



GROWING YOUR BUSINESS

New Mexico Financing, Incentives and Tax Opportunities

Grants, special financing and tax incentives are designed to stimulate growth in the solar industry. Many are only available for a limited time.

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 manufacturer of photovoltaic panels, located in Roswell, NM, 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; has 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 New Mexico state taxable income of \$3.3 million. Its federal tax liability is \$1 million and the New Mexico state tax liability is \$300,000. 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.

The company also qualifies for the New Mexico Technology Jobs Credit, Alternative Energy Product Manufacturers Tax Credit, the Investment Credit, the High Wage Jobs Tax Credit and the Rural Jobs Tax Credit.

- The **Technology Jobs Credit** is 8 percent of qualified research and development expenditures or, in this case, \$80,000, which can be applied to the taxpayer's New Mexico gross receipts tax, compensating tax, state withholding or state income tax.
- The **Alternative Energy Product Manufacturers Tax Credit** would equate to \$625,000 with the above facts, and can be applied against New Mexico gross receipts tax, withholding tax or compensating tax.
- The **Investment Credit** is equal to 5.125 percent on the value of qualified equipment. In this example, that would equate to \$1,025,000 of credit that can be applied to the company's gross receipts tax, compensating tax and state withholding tax liabilities. Any unused credit can be carried forward to apply to future tax liabilities.
- In this example, the **High Wage Jobs Tax Credit** could be worth \$225,000 per year for up to four years that can be applied to the company's gross receipts tax, compensating tax and state withholding tax liabilities. Assuming in our example that all of the company's employees are paid at least \$16,000, the company could qualify for \$600,000 of credit that could be applied toward the company's gross receipts, and compensating and state withholding tax liabilities.

NEW MEXICO 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 Colorado and New Mexico.

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.

Industrial Revenue Bonds

What is an Industrial Revenue Bond (IRB)? Industrial Revenue Bonds are a way for local governments to encourage expansion and relocation of companies that provide jobs and economic opportunities to residents.

How does the IRB work? An IRB is a loan to a company to build or buy a facility, or to buy land and/or equipment. The city or county issues the bonds, but is not making the loan. The investor buying the bonds makes the loan. Technically, the city owns title to the facility built with IRBs and leases it to the company for a 20- to 30-year period. At the end of the term, title is transferred to the company. The advantage to an IRB is that the community issuing the IRB can exempt up to 95 percent of property taxes on the land, buildings and equipment purchased under the IRB. In addition, the company's purchase of equipment under the IRB is not taxable for gross receipts or compensating tax purposes.

NEW MEXICO TAX INCENTIVES

Deductions for Gross Receipts Tax

What is the Deduction for Gross Receipts Tax? New Mexico has a gross receipts tax structure instead of a sales tax. The gross receipts tax, which ranges from 5 percent to 8 percent depending on the taxpayer's location, is imposed on the receipts from the sale of property in New Mexico and for performing services in New Mexico. Unless there is a specific exemption or deduction that applies to the taxpayer's transaction, all of the gross receipts are presumed to be taxable for gross receipts tax purposes. A gross receipts tax deduction is a nontaxable transaction that must be reported on the taxpayer's gross receipts tax form. Receipts from the sale and installation of qualified systems may be deducted from gross receipts when calculating gross receipts tax.

What Qualifies for this Deduction? Receipts from the installation of solar systems used to provide space heat, hot water or electricity to the property on which it is installed may be deducted from a taxpayer's gross receipts. The state also recently enacted legislation which provides a deduction from gross receipts for the sale of certain renewable energy equipment to governments. Also covered are dark colored water tanks exposed to sunlight, including all equipment necessary for the installation and operation of the water tank as a part of the overall water system of the property; and a non-vented trombe wall, and all equipment necessary for the installation and operation of the trombe wall.

In addition, receipts derived from the sale of certain wind turbine equipment to federal, state or local government entities are exempt from gross receipts. Senate Bill 201, signed in March 2010, extended this exemption to solar thermal electric and photovoltaic systems sold to a government on or after July 1, 2010.

Advanced Energy Tax Credit

What is the Advanced Energy Tax Credit? The Advanced Energy Tax Credit is a non-refundable credit designed for any taxpayer that holds an interest in a qualified electric generating facility. Those who qualify may claim the Advanced Energy Tax Credit against their gross receipts tax, compensating tax, withholding tax, personal income tax or corporate income tax liability. If the credit amount exceeds the taxpayer's liability, the excess can be carried forward for up to 10 years.

What Qualifies for the Advanced Energy Tax Credit?

Qualified expenditures include the development and construction of a qualified new solar thermal electric generating facility, a geothermal electric generating facility, or a solar photovoltaic electric generating facility that may include an associated or renewable energy storage facility or recycled energy project. Qualified facilities must begin construction no later than Dec. 31, 2015.

How Much is the Advanced Energy Tax Credit? The credit is calculated as 6 percent of qualified expenditures. The aggregate amount of all advanced energy tax credits claimed with respect to a qualified facility may not exceed \$60 million.

Alternative Energy Product Manufacturers Tax Credit

What is the Alternative Energy Product Manufacturers Tax Credit? The Alternative Energy Product Manufacturers Tax Credit is a non-refundable credit designed for manufacturers of certain alternative energy products. The credit may be applied against the manufacturers' gross receipts tax (less local option gross receipts taxes), compensating tax, and withholding tax liabilities. If the amount of the credit exceeds a taxpayer's liability, the excess may be carried forward for up to five years.

What Products Qualify for the Credit? For alternative energy vehicles, fuel cell systems, renewable energy systems or any components of an alternative energy vehicle, fuel cell system or renewable energy system's expenditures will qualify for the credit.

To be eligible to claim a credit, the taxpayer must employ at least one new full-time employee for every \$500,000 of expenditures up to \$30 million, and at least one new full-time employee for every \$1 million of expenditures over \$30 million.

How Much is the Credit? The taxpayer may receive a tax credit not to exceed 5 percent of qualified expenditures for manufacturing equipment used in the manufacturing operation.

Renewable Energy Production Tax Credit

What is the Renewable Energy Production Tax Credit? Corporate income taxpayers and personal income taxpayers who are producing electricity by alternative methods may receive a refundable credit for the energy produced.

What Qualifies for the Credit? Electricity produced by solar light or heat, wind or biomass.

The credit is allowed only for facilities that first produce electricity before Jan. 1, 2018. The total amount of electricity that can qualify for the credit is 2 million megawatt hours (MWh), plus an additional 500,000 MWh for solar facilities.

For a qualified energy generator using a solar-light-derived or solar-heat-derived qualified energy resource, the amount of tax credit varies based on the tax year following the date the generator first produces electricity using the qualified energy resource. The credit rate starts at 1.5 cents in the first year of operation and increases in increments of .5 cents each of the next five years, to a maximum of 4 cents; the rate then will decline by .5 cents per year in the next four years to 2 cents in the tenth year of operation.

To qualify, the taxpayer must either hold title to a qualified energy generator or lease, from a county or municipality under authority of an industrial revenue bond, the property on which the generator operates.

A taxpayer with at least a 5 percent interest in a qualifying energy-generating business may be allocated all or part of the right to claim the credit, but only if the business is taxed federally as a partnership and the New Mexico Energy, Minerals and Natural Resources Department (EMNRD) has approved the allocation.

A qualifying energy generator is defined as a facility located in New Mexico with at least one megawatt generating capacity that produces electricity using a qualified energy resource and that sells that electricity to an unrelated person.

This credit, effective from the original date of application, continues until the facility either goes out of production for more than six consecutive months or its 10-year eligibility expires.

How Much is the Credit? The credit is calculated at a penny per kilowatt hour up to 400,000 MWh yearly per taxpayer for 10 years.

Sustainable Building Tax Credit

What is the Sustainable Building Tax Credit? Corporate income taxpayers and personal income taxpayers may claim a non-refundable tax credit for investments in constructing or renovating sustainable residential or commercial buildings that meet specific “green” building standards.

What Qualifies for the Sustainable Building Tax Credit?

Specific “green” building standards may include the installation of solar photovoltaic panels to produce electricity for the building. The sustainable building tax credit is also available for the permanent installation of manufactured housing, regardless of where the housing is manufactured. The tax credit can be claimed by the owner of the building at the time it is certified as a sustainable building or by a subsequent owner if no credit has already been claimed.

How Much is the Credit? The rate of the credit ranges from \$0.30 up to \$9.00 per square foot and varies with the type of building, the total qualified occupied square footage of the building and the degree of energy efficiency incorporated in the building.

Business Facility Rehabilitation Tax Credit

What is the Business Facility Rehabilitation Tax Credit?

A corporation or individual who restores, renovates or rehabilitates a qualified business facility in an enterprise zone may receive credit on income tax owed to New Mexico.

What Qualifies for the Credit? A qualified New Mexico Taxation and Revenue Department business facility is a building vacant for at least 24 months and intended to be put into use by a person in the manufacturing, distribution or service industries. An enterprise zone is a distressed area identified by a New Mexico county, municipality or Indian reservation, by a combination of any two, or by all three.

How Much is the Credit? The credit equals 50 percent of the project cost, with a cap of \$50,000 for each project, and a carry-forward provision for four consecutive tax years.

Solar Market Development Tax Credit

What is the Solar Market Development Tax Credit?

Individuals who purchase and install a qualified alternative energy system on or after Jan. 1, 2006, but before Dec. 31, 2006, may receive a nonrefundable Solar Market Development Tax Credit on their personal income tax liability. The Solar Market Development Tax Credit is a non-refundable credit applied to the personal income tax of individuals.

What Qualifies for the Credit? Expenditures for a solar thermal system or a photovoltaic system in a residence, business or agricultural enterprise in New Mexico owned by that taxpayer may apply for a solar market development tax credit.

How Much is the Credit? The credit is up to 10 percent of the purchase and installation cost of the system. The total solar market development tax credit cannot exceed \$9,000 per system, and the system must be approved by the EMNRD in advance. A taxpayer may carry forward an unused portion of the credit for up to 10 consecutive tax years, following the tax year in which the credit originates.

Technology Jobs Tax Credit

What is the Technology Jobs Tax Credit? Qualified New Mexico facilities may take a credit for qualified research conducted in New Mexico.

What Qualifies for the Credit? A “qualified facility” is a facility in New Mexico at which qualified research is conducted, other than a facility operated by a taxpayer for the United States. Qualified research is research that is undertaken for the purpose of discovering information that is technological in nature and intended to be useful in developing a new or improved business component of the taxpayer. Qualified expenditures related to qualified research include expenditures for land, buildings, equipment, computer software and upgrades, consultants, technical books and manuals, test materials, costs associated with patents, payroll and labor.

How Much is the Credit? There are two components to the credit. The basic credit is 4 percent (8 percent in rural areas) of qualified expenditures, and may be taken against a taxpayer’s gross receipts tax, compensating tax or state withholding tax liabilities. The additional credit is 4 percent (8 percent in rural areas) of qualified expenditures, and may be taken against a taxpayer’s New Mexico income tax liabilities. In order to qualify for the additional credit, the taxpayer must increase their annual payroll expense at the qualified facility by at least \$75,000 for every \$1 million in qualified expense claimed. Any unused portion may be applied to subsequent tax periods.

High Wage Jobs Tax Credit

What is the High Wage Jobs Tax Credit? The High Wage Jobs Tax Credit may be claimed by an eligible employer for each new high wage economic-based job created after July 2004. The credit may be applied to the taxpayer's gross receipts, compensating and state withholding tax for the year in which the job was created, and for the three subsequent qualifying periods. Any unused credit amount may be refunded back to the taxpayer.

What Qualifies for the Credit? An eligible employer is defined as an employer that made more than 50 percent of sales to persons outside New Mexico, or is eligible for development training program assistance as defined by the New Mexico Jobs Training Incentive Program (JTIP). A high-wage economic-based job is any job created after July 2004, that pays more than \$28,000 in rural areas and \$40,000 in urban areas, and is occupied for at least 48 weeks.

How Much is the Credit? The credit is equal to 10 percent, not to exceed \$12,000, of qualified wages and benefits paid to each employee occupying a high-wage job.

Investment Credit

What is the Investment Credit? Taxpayers who are in the business of manufacturing may take a credit equal to the compensating tax rate applied to the value of manufacturing equipment used in their New Mexico operations.

What Qualifies for the Credit? In order to qualify, the taxpayer must also hire at least one full-time employee for every \$500,000 of qualified equipment up to \$30 million, and at least one full-time employee for every \$1 million of qualified equipment over \$30 million.

How much is the Credit? The credit is equal to 5.125 percent of the value of manufacturing equipment used in a New Mexico manufacturing operation. The credit may be applied to the taxpayer's gross receipts, compensating and state withholding tax. Any unused credit may be applied to subsequent tax periods.

Rural Jobs Tax Credit

What is the Rural Jobs Tax Credit? Every eligible employer who creates qualifying jobs in New Mexico, and is located in a rural location within New Mexico, may qualify for the rural jobs tax credit.

What Qualifies for the Credit? Eligible employers are defined as employers who have been approved for in-plant training assistance. Qualifying jobs are defined as jobs that are occupied for at least 48 weeks and are located in a rural area of New Mexico.

How Much is the Credit? The credit is equal to 25 percent of the first \$16,000 in wages, or 12.5 percent of the first \$16,000 in wages, depending on whether the job is located in a tier one or tier two area. The credit may be applied to the taxpayer's gross receipts, and compensating and state withholding tax. Any unused credit may be applied to subsequent tax periods. Once the credit has been approved, a taxpayer may also sell or transfer the credit to another taxpayer.

Additional incentives exist for consumers of solar photovoltaics and other solar products such as:

- Property Tax Incentives
- Bond Financing for Schools and Governments
- New Mexico Performance Based Incentives

Additional Resources

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

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