



# GEORGIA SUSTAINABILITY BUSINESS COALITION FORUM

## Sustainability Incentives

Presented by:

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# Overview: Incentives

- **Importance of Incentives in Financing a Sustainability and/or Renewable Energy Project**
- **Cash Flow Challenges**
  - Capital Costs: Calculation of Pay Back Time
  - Strive for “Pay As You Go”
    - Leases
    - Power Purchase Agreements
- **Time Pressure (window of opportunity)**
  - Section 1603 Grant (30% for solar) expires 12/31/11
  - 100% Bonus Depreciation expires 12/31/11

# Certain Federal Consumer (Individual) Tax Incentives: Sustainability/Renewable Energy

- Capped Amounts - 10% of the amount paid or incurred by the taxpayer for qualified energy efficiency improvements installed during the tax year. Section 25C(a)(1) (aggregate cap of \$500)
  - A “qualified energy efficiency improvement” means an energy efficient building envelope component, which includes:
    - insulation materials or systems
    - exterior windows, skylights, or doors
    - metal or asphalt roofs

## Certain Federal Consumer (Individual) Tax Incentives: Sustainability/Renewable Energy (continued)

- Capped Amounts – Credit for the amount of residential energy property expenditures (i.e., \$50 for advanced main air circulating fans, \$150 for qualified natural gas, propane, or oil furnace or hot water boilers, and \$300 for “energy-efficient building property,” including heat pumps, water heaters, and central air conditioners) paid or incurred by the taxpayer during the tax year. Section 25C(a)(2) (aggregate cap of \$500)

## Certain Federal Consumer (Individual) Tax Incentives: Sustainability/Renewable Energy (continued)

- Not Capped (generally) - Individual taxpayers are allowed a personal tax credit, known as the residential energy efficient property (REEP) credit, for expenditures for qualified solar electric property, qualified solar water heating property, qualified fuel cell property, qualified small wind energy property, and qualified geothermal heat pump property incurred prior to 2017. Section 25D

## Certain Federal Consumer (Individual) Tax Incentives: Sustainability/Renewable Energy (continued)

- It is also noteworthy that for the purposes of this particular tax incentive, the residence does not have to be a primary residence. Qualifying improvements can be made to a vacation home and other dwelling units such as mobile homes, manufactured homes, and even certain houseboats. IRC § 25D(d)(2) (qualified solar electric property expenditures may be made on any dwelling unit used as a "residence").
- In contrast, IRC § 25D(d)(3), related to "Qualified Fuel Cell Property Expenditures," contains more limited language allowing the fuel cell credit only for a dwelling unit used as a "principal residence." Clearly, Congress intended the Solar Energy Tax Credits for solar property expenses to apply more expansively than the credits for fuel cell expenditures.

## Certain Federal Consumer (Individual) Tax Incentives: Sustainability/Renewable Energy (continued)

- Residential energy tax credits should be claimed on IRS Form 5695. On the tax form, a homeowner also can claim federal tax credits for other qualified energy-efficient improvements such as insulation, exterior windows (including certain storm windows and skylights), exterior doors (including certain storm doors), certain qualified metal roofs designed to reduce heat gain of a home, and certain efficient heat pumps, water heaters, air conditioners, furnaces, and fans. Also, if the taxpayer's solar powered system is designed to heat the water in the home in the permitted manner, the taxpayer can receive a qualified solar water heating property tax credit.

# Certain Federal Consumer (Individual) Tax Incentives: Sustainability/Renewable Energy (continued)

- Federal Consumer (Individual) Incentives
  - 30% of the qualified solar electric property expenditures made by the taxpayer during the tax year;
  - 30% of the qualified solar water heating property expenditures made by the taxpayer during the tax year;
  - 30% of the qualified fuel cell property expenditures made by the taxpayer during the tax year, up to a maximum credit of \$500 for each 0.5 kilowatt (kw) of capacity to which the expenditure relates;
  - 30% of the qualified small wind energy property expenditures made by the taxpayer during the tax year; and
  - 30% of the qualified geothermal heat pump property expenditures made by the taxpayer during the tax year.



# Certain Federal Commercial (Business) Tax Incentives: Sustainability/Renewable Energy

- **Solar Photo-Voltaic (PV) /Electric**– 30% Tax Credit. Section 48
- **Solar Thermal** – Heating Water or Concentrated Solar – 30% Tax Credit. Section 48
- **Geothermal Electric** – 10% Tax Credit
- **Combined Heat and Power** – 10% Tax Credit
- **Small Wind Property** – 30% Tax Credit
- **Fuel Cell** – Electric and/or heat (CHP is a separate credit, can't double-dip) - Lesser of 30% or \$3,000 per Kw of Nameplate
- **Microturbine** – Electric Only – Lesser of 10% or \$200 per Kw of Nameplate

## Certain Federal Commercial (Business) Tax Incentives: Sustainability/Renewable Energy (continued)

- Section 1603 Treasury Grant
  - Cash grants of up to 30% of eligible basis as if the property were eligible for Section 48
  - The Tax Relief, Unemployment Insurance Reauthorization and Job Creation Act of 2010 extends the Secretary's authority to provide cash grants in lieu of federal energy investment tax credits for one year.
  - To be eligible, a property must be placed in service in 2009, 2010, or 2011 or placed in service after 2011 but only if construction of the property began during 2009, 2010 or 2011.
  - Applications must be submitted before October 1, 2012.

## Certain Federal Commercial (Business) Tax Incentives: Sustainability/Renewable Energy (continued)

- **100% Bonus Depreciation**
  - Businesses can write off 100% of their new equipment and machinery purchases, effective for property placed in service after September 8, 2010 and through December 31, 2011.
- **50% Bonus Depreciation**
  - For property placed in service in 2012, the rules provide for 50% additional first-year depreciation.

## Certain Federal Commercial (Business) Tax Incentives: Sustainability/Renewable Energy (continued)

- The description in this example is time sensitive in that the Renewable Energy Grant and the 100% Bonus Depreciation are available only through December 31, 2011. The following lists applicable incentives and **approximate** values, in the context of a \$10MM renewable energy installation(s):

<u>DESCRIPTION</u>	<u>VALUE</u>
<i>New Markets Tax Credit (NMTC)</i>	\$3.0MM (39% of the NMTC financing - \$11.2MM multiplied by 0.7)
<i>Federal Renewable Energy Credit/Grant</i>	\$3.0MM (30% of \$10MM installation)
<i>Federal 100% Bonus Depreciation (available only through 12/31/2011)</i>	\$2.9MM (.35% of the reduced tax basis of 8.5MM)
<i>State Incentive(s). Net Present Value (NPV) of 10 Years for Sales of Power to the TVA, etc., specifics depend on many factors</i>	\$3.0MM
<i>NMTC Origination Fee; Other Fees</i>	-\$0.8MM
<b>Total – Tax Benefits and Other Incentives:</b>	<b>\$11.1MM</b>

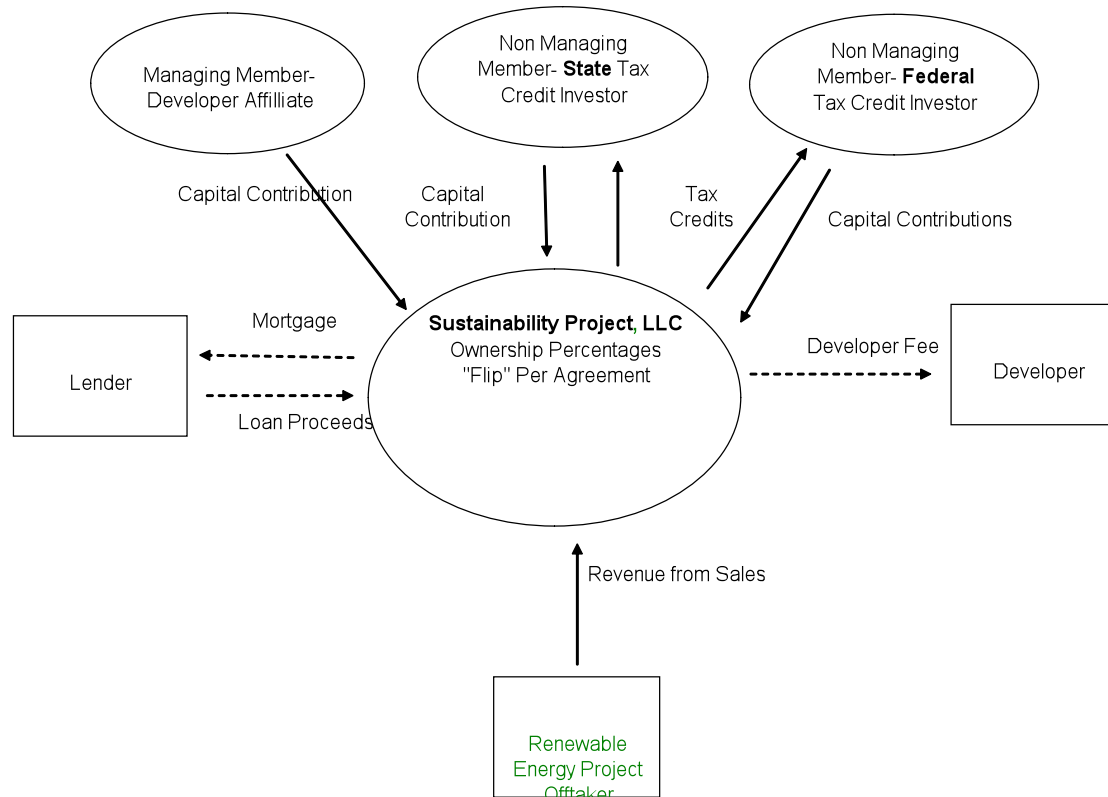
## Certain Federal Commercial (Business) Tax Incentives: Sustainability/Renewable Energy (continued)

- Research and Development Tax Credit Case Study
  - Industry – Architecture and Engineering
  - Product – Building Design Specifications
  - Entity Type – C-Corporation
  - Year Business Started – 1981
  - 4 Year Average Gross Receipts - \$27,700,000
  - Total Labor - \$11,900,000
  - Qualifying Activities – design and develop a new energy efficient building by optimizing lighting elements
  - Qualified Expenses – \$2,060,000
  - Less Base Amount – (\$1,030,000)
  - Total - \$1,030,000
  - **Credit – 206,000**

# Other Federal Programs

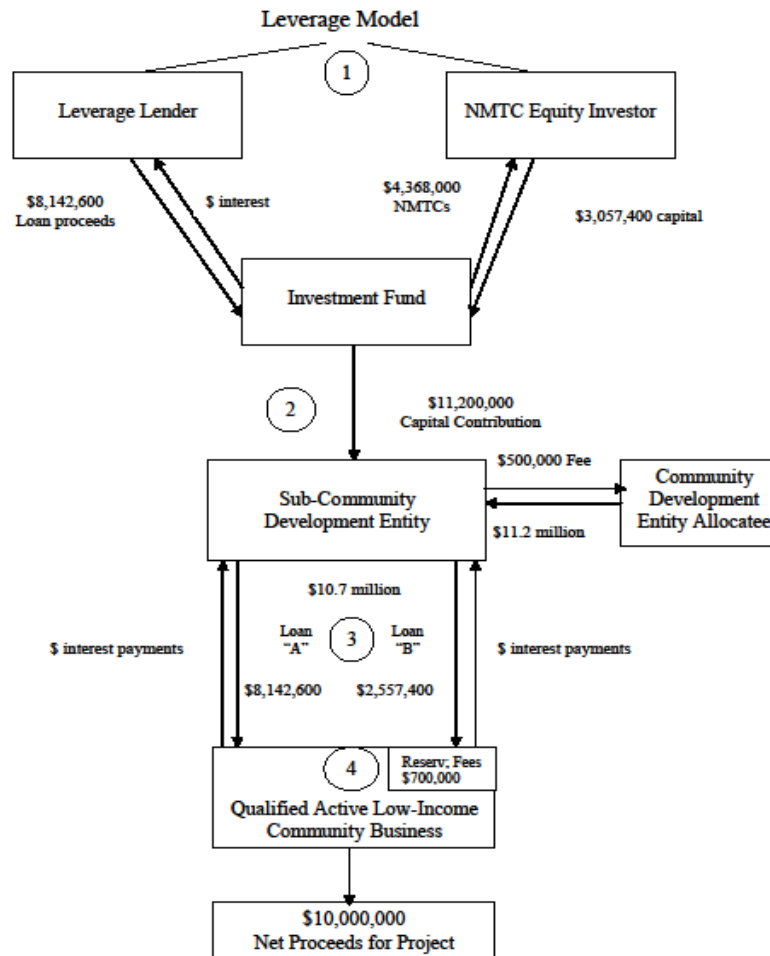
- USDA REAP Program – Grants
- USDA REAP Program – Loan Guarantee
- US SBC – Small Business Loan programs
- HUD
- Others

# Tax Benefit Monetization - Partnership “Flip” Structure



# Summary Chart

## \$11.2 Million New Markets Tax Credits Financing For a Renewable Energy Installation





# Georgia Tax Incentives

- HB 346 regarding renewable energy tax credits was passed April 14 by the Georgia state legislature prior to the closing of the 2011 legislative session. The amendment is expected to be signed by Governor Nathan Deal. The amendments are summarized below:
  - The amendment extends the renewable energy tax credit to the year ending Dec. 31, 2014, and for the years 2012, 2013 and 2014 it newly expands the total statewide credit amount from \$2.5 million to \$5.0 Million in each of the years 2012-2014. The tax credit in these later periods is to be realized over a 4 year period.
  - In addition, in any year where the amounts above are fully claimed, those who apply for the state energy credit but couldn't get any are added to a list based on the date they first applied for the credit, and are given first priority in the next year, over and above others in the later year who also filed.
  - All other aspects of the existing tax credit remain the same.

# Georgia Tax Incentives

- Amount of Credit: 35% of Cost
- Maximum Incentive per Project
  - PV, solar thermal electric, active solar space heating, biomass, wind: \$500,000
  - Solar hot water, Energy Star-certified geothermal heat pumps, lighting retrofit projects, energy-efficient products: \$100,000
- Obtaining the Georgia Tax Credit
  - Must first be placed in service
  - Procedure outlined at the website for Georgia Environment Finance Authority (“GEFA”): <http://www.gefa.org/Index.aspx?page=423>

# Georgia Utility Tax Rebate

- Atlanta Gas Light - Energy Efficiency Incentive Program
- Blue Ridge Mountain Electric Membership Corporation - Water Heater Rebate Program
- Central Georgia EMC - Photovoltaic Rebate Program
- Central Georgia EMC - Residential Energy Efficiency Rebate Program
- Cobb EMC - Solar Rebate Program
- Coweta-Fayette EMC - Geosystem Rebate Program
- Diverse Power - Energy Efficient New Construction Rebate Programs
- Energy Power Board - Energy Efficiency Rebate Program
- Georgia Power - Energy Efficiency Home Improvement Rebates
- Georgia Power - Energy Star New Home Builder Rebate Program
- GreyStone Power - Photovoltaic Rebate Program
- GreyStone Power - Solar Water Heating Program
- Habersham EMC - Energy Efficiency Rebate Program
- Jackson EMC - Right Choice for Builders Rebate Program
- Jackson EMC - Right Choice Sun Power Rebate Program
- Marietta Power & Water - Residential Water Heater and Heat Pump Rebate
- Sawnee EMC - Commercial Energy Efficiency Rebate Program
- Sawnee EMC - Residential Energy Efficiency Rebate Program
- Sawnee EMC - Solar Photovoltaic Rebate Program
- TVA Partner Utilities - *energy right* New Homes Program
- TVA Partner Utilities - *energy right* Water Heater Program
- Walton EMC - Residential Energy Efficiency Rebate Programs
- Walton EMC - Residential Solar Water Heating Rebate Program

# State Incentives

- Database of State Incentives for Renewables & Efficiency
  - <http://www.dsireusa.org/>
- Georgia
  - <http://www.dsireusa.org/incentives/index.cfm?re=1&ee=1&spv=0&st=0&srp=1&state=GA>

# Conclusion

- **Comparison to Five Years Ago**
  - Incentives
  - Reduction in Costs of Systems
  - Public and Business Awareness
- **Expiring Tax Incentives**

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