Issue Snapshot: Tax Reform

Background: Passed in January 2013, The American Taxpayer Relief Act (also known as the "Fiscal Cliff Deal") made some permanent changes to the tax code, such as establishing the maximum dividend tax rate of 20%, but for the most part, the legislation was a temporary fix. President Obama and Congress still have a number of issues to address to keep the economy moving forward, all of which have the potential to slow the economy if not managed well.

Company Position: We expect to see a number of new tax reform proposals introduced in 2015. Most of these will address the corporate tax code as opposed to individual rates. In the context of corporate tax reform, Con Edison supports the following key principles:

<u>Maintain Dividend Tax Parity</u> – Although the fiscal cliff deal provided for parity with capital gains at a maximum rate of 20%, this issue could be reopened. This is a significant issue for Con Edison, as the payment of dividends is a key part of the value of utility stock ownership and therefore the cost of capital. Con Edison worked tirelessly throughout 2011 and 2012 to ensure the outcome in the fiscal cliff deal and will continue to do so in any tax reform legislation.

<u>Maintain Interest Deductibility</u> – As part of the President's proposal on federal tax reform, the idea has been put forth to fully eliminate the deductibility of interest expenses by corporations. This is an effort to make corporate borrowing using debt to be on parity with the tax treatment of funding through the issuance of equity. If interest deductibility were disallowed, it would cost Con Edison $510-520M per year.

<u>Ensure a Normalization Transition</u> – As a result of the capital intensive nature of utilities, we tend to have a greater level of deferred taxes reflected on the books than other industries, primarily as a result of accelerated tax depreciation, deductibility of repairs and other tax benefits in advance of book benefits. If there is a reduction in the US federal corporate tax rate, the balance of deferred taxes will be reduced by the delta in the tax rates (current rate of 35% versus the reduced tax rate as a result of tax reform) times the net balance of deferred taxes, thus creating "excess deferred taxes." Under normal circumstances, these excess deferred taxes would be recorded immediately on the books of the utilities and would typically be available to return to the customers through reduced rates. This could require utilities to have significant demands on their cash. The industry is advocating that a method of normalization be put in place for the return of excess deferred taxes that would be created by a reduction in US federal income tax rates. This issues was addressed in the last major tax rewrite of 1986.