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Reaping the Tax Benefits of the New Energy Economy

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Agricultural producers and rural small businesses investing in alternative energy generation or energy efficiency can take advantage of a number of federal and state tax incentives, credits, and exemptions as well as an array of rebates, loan guarantees, and grants. These targeted programs will help improve financial results for scores of companies, but in the process they'll also stimulate the new energy economy—creating new jobs, new industries, and new growth.

At the federal level, there are three key tax incentives to consider: the production tax credit (PTC), the investment tax credit (ITC), and the federal grant in lieu of ITC and PTC. It's important to note that each of these incentives is mutually exclusive; choosing one means forgoing the other two.

The PTC is based on the number of kilowatt hours produced, and businesses can claim it over a period of ten years at a rate of 2.1 cents per kilowatt hour (or 1 cent per kilowatt hour for biomass plants), adjusted for inflation. The

ITC is calculated as 30 percent of the investment in a qualified facility and can be claimed in the year the facility is placed in service. If a business has no tax liability to fully benefit from the credit in the year claimed, it can carry the ITC back one year and forward 20 years. The federal grant in lieu of ITC and PTC provides a way for companies to monetize the ITC in case they lack the tax liability to benefit from tax credits. The grant generally follows ITC rules, but more-stringent timing requirements and greater administrative costs are usually involved.

There are a number of factors that can influence a company's choice between the PTC, ITC, and the grant:

- *Project cost versus capacity.* The higher the project cost, the more likely a taxpayer would select the ITC or grant over the PTC.
- *Cash flow.* The PTC is claimed over a period of ten years, while the ITC can be claimed in the year the facility is placed in service. The grant application may entail additional costs, but in the absence of federal tax liability, it may be the only option that ensures a 30 percent return on investment quickly.
- *Alternative Minimum Tax (AMT).* Businesses can offset the PTC against the AMT for only the first four years, but the ITC and the grant

can be fully claimed against the AMT.

- *Investor versus developer benefit.* Only the operator of the facility who sells electricity to an unrelated party can claim the PTC. The ITC and the grant offer greater flexibility when it comes to investment structures.
- *Reduction for grants, credits, and subsidized financing.* The PTC must be reduced by a prescribed percentage for any other governmental grants, federal credits, and federal, state, or local bonds or subsidized financing. No such reduction is required for the ITC or the grant.
- *Recapture provisions or basis reduction.* The ITC or grant option requires the taxpayer to reduce the depreciable basis of the property by 50 percent of the credit. The PTC requires no such reduction. In addition, if a company claims the ITC or grant and disposes of the facility in the first five years, part of the credit must be recaptured.
- *Interaction with state incentives.* Let's say an Oregon taxpayer chooses the federal grant option. The depreciable basis of the facility eligible for the state's Business Energy Tax Credit (BETC) will be reduced by the amount of the grant; the ITC doesn't work this way.

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Energy incentive programs at the state level vary widely. Oregon's BETC program, for instance, offers companies a 35 percent or 50 percent credit on their investment in energy efficiency or alternative energy generation. Businesses can generally claim the credit over a period of five years or "sell" the credit at a discount rate if they don't have state tax liability.

The California feed-in tariff allows eligible alternative energy generators to enter into 10-, 15-, or 20-year standard contracts with their utilities to sell the electricity produced by small renewable energy systems—up to three megawatts—at preferential time-differentiated market-based prices. The price paid is based on the California Public Utilities Commission's market-price referent table.

And businesses in Washington State that generate electricity on their own property with an anaerobic digester or solar energy system may apply to their light and power company for a cost-recovery incentive payment. State utilities pay the incentive and earn a tax credit equal to the cost of those payments. Washington also offers a sales and use tax exemption for qualifying machinery and equipment used in alternative energy generation.

Many states offer property tax exemptions as well. You can find a comprehensive list of federal, state, and utility incentives and policies that promote renewable energy and energy efficiency at www.dsireusa.org.

It's important to keep in mind that most of these incentives are scheduled to expire in the next several years. The ITC and PTC are generally available only for projects placed in service before 2014. In order to qualify for the federal grant in lieu of PTC and ITC, businesses should begin their project construction by the end of 2010. Oregon BETC incentives are scheduled to expire by the end of 2011. In the meantime, it's worth considering how your company—and the gradually emerging post-petroleum economy—can benefit from each of these programs.



Agricultural producers and rural small businesses can also take advantage of the Rural Energy for America Program, which offers grants and loan guarantees. In addition, the U.S. Department of Energy offers a loan guarantee program for financing alternative energy generation facilities. And many utility companies also provide a variety of rebates,

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