's suggested retail price for such vehicle over such price for a gasoline or diesel fuel motor vehicle of the same model, to the extent such amount does not exceed—

"(A) $5,000, if such vehicle has a gross vehicle weight rating of not more than 8,500 pounds,

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

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

"(D) $40,000, if such vehicle has a gross vehicle weight rating of more than 26,000 pounds.

"(4) NEW QUALIFIED ALTERNATIVE FUEL MOTOR VEHICLE.—For purposes of this subsection—

"(A) IN GENERAL.—The term 'new qualified alternative fuel motor vehicle' means any motor vehicle—

"(i) which is only capable of operating on an alternative fuel,

"(ii) the original use of which commences with the taxpayer,

"(iii) which is acquired by the taxpayer for use or lease, but not for resale, and

"(iv) which is made by a manufacturer.

"(B) ALTERNATIVE FUEL.—The term 'alternative fuel' means compressed natural gas, liquefied natural gas, liquefied petroleum gas, hydrogen, and any liquid at least 85 percent of the volume of which consists of methanol.

"(5) CREDIT FOR MIXED-FUEL VEHICLES.—

"(A) IN GENERAL.—In the case of a mixed-fuel vehicle placed in service by the taxpayer during the taxable year, the credit determined under this subsection is an amount equal to—

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

would have been allowed under this subsection if such vehicle was a qualified alternative fuel motor vehicle, and

''(ii) in the case of a 90/10 mixed-fuel vehicle, 90 percent of the credit which would have been allowed under this subsection if such vehicle was a qualified alternative fuel motor vehicle.

''(B) MIXED-FUEL VEHICLE.—For purposes of this subsection, the term 'mixed-fuel vehicle' means any motor vehicle described in subparagraph (C) or (D) of paragraph (3), which—

''(i) is certified by the manufacturer as being able to perform efficiently in normal operation on a combination of an alternative fuel and a petroleum-based fuel,

''(ii) either—

''(I) has received a certificate of conformity under the Clean Air Act, or

''(II) has received an order certifying the vehicle as meeting the same requirements as vehicles which may be sold or leased in California and meets

or exceeds the low emission vehicle standard under section 88.105–94 of title 40, Code of Federal Regulations, for that make and model year vehicle,

"(iii) the original use of which commences with the taxpayer,

"(iv) which is acquired by the taxpayer for use or lease, but not for resale, and

"(v) which is made by a manufacturer.

"(C) 75/25 MIXED-FUEL VEHICLE.—For purposes of this subsection, the term '75/25 mixed-fuel vehicle' means a mixed-fuel vehicle which operates using at least 75 percent alternative fuel and not more than 25 percent petroleum-based fuel.

"(D) 90/10 MIXED-FUEL VEHICLE.—For purposes of this subsection, the term '90/10 mixed-fuel vehicle' means a mixed-fuel vehicle which operates using at least 90 percent alternative fuel and not more than 10 percent petroleum-based fuel.

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

''(1) the regular tax for the taxable year reduced by the sum of the credits allowable under subpart A and sections 27, 29, and 30, over

''(2) the tentative minimum tax for the taxable year.

''(f) OTHER DEFINITIONS AND SPECIAL RULES.—For purposes of this section—

''(1) MOTOR VEHICLE.—The term 'motor vehicle' has the meaning given such term by section 30(c)(2).

''(2) CITY FUEL ECONOMY.—The city fuel economy with respect to any vehicle shall be measured in a manner which is substantially similar to the manner city fuel economy is measured in accordance with procedures under part 600 of subchapter Q of chapter I of title 40, Code of Federal Regulations, as in effect on the date of the enactment of this section.

''(3) OTHER TERMS.—The terms 'automobile', 'passenger automobile', 'medium duty passenger vehicle', 'light truck', and 'manufacturer' have the meanings given such terms in regulations prescribed

by the Administrator of the Environmental Protection Agency for purposes of the administration of title II of the Clean Air Act (42 U.S.C. 7521 et seq.).

''(4) REDUCTION IN BASIS.—For purposes of this subtitle, the basis of any property for which a credit is allowable under subsection (a) shall be reduced by the amount of such credit so allowed (determined without regard to subsection (e)).

''(5) NO DOUBLE BENEFIT.—The amount of any deduction or other credit allowable under this chapter—

''(A) for any incremental cost taken into account in computing the amount of the credit determined under subsection (d) shall be reduced by the amount of such credit attributable to such cost, and

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

''(6) PROPERTY USED BY TAX-EXEMPT ENTITY.—In the case of a vehicle whose use is described in paragraph (3) or (4) of section 50(b) and which is not subject to a lease, the person who sold such

vehicle to the person or entity using such vehicle shall be treated as the taxpayer that placed such vehicle in service, but only if such person clearly discloses to such person or entity in a document the amount of any credit allowable under subsection (a) with respect to such vehicle (determined without regard to subsection (e)).

''(7) PROPERTY USED OUTSIDE UNITED STATES, ETC., NOT QUALIFIED.—No credit shall be allowable under subsection (a) with respect to any property referred to in section 50(b)(1) or with respect to the portion of the cost of any property taken into account under section 179.

''(8) RECAPTURE.—The Secretary shall, by regulations, provide for recapturing the benefit of any credit allowable under subsection (a) with respect to any property which ceases to be property eligible for such credit (including recapture in the case of a lease period of less than the economic life of a vehicle).

''(9) ELECTION TO NOT TAKE CREDIT.—No credit shall be allowed under subsection (a) for any vehicle if the taxpayer elects to not have this section apply to such vehicle.

"(10) CARRYBACK AND CARRYFORWARD ALLOWED.—

"(A) IN GENERAL.—If the credit allowable under subsection (a) for a taxable year exceeds the amount of the limitation under subsection (e) for such taxable year (in this paragraph referred to as the 'unused credit year'), such excess shall be a credit carryback to each of the 3 taxable years preceding the unused credit year and a credit carryforward to each of the 20 taxable years following the unused credit year, except that no excess may be carried to a taxable year beginning before the date of the enactment of this section. The preceding sentence shall not apply to any credit carryback if such credit carryback is attributable to property for which a deduction for depreciation is not allowable.

"(B) RULES.—Rules similar to the rules of section 39 shall apply with respect to the credit carryback and credit carryforward under subparagraph (A).

"(11) INTERACTION WITH AIR QUALITY AND MOTOR VEHICLE SAFETY STANDARDS.—Unless otherwise provided in this section, a motor vehicle shall

not be considered eligible for a credit under this section unless such vehicle is in compliance with—

''(A) the applicable provisions of the Clean Air Act for the applicable make and model year of the vehicle (or applicable air quality provisions of State law in the case of a State which has adopted such provision under a waiver under section 209(b) of the Clean Air Act), and

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

''(g) REGULATIONS.—

''(1) IN GENERAL.—Except as provided in paragraph (2), the Secretary shall promulgate such regulations as necessary to carry out the provisions of this section.

''(2) COORDINATION IN PRESCRIPTION OF CERTAIN REGULATIONS.—The Secretary of the Treasury, in coordination with the Secretary of Transportation and the Administrator of the Environmental Protection Agency, shall prescribe such regulations as necessary to determine whether a motor vehicle meets the requirements to be eligible for a credit under this section.

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

''(1) in the case of a new qualified fuel cell motor vehicle (as described in subsection (b)), December 31, 2014,

''(2) in the case of a new qualified hybrid motor vehicle (as described in subsection (c)), December 31, 2009, and

''(3) in the case of a new qualified alternative fuel vehicle (as described in subsection (d)), December 31, 2010.''.

(b) CONFORMING AMENDMENTS.—

(1) Section 1016(a), as amended by this Act, is amended by striking ''and'' at the end of paragraph (35), by striking the period at the end of paragraph (36) and inserting '', and'', and by adding at the end the following new paragraph:

''(37) to the extent provided in section 30B(f)(4).''.

(2) Section 55(c)(2), as amended by this Act, is amended by inserting ''30B(e),'' after ''30(b)(2),''.

(3) Section 6501(m) is amended by inserting ''30B(f)(9),'' after ''30(d)(4),''.

(4) The table of sections for subpart B of part IV of subchapter A of chapter 1 is amended by in-

serting after the item relating to section 30A the following new item:

''Sec. 30B. Alternative motor vehicle credit.''.

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

SEC. 1532. MODIFICATION OF CREDIT FOR QUALIFIED ELECTRIC VEHICLES.

(a) AMOUNT OF CREDIT.—

(1) IN GENERAL.—Section 30(a) (relating to allowance of credit) is amended by striking ''10 percent of''.

(2) LIMITATION OF CREDIT ACCORDING TO TYPE OF VEHICLE.—Paragraph (1) of section 30(b) (relating to limitations) is amended to read as follows:

''(1) LIMITATION ACCORDING TO TYPE OF VEHICLE.—The amount of the credit allowed under subsection (a) for any vehicle shall not exceed the greatest of the following amounts applicable to such vehicle:

''(A) In the case of a vehicle with a gross vehicle weight rating not exceeding 8,500 pounds—

"(i) except as provided in clause (ii) or (iii), $4,000,

"(ii) $6,000, if such vehicle is—

"(I) capable of a driving range of at least 100 miles on a single charge of the vehicle's rechargeable batteries as measured pursuant to the urban dynamometer schedules under appendix I to part 86 of title 40, Code of Federal Regulations, or

"(II) capable of a payload capacity of at least 1,000 pounds, and

"(iii) if such vehicle is a low-speed vehicle which conforms to Standard 500 prescribed by the Secretary of Transportation (49 C.F.R. 571.500), as in effect on the date of the enactment of the Energy Tax Incentives Act, the lesser of—

"(I) 10 percent of the manufacturer's suggested retail price of the vehicle, or

"(II) $1,500.

"(B) In the case of a vehicle with a gross vehicle weight rating exceeding 8,500 but not exceeding 14,000 pounds, $10,000.

''(C) In the case of a vehicle with a gross vehicle weight rating exceeding 14,000 but not exceeding 26,000 pounds, $20,000.

''(D) In the case of a vehicle with a gross vehicle weight rating exceeding 26,000 pounds, $40,000.''.

(b) QUALIFIED BATTERY ELECTRIC VEHICLE.—

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

''(A) which is—

''(i) operated solely by use of a battery or battery pack, or

''(ii) powered primarily through the use of an electric battery or battery pack using a flywheel or capacitor which stores energy produced by an electric motor through regenerative braking to assist in vehicle operation,''.

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

(3) CONFORMING AMENDMENTS.—

(A) Subsections (a), (b)(2), and (c) of section 30 are each amended by inserting ''battery'' after ''qualified'' each place it appears.

(B) The heading of subsection (c) of section 30 is amended by inserting ''BATTERY'' after ''QUALIFIED''.

(C) The heading of section 30 is amended by inserting ''**BATTERY**'' after ''**QUALIFIED**''.

(D) The item relating to section 30 in the table of sections for subpart B of part IV of subchapter A of chapter 1 is amended by inserting ''battery'' after ''qualified''.

(E) Section 179A(c)(3) is amended by inserting ''battery'' before ''electric''.

(F) The heading of paragraph (3) of section 179A(c) is amended by inserting ''BATTERY'' before ''ELECTRIC''.

(c) ADDITIONAL SPECIAL RULES.—

(1) IN GENERAL.—Section 30(d) (relating to special rules) is amended by adding at the end the following new paragraphs:

''(5) NO DOUBLE BENEFIT.—The amount of any deduction or other credit allowable under this chapter for any cost taken into account in computing the amount of the credit determined under subsection (a) shall be reduced by the amount of such credit attributable to such cost.

"(6) PROPERTY USED BY TAX-EXEMPT ENTITY.—In the case of a vehicle whose use is described in paragraph (3) or (4) of section 50(b) and which is not subject to a lease, the person who sold such vehicle to the person or entity using such vehicle shall be treated as the taxpayer that placed such vehicle in service, but only if such person clearly discloses to such person or entity in a document the amount of any credit allowable under subsection (a) with respect to such vehicle (determined without regard to subsection (b)(3)).

"(7) CARRYBACK AND CARRYFORWARD ALLOWED.—

"(A) IN GENERAL.—If the credit allowable under subsection (a) for a taxable year exceeds the amount of the limitation under subsection (b)(2) for such taxable year (in this paragraph referred to as the 'unused credit year'), such excess shall be a credit carryback to each of the 3 taxable years preceding the unused credit year and a credit carryforward to each of the 20 taxable years following the unused credit year, except that no excess may be carried to a taxable year beginning before the date of the enactment of this paragraph. The preceding

sentence shall not apply to any credit carryback if such credit carryback is attributable to property for which a deduction for depreciation is not allowable.

''(B) RULES.—Rules similar to the rules of section 39 shall apply with respect to the credit carryback and credit carryforward under subparagraph (A).''.

(2) CONFORMING AMENDMENTS.—Section 30(d)(3) is amended—

(A) by striking ''section 50(b)'' and inserting ''section 50(b)(1)'', and

(B) by striking '', ETC.,'' in the heading thereof.

(d) TERMINATION.—Section 30(e) (relating to termination) is amended by striking ''2006'' and inserting ''2009''.

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

SEC. 1533. CREDIT FOR INSTALLATION OF ALTERNATIVE FUELING STATIONS.

(a) IN GENERAL.—Subpart B of part IV of subchapter A of chapter 1 (relating to other credits), as

amended by this Act, is amended by adding at the end the following new section:

"SEC. 30C. ALTERNATIVE FUEL VEHICLE REFUELING PROPERTY CREDIT.

"(a) CREDIT ALLOWED.—There shall be allowed as a credit against the tax imposed by this chapter for the taxable year an amount equal to 50 percent of the cost of any qualified alternative fuel vehicle refueling property placed in service by the taxpayer during the taxable year.

"(b) LIMITATION.—The credit allowed under subsection (a) with respect to any alternative fuel vehicle refueling property shall not exceed—

"(1) $30,000 in the case of a property of a character subject to an allowance for depreciation, and

"(2) $1,000 in any other case.

"(c) QUALIFIED ALTERNATIVE FUEL VEHICLE REFUELING PROPERTY.—

"(1) IN GENERAL.—Except as provided in paragraph (2), the term 'qualified alternative fuel vehicle refueling property' has the meaning given to such term by section 179A(d), but only with respect to any fuel at least 85 percent of the volume of which consists of ethanol, natural gas, compressed natural

gas, liquefied natural gas, liquefied petroleum gas, and hydrogen.

''(2) RESIDENTIAL PROPERTY.—In the case of any property installed on property which is used as the principal residence (within the meaning of section 121) of the taxpayer, paragraph (1) of section 179A(d) shall not apply.

''(d) APPLICATION WITH OTHER CREDITS.—The credit allowed under subsection (a) for any taxable year shall not exceed the excess (if any) of—

''(1) the regular tax for the taxable year reduced by the sum of the credits allowable under subpart A and sections 27, 29, 30, and 30B, over

''(2) the tentative minimum tax for the taxable year.

''(e) CARRYFORWARD ALLOWED.—

''(1) IN GENERAL.—If the credit amount allowable under subsection (a) for a taxable year exceeds the amount of the limitation under subsection (d) for such taxable year, such excess shall be allowed as a credit carryforward for each of the 20 taxable years following the unused credit year.

''(2) RULES.—Rules similar to the rules of section 39 shall apply with respect to the credit carryforward under paragraph (1).

"(f) SPECIAL RULES.—For purposes of this section—

"(1) BASIS REDUCTION.—The basis of any property shall be reduced by the portion of the cost of such property taken into account under subsection (a).

"(2) NO DOUBLE BENEFIT.—No deduction shall be allowed under section 179A with respect to any property with respect to which a credit is allowed under subsection (a).

"(3) PROPERTY USED BY TAX-EXEMPT ENTITY.—In the case of any qualified alternative fuel vehicle refueling property the use of which is described in paragraph (3) or (4) of section 50(b) and which is not subject to a lease, the person who sold such property to the person or entity using such property shall be treated as the taxpayer that placed such property in service, but only if such person clearly discloses to such person or entity in a document the amount of any credit allowable under subsection (a) with respect to such property (determined without regard to subsection (d)).

"(4) PROPERTY USED OUTSIDE UNITED STATES NOT QUALIFIED.—No credit shall be allowable under subsection (a) with respect to any property referred

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

''(5) ELECTION NOT TO TAKE CREDIT.—No credit shall be allowed under subsection (a) for any property if the taxpayer elects not to have this section apply to such property.

''(6) RECAPTURE RULES.—Rules similar to the rules of section 179A(e)(4) shall apply.

''(g) REGULATIONS.—The Secretary shall prescribe such regulations as necessary to carry out the provisions of this section.

''(h) TERMINATION.—This section shall not apply to any property placed in service—

''(1) in the case of property relating to hydrogen, after December 31, 2014, and

''(2) in the case of any other property, after December 31, 2009.''.

(b) CONFORMING AMENDMENTS.—

(1) Section 1016(a), as amended by this Act, is amended by striking ''and'' at the end of paragraph (36), by striking the period at the end of paragraph (37) and inserting '', and'', and by adding at the end the following new paragraph:

''(38) to the extent provided in section 30C(f).''.

(2) Section 55(c)(2), as amended by this Act, is amended by inserting ''30C(e),'' after ''30B(e),''.

(3) Section 6501(m) is amended by inserting ''30C(f)(5),'' after ''30B(f)(9),''.

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

''Sec. 30C. Clean-fuel vehicle refueling property credit.''.

(e) EFFECTIVE DATE.—The amendments made by this section shall apply to property placed in service after December 31, 2005, in taxable years ending after such date.

SEC. 1534. VOLUMETRIC EXCISE TAX CREDIT FOR ALTERNATIVE FUELS.

(a) IMPOSITION OF TAX.—

(1) IN GENERAL.—Section 4041(a)(2)(B) (relating to rate of tax) is amended—

(A) by adding ''and'' at the end of clause (i),

(B) by striking clauses (ii) and (iii),

(C) by striking the last sentence, and

(D) by adding after clause (i) the following new clause:

''(ii) in the case of liquefied natural gas, any liquid fuel (other than ethanol and methanol) derived from coal (including peat), and liquid hydrocarbons derived from biomass (as defined in section 29(c)(3)), 24.3 cents per gallon.''.

(2) TREATMENT OF COMPRESSED NATURAL GAS.—Section 4041(a)(3) (relating to compressed natural gas) is amended—

(A) by striking ''48.54 cents per MCF (determined at standard temperature and pressure)'' in subparagraph (A) and inserting ''18.3 cents per energy equivalent of a gallon of gasoline'', and

(B) by striking ''MCF'' in subparagraph (C) and inserting ''energy equivalent of a gallon of gasoline''.

(3) ZERO RATE FOR HYDROGEN.—Section 4041(a)(2)(A) is amended by inserting ''liquefied hydrogen,'' after ''fuel oil,''.

(4) NEW REFERENCE.—The heading for paragraph (2) of section 4041(a) is amended by striking ''SPECIAL MOTOR FUELS'' and inserting ''ALTERNATIVE FUELS''.

(b) CREDIT FOR ALTERNATIVE FUEL AND ALTERNATIVE FUEL MIXTURES.—

(1) IN GENERAL.—Section 6426(a) (relating to allowance of credits) is amended to read as follows:

''(a) ALLOWANCE OF CREDITS.—There shall be allowed as a credit—

''(1) against the tax imposed by section 4081 an amount equal to the sum of the credits described in subsections (b), (c), and (e), and

''(2) against the tax imposed by section 4041 an amount equal to the sum of the credits described in subsection (d).

No credit shall be allowed in the case of the credits described in subsections (d) and (e) unless the taxpayer is registered under section 4101.

(2) ALTERNATIVE FUEL AND ALTERNATIVE FUEL MIXTURE CREDIT.—Section 6426 (relating to credit for alcohol fuel and biodiesel mixtures) is amended by redesignating subsections (d) and (e) as subsections (f) and (g) and by inserting after subsection (c) the following new subsections:

''(d) ALTERNATIVE FUEL CREDIT.—

''(1) IN GENERAL.—For purposes of this section, the alternative fuel credit is the product of 50 cents and the number of gallons of an alternative

fuel or gasoline gallon equivalents of a nonliquid alternative fuel sold by the taxpayer for use as a fuel in a motor vehicle or motorboat, or so used by the taxpayer.

''(2) ALTERNATIVE FUEL.—For purposes of this section, the term 'alternative fuel' means—

''(A) liquefied petroleum gas,

''(B) P Series Fuels (as defined by the Secretary of Energy under section 13211(2) of title 42, United States Code),

''(C) compressed or liquefied natural gas,

''(D) hydrogen,

''(E) any liquid fuel derived from coal (including peat) through the Fischer-Tropsch process,

''(F) liquid hydrocarbons derived from biomass (as defined in section 29(c)(3)).

Such term does not include ethanol, methanol, or biodiesel.

''(3) GASOLINE GALLON EQUIVALENT.—For purposes of this subsection, the term 'gasoline gallon equivalent' means, with respect to any nonliquid alternative fuel, the amount of such fuel having a Btu content of 124,800 (higher heating value).

''(4) TERMINATION.—This subsection shall not apply to any sale, use, or removal for any period after September 30, 2009.

''(e) ALTERNATIVE FUEL MIXTURE CREDIT.—

''(1) IN GENERAL.—For purposes of this section, the alternative fuel mixture credit is the product of 50 cents and the number of gallons of alternative fuel used by the taxpayer in producing any alternative fuel mixture for sale or use in a trade or business of the taxpayer.

''(2) ALTERNATIVE FUEL MIXTURE.—For purposes of this section, the term 'alternative fuel mixture' means a mixture of alternative fuel and taxable fuel (as defined in subparagraph (A), (B), or (C) of section 4083(a)(1)) which—

''(A) is sold by the taxpayer producing such mixture to any person for use as fuel, or

''(B) is used as a fuel by the taxpayer producing such mixture.

''(3) TERMINATION.—This subsection shall not apply to any sale, use, or removal for any period after September 30, 2009.''.

(3) CONFORMING AMENDMENTS.—

(A) The section heading for section 6426 is amended by striking ''**ALCOHOL FUEL AND**

BIODIESEL'' and inserting ''**ALCOHOL FUEL, BIODIESEL, AND ALTERNATIVE FUEL**''.

(B) The table of sections for subchapter B of chapter 65 is amended by striking ''alcohol fuel and biodiesel'' in the item relating to section 6426 and inserting ''alcohol fuel, biodiesel, and alternative fuel''.

(C) Section 6427(e) is amended—

(i) by inserting ''or the alternative fuel mixture credit'' after ''biodiesel mixture credit'' in paragraph (1),

(ii) by redesignating paragraph (2) as paragraph (3) and paragraph (4) as paragraph (5),

(iii) by inserting after paragraph (1) the following new paragraph:

''(2) ALTERNATIVE FUEL.—If any person sells or uses an alternative fuel (as defined in section 6426(d)(2)) for a purpose described in section 6426(d)(1) in such person's trade or business, the Secretary shall pay (without interest) to such person an amount equal to the alternative fuel credit with respect to such fuel.'',

(iv) by striking ''under paragraph (1) with respect to any mixture'' in paragraph

(3) (as redesignated by clause (ii)) and inserting ''under paragraph (1) or (2) with respect to any mixture or alternative fuel'',

(v) by inserting after paragraph (3) (as so redesignated) the following new paragraph:

''(4) REGISTRATION REQUIREMENT FOR ALTERNATIVE FUELS.—The Secretary shall not make any payment under this subsection to any person with respect to any alternative fuel credit or alternative fuel mixture credit unless the person is registered under section 4101.'',

(vi) by striking ''and'' at the end of paragraph (5)(A) (as redesignated by clause (ii)),

(vii) by striking the period at the end of paragraph (5)(B) (as so redesignated) and inserting a comma,

(viii) by adding at the end of paragraph (4) (as so redesignated) the following new subparagraphs:

''(C) except as provided in subparagraph (D), any alternative fuel or alternative fuel mixture (as defined in section 6426 (d)(2) or

(e)(3)) sold or used after September 30, 2009, and

''(D) any alternative fuel or alternative fuel mixture (as so defined) involving hydrogen sold or used after December 31, 2014.'', and

(ix) by striking ''OR BIODIESEL USED TO PRODUCE ALCOHOL FUEL AND BIODIESEL MIXTURES'' in the heading and inserting '', BIODIESEL, OR ALTERNATIVE FUEL''.

(c) ADDITIONAL REGISTRATION REQUIREMENTS.—Section 4101(a)(1) (relating to registration) is amended—

(1) by striking ''4041(a)(1)'' and inserting ''4041(a)'', and

(2) by inserting ''or hydrogen'' before ''shall register''.

(d) EFFECTIVE DATE.—The amendments made by this section shall apply to any sale, use, or removal for any period after September 30, 2006.

SEC. 1535. EXTENSION OF EXCISE TAX PROVISIONS AND INCOME TAX CREDIT FOR BIODIESEL.

(a) IN GENERAL.—Sections 40A(e), 6426(c)(6), and 6427(e)(4)(B) are each amended by striking ''2006'' and inserting ''2010''.

(b) EFFECTIVE DATE.—The amendments made by this section shall take effect on the date of the enactment of this Act.

Subtitle E—Additional Energy Tax Incentives

SEC. 1541. TEN-YEAR RECOVERY PERIOD FOR UNDERGROUND NATURAL GAS STORAGE FACILITY PROPERTY.

(a) IN GENERAL.—Subparagraph (D) of section 168(e)(3) (relating to 10-year property) is amended by striking ''and'' at the end of clause (i), by striking the period at the end of clause (ii) and inserting '', and'', and by adding at the end the following new clause:

''(iii) any qualified underground natural gas storage facility property.''.

(b) DEFINITION.—Section 168(i) (relating to definitions and special rules) is amended by adding at the end the following new paragraph:

''(17) QUALIFIED UNDERGROUND NATURAL GAS STORAGE FACILITY PROPERTY.—

''(A) IN GENERAL.—The term 'qualified underground natural gas storage facility property' means any underground natural gas storage facility and any equipment related to such facility, including any nonrecoverable cushion

gas, the original use of which commences with the taxpayer.

''(B) CUSHION GAS.—The term 'cushion gas' means the minimum volume of natural gas necessary to provide the pressure to facilitate the flow of natural gas from a storage reservoir, aquifer, or cavern to a pipeline.''.

(c) EFFECTIVE DATE.—The amendments made by this section shall apply to property placed in service after the date of the enactment of this Act.

SEC. 1542. EXPANSION OF RESEARCH CREDIT.

(a) CREDIT FOR EXPENSES ATTRIBUTABLE TO CERTAIN COLLABORATIVE ENERGY RESEARCH CONSORTIA.—

(1) IN GENERAL.—Section 41(a) (relating to credit for increasing research activities) is amended by striking ''and'' at the end of paragraph (1), by striking the period at the end of paragraph (2) and inserting '', and'', and by adding at the end the following new paragraph:

''(3) 20 percent of the amounts paid or incurred by the taxpayer in carrying on any trade or business of the taxpayer during the taxable year (including as contributions) to an energy research consortium.''.

(2) ENERGY RESEARCH CONSORTIUM DEFINED.—Section 41(f) (relating to special rules) is amended by adding at the end the following new paragraph:

"(6) ENERGY RESEARCH CONSORTIUM.—

"(A) IN GENERAL.—The term 'energy research consortium' means any organization—

"(i) which is—

"(I) described in section 501(c)(3) and is exempt from tax under section 501(a) and is organized and operated primarily to conduct energy research, or

"(II) organized and operated primarily to conduct energy research in the public interest (within the meaning of section 501(c)(3)),

"(ii) which is not a private foundation,

"(iii) to which at least 5 unrelated persons paid or incurred during the calendar year in which the taxable year of the organization begins amounts (including as contributions) to such organization for energy research, and

''(iv) to which no single person paid or incurred (including as contributions) during such calendar year an amount equal to more than 50 percent of the total amounts received by such organization during such calendar year for energy research.

''(B) TREATMENT OF PERSONS.—All persons treated as a single employer under subsection (a) or (b) of section 52 shall be treated as related persons for purposes of subparagraph (A)(iii) and as a single person for purposes of subparagraph (A)(iv).''.

(3) CONFORMING AMENDMENT.—Section 41(b)(3)(C) is amended by inserting ''(other than an energy research consortium)'' after ''organization''.

(b) REPEAL OF LIMITATION ON CONTRACT RESEARCH EXPENSES PAID TO SMALL BUSINESSES, UNIVERSITIES, AND FEDERAL LABORATORIES.—Section 41(b)(3) (relating to contract research expenses) is amended by adding at the end the following new subparagraph:

''(D) AMOUNTS PAID TO ELIGIBLE SMALL BUSINESSES, UNIVERSITIES, AND FEDERAL LABORATORIES.—

"(i) IN GENERAL.—In the case of amounts paid by the taxpayer to—

"(I) an eligible small business,

"(II) an institution of higher education (as defined in section 3304(f)), or

"(III) an organization which is a Federal laboratory,

for qualified research which is energy research, subparagraph (A) shall be applied by substituting '100 percent' for '65 percent'.

"(ii) ELIGIBLE SMALL BUSINESS.—For purposes of this subparagraph, the term 'eligible small business' means a small business with respect to which the taxpayer does not own (within the meaning of section 318) 50 percent or more of—

"(I) in the case of a corporation, the outstanding stock of the corporation (either by vote or value), and

"(II) in the case of a small business which is not a corporation, the capital and profits interests of the small business.

"(iii) SMALL BUSINESS.—For purposes of this subparagraph—

"(I) IN GENERAL.—The term 'small business' means, with respect to any calendar year, any person if the annual average number of employees employed by such person during either of the 2 preceding calendar years was 500 or fewer. For purposes of the preceding sentence, a preceding calendar year may be taken into account only if the person was in existence throughout the year.

"(II) STARTUPS, CONTROLLED GROUPS, AND PREDECESSORS.—Rules similar to the rules of subparagraphs (B) and (D) of section 220(c)(4) shall apply for purposes of this clause.

"(iv) FEDERAL LABORATORY.—For purposes of this subparagraph, the term 'Federal laboratory' has the meaning given such term by section 4(6) of the Stevenson-Wydler Technology Innovation Act of 1980 (15 U.S.C. 3703(6)), as in effect on

the date of the enactment of the Energy Tax Incentives Act.''.

(c) EFFECTIVE DATE.—The amendments made by this section shall apply to amounts paid or incurred after the date of the enactment of this Act, in taxable years ending after such date.

SEC. 1543. SMALL AGRI-BIODIESEL PRODUCER CREDIT.

(a) IN GENERAL.—Subsection (a) of section 40A (relating to biodiesel used as a fuel) is amended to read as follows:

''(a) GENERAL RULE.—For purposes of section 38, the biodiesel fuels credit determined under this section for the taxable year is an amount equal to the sum of—

''(1) the biodiesel mixture credit, plus

''(2) the biodiesel credit, plus

''(3) in the case of an eligible small agri-biodiesel producer, the small agri-biodiesel producer credit.''.

(b) SMALL AGRI-BIODIESEL PRODUCER CREDIT DEFINED.—Section 40A(b) (relating to definition of biodiesel mixture credit and biodiesel credit) is amended by adding at the end the following new paragraph:

''(5) SMALL AGRI-BIODIESEL PRODUCER CREDIT.—

"(A) IN GENERAL.—The small agri-biodiesel producer credit of any eligible small agri-biodiesel producer for any taxable year is 10 cents for each gallon of qualified agri-biodiesel production of such producer.

"(B) QUALIFIED AGRI-BIODIESEL PRODUCTION.—For purposes of this paragraph, the term 'qualified agri-biodiesel production' means any agri-biodiesel which is produced by an eligible small agri-biodiesel producer, and which during the taxable year—

"(i) is sold by such producer to another person—

"(I) for use by such other person in the production of a qualified biodiesel mixture in such other person's trade or business (other than casual off-farm production),

"(II) for use by such other person as a fuel in a trade or business, or

"(III) who sells such agri-biodiesel at retail to another person and places such agri-biodiesel in the fuel tank of such other person, or

"(ii) is used or sold by such producer for any purpose described in clause (i).

"(C) LIMITATION.—The qualified agri-biodiesel production of any producer for any taxable year shall not exceed 15,000,000 gallons.".

(c) DEFINITIONS AND SPECIAL RULES.—Section 40A is amended by redesignating subsection (e) as subsection (f) and by inserting after subsection (d) the following new subsection:

"(e) DEFINITIONS AND SPECIAL RULES FOR SMALL AGRI-BIODIESEL PRODUCER CREDIT.—For purposes of this section—

"(1) ELIGIBLE SMALL AGRI-BIODIESEL PRODUCER.—The term 'eligible small agri-biodiesel producer' means a person who, at all times during the taxable year, has a productive capacity for agri-biodiesel not in excess of 60,000,000 gallons.

"(2) AGGREGATION RULE.—For purposes of the 15,000,000 gallon limitation under subsection (b)(5)(C) and the 60,000,000 gallon limitation under paragraph (1), all members of the same controlled group of corporations (within the meaning of section 267(f)) and all persons under common control (within the meaning of section 52(b) but determined by treating an interest of more than 50 per-

cent as a controlling interest) shall be treated as 1 person.

''(3) PARTNERSHIP, S CORPORATION, AND OTHER PASS-THRU ENTITIES.—In the case of a partnership, trust, S corporation, or other pass-thru entity, the limitations contained in subsection (b)(5)(C) and paragraph (1) shall be applied at the entity level and at the partner or similar level.

''(4) ALLOCATION.—For purposes of this subsection, in the case of a facility in which more than 1 person has an interest, productive capacity shall be allocated among such persons in such manner as the Secretary may prescribe.

''(5) REGULATIONS.—The Secretary may prescribe such regulations as may be necessary—

''(A) to prevent the credit provided for in subsection (a)(3) from directly or indirectly benefiting any person with a direct or indirect productive capacity of more than 60,000,000 gallons of agri-biodiesel during the taxable year, or

''(B) to prevent any person from directly or indirectly benefiting with respect to more than 15,000,000 gallons during the taxable year.

"(6) ALLOCATION OF SMALL AGRI-BIODIESEL CREDIT TO PATRONS OF COOPERATIVE.—

"(A) ELECTION TO ALLOCATE.—

"(i) IN GENERAL.—In the case of a cooperative organization described in section 1381(a), any portion of the credit determined under subsection (a)(3) for the taxable year may, at the election of the organization, be apportioned pro rata among patrons of the organization on the basis of the quantity or value of business done with or for such patrons for the taxable year.

"(ii) FORM AND EFFECT OF ELECTION.—An election under clause (i) for any taxable year shall be made on a timely filed return for such year. Such election, once made, shall be irrevocable for such taxable year. Such election shall not take effect unless the organization designates the apportionment as such in a written notice mailed to its patrons during the payment period described in section 1382(d).

"(B) TREATMENT OF ORGANIZATIONS AND PATRONS.—

"(i) ORGANIZATIONS.—The amount of the credit not apportioned to patrons pursuant to subparagraph (A) shall be included in the amount determined under subsection (a)(3) for the taxable year of the organization.

"(ii) PATRONS.—The amount of the credit apportioned to patrons pursuant to subparagraph (A) shall be included in the amount determined under such subsection for the first taxable year of each patron ending on or after the last day of the payment period (as defined in section 1382(d)) for the taxable year of the organization or, if earlier, for the taxable year of each patron ending on or after the date on which the patron receives notice from the cooperative of the apportionment.

"(iii) SPECIAL RULES FOR DECREASE IN CREDITS FOR TAXABLE YEAR.—If the amount of the credit of the organization determined under such subsection for a taxable year is less than the amount of such credit shown on the return of the or-

ganization for such year, an amount equal to the excess of—

''(I) such reduction, over

''(II) the amount not apportioned to such patrons under subparagraph (A) for the taxable year,

shall be treated as an increase in tax imposed by this chapter on the organization. Such increase shall not be treated as tax imposed by this chapter for purposes of determining the amount of any credit under this chapter or for purposes of section 55.''.

(d) CONFORMING AMENDMENTS.—

(1) Paragraph (4) of section 40A(b) is amended by striking ''this section'' and inserting ''paragraph (1) or (2) of subsection (a)''.

(2) The heading of subsection (b) of section 40A is amended by striking ''AND BIODIESEL CREDIT'' and inserting '', BIODIESEL CREDIT, AND SMALL AGRI-BIODIESEL PRODUCER CREDIT''.

(3) Paragraph (3) of section 40A(d) is amended by redesignating subparagraph (C) as subparagraph (D) and by inserting after subparagraph (B) the following new subparagraph:

''(C) PRODUCER CREDIT.—If—

''(i) any credit was determined under subsection (a)(3), and

''(ii) any person does not use such fuel for a purpose described in subsection (b)(5)(B),

then there is hereby imposed on such person a tax equal to 10 cents a gallon for each gallon of such agri-biodiesel.''.

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

SEC. 1544. IMPROVEMENTS TO SMALL ETHANOL PRODUCER CREDIT.

(a) DEFINITION OF SMALL ETHANOL PRODUCER.—Section 40(g) (relating to definitions and special rules for eligible small ethanol producer credit) is amended by striking ''30,000,000'' each place it appears and inserting ''60,000,000''.

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

SEC. 1545. CREDIT FOR EQUIPMENT FOR PROCESSING OR SORTING MATERIALS GATHERED THROUGH RECYCLING.

(a) IN GENERAL.—Subpart D of part IV of subchapter A of chapter 1 (relating to business-related credits), as amended by this Act, is amended by adding at the end the following new section:

"SEC. 45M. CREDIT FOR QUALIFIED RECYCLING EQUIPMENT.

"(a) ALLOWANCE OF CREDIT.—For purposes of section 38, the qualified recycling equipment credit determined under this section for the taxable year is an amount equal to the amount paid or incurred during the taxable year for the cost of qualified recycling equipment placed in service or leased by the taxpayer.

"(b) LIMITATION.—The amount allowable as a credit under subsection (a) with respect to any qualified recycling equipment shall not exceed 15 percent of the cost of such qualified recycling equipment.

"(c) DEFINITIONS.—For purposes of this section—

"(1) QUALIFIED RECYCLING EQUIPMENT.—

"(A) IN GENERAL.—The term 'qualified recycling equipment' means equipment, including connecting piping, employed in sorting or processing residential and commercial qualified recyclable materials for the purpose of con-

verting such materials for use in manufacturing tangible consumer products, including packaging. Such term includes equipment which is utilized at commercial or public venues, including recycling collection centers, where the equipment is utilized to sort or process qualified recyclable materials for such purpose.

''(B) EXCLUSION.—Such term does not include rolling stock or other equipment used to transport recyclable materials.

''(2) QUALIFIED RECYCLABLE MATERIALS.—The term 'qualified recyclable materials' means any packaging or printed material which is glass, paper, plastic, steel, or aluminum generated by an individual or business and which has been separated from solid waste for the purposes of collection and recycling.

''(3) PROCESSING.—The term 'processing' means the preparation of qualified recyclable materials into feedstock for use in manufacturing tangible consumer products.

''(d) AMOUNT PAID OR INCURRED.—For purposes of this section—

''(1) IN GENERAL.—The term 'amount paid or incurred' includes installation costs.

''(2) LEASE PAYMENTS.—In the case of the leasing of qualified recycling equipment by the taxpayer, the term 'amount paid or incurred' means the amount of the lease payments due to be paid during the term of the lease occurring during the taxable year other than such portion of such lease payments attributable to interest, insurance, and taxes.

''(3) GRANTS, ETC. EXCLUDED.—The term 'amount paid or incurred' shall not include any amount to the extent such amount is funded by any grant, contract, or otherwise by another person (or any governmental entity).

''(e) OTHER TAX DEDUCTIONS AND CREDITS AVAILABLE FOR PORTION OF COST NOT TAKEN INTO ACCOUNT FOR CREDIT UNDER THIS SECTION.—No deduction or other credit under this chapter shall be allowed with respect to the amount of the credit determined under this section.

''(f) BASIS ADJUSTMENTS.—For purposes of this subtitle, if a credit is allowed under this section for any amount paid or incurred with respect to any property, the increase in the basis of such property which would (but for this subsection) result from such expenditure shall be reduced by the amount of the credit so allowed.''.

(b) CONFORMING AMENDMENTS.—

(1) CREDIT MADE PART OF GENERAL BUSINESS CREDIT.—Subsection (b) of section 38, as amended by this Act, is amended by striking ''plus'' at the end of paragraph (21), by striking the period at the end of paragraph (22) and inserting '', plus'', and by adding at the end the following new paragraph:

''(23) the qualified recycling equipment credit determined under section 45M(a).''.

(2) Subsection (a) of section 1016, as amended by this Act, is amended by striking ''and'' at the end of paragraph (37), by striking the period at the end of paragraph (38) and inserting ''; and'', and by adding at the end the following new paragraph:

''(39) to the extent provided in section 45M(f), in the case of amounts with respect to which a credit has been allowed under section 45M.''.

(3) The table of sections for subpart D of part IV of subchapter A of chapter 1, as amended by this Act, is amended by inserting after the item relating to section 45L the following new item:

''Sec. 45M. Credit for qualified recycling equipment.''.

(c) EFFECTIVE DATE.—The amendments made by this section shall apply to taxable years beginning after December 31, 2005.

SEC. 1546. 5-YEAR NET OPERATING LOSS CARRYOVER IF ANY RESULTING REFUND IS USED FOR ELECTRIC TRANSMISSION EQUIPMENT.

(a) IN GENERAL.—Paragraph (1) of section 172(b) (relating to net operating loss carrybacks and carryovers) is amended by adding at the end the following new subparagraph:

"(I) TRANSMISSION PROPERTY INVESTMENT.—

"(i) IN GENERAL.—In the case of a net operating loss in a taxable year ending after December 31, 2002, and before January 1, 2006, there shall be a net operating loss carryback to each of the 5 years preceding the taxable year of such loss to the extent that any refund resulting from such carryback is used for electric transmission property capital expenditures or pollution control facility capital expenditures.

"(ii) REFUND CLAIM.—Any refund resulting from the application of clause (i) may be claimed by the taxpayer for any taxable year ending after December 31, 2005, and before January 1, 2009, except that the portion of such refund which may

be claimed during any taxable year shall not exceed the sum of the taxpayer's electric transmission property capital expenditures and pollution control facility capital expenditures made in the preceding taxable year.

"(iii) CARRYOVER OF EXCESS REFUNDS.—Any portion of such refund that exceeds the sum of the taxpayer's electric transmission property capital expenditures and pollution control facility capital expenditures made during the preceding taxable year shall, subject to clause (ii), be considered a refund due to the taxpayer and claimed in the succeeding taxable year if such taxable year begins before January 1, 2009.

"(iv) DEFINITIONS.—For purposes of this subparagraph—

"(I) ELECTRIC TRANSMISSION PROPERTY CAPITAL EXPENDITURES.—The term 'electric transmission property capital expenditures' means any expenditure, chargeable to capital account, made by the taxpayer

which is attributable to electric transmission property used in the transmission at 69 or more kilovolts of electricity for sale.

''(II) POLLUTION CONTROL FACILITY CAPITAL EXPENDITURES.—The term 'pollution control facility capital expenditures' means any expenditure, chargeable to capital account, made by an electric utility company (as defined in section 2(3) of the Public Utility Holding Company Act (15 U.S.C. 79b(3)) which is attributable to a facility which will qualifiy as a certified pollution control facility as determined under section 169(d)(1) by striking 'before January 1, 1976,' and by substituting 'an identifiable' for 'a new identifiable'.''

(b) ELECTION TO DISREGARD CARRYBACK.—Section 172(j) (relating to disregard 5-year carryback for certain net operating losses) is amended by inserting ''or (b)(1)(I)'' after ''(b)(1)(H)'' both places it appears.

(c) APPLICATION.—In the case of a net operating loss described in section 172(b)(1)(I) of the Internal Revenue

Code of 1986 (as added by subsection (a)) for a taxable year ending in 2003, 2004, or 2005, any election made under section 172(j) of such Code (as amended by subsection (b)) shall be treated as timely made if made before January 1, 2009.

SEC. 1547. CREDIT FOR QUALIFYING POLLUTION CONTROL EQUIPMENT.

(a) ALLOWANCE OF QUALIFYING POLLUTION CONTROL EQUIPMENT CREDIT.—Section 46 (relating to amount of credit), as amended by this Act, is amended by striking ''and'' at the end of paragraph (4), by striking the period at the end of paragraph (5) and inserting '', and'', and by adding at the end the following new paragraph:

''(6) the qualifying pollution control equipment credit.''.

(b) AMOUNT OF QUALIFYING POLLUTION CONTROL EQUIPMENT CREDIT.—Subpart E of part IV of subchapter A of chapter 1 (relating to rules for computing investment credit), as amended by this Act, is amended by inserting after section 48C the following new section:

''SEC. 48D. QUALIFYING POLLUTION CONTROL EQUIPMENT CREDIT.

''(a) IN GENERAL.—For purposes of section 46, the qualifying pollution control equipment credit for any tax-

able year is an amount equal to 15 percent of the basis of the qualifying pollution control equipment placed in service at a qualifying facility during such taxable year.

''(b) QUALIFYING POLLUTION CONTROL EQUIPMENT.—For purposes of this section, the term 'qualifying pollution control equipment' means any technology installed in or on a qualifying facility to reduce air emissions of any pollutant regulated by the Environmental Protection Agency under the Clean Air Act, including thermal oxidizers, regenerative thermal oxidizers, scrubber systems, evaporative control systems, vapor recovery systems, flair systems, bag houses, cyclones, continuous emissions monitoring systems, and low nitric oxide burners.

''(c) QUALIFYING FACILITY.—For purposes of this section, the term 'qualifying facility' means any facility which produces not less than 1,000,000 gallons of ethanol during the taxable year.

''(d) SPECIAL RULE FOR CERTAIN SUBSIDIZED PROPERTY.—Rules similar to section 48(a)(4) shall apply for purposes of this section.

''(e) CERTAIN QUALIFIED PROGRESS EXPENDITURES RULES MADE APPLICABLE.—Rules similar to the rules of subsections (c)(4) and (d) of section 46 (as in effect on the day before the enactment of the Revenue Reconcili-

ation Act of 1990) shall apply for purposes of this subsection.''.

(c) RECAPTURE OF CREDIT WHERE EMISSIONS REDUCTION OFFSET IS SOLD.—Paragraph (1) of section 50(a) is amended by redesignating subparagraph (B) as subparagraph (C) and by inserting after subparagraph (A) the following new subparagraph:

''(B) SPECIAL RULE FOR QUALIFYING POLLUTION CONTROL EQUIPMENT.—For purposes of subparagraph (A), any investment property which is qualifying pollution control equipment (as defined in section 48D(b)) shall cease to be investment credit property with respect to a taxpayer if such taxpayer receives a payment in exchange for a credit for emission reductions attributable to such qualifying pollution control equipment for purposes of an offset requirement under part D of title I of the Clean Air Act.''.

(d) SPECIAL RULE FOR BASIS REDUCTION; RECAPTURE OF CREDIT.—Paragraph (3) of section 50(c) (relating to basis adjustment to investment credit property), as amended by this Act, is amended by inserting ''or qualifying pollution control equipment credit'' after ''energy credit''.

(e) CONFORMING AMENDMENTS.—

(1) Section 49(a)(1)(C), as amended by this Act, is amended by striking ''and'' at the end of clause (iv), by striking the period at the end of clause (v) and inserting '', and'', and by adding at the end the following new clause:

''(vi) the basis of any qualifying pollution control equipment.''

(2) The table of sections for subpart E of part IV of subchapter A of chapter 1, as amended by this Act, is amended by inserting after the item relating to section 48C the following new item:

''48D. Qualifying pollution control equipment.''.

(f) EFFECTIVE DATE.—The amendments made by this section shall apply to periods after the date of the enactment of this Act, in taxable years ending after such date, under rules similar to the rules of section 48(m) of the Internal Revenue Code of 1986 (as in effect on the day before the date of the enactment of the Revenue Reconciliation Act of 1990).

SEC. 1548. CREDIT FOR PRODUCTION OF COAL OWNED BY INDIAN TRIBES.

(a) IN GENERAL.—Subpart D of part IV of subchapter A of chapter 1 (relating to business-related credits), as amended by this Act, is amended by adding at the end the following new section:

"SEC. 45N. CREDIT FOR PRODUCTION OF COAL OWNED BY INDIAN TRIBES.

"(a) ALLOWANCE OF CREDIT.—For purposes of section 38, the Indian coal production credit determined under this section for the taxable year is an amount equal to the product of—

"(1) the applicable dollar amount for the calendar year in which the taxable year begins, and

"(2) the number of tons of Indian coal—

"(A) the production of which is attributable to the taxpayer (determined under rules similar to the rules under section 29(d)(3)), and

"(B) which is sold by the taxpayer to an unrelated person during the taxable year.

"(b) INDIAN COAL.—For purposes of this section—

"(1) IN GENERAL.—The term 'Indian coal' means coal which is produced from coal reserves which, on June 14, 2005—

"(A) were owned by an Indian tribe, or

"(B) were held in trust by the United States for the benefit of an Indian tribe or its members.

"(2) INDIAN TRIBE.—For purposes of this subsection, the term 'Indian tribe' has the meaning given such term by section 7871(c)(3)(E)(ii).

"(c) OTHER TERMS.—For purposes of this section—

''(1) APPLICABLE DOLLAR AMOUNT.—

''(A) IN GENERAL.—The term 'applicable dollar amount' means—

''(i) $1.50 in the case of calendar years 2006 through 2009, and

''(ii) $2.00 in the case of calendar years beginning after 2009.

''(B) INFLATION ADJUSTMENT.—In the case of any calendar year after 2006, each of the dollar amounts under subparagraph (A) shall be equal to the product of such dollar amount and the inflation adjustment factor determined under section 45(e)(2)(B) for the calendar year, except that such section shall be applied by substituting '2005' for '1992'.

''(2) UNRELATED PERSON.—The term 'unrelated person' has the same meaning as when such term is used in section 45.

''(d) TERMINATION.—This section shall not apply to sales after December 31, 2012.''

(b) CREDIT MADE PART OF GENERAL BUSINESS CREDIT.—Subsection (b) of section 38, as amended by this Act, is amended by striking ''plus'' at the end of paragraph (22), by striking the period at the end of paragraph

(23) and inserting ", plus", and by adding at the end the following new paragraph:

"(24) the Indian coal production credit determined under section 45N(a).".

(c) ALLOWANCE AGAINST MINIMUM TAX.—Section 38(c)(4) (relating to specified credits) is amended by striking the period at the end of clause (ii) and inserting ", or" and by adding at the end the following:

"(iii) the credit determined under section 45N.".

(d) EFFECTIVE DATE.—The amendments made by this section shall apply to sales after December 31, 2005.

SEC. 1549. CREDIT FOR REPLACEMENT STOVES MEETING ENVIRONMENTAL STANDARDS IN NON-ATTAINMENT AREAS.

(a) IN GENERAL.—Subpart A of part IV of subchapter A of chapter 1 (relating to nonrefundable personal credits), as amended by this Act, is amended by inserting after section 25D the following new section:

"SEC. 25E. REPLACEMENT STOVES IN AREAS WITH POOR AIR QUALITY.

"(a) ALLOWANCE OF CREDIT.—In the case of an individual, there shall be allowed as a credit against the tax imposed by this chapter for the taxable year an amount equal to the lesser—

''(1) the qualified stove replacement expenditures of the taxpayer for the taxable year, or

''(2) $500 multiplied by the number of noncompliant wood stoves replaced by the taxpayer during the taxable year.

''(b) QUALIFIED STOVE REPLACEMENT EXPENDITURES.—For purposes of this section—

''(1) IN GENERAL.—The term 'qualified stove replacement expenditures' means expenditures made by the taxpayer for the installation of a compliant stove which—

''(A) is installed in a dwelling unit which—

''(i) is located in the United States in an area which, at the time of the installation, is designated by the Environmental Protection Agency as a non-attainment area for particulate matter less than 2.5 micrometers in diameter or a non-attainment area for particulate matter less than 10 micrometers in diameter, and

''(ii) is used as a residence, and

''(B) replaces a noncompliant wood stove used in the dwelling unit.

Such term includes expenditures for labor costs properly allocable to the onsite preparation, assembly, or original installation of the compliant stove.

''(2) COMPLIANT STOVE.—The term 'compliant stove' means a solid fuel burning stove which meets the requirements set forth in the 'Standards of Performance for Residential Wood Heaters' issued by the Environmental Protection Agency.

''(3) NONCOMPLIANT WOOD STOVE.—The term 'noncompliant wood stove' means any wood stove other than a compliant stove.

''(c) OTHER RULES.—Rules similar to the rules of paragraphs (3) and (4) of section 25C(d) shall apply for purposes of this section.

''(d) BASIS ADJUSTMENT.—If an expenditure to which this section applies results in an increase in basis in any property, the increase shall be reduced by the amount of the credit allowed under this section with respect to the expenditure.

''(e) TERMINATION.—This section shall not apply to expenditures made after December 31, 2008.''

(b) CONFORMING AMENDMENTS.—

(1) Subsection (a) of section 1016, as amended by this Act, is amended by striking ''and'' at the end of paragraph (38), by striking the period at the end

of paragraph (39) and inserting ", and", and by adding at the end the following new paragraph:

"(40) to the extent provided in section 25E(e), in the case of amounts with respect to which a credit has been allowed under section 25E.".

(2) The table of sections for subpart A of part IV of subchapter A of chapter 1, as amended by this Act, is amended by inserting after the item relating to section 25D the following new item:

"Sec. 25E. Replacement stoves in areas with poor air quality.".

(c) EFFECTIVE DATES.—The amendments made by this section shall apply to expenditures for stoves purchased after the date of the enactment of this Act.

SEC. 1550. EXEMPTION FOR EQUIPMENT FOR TRANSPORTING BULK BEDS OF FARM CROPS FROM EXCISE TAX ON RETAIL SALE OF HEAVY TRUCKS AND TRAILERS.

(a) IN GENERAL.—Section 4053 of the Internal Revenue Code of 1986 (relating to exemptions) is amended by adding at the end the following new paragraph:

"(9) BULK BEDS FOR TRANSPORTING FARM CROPS.—Any box, container, receptacle, bin, or other similar article the length of which does not exceed 26 feet, which is mounted or placed on an automobile truck, and which is sold to a person who certifies to the seller that—

''(A) such person is actively engaged in the trade or business of farming, and

''(B) the primary use of the article is to haul to farms (and on farms) farm crops grown in connection with such trade or business.''.

(b) RECAPTURE OF TAX UPON RESALE OR NONEXEMPT USE.—Section 4052 (relating to definitions and special rules) is amended by redesignating subsection (g) as subsection (h) and by inserting after subsection (f) the following new subsection:

''(g) IMPOSITION OF TAX ON SALES, ETC., WITHIN 2 YEARS OF BULK BEDS FOR TRANSPORTING FARM CROPS PURCHASED TAX-FREE.—

''(1) IN GENERAL.—If—

''(A) no tax was imposed under section 4051 on the first retail sale of any article described in section 4053(9) by reason of its exempt use, and

''(B) within 2 years after the date of such first retail sale, such article is resold by the purchaser or such purchaser makes a substantial nonexempt use of such article, then such sale or use of such article by such purchaser shall be treated as the first retail sale of such

article for a price equal to its fair market value at the time of such sale or use.

''(2) EXEMPT USE.—For purposes of this subsection, the term 'exempt use' means any use of an article described in section 4053(9) if the first retail sale of such article is not taxable under section 4051 by reason of such use.''.

(b) EFFECTIVE DATE.—The amendments made by this section shall apply to sales after September 30, 2005.

SEC. 1551. NATIONAL ACADEMY OF SCIENCES STUDY AND REPORT.

(a) STUDY.—Not later than 60 days after the date of the enactment of this Act, the Secretary of the Treasury shall enter into an agreement with the National Academy of Sciences under which the National Academy of Sciences shall conduct a study to define and evaluate the health, environmental, security, and infrastructure external costs and benefits associated with the production and consumption of energy that are not or may not be fully incorporated into the market price of such energy, or into the Federal tax or fee or other applicable revenue measure related to such production or consumption.

(b) REPORT.—Not later than 2 years after the date on which the agreement under subsection (a) is entered into, the National Academy of Sciences shall submit to

Congress a report on the study conducted under subsection (a).

Subtitle F—Revenue Raising Provisions

SEC. 1561. TREATMENT OF KEROSENE FOR USE IN AVIATION.

(a) ALL KEROSENE TAXED AT HIGHEST RATE.—

(1) IN GENERAL.—Section 4081(a)(2)(A) (relating to rates of tax) is amended by adding ''and'' at the end of clause (ii), by striking '', and'' at the end of clause (iii) and inserting a period, and by striking clause (iv).

(2) EXCEPTION FOR USE IN AVIATION.—Subparagraph (C) of section 4081(a)(2) is amended to read as follows:

''(C) TAXES IMPOSED ON FUEL USED IN AVIATION.—In the case of kerosene which is removed from any refinery or terminal directly into the fuel tank of an aircraft for use in aviation, the rate of tax under subparagraph (A)(iii) shall be—

''(i) in the case of use for commercial aviation by a person registered for such use under section 4101, 4.3 cents per gallon, and

"(ii) in the case of use for aviation not described in clause (i), 21.8 cents per gallon.".

(3) APPLICABLE RATE IN CASE OF CERTAIN REFUELER TRUCKS, TANKERS, AND TANK WAGONS.—Section 4081(a)(3) (relating to certain refueler trucks, tankers, and tank wagons treated as terminals) is amended—

(A) by striking "a secured area of" in subparagraph (A)(i), and

(B) by adding at the end the following new subparagraph:

"(D) APPLICABLE RATE.—For purposes of paragraph (2)(C), in the case of any kerosene treated as removed from a terminal by reason of this paragraph—

"(i) the rate of tax specified in paragraph (2)(C)(i) in the case of use described in such paragraph shall apply if such terminal is located within a secured area of an airport, and

"(ii) the rate of tax specified in paragraph (2)(C)(ii) shall apply in all other cases.".

(4) CONFORMING AMENDMENTS.—

(A) Sections 4081(a)(3)(A) and 4082(b) are amended by striking ''aviation-grade'' each place it appears.

(B) Section 4081(a)(4) is amended by striking ''paragraph (2)(C)'' and inserting ''paragraph (2)(C)(i)''.

(C) The heading for paragraph (4) of section 4081(a) is amended by striking ''AVIATION-GRADE''.

(D) Section 4081(d)(2) is amended by striking so much as precedes subparagraph (A) and inserting the following:

''(2) AVIATION FUELS.—The rates of tax specified in subsections (a)(2)(A)(ii) and (a)(2)(C)(ii) shall be 4.3 cents per gallon—''.

(E) Subsection (e) of section 4082 is amended—

(i) by striking ''aviation-grade'',

(ii) by striking ''section 4081(a)(2)(A)(iv)'' and inserting ''section 4081(a)(2)(A)(iii)'', and

(iii) by striking ''Aviation-Grade Kerosene'' in the heading thereof and inserting ''Kerosene Removed Into an Aircraft''.

(b) REDUCED RATE FOR USE OF CERTAIN LIQUIDS IN AVIATION.—

(1) IN GENERAL.—Subsection (c) of section 4041 (relating to imposition of tax) is amended—

(A) by striking ''aviation-grade kerosene'' in paragraph (1) and inserting ''any liquid for use as a fuel other than aviation gasoline'',

(B) by striking ''aviation-grade kerosene'' in paragraph (2) and inserting ''liquid for use as a fuel other than aviation gasoline'',

(C) by striking paragraph (3) and inserting the following new paragraph:

''(3) RATE OF TAX.—The rate of tax imposed by this subsection shall be 21.8 cents per gallon (4.3 cents per gallon with respect to any sale or use for commercial aviation).'', and

(D) by striking ''Aviation-Grade Kerosene'' in the heading thereof and inserting ''Certain Liquids Used as a Fuel in Aviation''.

(2) PARTIAL REFUND OF FULL RATE.—

(A) IN GENERAL.—Paragraph (2) of section 6427(l) (relating to nontaxable uses of diesel fuel, kerosene and aviation fuel) is amended to read as follows:

''(2) NONTAXABLE USE.—For purposes of this subsection, the term 'nontaxable use' means any use which is exempt from the tax imposed by section 4041(a)(1) other than by reason of a prior imposition of tax.''.

(B) REFUNDS FOR NONCOMMERCIAL AVIATION.—Section 6427(l) (relating to nontaxable uses of diesel fuel, kerosene and aviation fuel) is amended by redesignating paragraph (5) as paragraph (6) and by inserting after paragraph (4) the following new paragraph:

''(5) REFUNDS FOR KEROSENE USED IN NONCOMMERCIAL AVIATION.—

''(A) IN GENERAL.—In the case of kerosene used in aviation not described in paragraph (4)(A) (other than any use which is exempt from the tax imposed by section 4041(c) other than by reason of a prior imposition of tax), paragraph (1) shall not apply to so much of the tax imposed by section 4081 as is attributable to—

''(i) the Leaking Underground Storage Tank Trust Fund financing rate imposed by such section, and

"(ii) so much of the rate of tax specified in section 4081(a)(2)(A)(iii) as does not exceed the rate specified in section 4081(a)(2)(C)(ii).

"(B) PAYMENT TO ULTIMATE, REGISTERED VENDOR.—The amount which would be paid under paragraph (1) with respect to any kerosene shall be paid only to the ultimate vendor of such kerosene. A payment shall be made to such vendor if such vendor—

"(i) is registered under section 4101, and

"(ii) meets the requirements of subparagraph (A), (B), or (D) of section 6416(a)(1).".

(3) CONFORMING AMENDMENTS.—

(A) Section 4041(a)(1)(B) is amended by striking the last sentence.

(B) The heading for subsection (l) of section 6427 is amended by striking ", Kerosene and Aviation Fuel" and inserting "and Kerosene".

(C) Section 4082(d)(2)(B) is amended by striking "section 6427(l)(5)(B)" and inserting "section 6427(l)(6)(B)".

(D) Section 6427(i)(4)(A) is amended—

(i) by striking ''paragraph (4)(B) or (5)'' both places it appears and inserting ''paragraph (4)(B), (5), or (6)'', and

(ii) by striking ''subsection (b)(4) and subsection (l)(5)'' in the last sentence and inserting ''subsections (b)(4), (l)(5), and (l)(6)''.

(E) Paragraph (4) of section 6427(l) is amended—

(i) by striking ''aviation-grade'' in subparagraph (A),

(ii) by striking ''section 4081(a)(2)(A)(iv)'' and inserting ''section 4081(a)(2)(iii)'',

(iii) by striking ''aviation-grade kerosene'' in subparagraph (B) and inserting ''kerosene used in commercial aviation as described in subparagraph (A)'', and

(iv) by striking ''AVIATION-GRADE KEROSENE'' in the heading thereof and inserting ''KEROSENE USED IN COMMERCIAL AVIATION''.

(F) Section 6427(l)(6)(B), as redesignated by paragraph (2)(B), is amended by striking

''aviation-grade kerosene'' and inserting ''kerosene used in aviation''.

(c) TRANSFERS FROM HIGHWAY TRUST FUND OF TAXES ON FUELS USED IN AVIATION TO AIRPORT AND AIRWAY TRUST FUND.—

(1) IN GENERAL.—Section 9503(c) (relating to expenditures from Highway Trust Fund) is amended by adding at the end the following new paragraph:

''(7) TRANSFERS FROM THE TRUST FUND FOR CERTAIN AVIATION FUEL TAXES.—The Secretary shall pay at least monthly from the Highway Trust Fund into the Airport and Airway Trust Fund amounts (as determined by the Secretary) equivalent to the taxes received on or after October 1, 2005, and before October 1, 2011, under section 4081 with respect to so much of the rate of tax as does not exceed—

''(A) 4.3 cents per gallon of kerosene with respect to which a payment has been made by the Secretary under section 6427(l)(4), and

''(B) 21.8 cents per gallon of kerosene with respect to which a payment has been made by the Secretary under section 6427(l)(5).

Transfers under the preceding sentence shall be made on the basis of estimates by the Secretary, and

proper adjustments shall be made in the amounts subsequently transferred to the extent prior estimates were in excess of or less than the amounts required to be transferred.''.

(2) CONFORMING AMENDMENTS.—

(A) Section 9502(a) is amended by striking ''appropriated or credited to the Airport and Airway Trust Fund as provided in this section or section 9602(b)'' and inserting ''appropriated, credited, or paid into the Airport and Airway Trust Fund as provided in this section, section 9503(c)(7), or section 9602(b)''.

(B) Section 9502(b)(1) is amended—

(i) by striking ''subsections (c) and (e) of section 4041'' in subparagraph (A) and inserting ''section 4041(c)'', and

(ii) by striking ''and aviation-grade kerosene'' in subparagraph (C) and inserting ''and kerosene to the extent attributable to the rate specified in section 4081(a)(2)(C)''.

(C) Section 9503(b) is amended by striking paragraph (3).

(d) CERTAIN REFUNDS NOT TRANSFERRED FROM AIRPORT AND AIRWAY TRUST FUND.—Section

9502(d)(2) (relating to transfers from Airport and Airway Trust Fund on account of certain refunds) is amended by inserting ''(other than subsections (l)(4) and (l)(5) thereof)'' after ''or 6427 (relating to fuels not used for taxable purposes)''.

(e) EFFECTIVE DATE.—The amendments made by this section shall apply to fuels or liquids removed, entered, or sold after September 30, 2005.

SEC. 1562. REPEAL OF ULTIMATE VENDOR REFUND CLAIMS WITH RESPECT TO FARMING.

(a) IN GENERAL.—Subparagraph (A) of section 6427(l)(6) (relating to registered vendors to administer claims for refund of diesel fuel or kerosene sold to farmers and State and local governments), as redesignated by section 1561, is amended to read as follows:

''(A) IN GENERAL.—Paragraph (1) shall not apply to diesel fuel or kerosene used by a State or local government.''.

(b) CONFORMING AMENDMENT.—The heading of paragraph (6) of section 6427(l), as so redesignated, is amended by striking ''FARMERS AND''.

(c) EFFECTIVE DATE.—The amendments made by this section shall apply to sales after September 30, 2005.

SEC. 1563. REFUNDS OF EXCISE TAXES ON EXEMPT SALES OF FUEL BY CREDIT CARD.

(a) REGISTRATION OF PERSON EXTENDING CREDIT ON CERTAIN EXEMPT SALES OF FUEL.—Section 4101(a) (relating to registration) is amended by adding at the end the following new paragraph:

''(4) REGISTRATION OF PERSONS EXTENDING CREDIT ON CERTAIN EXEMPT SALES OF FUEL.—The Secretary shall require registration by any person which—

''(A) extends credit by credit card to any ultimate purchaser described in subparagraph (C) or (D) of section 6416(b)(2) for the purchase of taxable fuel upon which tax has been imposed under section 4041 or 4081, and

''(B) does not collect the amount of such tax from such ultimate purchaser.''.

(b) REFUNDS OF TAX ON GASOLINE.—

(1) IN GENERAL.—Paragraph (4) of section 6416(a) (relating to condition to allowance) is amended—

(A) by inserting ''except as provided in subparagraph (B),'' after ''For purposes of this subsection,'' in subparagraph (A),

(B) by redesignating subparagraph (B) as subparagraph (C) and by inserting after subparagraph (A) the following new subparagraph:

''(B) CREDIT CARD ISSUER.—For purposes of this subsection, if the purchase of gasoline described in subparagraph (A) (determined without regard to the registration status of the ultimate vendor) is made by means of a credit card issued to the ultimate purchaser, paragraph (1) shall not apply and the person extending the credit to the ultimate purchaser shall be treated as the person (and the only person) who paid the tax, but only if such person—

''(i) is registered under section 4101(a)(4), and

''(ii) has established, under regulations prescribed by the Secretary, that such person—

''(I) has not collected the amount of the tax from the person who purchased such article, or

''(II) has obtained the written consent from the ultimate purchaser

to the allowance of the credit or refund, and

''(iii) has so established that such person—

''(I) has repaid or agreed to repay the amount of the tax to the ultimate vendor,

''(II) has obtained the written consent of the ultimate vendor to the allowance of the credit or refund, or

''(III) has otherwise made arrangements which directly or indirectly assure the ultimate vendor of reimbursement of such tax.

If clause (i), (ii), or (iii) is not met by such person extending the credit to the ultimate purchaser, then such person shall collect an amount equal to the tax from the ultimate purchaser and only such ultimate purchaser may claim such credit or refund.'',

(C) by striking ''subparagraph (A)'' in subparagraph (C), as redesignated by paragraph (2), and inserting ''subparagraph (A) or (B)'',

(D) by inserting ''or credit card issuer'' after ''vendor'' in subparagraph (C), as so redesignated, and

(E) by inserting ''OR CREDIT CARD ISSUER'' after ''VENDOR'' in the heading thereof.

(2) CONFORMING AMENDMENT.—Section 6416(b)(2) is amended by adding at the end the following new sentence: ''Subparagraphs (C) and (D) shall not apply in the case of any tax imposed on gasoline under section 4081 if the requirements of subsection (a)(4) are not met.''

(c) DIESEL FUEL OR KEROSENE.—Paragraph (6) of section 6427(l) (relating to nontaxable uses of diesel fuel and kerosene), as redesignated by section 1561, is amended—

(1) by striking ''The amount'' in subparagraph (C) and inserting ''Except as provided in subparagraph (D), the amount'', and

(2) by adding at the end the following new subparagraph:

''(D) CREDIT CARD ISSUER.—For purposes of this paragraph, if the purchase of any fuel described in subparagraph (A) (determined without regard to the registration status of the

ultimate vendor) is made by means of a credit card issued to the ultimate purchaser, the Secretary shall pay to the person extending the credit to the ultimate purchaser the amount which would have been paid under paragraph (1) (but for subparagraph (A)), but only if such person meets the requirements of clauses (i), (ii), and (iii) of section 6416(a)(4)(B). If such clause (i), (ii), or (iii) is not met by such person extending the credit to the ultimate purchaser, then such person shall collect an amount equal to the tax from the ultimate purchaser and only such ultimate purchaser may claim such amount.''.

(d) CONFORMING PENALTY AMENDMENTS.—

(1) Section 6206 (relating to special rules applicable to excessive claims under sections 6420, 6421, and 6427) is amended—

(A) by striking ''Any portion'' in the first sentence and inserting ''Any portion of a refund made under section 6416(a)(4) and any portion'',

(B) by striking ''payments under sections 6420'' in the first sentence and inserting ''re-

funds under section 6416(a)(4) and payments under sections 6420'',

(C) by striking ''section 6420'' in the second sentence and inserting ''section 6416(a)(4), 6420'', and

(D) by striking ''**SECTIONS 6420, 6421, AND 6427**'' in the heading thereof and inserting ''**CERTAIN SECTIONS**''.

(2) Section 6675(a) is amended by inserting ''section 6416(a)(4) (relating to certain sales of gasoline),'' after ''made under''.

(3) Section 6675(b)(1) is amended by inserting ''6416(a)(4),'' after ''under section''.

(4) The item relating to section 6206 in the table of sections for subchapter A of chapter 63 is amended by striking ''sections 6420, 6421, and 6427'' and inserting ''certain sections''.

(e) EFFECTIVE DATE.—The amendments made by this section shall apply to sales after December 31, 2005.

SEC. 1564. ADDITIONAL REQUIREMENT FOR EXEMPT PURCHASES.

(a) STATE AND LOCAL GOVERNMENTS.—

(1) Subparagraph (C) of section 6416(b)(2) (relating to specified uses and resales) is amended to read as follows:

''(C) sold to a State or local government for the exclusive use of a State or local government (as defined in section 4221(d)(4) and certified as such by the State) or sold to a qualified volunteer fire department (as defined in section 150(e)(2) and certified as such by the State) for its exclusive use;''.

(2) Section 4041(g)(2) (relating to other exemptions) is amended by striking ''or the District of Columbia'' and inserting ''the District of Columbia, or a qualified volunteer fire department (as defined in section 150(e)(2)) (and certified as such by the State or the District of Columbia)''.

(b) NONPROFIT EDUCATIONAL ORGANIZATIONS.—

(1) Section 6416(b)(2)(D) is amended by inserting ''(as defined in section 4221(d)(5) and certified to be in good standing by the State in which such organization is providing educational services)'' after ''organization''.

(2) Section 4041(g)(4) is amended—

(A) by inserting ''(certified to be in good standing by the State in which such organization is providing educational services)'' after ''organization'' the first place it appears, and

(B) by striking ''use by a'' and inserting ''use by such a''.

(c) NONAPPLICATION OF CERTIFICATION REQUIREMENTS FOR THE REFUND OF CERTAIN TAXES.—Section 6416(b)(2) is amended by adding at the end the following new sentence: ''With respect to any tax paid under subchapter D of chapter 32, the certification requirements under subparagraphs (C) and (D) shall not apply.''.

(d) EFFECTIVE DATE.—The amendments made by this section shall apply to sales after December 31, 2005.

SEC. 1565. REREGISTRATION IN EVENT OF CHANGE IN OWNERSHIP.

(a) IN GENERAL.—Section 4101(a) (relating to registration) is amended by adding at the end the following new paragraph:

''(4) REREGISTRATION IN EVENT OF CHANGE IN OWNERSHIP.—Under regulations prescribed by the Secretary, a person (other than a corporation the stock of which is regularly traded on an established securities market) shall be required to reregister under this section if after a transaction (or series of related transactions) more than 50 percent of ownership interests in, or assets of, such person are held by persons other than persons (or persons related thereto) who held more than 50 percent of

such interests or assets before the transaction (or series of related transactions).''.

(b) CONFORMING AMENDMENTS.—

(1) CIVIL PENALTY.—Section 6719 (relating to failure to register) is amended—

(A) by inserting ''or reregister'' after ''register'' each place it appears,

(B) by inserting ''OR REREGISTER'' after ''REGISTER'' in the heading for subsection (a), and

(C) by inserting ''**OR REREGISTER**'' after ''**REGISTER**'' in the heading thereof.

(2) CRIMINAL PENALTY.—Section 7232 (relating to failure to register under section 4101, false representations of registration status, etc.) is amended—

(A) by inserting ''or reregister'' after ''register'',

(B) by inserting ''or reregistration'' after ''registration'', and

(C) by inserting ''**OR REREGISTER**'' after ''**REGISTER**'' in the heading thereof.

(3) ADDITIONAL CIVIL PENALTY.—Section 7272 (relating to penalty for failure to register) is amended—

(A) by inserting ''or reregister'' after ''failure to register'' in subsection (a),

(B) by inserting ''**OR REREGISTER**'' after ''**REGISTER**'' in the heading thereof.

(3) CLERICAL AMENDMENTS.—The item relating to section 6719 in the table of sections for part I of subchapter B of chapter 68, the item relating to section 7232 in the table of sections for part II of subchapter A of chapter 75, and the item relating to section 7272 in the table of sections for subchapter B of chapter 75 are each amended by inserting ''or reregister'' after ''register''.

(c) EFFECTIVE DATE.—The amendments made by this section shall apply to actions, or failures to act, after the date of the enactment of this Act.

SEC. 1566. TREATMENT OF DEEP-DRAFT VESSELS.

(a) IN GENERAL.—On and after the date of the enactment of this Act, the Secretary of the Treasury shall require that a vessel described in section 4042(c)(1) of the Internal Revenue Code of 1986 be considered a vessel for purposes of the registration of the operator of such vessel under section 4101 of such Code, unless such operator uses such vessel exclusively for purposes of the entry of taxable fuel.

(b) EXEMPTION FOR DOMESTIC BULK TRANSFERS BY DEEP-DRAFT VESSELS.—

(1) IN GENERAL.—Subparagraph (B) of section 4081(a)(1) (relating to tax on removal, entry, or sale) is amended to read as follows:

"(B) EXEMPTION FOR BULK TRANSFERS TO REGISTERED TERMINALS OR REFINERIES.—

"(i) IN GENERAL.—The tax imposed by this paragraph shall not apply to any removal or entry of a taxable fuel transferred in bulk by pipeline or vessel to a terminal or refinery if the person removing or entering the taxable fuel, the operator of such pipeline or vessel (except as provided in clause (ii)), and the operator of such terminal or refinery are registered under section 4101.

"(ii) NONAPPLICATION OF REGISTRATION TO VESSEL OPERATORS ENTERING BY DEEP-DRAFT VESSEL.—For purposes of clause (i), a vessel operator is not required to be registered with respect to the entry of a taxable fuel transferred in bulk by a vessel described in section 4042(c)(1).".

(2) EFFECTIVE DATE.—The amendment made by this subsection shall take effect on the date of the enactment of this Act.

SEC. 1567. RECONCILIATION OF ON-LOADED CARGO TO ENTERED CARGO.

(a) IN GENERAL.—Subsection (a) of section 343 of the Trade Act of 2002 is amended by inserting at the end the following new paragraph:

''(4) TRANSMISSION OF DATA.—Pursuant to paragraph (2), not later than 1 year after the date of enactment of this paragraph, the Secretary of Homeland Security, after consultation with the Secretary of the Treasury, shall establish an electronic data interchange system through which the United States Customs and Border Protection shall transmit to the Internal Revenue Service information pertaining to cargoes of any taxable fuel (as defined in section 4083 of the Internal Revenue Code of 1986) that the United States Customs and Border Protection has obtained electronically under its regulations adopted in accordance with paragraph (1). For this purpose, not later than 1 year after the date of enactment of this paragraph, all filers of required cargo information for such taxable fuels (as so defined) must provide such information to the United

States Customs and Border Protection through such electronic data interchange system.''.

(b) EFFECTIVE DATE.—The amendment made by this section shall take effect on the date of the enactment of this Act.

SEC. 1568. TAXATION OF GASOLINE BLENDSTOCKS AND KEROSENE.

With respect to fuel entered or removed after September 30, 2005, the Secretary of the Treasury shall, in applying section 4083 of the Internal Revenue Code of 1986—

(1) prohibit the nonbulk entry or removal of any gasoline blend stock without the imposition of tax under section 4081 of such Code, and

(2) shall not exclude mineral spirits from the definition of kerosene.

SEC. 1569. NONAPPLICATION OF EXPORT EXEMPTION TO DELIVERY OF FUEL TO MOTOR VEHICLES REMOVED FROM UNITED STATES.

(a) IN GENERAL.—Section 4221(d)(2) (defining export) is amended by adding at the end the following new sentence: ''Such term does not include the delivery of a taxable fuel (as defined in section 4083(a)(1)) into a fuel tank of a motor vehicle which is shipped or driven out of the United States.''.

(b) CONFORMING AMENDMENTS.—

(1) Section 4041(g) (relating to other exemptions) is amended by adding at the end the following new sentence: ''Paragraph (3) shall not apply to the sale of a liquid for delivery into a fuel tank of a motor vehicle which is shipped or driven out of the United States.''.

(2) Clause (iv) of section 4081(a)(1)(A) (relating to tax on removal, entry, or sale) is amended by inserting ''or at a duty-free sales enterprise (as defined in section 555(b)(8) of the Tariff Act of 1930)'' after ''section 4101''.

(c) EFFECTIVE DATE.—The amendments made by this section shall apply to sales or deliveries made after the date of the enactment of this Act.

SEC. 1570. PENALTY WITH RESPECT TO CERTAIN ADULTERATED FUELS.

(a) IN GENERAL.—Part I of subchapter B of chapter 68 (relating to assessable penalties) is amended by adding at the end the following new section:

''SEC. 6720A. PENALTY WITH RESPECT TO CERTAIN ADULTERATED FUELS.

''(a) IN GENERAL.—Any person who knowingly transfers for resale, sells for resale, or holds out for resale any liquid for use in a diesel-powered highway vehicle or

a diesel-powered train which does not meet applicable EPA regulations (as defined in section 45H(c)(3)), shall pay a penalty of $10,000 for each such transfer, sale, or holding out for resale, in addition to the tax on such liquid (if any).

''(b) PENALTY IN THE CASE OF RETAILERS.—Any person who knowingly holds out for sale (other than for resale) any liquid described in subsection (a), shall pay a penalty of $10,000 for each such holding out for sale, in addition to the tax on such liquid (if any).''.

(b) DEDICATION OF REVENUE.—Paragraph (5) of section 9503(b) (relating to certain penalties) is amended by inserting ''6720A,'' after ''6719,''.

(c) CLERICAL AMENDMENT.—The table of sections for part I of subchapter B of chapter 68 is amended by adding at the end the following new item:

''Sec. 6720A. Penalty with respect to certain adulterated fuels.''.

(d) EFFECTIVE DATE.—The amendments made by this section shall apply to any transfer, sale, or holding out for sale or resale occurring after the date of the enactment of this Act.

SEC. 1571. OIL SPILL LIABILITY TRUST FUND FINANCING RATE.

Section 4611(f) (relating to application of oil spill liability trust fund financing rate) is amended to read as follows:

''(f) APPLICATION OF OIL SPILL LIABILITY TRUST FUND FINANCING RATE.—

''(1) IN GENERAL.—Except as provided in paragraphs (2) and (3), the Oil Spill Liability Trust Fund financing rate under subsection (c) shall apply on and after April 1, 2007, or if later, the date which is 30 days after the last day of any calendar quarter for which the Secretary estimates that, as of the close of that quarter, the unobligated balance in the Oil Spill Liability Trust Fund is less than $2,000,000,000.

''(2) FUND BALANCE.—The Oil Spill Liability Trust Fund financing rate shall not apply during a calendar quarter if the Secretary estimates that, as of the close of the preceding calendar quarter, the unobligated balance in the Oil Spill Liability Trust Fund exceeds $3,000,000,000.

''(3) TERMINATION.—The Oil Spill Liability Trust Fund financing rate shall not apply after December 31, 2014.''.

SEC. 1572. EXTENSION OF LEAKING UNDERGROUND STORAGE TANK TRUST FUND FINANCING RATE.

(a) IN GENERAL.—Paragraph (3) of section 4081(d) (relating to Leaking Underground Storage Tank Trust

Fund financing rate) is amended by striking ''2005'' and inserting ''2011''.

(b) APPLICATION OF TAX ON DYED FUEL.—

(1) IN GENERAL.—Section 4082(a) (relating to exemptions for diesel fuel and kerosene) is amended by inserting ''(other than such tax at the Leaking Underground Storage Tank Trust Fund financing rate)'' after ''section 4081''.

(2) NO REFUND.—Section 6427(l)(1) is amended by adding at the end the following new sentence: ''The preceding sentence shall not apply to so much of the tax imposed by section 4081 on dyed fuel described in section 4082(a) as is attributable to the Leaking Underground Storage Tank Trust Fund financing rate imposed by such section.''.

(c) CERTAIN REFUNDS AND CREDITS NOT CHARGED TO LUST TRUST FUND.—Subsection (c) of section 9508 (relating to Leaking Underground Storage Tank Trust Fund) is amended to read as follows:

''(c) EXPENDITURES.—Amounts in the Leaking Underground Storage Tank Trust Fund shall be available, as provided in appropriation Acts, only for purposes of making expenditures to carry out section 9003(h) of the Solid Waste Disposal Act as in effect on the date of the

enactment of the Superfund Amendments and Reauthorization Act of 1986.''.

(d) EFFECTIVE DATES.—

(1) IN GENERAL.—Except as provided in paragraph (2), the amendments made by this section shall take effect on October 1, 2005.

(2) APPLICATION OF TAX ON DYED FUEL.—The amendment made by subsection (b) shall apply to fuel entered, removed, or sold after December 31, 2005.