

GROWING YOUR SOLAR BUSINESS

Arizona Financing, Incentives and Tax Opportunities

Solar energy is good for Arizona. So good, in fact, that the state is offering tax breaks, grants, financing, and other incentives to boost development, create markets, and make alternative energy profitable.

INTRODUCTION

The universe of government-sponsored financing and tax incentives for the solar industry is constantly changing. It takes patience to navigate through all of the information, but doing so makes it possible to identify opportunities with short- and long-term benefits for solar companies.

This white paper is an overview of incentives not only for the solar industry, but for manufacturers and producers in general. Manufacturing and small business incentives have historically been available as an economic stimulus. Their qualifications and often short eligibility periods can create challenges.

Knowing that grants, special financing and tax incentives geared specifically to the solar industry are not always going to be available, solar companies are encouraged to take full advantage of all available opportunities. Also included here are government incentives for energy consumers. These incentives may ultimately create demand and make your product or service easier to sell.

With experience and a strong commitment to the solar industry, CliftonLarsonAllen can help you take advantage of opportunities to achieve a position of growth. Whether you're a solar industry start-up or a well-established player, we can develop a strategy that helps you reach your goals.

AN EXAMPLE OF POTENTIAL SAVINGS

PV Panels-R-Us, a hypothetical solar manufacturer of photovoltaic panels, located in Phoenix, Arizona, is a cutting-edge solar manufacturer using the latest design of thin film PV panel manufacturing. The company currently has revenues of \$75 million; has 300 employees, 50 who are paid over \$45,000/per year and 25 more employees than last year; has qualified research and development expenditures of \$1 million this year; and has invested more than \$20 million in new manufacturing equipment. In addition, the company has federal taxable income of \$3 million and Arizona state taxable income of \$3.3 million. Its federal tax liability is \$1 million and the Arizona state tax liability is \$154,000. The company's qualified production activity income is \$2.8 million and W-2 wages for the company are \$15 million.

On the federal level, this company would qualify for the R&D Credit, reducing its federal taxable liability from \$1 million to \$800,000. The company can further reduce its taxable income by 9 percent of the \$2.8 million of qualified production activity income, or \$252,000, which translates into approximately \$83,000 of federal income tax. Because of where the company is located, it may also qualify for Arizona state tax benefits. The State of Arizona offers a research tax credit that would reduce Arizona tax liability by \$110,000. The company may also qualify for enterprise zone credits for net increases in number of employees, and for property, sales, and income tax incentives related to the production of renewable energy equipment.

ARIZONA FINANCING INCENTIVES

Property Assessed Clean Energy Financing (PACE)

What is PACE? This financing model is administered by local governments to allow commercial property owners that are undertaking energy efficiency and renewable energy projects to finance the project through special assessments on the property. As of this writing, 25 states have authorized local governments to fund PACE programs, including Arizona. It should be noted that, as of this writing, the residential portion of the PACE program has been halted because of differences in lien holder positions. The *PACE Assessment Protection Act*, HR-2577, is gaining support to restart this program.

How does PACE work? The expenditures for these projects are secured by a property lien and repaid by the owner as a voluntary special assessment on the property tax bill over a five- to 20-year term. One hundred percent of the project can be financed, and the lien attaches to the property, not the owner. Ownership is transferred to the new owner if the property is sold. PACE programs also enable cost sharing by tenants for triple net leases, as property assessments normally qualify as eligible pass-through expenses.

ARIZONA TAX INCENTIVES

Arizona Energy Equipment Property Tax Exemption

Tax exemption calculations

- 100 percent of increased value.
- Applicable to current and future years.

Eligibility – Property owners using energy-efficient building components, which are high performance building components installed so that components meet or exceed the energy efficiencies prescribed by:

- The U.S. Environmental Protection Agency Energy Star Program.
- A Leadership in Energy and Environmental Design (LEED) green building rating standard developed by the U.S. Green Building Council.
- Equivalent green building standards that are at least 15 percent more efficient than the International Energy Conservation Code in effect at the time of building permit issuance.

Limitations

Must provide county assessor with proof of purchase and installation of equipment, including costs, no less

than six months before notice of full cash value is issued for the initial valuation year.

Arizona Environmental Technology Facility Property Tax Incentive

Tax incentive calculations

- Taxed as Class Six property, which is subject to reduced assessment rates.
- Applicable to current and future years.

Eligibility – Owners of environmental technology facilities.

“Environmental technology” means solar and other renewable energy products or recycled materials.

“Facility” includes a single facility, a combination of facilities, land, improvements, building improvements, real and personal property used for environmental protection facilities, property used to generate on-site power or energy, and machinery and equipment.

Limitations

- Property must be classified as Class Six for 20 tax years from the date placed in service.
- Any addition or improvement to property already classified as Class Six qualifies separately for classification as Class Six for an additional 20 tax years from the date placed in service.
- After revocation of certification under Arizona Revised Statutes §41-1514.02, property that was previously classified as Class Six will be reclassified.
- Property that is classified as environmental technology property cannot thereafter be classified as forest products processing property.

Arizona Renewable Energy Operations Property Tax Reclassification

Tax reclassification calculations

- Real and personal property and improvements that are used for renewable energy manufacturing or headquarters operations may be reclassified from a property tax class with a higher assessment ratio to Class Six, qualifying the property for a 5 percent assessment ratio for both primary and secondary tax purposes.
- Effectively constitutes up to a 75 percent savings on business property taxes.
- Effective January 1, 2010, no new properties may be reclassified after December 31, 2014. Class Six classification may be for either 10 or 15 years.

Arizona Renewable Energy Operations Corporate Credit **Tax credit calculations**

- Ten percent of the taxpayer's qualified capital investment in renewable energy projects that meet wage requirements.
- Credit applies against corporate income tax.
- Applicable from January 1, 2010, to December 31, 2014.
- Refundable, but must be claimed in five equal installments over five consecutive tax years.

Eligibility – Corporate taxpayers that make qualified investments and meet employee wage requirements for expanding or locating qualified renewable energy operations in Arizona.

Arizona Solar Heating and Electric Vehicle Recharge Outlets Tax Credit

Tax credit calculations

- Lesser of \$75 or the installation cost for each installation of a solar hot water heater plumbing stub out or an electric vehicle recharge outlet in each separate house or dwelling unit.
- Applies to taxable years beginning after December 31, 1997.

Eligibility – Corporate and individual taxpayers that construct houses and dwelling units in Arizona.

Arizona Solar and Wind Equipment Sales Tax Exemptions

Sales tax exemption calculations

- Applies to retail purchases of solar energy devices and to contractors that install such devices.
- Taxable periods beginning from and after December 31, 1996, and ending before January 1, 2017.

“Solar energy device” means a system or series of mechanisms designed primarily to:

- Provide heating
- Provide cooling
- Produce electrical power
- Produce mechanical power

Eligibility – Registered retailers and registered solar energy contractors.

- Provide solar daylighting
- Provide any combination of the foregoing by means of collecting and transferring solar-generated energy into such uses, either by active or passive means, including wind generator systems that produce electricity.

Solar energy systems may also have the capability of storing solar energy for future use. Passive systems must clearly be designed as a solar energy device, such as a trombe wall, and not merely as a part of a normal structure, such as a window.

Arizona Renewable Energy Operations Individual Credit **Tax credit calculations**

- Ten percent of the taxpayer's qualified capital investment in renewable energy projects which meet wage requirements.
- Credit applies against individual income tax.
- Applicable from January 1, 2010, to December 31, 2014.
- Refundable, but must be claimed in five equal installments over five consecutive tax years.

Arizona Residential Solar and Wind Energy Systems Tax

Eligibility – Individual taxpayers who make qualified investments and meet employee wage requirements for expanding or locating qualified renewable energy operations in Arizona.

Credit

Tax credit calculations

- Twenty-five percent of the cost of the device with a \$1,000 maximum limit.
- Effective January 1, 1995.

A “solar energy device” is a system or series of mechanisms that collect and transfer solar generated energy, and that is designed primarily to:

- Provide heating
- Provide cooling
- Provide electrical power

About CliftonLarsonAllen

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Eligibility – *Individual taxpayers who are not the dependent of another taxpayer and who install the device at the taxpayer's residence.*

- Provide mechanical power
- Provide solar day lighting
- Provide any combination of the above by means of collecting and transferring solar-generated energy into such uses either by active or passive means, including wind generator systems that produce electricity.

Solar energy systems may also have the capability of storing solar energy for future use. Passive systems must clearly be designed as a solar energy device, such as a trombe wall, and not merely part of a normal structure, such as a window.

ADDITIONAL RESOURCES

Additional information on state and local incentives and rebates in Arizona can be found at the Database of State Incentives for Renewables and Efficiency (www.dsireusa.org).

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