

Tax Savings for Investments in Renewable Energy

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In an effort to stimulate the economy and encourage investment in renewable energy, Congress has included several energy incentive packages in recent tax legislations. Credits, deductions, and grants have been made available for the production of or investment in renewable energy. The following paragraphs explain the Business Energy Investment Tax Credit which is one of the more attainable and lucrative incentives available for businesses.

The investment tax credit provisions of the American Recovery and Reinvestment Act of 2009 provide a credit for qualified taxpayers based on their capital investment in renewable energy projects. This credit is intended to offset the up front costs of capital-intensive renewable energy technologies. The credit ranges from 10% to 30% of the capital expenditures related to qualified energy property and generally there is no cap on the amount of credit available for each taxpayer. The provisions also allow for a taxpayer to receive a cash grant from the Treasury Department in place of the credit (approval must be granted). Combining this investment credit with other incentives such as accelerated depreciation and state tax credits can significantly improve the expected cash flows of projects that include energy investment.

In general, credits are available for eligible property placed in service before December 31, 2016. The credit is taken on IRS Form 3468 in the year the property is placed in service. If the taxpayer has insufficient taxable income to use the entire credit in the first year, it can be carried forward for 20 years. The amount of the credit is based on the total cost basis of the new property which includes the cost of labor for installation. The credit is 30% of the basis of the property for solar, fuel cell, and wind energy projects. The credit is only 10% for geothermal and microturbine projects. It is also important to note that the basis of the property will be reduced by the amount of the investment tax credit.

As stated above, the credit can make a project more lucrative when used in coordination with other tax incentives. Most energy property will qualify for accelerated depreciation over five years. Additionally, many states have adopted incentives to encourage renewable energy investment. For example, South Carolina provides a 25% tax credit on solar property placed in service, but the credit is capped at the lesser of \$3,500 per taxpayer or 50% of tax liability. The amount of the incentive varies by state as North Carolina provides a credit of 35% of the costs which is capped at a maximum credit of \$2,500,000 per installation.

To show how the federal incentives work, let's use an example of solar energy property costing \$1 million being put in service during 2010. Assuming this a qualified taxpayer with taxable income, the taxpayer would receive an immediate \$300,000 ($\$1 \text{ million} \times 30\%$) federal tax credit. This would reduce the basis of the property to \$700,000 ($\$1 \text{ million} - \$300,000$). The remaining basis would be depreciated using MACRS five years calculations and would produce a \$140,000 ($\$700,000 \times 20\%$) first year depreciation deduction.

Based on the calculations above, it's clear to see that the government is taking extraordinary steps to encourage investment in alternative energy. If you have a project that could benefit from this incentive or would like to learn more about other incentives available, please consult with one of Elliott Davis' Real Estate team members or your tax advisor on the specific details of your situation.



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