Edison Electric INSTITUTE

The Tax Cuts and Jobs Act: What You Should Know

On December 20, 2017, Congress passed the conference agreement on H.R. 1, the Tax Cuts and Jobs Act, completing the most comprehensive overhaul of the U.S. tax code in more than 30 years. The final legislation included the electric power industry's top priorities and several other provisions that will benefit electricity customers and encourage much-needed investments in smarter energy infrastructure.

Electric Customers Will Benefit From Tax Reform

- America's electric companies know that their customers rely on them to provide safe, reliable, affordable, and increasingly clean energy to power their homes and their businesses. That is why they supported tax reform legislation that promotes investments in America's critical energy infrastructure and that keeps energy bills as affordable and predictable as possible for all Americans.
- One of the cornerstone pieces of the tax reform legislation is the reduction in the corporate tax rate from 35% to 21%. This reduction is a huge win for electricity customers, as the drop in the corporate rate generally is reflected in customer rates.
- Electric companies across the country are having discussions with their public utility commissions on how tax reform benefits will be provided to customers. These benefits will take many different forms. For example, customers may see a reduction in their bills or bill credits; potential rate increases may be avoided; or the benefit may be applied toward needed energy infrastructure improvements. To date, electric companies have announced almost $7 billion in tax reform benefits heading back to customers.

Tax Reform Will Result in Continued Investment in America's Smarter Energy Infrastructure

- To meet the evolving needs of their customers across the country, EEI's member companies currently invest more than $100 billion annually to build a smarter energy infrastructure and to transition to even cleaner generation sources.
- These investments help to:
    - Improve reliability by making the energy grid smarter, stronger, more resilient, and more secure;
    - Protect the energy grid from the increasing threat of physical and cyber attacks;
    - Provide customers with more control over their energy bills; and
    - Increase the use of cleaner generation sources.
- The final tax legislation included several provisions, such as maintaining the deductibility of interest expense, maintaining tax normalization, and keeping dividend tax rates low and on par with capital gains, that will continue to allow electric companies to raise the capital they need at affordable rates to fund these investments.

Excess Deferred Taxes – What Does the Future Hold?

- Due to the unique regulated nature of electric companies, the drop in the corporate tax rate creates a certain amount of excess deferred taxes.
- Simply, the change in the law will require electric companies to recalculate their tax expense. However, unlike other industries that would treat excess deferred taxes collected as income, regulated electric companies are required to refund these excess deferred taxes over time to their customers.
- These excess deferred taxes are a regulatory liability and are not cash on hand. Excess deferred taxes ultimately will be returned to customers over time.
- The amount of excess deferred taxes will vary by company, and decisions about how and when this amount will be flowed back to customers will vary by state.
- The benefits and use of excess deferred taxes could take many different forms, similar to the benefits resulting from the corporate tax rate reduction.

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