



Solar Energy Offers A Compelling Advantage

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ith rising concerns about global climate change and energy prices, many real estate owners and developers are looking to adopt green practices, including generating as much energy as possible on premises.

One lasting onsite energy source is solar power. Existing commercial building owners already have embraced solar energy in a significant way. Homebuilders and contractors also use solar energy as a major selling point for their new developments.

Investments in solar electricity systems have a payback well under 10 years and reduce costs for green electricity for 20 years or more. But solar electricity or photovoltaic (PV) systems are expensive, and the return on investment can be difficult to justify.

To increase the development of alternative energy resources and deflect the costs of adopting these systems, the federal government, state governments and utility companies offer significant incentives to real estate owners, as well as homebuilders and modular home manufacturers.

FEDERAL TAX INCENTIVES

In 2006, President Bush signed the Tax Relief and Health Care Act of 2006, which extended many incentives available to consumers and businesses through tax years ending Dec. 31, 2008. Among these incentives are tax credits for purchasing and installing solar-powered energy and heating equipment, as well as building energy-efficient homes.

The following credits and deductions are part of the tax relief package for businesses.

- The General Business Energy Credit is available to any business that invests in energy property. The energy credit is equal to 30 percent or 10 percent of the cost to purchase eligible energy property. The rate of the credit depends on the type of property.
- Accelerated depreciation of the solar system cost allows for 85 percent of the system to be deducted over five years; most of which would be deductible in the first two years.
- The Energy Efficient Home Credit is currently available to homebuilders and modular home manufacturers that

build or manufacture homes that are 30 percent to 50 percent more energy efficient (often due to solar power) than other comparable homes. The tax credit is either \$2,000 per home built (if meeting the 50 percent requirement) or \$1,000 per home built (if meeting the 30 percent requirement).

On Feb. 13, President Bush signed into law the Economic Stimulus Act of 2008 to stimulate the economy by providing incentives for business investment.

The following deductions for businesses are part of the stimulus bill.

- Section 179 of the Internal Revenue Code allows a current year tax deduction for capital purchases, such as solar energy systems. The act increases the maximum Section 179 deduction from \$128,000 to \$250,000. This deduction phases out when a taxpayer places \$800,000 or more of qualifying property in service in 2008.
- The act provides bonus depreciation of 50 percent of the cost of new qualifying property acquired and placed in service during 2008. Qualifying

property includes solar energy systems, machinery, equipment, furniture, fixtures and certain leasehold improvements, but does not include passenger automobiles.

STATE INCENTIVE PROGRAMS

Many states now offer incentive programs to promote green energy production. These incentives range from a 50 percent state tax credit in Oregon to per-kilowatt hour incentive payments in California.

Other states provide programs that allow utility companies to purchase renewable energy credits (RECs) generated by distributed solar systems. RECs represent the renewable qualities of the electricity generated by solar and other alternative energy systems.

Many utility companies use this mechanism to satisfy state requirements for the percentage of energy derived from alternative resources. Utility companies purchase the RECs associated with the electricity used onsite.

Also, many states allow contractors to sell back to a utility company any excess solar energy not used onsite.

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SOLAR-FRIENDLY ELECTRICITY RATES

Many utility companies are providing new rate schedules for building owners that charge more at peak hours. The rate schedules reflect the actual cost of providing energy during these periods. These timeframes also produce the most energy using solar power, allowing building owners with solar systems to further reduce their energy costs.

For developers and building owners that prefer not to commit capital to a solar system, several financing mechanisms are available. Some companies offer power purchase agreements (PPAs) whereby the solar system remains the property of the solar system provider, and the developer or owner purchases the electricity at an agreed upon price.

PPA companies use available tax credits, accelerated depreciation and state

incentives to reduce their cost, offer electricity at rates competitive with utility companies and provide a long-term guarantee of energy prices.

ENHANCED PROPERTY VALUE

In addition to lower energy costs, tax benefits and other incentives, solar energy can improve net income from commercial properties and increase the property value when it comes time to sell.

The recent surge in energy prices—along with the enactment of these tax benefits including tax credits, bonus depreciation and other state incentives—should lead investors and consumers to reevaluate the economics of these emerging technologies. The costs of solar systems can be reduced when included as part of an integral plan for new construction.

For an owner seeking to attract new tenants or a tenant seeking to reduce operating costs, a solar system can provide a competitive advantage in the marketplace.

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