



Growing Your Solar Business

Federal Financing, Incentives, and Tax Opportunities

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 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.

Tax incentives are just the beginning of the support the federal government is offering the solar industry. Grants, financing options and other resources are designed to make solar technology affordable, practical, and ultimately, profitable.

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.

SOLAR MANUFACTURERS AND PRODUCERS

Federal financing

U.S. Department of Energy (DOE) — Energy Efficiency and Renewable Energy (EERE)

EERE provides funding for renewable energy and energy efficiency research and development. This division has programs focused on developing cost-effective solar energy technologies that have potential to benefit the nation and the world.

The DOE SunShot Initiative is striving to make solar energy technologies cost-competitive with other forms of energy. The goal is to reduce the cost of solar energy systems by 75 percent by 2020.

SunShot Initiative solar subprograms:

- Photovoltaics
- Concentrating solar power
- Systems integration for solar technologies
- Market transformation

For information on the SunShot subprograms listed below, visit the EERE website (www1.eere.energy.gov/solar/sunshot).

Small Business Administration (SBA) financing

What is SBA financing? The SBA 504 loan program provides small businesses with long-term, fixed-rate financing to purchase improvements.

What qualifies for SBA financing? A small business, for purposes of SBA loans, is defined based on the type of industry. For instance, “solar power structure construction work” listed under the North American Industry Classification System (NAIC) code 237130, that qualifies as a general building and construction contractor for SBA financing, may not have more than \$33.5 million in average annual receipts to qualify. See the SBA website (www.sba.gov/content/summary-size-standards-industry) to find your specific industry and company size standards.

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Federal tax incentives

Research and development (R&D) tax credit

What is the R&D credit? As alternative energy sources are explored and new ways of bringing those energy sources to the general public are introduced, businesses in the solar industry are prime candidates for the R&D credit. A dollar-for-dollar reduction in a company's federal tax liability, the R&D credit is designed to keep domestic companies competitive and to keep jobs in the United States. It is intended to encourage companies to continually design and improve new and existing products and processes.

What qualifies as “research?” While most people think of “research” as scientists in white coats performing experiments in a laboratory, the term “research” per Section 41 of the Internal Revenue Code is much more liberal. Almost all manufacturers, including solar technology manufacturers, may be eligible for R&D credits, since most are either developing new products and processes, or improving existing products and processes.

How much is the credit? Generally, the credit is 20 percent of qualifying expenditures exceeding a base amount. The credit can be used to offset a taxpayer's regular tax, and for 2011 only, current year credits can offset the “alternative minimum tax.” These R&D credits may be applied to taxes due currently, providing your company with an immediate increase in cash flow, or applied to future tax liability. Unused current year credits may be carried back one year and forward 20 years.

Domestic production activities deduction (DPAD)

What is DPAD? DPAD is a deduction equal to 9 percent of qualified production activity income (QPAI). It can result in a permanent tax savings of as much as 3 percent of QPAI.

Who qualifies to claim the DPAD deduction? United States solar businesses that participate in the manufacture, production, growth, or extraction of tangible personal property or computer software, along with solar businesses engaged in construction, engineering, and architectural services, may qualify for the deduction.

How much is the deduction? As it relates to solar businesses, the deduction is calculated, as mentioned above, as 9 percent of QPAI, not to exceed 50 percent of W-2 wages. QPAI is a company's domestic production gross receipts.

Energy portion of the investment credit (energy credit)

What is the energy credit? The Section 48 energy credit is an investment credit that is designed to benefit businesses that utilize alternative sources of energy. The energy credit is a dollar-for-dollar reduction of your federal tax liability. The *Energy Improvement and Extension Act* of 2008 added the energy credit to the list of specified credits that can offset the "alternative minimum tax."

What qualifies for the credit? As it relates to solar energy, the credit applies to the cost of equipment that:

1. Utilizes solar energy to generate electricity to heat or cool (or provide hot water for use in) a building, or provide solar process heat, except for property used to generate energy for heating swimming pools, or
2. Uses solar energy to illuminate the inside of a structure using fiber-optic distributed sunlight, but only with respect to periods ending before January 1, 2017.

To qualify for the energy credit, the property must be erected, constructed, or reconstructed by the taxpayer. If the taxpayer purchases an existing structure that already has qualifying property, the credit can only be utilized if the purchaser is the original user of the equipment. Energy property does not include public utility property. Restrictions can apply to the credit, depending on the source of funding for purchasing the equipment.

How much is the credit? The energy credit for solar energy property is 30 percent of the cost of eligible property after reducing the costs by any subsidies or tax-exempt bond financing. The depreciable basis of the qualifying property is reduced by 50 percent of the credit claimed.

Grant in lieu of credit for specified energy property (1603 Grant)

What is a 1603 Grant? The U.S. Treasury is authorized to provide a grant in lieu of the energy credit to a taxpayer who places in service depreciable or amortizable property that is otherwise eligible for the energy credit. Many times,

businesses will use the 1603 Grant to fund their solar projects rather than the energy credit, because the grant is a cash payment, whereas the credit is an offset against federal tax liabilities.

What qualifies for the 1603 Grant? Construction on the specified energy property must have been started in 2011 and at least 5 percent of the total cost of the property, excluding land and certain preliminary planning activities, must be in complete accordance with the published regulations. Generally, construction begins when "physical work of a significant nature" begins. Eligible solar energy property includes equipment that uses solar energy to generate electricity, to heat or cool (or provide hot water for use in) a structure, or to provide solar process heat. Passive solar systems and solar pool-heating systems are not eligible. Hybrid solar-lighting systems, which use solar energy to illuminate the inside of a structure using fiber-optic distributed sunlight, are eligible. The Treasury Department must have received the grant application before October 1, 2012. If the application was not submitted, please refer to the energy credit above.

How much is the grant? Similar to the energy credit, the grant generally is 30 percent of the basis of qualified solar energy property. The property's depreciable basis is reduced by 50 percent of the grant amount received. The *American Taxpayer Relief Act* of 2012 delays the sequester, mandatory spending cuts of around \$110 billion in Medicaid payments, and discretionary spending for two months, so there is no immediate reduction in 1603 cash grant payments from the Treasury Department after January 2, 2013. However, a proposed 7.6 percent reduction in 1603 grant payments may still happen on March 1, 2013, if Congress does not enact another extension or strategy to avoid sequestration.

SOLAR CONSUMERS

Financing options

Solar power purchase agreement

What is a Solar Power Purchase Agreement (PPA)? With this arrangement, the host customer simply purchases the energy provided by the photovoltaic system rather than the system itself, and avoids up-front capital costs, system performance risk, and the design and permitting process.

What qualifies for a PPA? This financing model is an arrangement in which a third-party (solar services provider) owns, operates, and maintains the photovoltaic system, and the host customer has the PV system on its property. The host customer purchases the system's electric output (solar energy) from the providers for an agreed-upon period according to the terms of the long-

term contract between the energy provider and the host. This arrangement allows the host to receive stable, alternative, and sometimes lower cost electricity, while the provider utilizes the valuable tax credits and the income generated from the sale of electricity to the host customer.

Solar leasing

What is a solar leasing option? Many solar installation companies are offering a leasing option for residential customers. The upfront costs may be eliminated by a non-escalating solar lease agreement.

Federal tax incentives

Section 179D deduction

What is the Section 179D deduction? This deduction allows an immediate deduction of up to \$1.80 per square foot for owners of energy-efficient commercial buildings for costs that would normally be required to be capitalized. It also allows designers a deduction of up to \$1.80 per square foot for government buildings. In the designer's case, the deduction is an additional tax deduction rather than a temporary difference in depreciation.

What qualifies for the Section 179D deduction? The deduction is allowed when new domestic construction or building renovations save energy costs of 50 percent or more compared to a reference building. The reference building is based on ASHRAE 90.1-2011, an older building standard. Partial qualification is available for those buildings that do not achieve energy cost savings of 50 percent or more compared to the reference building, allowing a deduction of up to \$0.60 per square foot for one of three system qualifications.

Residential energy-efficiency property credit

What is the residential energy-efficiency property credit?

Individual taxpayers may claim a nonrefundable personal residential energy-efficient property credit for qualified energy efficiency property expenditures made during the tax year.

What qualifies for the residential energy-efficiency property credit? As it concerns solar property, the following qualify:

Qualified solar electric property expenditures. These are expenditures for a property that uses solar energy to

generate electricity for use in a dwelling unit located in the United States, and that is used as a residence by the taxpayer.

Qualified solar water heating property expenditure.

These are expenditures for a property that satisfy three conditions:

- It must heat water for use in a U.S. dwelling that is used as a residence by the taxpayer.
- At least half the energy used by the property for that purpose must be derived from the sun.
- It must be certified for performance by the nonprofit Solar Rating Certification Corporation or a comparable entity endorsed by the government of the state in which the property is installed.

How much is the residential energy-efficiency property credit? The credit is 30 percent of the expenditures made by the taxpayer during that tax year for both the qualified solar electric property and the qualified solar water heating property. The credit applies to residential energy efficient property placed in service before January 1, 2017.

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