

Tax Benefits of Going Green

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Ground “Rules”

- Slides are written in “taxeese” rather than plain English.
 - I will explain everything in English. If you’re still unclear about a word or concept, please continue asking until I’m speaking English.
 - The reason for the tax lingo is so you walk out with a reference containing the real rules and not a summary which might be taken out of context.
- I’ll answer any question on each topic while discussing the topic. Please hold all questions unrelated to the current topic until the appropriate time or until the end.



Residential Property

Residential Energy Property Credit §25C – Individuals

- Available in 2009 and 2010 only and NONE in 2008
- Tax credit of 30% of costs up to a combined \$1,500 for improvements to taxpayers' existing **principal residence** only.
- Qualifying improvements consist of:
 - Exterior doors,
 - Windows and Sky lights,
 - Metal roofs
 - Asphalt roofs with cooling granules
 - Insulation
 - Heat pumps
 - Furnaces, central air conditioners and water heaters
 - Stoves using renewable plant-derived fuel to heat a taxpayer's residence or the water for the residence (qualified biomass fuel property).

Residential Energy Property Credit §25C (cont.)

- \$1,500 is the maximum total credit that can be claimed on all property placed in service in 2009 and 2010.
- **Must** have a Manufacturer Certification Statement to qualify
- This is a nonrefundable personal credit and can only be used to offset AMT when there's congressional relief.
- Key phrase – “Residential energy property expenditures”
 - Base amount in order to calculate the tax credit
 - The energy property must be installed on or in connection with a dwelling unit located in the US owned and used by the taxpayers as the taxpayer's **principal residence**.
 - Property must be originally placed in service by the taxpayer

Residential Alternative Energy Credit

§25D - Individuals

- Available through 12/31/16
- Tax credit of 30% of the following expenditures made by the taxpayer during the tax year for specific *residential alternative energy equipment* installed on or in connection with a dwelling unit located in the United States that is used as a residence by the taxpayer (**principal residence, second home, and rental properties qualify for the credit**)
 - (1) Solar electric property (not just photovoltaics),
 - (2) Solar water heating property,
 - (3) Fuel cell property,
 - (4) Small wind energy property, and
 - (5) Geothermal heat pump property

Residential Alternative Energy Credit (cont.)

- There is no upper credit limit for photovoltaic systems, solar water heaters, small wind energy systems, and geothermal heat pumps.
- The maximum credit for fuel cell property is \$500 for each half kilowatt of capacity installed during the year
- New or existing homes are eligible
- This is a nonrefundable personal credit and can only be used to offset AMT when there's congressional relief.

Credit for New Energy-Efficient Homes

§38(b)(23) and 45L(a) - Homebuilders

- Available through 2009 only
- Home builders are eligible for a tax credit of \$1,000 or \$2,000 for the construction or manufacture of qualified new energy-efficient homes
- The applicable amount of the credit depends on the energy savings achieved by the home. The maximum credit is \$2,000 for homes and manufactured homes that meet more rigorous energy requirements. Homes that meet a less demanding test can qualify for a \$1,000 credit. A qualified new energy efficient home must also receive a written certification that describes its energy-saving features. The taxpayer's basis in property is reduced by the amount of any new energy efficient home credit allowed with respect to that property.
- These credits apply to new homes acquired from the contractor for use as a residence through December 31, 2009.



Commercial/Business Use Property

Energy Efficient Commercial Buildings Deduction §179D

- Available through 12/31/13
- Available to owners or designers of new or existing commercial buildings that meet certain energy efficiency standards
- 3 part credit of up to \$1.80 per sq. ft. @ \$.60/sq ft calculated separately for
 - 1) Interior lighting systems,
 - 2) Heating, cooling, ventilation, and
 - 3) Building envelope
- Building designers are eligible to claim the deduction if the deduction is not available for the building owner, such as projects for government owned commercial buildings

Energy Investment Credit §48 (a component of the ITC - Investment Tax Credit) - Businesses

- Analogous to (but by no means the same as) the Residential Alternative Energy Credit discussed earlier for individuals
- Available through 12/31/16
- The credit is equal to:
 - 30-percent of the investment in
 - solar energy property (produces electricity to heat, cool, lighting, etc),
 - qualified fuel cell property, and
 - small wind energy property OR
 - 10-percent of the investment in
 - geothermal energy property,
 - microturbines,
 - combined heat and power systems, and
 - geothermal heat pump systems.

Energy Investment Credit (cont)

- All types (30% and 10%) of energy property must meet the following requirements:
 - The construction, reconstruction, or erection of the property must be completed by the taxpayer, or the original use of acquired energy property must commence with the taxpayer.
 - Depreciation or amortization must be allowable with respect to the property
 - The property must meet the performance and quality standards, if any, that are prescribed by IRS regulations and in effect at the time of the acquisition of the property.
 - Energy property cannot be part of a facility that received a credit under Code Sec. 45 for producing electricity from renewable sources.
- There's an option to take a grant in lieu of the tax credit for qualified property placed in service in 2009 and 2010
- The basis of the property is reduced by 50% of the amount of the credit taken (ex. \$100 investment = \$30 credit and \$15 basis reduction or \$10 credit and \$5 basis reduction)
- The credit can be claimed against AMT

Renewable Electricity Production Credit

§45 - Businesses

- The production of electricity from qualified energy resources at qualified facilities. A taxpayer may generally claim the credit during the 10-year period commencing with the date the qualified facility is placed in service.
- Qualified energy resources include wind, closed-loop biomass, open-loop biomass, geothermal energy, solar energy, small irrigation power, municipal solid waste (trash), qualified hydropower production, and marine and hydrokinetic renewable energy from certain facilities.
- Qualified facilities are generally facilities that generate electricity using these renewable energy resources. To be eligible for the credit, electricity produced from these energy resources at qualified facilities must be sold by the taxpayer to an unrelated person.
- The placed-in-service date depends on the qualified facility and the renewable energy resource. The placed in service date has been extended through December 31, 2013 for most qualified energy resources except solar (December 31, 2006), wind (December 31, 2012), and small irrigation (December 31, 2011).
- The amount of the credit is 1.5 cents (adjusted annually for inflation – generally 2.1 cents in 2009) for each kilowatt hour of electricity sold by the taxpayer during the tax year

Accelerated Depreciation – Bonus Depreciation

Bonus Depreciation Basics (expires 12/31/10 unless extended)

- This is for all business property, not just energy efficient property
- 50% first year Bonus Depreciation is available for eligible property PIS in 2009 (MD and other states decoupled)
- Qualifying Purchases:
 - Qualified Leasehold Improvement Property
 - New MACRS Property with a recovery period of less than 20yrs
 - “New” - original use must begin with taxpayer after 12/31/08
 - Off the shelf computer software depreciable over 3yrs

Accelerated Depreciation - § 179

- **Eligible Property:**
 - Tangible property depreciable under MACRS (not real estate)
 - Must be used more than 50% in active conduct of a trade or business
 - Can be new or used property
 - Off the shelf software (PIS through 2010)
- **2009 Limits** (MD and other states decoupled):
 - Expense amount up to \$250,000 (133K in '10) and
 - Purchase Phase-out \$800,000 (\$500K in '10)
 - MD = \$25,000 expense and \$200k purchases
- For eligible property, OK to take 179 and 50% bonus

Alternative Fuel Vehicle Credits



- **Hybrid Vehicles (including natural gas and certain diesel vehicles) – for vehicles PIS through 12/31/10**
 - Be careful, the credit is phased out for each manufacturer once that company has sold 60,000 eligible vehicles. See IRS website for updates to eligible vehicles and credits allowed. For example, credits for all Toyota and Honda hybrids have been phased out in 2007!
 - Credit ranges from \$250-\$3,400 per vehicle for buying or leasing a new hybrid gas-electric or diesel automobile
 - Credit is based on fuel economy and weight per IRS charts
 - If a tax-exempt purchases the vehicle, the retailer gets the credit
- **Credit for qualified plug-in electric and plug-in hybrid vehicles**
 - Credit ranges from \$2,500 - \$7,500 for passenger vehicles and light trucks
 - Credit phases out after 250,000 vehicles are sold in the US
 - There aren't many of these available yet!
- **Tax credits for Heavy Duty Hybrids (through 2009)**
 - Credit amount depends on weight class of vehicle, its fuel economy relative to a comparable conventional vehicle, and the incremental cost. See IRB 2007-23 (and any subsequent updates) for details regarding which vehicles qualify and amount of credit per qualifying vehicle.

Maryland Incentives

- Most incentives are in the form of grants or loans and not tax credits. Also, the state programs involve an application and there is currently a waiting list for most of these.
- Individuals and Business
 - Bio-Heating Oil Tax Credit Program – A tax credit of \$0.03 per gallon of bioheating oil purchased with a maximum \$500 credit per year. Must be at least 5% biodiesel
 - Geothermal Heat Pump Grant – a grant of \$500 per ton up to a maximum \$3,000 for individuals and \$10,000 for businesses
 - Solar Grant –
 - Photovoltaic systems - grants for various levels of wattage up to \$10,000
 - Solar hot water systems – lesser of \$2,500 or 30% of the total installed cost .
 - Windswept Grant Program - Grants for small wind projects to install eligible wind energy systems of at least 1 kW for residential properties and 1.5 kW for non-residential properties. Grant amounts are \$2500/kw for a maximum grant amount of \$10,000

Maryland Incentives (cont.)

- Individuals Only
 - Wind Anemometer Loan - loans wind measuring devices to property owners allowing them to quantify and characterize the wind resources available at their property.
- Businesses Only
 - Green Building Tax Credit Maryland provides a tax credit for the construction of green building. The credit is worth up to 8% of the total cost of the building. Buildings must be located in a priority funding area and be at least 20,000 square feet BUT the Energy Administration is no longer accepting applications. If you would like to be informed when tax credits are made available by the General Assembly you need to fill out the building pre-registration form
 - Clean Energy Production tax credit- This credit is available to individuals and corporations that build and generate electricity from qualified resources operational on or after January 1, 2006, but before January 1, 2011.
- Go to <http://energy.maryland.gov> for additional details.

Additional Resources

- www.dsireusa.org – Database of federal and State incentives for renewables and efficiency.
- www.energytaxincentives.org
- www.energystar.com
- www.eere.energy.gov – Energy Efficiency and Renewable Energy
- www.eia.doe.gov
- www.irs.gov
- <http://energy.maryland.gov>
- www.greenbuildinginstitute.org – but of course!