

Renewable Energy Tax Incentives and Financing Strategies

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Renewable Energy Property



- Components of a successful project
 - Treasury subsidy
 - Investment Tax Credit, or
 - Section 1603 Grant
 - Bonus depreciation
 - Favorable state energy law
 - Financing

ITC / Section 1603 Grants



- Investment Tax Credit / Section 1603 Grants
 - Solar & wind installations
 - Credit = Cost x 30%
 - Favorable depreciation rules
 - Grant (in lieu of tax credit) available if taxpayer, by 12/31/2011, either:
 - Begins work of a physical nature, or
 - Incurs 5% of costs under method of accounting
 - Financing issues

Depreciable Basis



- Favorable basis/depreciation rules
 - Reduce depreciable basis by 50% of ITC received
 - 5-year MACRS
 - Eligible for bonus depreciation – 50% or 100%
- Pitfalls
 - **Do not expense cost under Section 179**
 - Consider impact of outside grants received
 - 1245 Recapture: ordinary rates

Renewable Energy Certificates



- What are RECs?
 - Allows utilities to meet RPS requirements
 - Value tied to state non-compliance penalties
- How are RECs generated?
- What do RECs mean to my project?
 - Payback
 - Risk

Financing Projects



- Identify project participants
 - Developer
 - REC purchaser
 - Equipment supplier
 - PPA
 - EPC contractor
 - Bridge and term financing sources
 - Experienced CPA and Attorney

Financing Projects



- REC purchaser
 - Long-term/prepaid contracts
- Equipment suppliers
 - Price pressure
- PPA
 - Floating electricity rates
 - Prepaid contracts
- Include deal participants as equity owners

Thank You!

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