



Tax Credits for Growers Who Invest in Solar Energy

With the technology becoming less expensive, growers weigh renewable options

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My farm clients are some of the most resourceful and innovative businesspeople I know. They are consistently exploring how they can improve their operations.

The agriculture industry itself is full of new research and machinery, such as auto-steer and precision planters, automated feeders, robotic milking machines and drones.

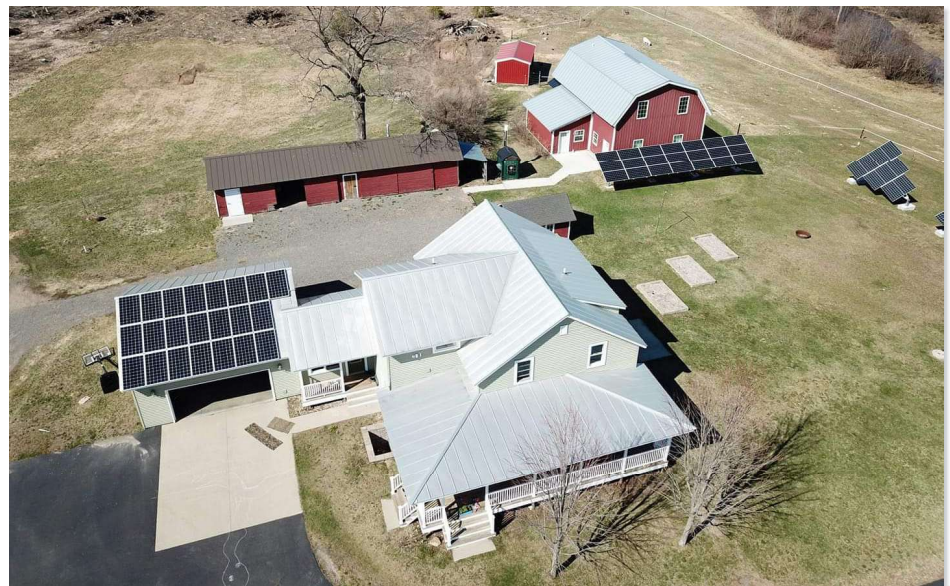
Each season there are different fertilizers and improvements in animal and seed genetics.

Though we cannot control the weather, farmers can use moisture sensors and drip tape to increase production and improve efficiency. Agriculture is an exciting industry that harnesses technology and applies it to natural processes.

INCREASE PROFITABILITY

Some businesses are first adopters, and some wait until after technology proves reliable and sustainable for the financial bottom line. Technological improvements often help farming businesses increase profitability, efficiency, safety and environmental sustainability.

Progressive managers have a lot of technology to choose from when it comes to making an investment



Solar panels can help farming businesses increase profitability, efficiency, safety and environmental sustainability. *Photo courtesy of Deb Tanis-Omernik*

in their business, including energy sources.

With solar technology becoming less expensive and the abundance of available flat land, many of my clients are inquiring about renewable energy opportunities.

The most practical benefit from a solar investment is the tax credit and depreciation on the equipment in year one, as well as the reduction in near-term income tax liabilities.

Currently, the renewable energy tax credit for solar energy systems is 26 percent for the 2020 tax year, and is available through December 31, 2021, with a step down at the end of this year.

On larger projects, where a tax liability for a business is not expected in the near term, a Federal 1603 grant is available. This grant offers funds up front to pay for the project versus waiting for a year with a tax liability to use up the credit.

A 1603 grant might require additional costs and administrative responsibilities to confirm that the project is operating as intended.

Here are a few things to remember as you consider a solar project:

Date construction begins	Placed in service date	Tax credit amount
1/1/20-12/31/20	Before 1/1/24	26%
1/1/21-12/31/21	Before 1/1/24	22%



For ag businesses, creating various income streams, finding efficiencies with technologies, using tax credits, USDA funds, rebates and incentive programs all help the bottom line.



A good location for a solar project would be farmland or operating sites that will be with the business for years to come.

- The cost basis for income tax depreciation of the solar equipment is reduced by one-half of the tax credit.
- No Section 179 is allowed on the solar equipment with the credit.
- One hundred percent bonus depreciation is allowed.
- Solar equipment has a five-year normal depreciable life otherwise.

Here is an example. Currently there is a 30 percent tax credit available for solar equipment, so if you spent \$162,500 in 2019, you would get a \$48,750 credit to offset your federal income taxes.

A review of the last few years of your federal income tax returns and your current year income tax planning projections will let you know if you have an expected tax liability.

If you do not use all the credit in the current year, it is carried back to the immediate prior year. Any remaining credit is carried forward for up to 20 years.

The cost basis of equipment at \$162,500 would be reduced by one-half of the credit (\$24,375), which would make your depreciable basis of the equipment \$138,125.

Again, this is five-year depreciable equipment and Section 179 is not allowed, but you can take 100

percent bonus depreciation.

RETURN ON INVESTMENT

The payback on solar will depend on the price of energy in the future, and the tax code on this may change. As with any piece of equipment, there is a tax savings if accelerated depreciation is used.

Several of my clients considering solar like the financing terms offered. We advise taking a close look at your operation's cash flow projections to determine if solar equipment is a good fit for your situation.

The tax credit and depreciation benefits will help cash flow related to the initial investment, but if additional funds are obtained, it may significantly help your decision to move forward.

Applying for a U.S. Department of Agriculture (USDA) Rural Energy for America Program (REAP) grant may be appropriate for your operation.

Your local utility company may have special offers, and your state might provide income tax credits or incentives as well. Taken together, these opportunities could help make the deal less daunting and reduce your financial risk.

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RENTING LAND TO ENERGY COMPANIES

In addition to the possibilities of investing in solar equipment, renting land to energy companies could bring in income as well.

The leases are upward of 20 years and typically have been bringing in \$1,000 to \$1,500 an acre. The lease should be reviewed carefully by a professional before proceeding.

For ag businesses, creating various income streams, finding efficiencies with technologies, using tax credits, USDA funds, rebates and incentive programs all help the bottom line.

Progressive farmers consider all these areas, and evaluate and balance these investments the same way professionals balance a portfolio.

Solar may not be right for your operation, but many businesses have been running the numbers to determine if an opportunity is available before the existing tax credit runs out.

CliftonLarsonAllen's resources and agribusiness professionals are here to help. We can help you plan for a solar project, explore other renewable energy tax credits available, or simply sit down and talk about the future of your farming operation. **BC^T**