



CERTIFIED PUBLIC ACCOUNTANTS

## *Tax News Flash*

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- **Energy Credits for Individuals**

## **Federal and State Sweeteners for Going Green – Including Cash for 2010 Projects**

Has your business considered environmentally friendly ways to produce the power it consumes? Many of our clients have been looking at photovoltaic power or wind energy, probably because both the IRS and the State of Hawaii offer substantial credits for such systems. Some businesses have been concerned because with the economy in the doldrums, they don't generate enough tax liability to make the credits worthwhile. The State responded by allowing taxpayers the option to get 70% of the State credit as a cash refund. Congress also responded: under the American Recovery and Reinvestment Act (ARRA) of 2009, the Treasury will pay the federal credit in cash within 60 days after the later of the completed application or the placed in service date. However, construction must begin before the end of 2010.

Here's how it works.

### **Federal Grants to Businesses in Lieu of Energy Credit**

The Internal Revenue Code already allows tax credits for specified energy property. Those credits, however, are only good for reducing your current tax bill. If the credits exceed the amount of your bill, they are carried over – so your business doesn't get a benefit if you don't otherwise owe tax.

ARRA, however, authorizes the U.S. Treasury to provide cash payments in lieu of energy credits for specified energy property placed in service in 2009 or 2010, and in certain limited situations, specified energy property placed in service after 2010, **but only if construction begins by the end of 2010.** Only certain narrow categories of taxpayers, such as governmental entities, utilities, and 501(c) tax-exempts, are ineligible.

Specified energy property includes, among other things, solar property and qualified small wind energy property. Credit amounts for solar and small wind energy property are equal to 30% of the basis of the property. Taxpayers should expect to hold on to their energy property for at least five years; a sliding percentage of the credit could be recaptured if property is disposed of, or ceases to be used, too early.

Those who wish to apply for energy grants in lieu of credits must do so before October 1, 2011. Once Treasury receives a complete grant application, it is required by law to make payment within 60 days (assuming the property already is placed in service). Applicants who receive payments for energy property will not be eligible for the production or investment tax credits with respect to the same specified energy property.

For those businesses needing to borrow money to finance the construction, energy grants can be assigned to a financial institution under the federal Assignment of Claims Act. Some lenders may be more willing to make construction loans if they can take an assignment of the grant as additional security.

Regardless of who applies for a grant, an “accountant’s certification” is required for energy property with a basis exceeding \$500,000. An Agreed Upon Procedures report is necessary if the amount of the grant is less than \$1 million; an audit is required if the grant \$1 million or more. (Accuity is able to provide both kinds of certifications.)

## Hawaii Incentives for Energy Property

The State of Hawaii also offers tax credits for eligible renewable energy technology systems that are installed and placed in service in the State. For each solar energy system, the tax credit is generally 35% of the actual cost. For each wind-powered energy system, the tax credit is generally 20% of the actual cost. The credit is also limited depending on the type of installation, as follows:

|   | Single-family residential (per system) | Multi-family residential (per unit per system) | Commercial (per system) |
|---|--|--|-------------------------|
| Solar energy systems to heat water for household use    | \$2,250                                | \$350  | \$250,000               |
| All other solar energy systems (including photovoltaic) | \$5,000                                | \$350  | \$500,000               |
| Wind-powered energy systems                             | \$1,500                                | \$200  | \$500,000               |

For this purpose, a “system” is an identifiable facility, equipment, apparatus, or the like that converts solar or wind energy to useful thermal or electrical energy for heating, cooling, or reducing the use of other types of energy that are dependent upon fossil fuel for their generation. One installation of solar panels, for example, may produce one or more systems depending on the engineering design.

Also, the classification of property as single-family residential, multi-family residential, or commercial is made not building by building, but based on how the property is titled. Thus, an apartment building with one owner and 100 tenants would be multi-family residential but another building containing 100 individually titled condominium units could be considered 100 single-family residential properties.

The Hawaii credit is generally non-refundable, but taxpayers may elect a refundable credit in a reduced amount – 24.5% for solar and 14% for wind power.

The credit is generally claimed on Form N-342 that is filed with the taxpayer's income tax return. As with most other State of Hawaii credits, a claim must be made within 12 months after the close of the taxable year containing the creditable event, or the credit is forfeited.

## **Energy Credits for Individuals**

### **Federal Nonbusiness Energy Property Credit**

Individual taxpayers may claim a nonrefundable credit for a portion of expenditures that improve the energy efficiency of homes. The credit applies to property placed in service in calendar years 2006, 2007, 2009 and 2010. The maximum allowable tax credit for any tax year is 30% of the sum of expenditures for "qualified energy efficiency improvements" and for "residential energy property expenditures," although, the aggregate amount of the credits for taxable years beginning in 2009 and 2010 with respect to any taxpayer may not exceed \$1,500.

"Qualified energy efficiency improvements" refers to certain energy-efficient building envelope components (i.e., certain insulation, exterior windows or skylights, exterior doors, or metal or asphalt roofs designed to reduce the dwelling's heat gain) that are installed in or on a U.S. dwelling unit owned and used by the taxpayer as the taxpayer's principal residence, the original use of which begins with the taxpayer, and which are reasonably expected to remain in use for at least 5 years.

"Residential energy property expenditures" refers to expenditures for qualified energy property (i.e., energy-efficient building property, qualified natural gas, propane, or oil furnaces or hot water boiler, or advanced main circulating fans that satisfy applicable performance and quality standards) that is installed in or on a U.S. dwelling unit owned and used by the taxpayer as the taxpayer's principal residence, and is originally placed in service by the taxpayer.

To qualify as "energy efficient" for purposes of this tax credit, products generally must meet higher standards than the standards for the credit that was available in 2007. Manufacturers must certify that their products meet the new standards and they must provide a written statement to the taxpayer such as with the packaging of the product or in a printable format on the manufacturers' website.

Only existing homes qualify, and only principal residences qualify. These eligibility requirements differ from those of the energy efficient property credit, described below.

This credit is claimed on IRS Form 5695.

### **Federal Residential Energy Efficient Property Credit**

Individual taxpayers may claim a nonrefundable credit for qualified energy efficiency property expenditures for property placed in service on or before December 31, 2016. The credit amount is equal to the sum of, among other things, 30% of the qualified solar electric property expenditures, 30% of the qualified solar water heating property expenditures, and 30% of the

qualified small wind property expenditures made by the taxpayer during the tax year. For tax years beginning after December 31, 2008, there are no maximum credit amounts for the three above-mentioned components of the credit.

The credit is available to help individual taxpayers pay for qualified residential alternative energy equipment, such as solar hot water heaters, geothermal heat pumps and wind turbines.

Both existing homes and new construction qualify. Both principal residences and second homes qualify (rental property doesn't).

Qualifying improvements to the taxpayer's home in the United States must be placed in service before January 1, 2017.

This credit is also claimed on IRS Form 5695.

## Hawaii Incentives for Energy Property

Hawaii also provides energy credits to individual taxpayers similar to those it provides to businesses, as described above.

Individual taxpayers also are given the option to claim a reduced amount as a refundable credit, except that taxpayers with Hawaii AGI \$40,000 or less (joint) or \$20,000 or less (single), and individual taxpayers whose Hawaii income consists exclusively of exempt pensions, may elect the *full* amount of the credit as refundable.

If you have questions about any of these news items, your client service team at Accuity can bring you the resources that you may need. Please do not hesitate to contact your client service team for more information or Thomas Yamachika at ([thomas.yamachika@accuityllp.com](mailto:thomas.yamachika@accuityllp.com))



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