

Solar Energy

A Compelling Advantage for Multi-family Property Owners

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With the rising awareness of the impact of global climate change along with concerns about rising energy prices and the desire to become more energy efficient, many multifamily property owners are looking to adopt green energy practices including generating as much energy as possible on premises.

One of the sources of on-site energy with the greatest potential impact is solar energy systems. Existing multifamily property owners have already embraced solar energy in a significant way, from large publicly traded REIT multifamily property owners to the single unit owner. Multifamily property owners have started to utilize solar energy as a major selling point for their new projects.

There is a great deal of misunderstanding about the cost and benefit of solar systems. Investments in solar electricity systems have a payback well under 10 years and provide for free green electricity for 20 years or more. Solar electricity or photovoltaic (PV) systems are expensive and can be very difficult to justify the return on investment. In an effort to increase the development of alternative energy resources and to deflect the costs of adopting these systems, the Federal government, state governments and utility companies are offering many significant incentives to multifamily property owners.

Federal Tax Incentives

In 2006, President Bush signed The Tax Relief and Health Care Act of 2006. The Act extended many incentives that were available to consumers and businesses through tax years ending December 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 are part of the tax relief package for businesses:

- **General Business Energy Credit** The general energy credit is available to any business who invests in energy property. The energy credit is equal to 30% or 10% of the cost to purchase eligible energy property. The rate of the credit depends on the type of property.

- **Accelerated depreciation** of the system cost, allowing for 85% of the system to be deducted over five years; most of which would be deductible in the first two years.

On February 13, 2008, President Bush signed into law the Economic Stimulus Act of 2008. The purpose of the Act is to stimulate the economy by providing incentives for business investment. The following deduction is part of the stimulus bill for businesses:

- **Bonus Depreciation**

The Act provides for bonus depreciation of fifty percent (50%) 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

New Jersey offers a wide array of incentive programs to promote green energy production. These incentives range from tax credits to financing programs and grants (see the attached listing of the various programs). PSE&G offers loans for "behind the meter" photovoltaic (PV) systems to all their customers in its service territory. The program will

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provide loans covering 40-60% of the cost of the systems. The loan program is only available to customers eligible for net metering. The program allows the utility company to purchase solar renewable energy credits (SRECs) generated by the distributed solar systems. SRECs represent the renewable qualities of the electricity generated by solar and other alternative energy systems. Utility companies use this mechanism as a means to satisfy state requirements as to the percentage of energy derived from alternative resources. The utility companies purchase the renewable credits associated with the electricity used on-site. New Jersey allows you to sell back to your utility company any excess solar energy you generate that you do not use on site.

Solar friendly time of use electricity rates

Many utility companies are providing new rate schedules for multifamily property owners that charge more for peak than at other times. The rate schedules reflect the actual cost of providing energy during these periods. These time frames are the same ones that produce the most energy using solar systems. Thus, allowing multifamily owners with solar systems to reduce their energy costs even further. For those multifamily property owners who would prefer not to commit capital to a solar system, there are financing mechanisms available to them. There are companies that offer power purchase agreements (PPA) whereby the solar system remains the property of the solar system provider and the multifamily owner purchases the electricity at an agreed upon price. PPA companies use the available tax credits, accelerated depreciation and state incentives as means to reduce their cost so as to offer the electricity at rates that are 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, there is one other significant benefit to consider when deciding to invest in a solar energy system. Reduced energy costs will improve net income from the multifamily property. This improved bottom line will increase the value of the property when it comes time to sell.

Conclusion

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 multifamily property

owners and tenants to reevaluate the economics of these emerging technologies. The costs of the solar systems can be reduced when included as part of an integral plan for any new construction. From a multifamily property owner's perspective seeking to attract new tenants or a tenant's perspective seeking to reduce their occupancy cost, a solar system can provide that competitive advantage in the marketplace.

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