

Green tax incentives and credits for businesses and individuals

Federal and state planning ideas



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Introduction

Due to the increased cost of energy and dependence on foreign oil, and the environmental impact of current energy usage, many companies have elevated the concept of “going green” to the top of their agenda. Increasingly, companies are seeking ways to exhibit their corporate citizenship toward a green future.

This “green” focus is also being followed by the government, which is using tax incentives to drive corporate behavior. Both federal and state governments are expanding tax credits, incentives and grant programs to help companies produce energy from renewable sources and to encourage businesses to “go green.” Many of these credits and incentives are designed to foster sustainability programs. In this context, “sustainability” refers to a business using renewable energy sources to sustain its business operations.

Businesses can also take advantage of many of the energy tax incentives meant for consumers or the energy industry.

Federal incentives

Green incentives and credits for ordinary businesses

Energy-efficient commercial business deduction (Section 179D)

Businesses can deduct up to \$1.80 per square foot of space in new or existing buildings where they install interior lighting, HVAC or hot water systems, or building envelope property that reduces power use to 50 percent compared to a reference building. A \$0.60 per square foot deduction is available for certain lesser reductions. Certification is required and the provision expires for property placed in service after 2013. If the property is installed in government property, the deduction can be allocated to the person responsible for designing it.

Business energy investment tax credit (Section 48)

Provides taxpayers a 10 percent or 30 percent credit for alternative energy property designed to generate power for the taxpayer's own use. The recently passed stimulus bill also allows businesses to apply to the IRS to take this credit as a grant, allowing the incentive to benefit for-profit businesses regardless of their tax situation.

Property qualifying for the 30 percent credit includes the following:

- Qualified fuel cell property that generates electricity
- Solar property used to generate electricity, for heating or cooling, or to provide solar process heat (10 percent credit after 2016)
- Solar property used to illuminate a building using fiber optic distributed sunlight (expires after 2016)
- Qualified small wind turbines

Property qualifying for the 10 percent credit includes the following:

- Equipment for producing or distributing geothermal energy
- Qualified micro turbines (small combustion turbines)
- Combined heat and power systems
- Equipment that uses the ground or ground water to heat or cool a structure (expires after 2016)

Alternative vehicle credits (Section 30B and 30D)

Sections 30B and 30D provide a variety of significant credits to encourage taxpayers to produce and buy alternative and fuel-efficient vehicles. The credits are available at the time of purchase to individuals and businesses. If a qualifying vehicle is purchased by a tax-exempt entity, the credit may be claimed by the seller. The incentives range from a few hundred dollars to up to \$40,000 for the heaviest vehicles such as buses. The amount depends on the type of vehicle and its specifications, and there are various phase-outs depending on the date of purchase and how many vehicles have been sold. So the credit amount will vary according to the make and model of each vehicle purchased. Credits are currently available for the following:

- Fuel cell vehicles
- Hybrids and heavy hybrids
- Advanced lean burn vehicles
- Plug-in hybrids, including three-wheeled vehicles, motorcycles and slow-moving vehicles
- Alternative fuel vehicles such trucks and buses that run on natural gas

Alternative refueling property credit (Section 30C)

Section 30C provides a 50 percent credit (30 percent for hydrogen) of up to \$50,000 (\$200,000 for hydrogen) for installing qualified clean-fuel vehicle refueling property to be used in a trade or business. Clean-burning fuels are at least 85 percent composed of ethanol, natural gas, compressed natural gas, liquefied natural gas, liquefied petroleum gas or hydrogen — or any mixture of biodiesel and diesel fuel containing at least 20 percent biodiesel.

Qualified reuse and recycling property (Section 168(m))

Businesses can take the equivalent of bonus depreciation for qualified reuse and recycling property that otherwise would not qualify for bonus depreciation. Qualified property reuse and recycling property is machinery or equipment, other than rolling stock, that is used exclusively to collect, distribute or recycle qualified reuse and recyclable materials. It also includes software necessary to operate such equipment.

Fringe benefits for employees (Section 132)

There are two new “green” provisions allowing increased fringe benefits. Fringe benefits provided to employees are not taxed as income, even if the employer offers the employee a choice between cash compensation and the fringe benefit.

- Bicycle commuters are now allowed a \$20 per month fringe benefit exclusion.
- The fringe benefit exclusion for transit is increased from \$120 to \$230 in 2010.

Incentives for specific manufacturers and developers

Energy-efficient appliance credit (Section 45M)

Section 45M provides manufacturers of appliances a credit for the production of energy-efficient clothes washers (\$150–\$250), dishwashers (\$75) and refrigerators (\$100–\$200).

Energy-efficient new homes credit (Section 45L)

Section 45L expired at the end of 2009, but legislative proposals under consideration in Congress would retroactively extend it for 2010. It would provide homebuilders and developers a credit of up to \$2,000 for newly constructed homes that meet certain energy-efficiency standards.

Renewable bio-fuels (Sections 40 and 40A)

Sections 40 and 40A provide incentives to encourage growers and producers to create renewable fuels from biological sources. Section 40 provides:

- \$0.60 per gallon credit for alcohol fuel other than ethanol;
- \$0.45 per gallon credit for traditional ethanol, such as ethanol produced from corn, with an extra \$0.10 for small producers; and
- \$1.01 per gallon credit for ethanol produced from cellulosic sources such as switchgrass.

Section 40A expired at the end of 2009, but legislative proposals under consideration in Congress would retroactively extend it for 2010. It provides a \$1.00 per gallon credit for qualifying biodiesel, agridiesel, and renewable diesel, plus an extra \$0.10 for small producers.

Incentives geared to energy industry

Renewable electricity production credit (Section 45)

Section 45 provides a per-kW credit for producing and selling electricity from renewable sources such as wind, solar, hydro, geothermal and biomass. Typically, it is used by the utility industry, but it is also used by some manufacturers and businesses that produce excess electricity from renewable sources and sell it back to the grid. Taxpayers who place property in service that would qualify for this credit from 2009 to 2013 (2012 for wind facilities) may elect to claim a 30 percent Section 48 credit instead.

Taxpayers may apply to take this credit as a grant provided they file their application by Oct. 1, 2010.

Advanced energy manufacturing credit (Section 48C)

Section 48C was added in 2009 to provide a new 30 percent credit for investment in qualified property used in qualified advanced energy manufacturing projects. It was one of the only credits created specifically for energy property manufacturers (rather than the taxpayer placing energy property in service). Treasury has already committed its \$2.3 billion allocation for this program to existing projects, but the administration has proposed adding an additional \$5 billion allocation.

Alternative fuel credit (Sections 6426 and 6427)

The \$0.50 per gallon tax credit for alternative fuels in Sections 6426 and 6427 expired at the end of 2009 (except for liquefied hydrogen), but legislative proposals under consideration in Congress would retroactively extend them for 2010. They were available for the following:

- Liquefied petroleum gas
- P series fuels
- Compresses of liquefied natural gas
- Liquid fuel derived from coal
- Compressed or liquefied gas from biomass
- Liquid fuel from biomass

Personal incentives for individuals

Residential energy-efficient home improvements credit (Section 25C)

Individuals can take a 30 percent credit of up to \$1,500 for installing in their homes energy-efficient property, such as the following:

- Water heaters
- Furnaces
- Boilers
- Heat pumps
- Air conditioners
- Building insulation
- Windows, doors and roofs
- Circulating fans used in a qualifying furnace

The credit can generally be used against the cost of installation with some exceptions for building envelope property, and taxpayers can generally rely on the manufacturer's certification to determine if they qualify.

Residential energy-efficient property credit (Section 25D)

Individuals can take a 30 percent personal tax credit for energy-efficient property, such as the following:

- Solar water heaters
- Geothermal heat pumps
- Fuel cells
- Wind turbines

The credit can be used against the cost of installation and can taxpayers can generally rely on the manufacturer's certification to determine if they qualify.

Alternative vehicle credits (Section 30B and 30D)

These credits for alternative fuel and energy-efficient vehicles discussed previously are also available for individuals. Recent legislation allows the credits to offset the alternative minimum tax (AMT) beginning in 2009.

Incentives for investors

Tax credit bonds (Sections 54C and 54D)

Sections 54C and 54D provide tax credit bonds that are designed to stimulate demand and provide a significant incentive for additional investment in energy projects. A portion of the interest on tax credit bonds is paid in the form of a tax credit rather than cash, provided that the proceeds of the bonds are used for their designated purpose.

Clean Renewable Energy Bonds (CREBs) under Section 54C are provided for investments in renewable energy facilities and generally must be spent on the facilities within 3 $\frac{1}{4}$ years of issuance. CREBs may be issued by the following entities:

- Public power providers
- Governmental bodies
- Cooperative electric companies
- Certain not-for-profit electric utilities
- Certain other lenders

Qualified Energy Conservation Bonds (QECBs) under Section 54D may be used to fulfill a wide range of qualified conservation purposes, including the following:

- Capital expenditures for reducing energy consumption in public buildings
- Research in alternative-fuel technologies
- Construction and maintenance of mass commuting facilities
- Performance of demonstration projects designed to promote the commercialization of green buildings public-education campaigns

State and local incentives

States offer numerous incentives to promote the production and use of renewable energy. These incentives, which vary widely among states, include corporate income tax deductions, exemptions and credits. States provide property tax assessment relief and exemptions, as well as sales tax exemptions and refunds. Many states also offer grant and rebate programs.

Incentives for businesses

Many states encourage businesses to develop renewable energy and to improve energy efficiency. For example, several states provide both credits and incentives for the construction or remodeling of energy-efficient properties, and many local utilities offer significant incentives (including cash rebates for building owners) as well.

State tax credit programs can help finance the costs of renewable energy projects such as solar equipment and wind farms and can provide dollar-for-dollar reductions of tax liability for the owners or lessees of these facilities. Some programs (the Pennsylvania Resource Enhancement and Protection (REAP) program, for example) allow the matching of a developer and investor, allowing both sides to benefit from the transaction. Frequently, a potential developer is capital constrained and has limited or no tax liability (and therefore, little use for the tax credit). As a remedy, a third-party investor can be found to provide the financing in exchange for the tax credit.

States offer a wide variety of green credits and incentives. For example, Florida provides a corporate income tax credit based on the taxpayer's production and sale of electricity from a new or expanded Florida renewable energy facility. Florida also provides sales tax exemptions for solar energy systems and equipment, machinery and other materials for renewable energy technologies. In addition, Florida offers rebates under the Solar Energy System Incentives Program and grants through the Renewable Energy and Energy-Efficient Technologies Grants Program. Florida also has numerous local incentive programs.

The multistate green credit matrix in Appendix A provides a convenient method for identifying information and state programs related to renewable energy and energy efficiency. The matrix details a variety of state energy credits and other tax incentives available to businesses throughout the United States, including:

- corporate income tax deductions, exemptions and tax credits;
- excise tax, green building, production leasing, lease purchaser and other incentives;

- industry recruitment and support;
- state and local bond, loan, grant and rebate programs, plus private grant programs;
- utility grant, loan and rebate programs, plus utility rate discounts;
- personal income tax deductions and tax credits;
- property tax assessment relief and exemptions; and
- sales tax exemptions and refunds.

A particular state may offer numerous types of tax credits and incentives to encourage renewable energy and energy efficiency.

Personal incentives for individuals

Alternative fuel and vehicle incentives

State laws include provisions to encourage the production and use of alternative fuels. States promote the use of alternative fuels with credits, grants, loans, rebate programs, tax refunds, tax deductions, tax reductions, incentives and exemptions. To encourage the use of alternative fuel vehicles, states offer credits, grants, loans, rebate programs, incentives and exemptions.

States provide numerous tax incentives for alternative fuels and alternative fuel vehicles. For example, Illinois has grants available under the Renewable Fuels Development Program Act and rebates available under the Alternate Fuels Act. New York offers an alternative fuels credit, biofuel production credit and funding programs for alternative fuels and alternative fuel vehicles.

The matrix in Appendix B details the availability of alternative fuel credits, grants, loans, rebate programs, tax refunds, tax deductions, tax reductions, incentives and exemptions. The matrix also lists the available credits, grants, loans, rebate programs, incentives and exemptions for vehicles.

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Appendix A: Energy credits and incentives

Renewable energy and energy efficiency credit incentives																	
Type of incentive	AK	AL	AR	AZ	CA	CO	CT	DC	DE	FL	GA	HI	IA	ID	IL	IN	KS
Corporate deduction																	
Corporate exemption																	
Corporate tax credit				x						x	x	x	x				
Excise tax incentive													x				
Green building incentive				x	x							x			x		
Industry recruitment/ support						x	x					x			x		
Leasing/lease purchase					x		x										
Local bond program												x					
Local loan program					x	x						x					
Local grant program					x	x											
Local rebate program					x	x				x							
Other incentive										x							
Personal deduction		x		x	x									x			
Personal tax credit				x							x	x	x				
Private grant program						x								x	x		
Production incentive	x	x			x		x			x	x			x			
Property tax assessment				x		x							x		x		
Property tax exemption				x	x	x	x			x			x	x	x	x	x
Sales tax exemption				x		x	x			x	x		x	x			
Sales tax refund						x											
State bond program														x			
State grant program		x					x	x	x	x			x		x	x	
State loan program	x	x	x		x		x					x	x	x			x
State rebate program	x				x		x		x	x					x	x	
Utility grant program					x	x	x			x						x	
Utility loan program		x	x	x	x	x	x			x	x	x	x	x			
Utility rate discount													x				
Utility rebate program	x	x		x	x	x	x			x	x	x	x	x	x	x	x
	AK	AL	AR	AZ	CA	CO	CT	DC	DE	FL	GA	HI	IA	ID	IL	IN	KS

Renewable energy and energy efficiency credit incentives																	
	KY	LA	MA	MD	ME	MI	MN	MO	MS	MT	NC	ND	NE	NH	NJ	NM	NV
Corporate deduction			X							X							
Corporate exemption			X														
Corporate tax credit	X	X		X				X		X	X	X				X	
Excise tax incentive																	
Green building incentive											X						
Industry recruitment/ support			X			X				X	X					X	
Leasing/lease purchase									X								
Local bond program																	
Local loan program	X																
Local grant program																	
Local rebate program				X													
Other incentive																	
Personal deduction			X					X									
Personal tax credit	X	X	X	X						X	X	X				X	
Private grant program										X							
Production incentive	X		X				X		X	X	X				X	X	
Property tax assessment										X	X	X					X
Property tax exemption		X	X	X		X	X			X	X	X		X			X
Sales tax exemption	X		X	X			X	X			X		X		X	X	
Sales tax refund																	
State bond program										X						X	
State grant program			X	X	X	X						X					
State loan program		X	X	X	X		X	X	X	X	X		X	X	X		
State rebate program		X	X	X	X		X				X				X		X
Utility grant program			X				X			X				X			
Utility loan program	X		X	X			X	X	X		X	X		X	X		
Utility rate discount		X									X						
Utility rebate program	X	X	X		X	X	X	X	X	X	X		X	X	X	X	X
	KY	LA	MA	MD	ME	MI	MN	MO	MS	MT	NC	ND	NE	NH	NJ	NM	NV

Renewable energy and energy efficiency credit incentives																	
	NY	OH	OK	OR	PA	RI	SC	SD	TN	TX	UT	VA	VT	WA	WI	WV	WY
Corporate deduction										x							
Corporate exemption		x														x	
Corporate tax credit	x		x	x		x	x				x		x				
Excise tax incentive																	
Green building incentive	x			x								x		x			
Industry recruitment/ support	x		x	x		x				x		x		x	x		
Leasing/lease purchase										x							
Local bond program																	
Local loan program					x												
Local grant program				x	x									x			
Local rebate program					x												
Other incentive																	
Personal deduction																	
Personal tax credit	x		x	x		x	x				x						
Private grant program				x										x			
Production incentive	x	x		x		x	x		x			x	x	x	x		
Property tax assessment	x				x			x				x					x
Property tax exemption	x	x		x		x		x	x	x		x	x		x		
Sales tax exemption	x	x				x	x			x	x	x	x	x		x	x
Sales tax refund																	
State bond program																	
State grant program	x	x		x	x	x	x		x				x	x	x	x	x
State loan program	x		x	x	x		x		x	x	x		x		x		x
State rebate program	x			x			x						x		x		x
Utility grant program				x									x	x	x		
Utility loan program			x	x	x	x	x	x	x	x		x	x	x	x		x
Utility rate discount							x										
Utility rebate program	x	x	x	x		x	x	x	x	x	x	x	x	x	x		x
	NY	OH	OK	OR	PA	RI	SC	SD	TN	TX	UT	VA	VT	WA	WI	WV	WY

Appendix B: Alternative fuel credits and incentives

Alternative fuel and vehicle credits and incentives																		
	Federal	AK	AL	AR	AZ	CA	CO	CT	DC	DE	FL	GA	HI	IA	ID	IL	IN	KS
Alternative fuel																		
Credits	x						x	x			x		x	x	x		x	x
Grants	x			x		x	x	x			x			x		x	x	
Loans				x		x								x				
Rebate programs						x												
Tax refund																		
Tax deduction																x		
Tax reduction		x																
Incentives	x	x	x		x	x				x	x						x	x
Exemptions	x									x	x	x						
Vehicle credit																		
Credits	x			x	x		x					x					x	x
Grants						x								x		x	x	
Loans						x												
Rebate programs							x									x		
Incentives						x	x	x	x	x	x	x				x		
Exemptions							x	x	x									
	Federal	AK	AL	AR	AZ	CA	CO	CT	DC	DE	FL	GA	HI	IA	ID	IL	IN	KS

Alternative fuel and vehicle credits and incentives																	
	KY	LA	MA	MD	ME	MI	MN	MO	MS	MT	NC	ND	NE	NH	NJ	NM	NV
Alternative fuel																	
Credits	x	x		x	x					x	x	x	x			x	
Grants	x				x	x	x	x			x			x	x		
Loans							x					x					
Rebate programs															x		
Tax refund													x				
Tax deduction																	
Tax reduction						x				x							x
Incentives	x				x		x	x	x	x	x	x		x			
Exemptions		x	x			x											x
Vehicle credit																	
Credits		x		x		x				x						x	
Grants											x					x	
Loans													x				
Rebate programs															x		
Incentives				x		x								x	x		x
Exemptions															x	x	
	KY	LA	MA	MD	ME	MI	MN	MO	MS	MT	NC	ND	NE	NH	NJ	NM	NV

Alternative fuel and vehicle credits and incentives																	
	NY	OH	OK	OR	PA	RI	SC	SD	TN	TX	UT	VA	VT	WA	WI	WV	WY
Alternative fuel																	
Credits	x	x	x	x			x	x				x					x
Grants	x	x		x	x				x	x		x		x			
Loans				x	x				x					x			
Rebate programs																	
Tax refund								x							x		
Tax deduction														x			
Tax reduction																	
Incentives				x			x	x	x	x					x		
Exemptions			x	x		x								x			
Vehicle credit																	
Credits			x	x		x	x				x		x		x		
Grants	x	x			x					x	x			x	x		
Loans		x	x		x	x					x						
Rebate programs							x			x							
Incentives											x	x		x		x	
Exemptions							x							x			
	NY	OH	OK	OR	PA	RI	SC	SD	TN	TX	UT	VA	VT	WA	WI	WV	WY

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