



# Growing Your Solar Business

## Colorado 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.

Solar energy is good for Colorado. 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.

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-U's, a hypothetical solar manufacturer of photovoltaic (PV) panels, located in Greeley, Colorado, is a cutting-edge solar manufacturer using the latest design of thin film PV panel manufacturing. The company currently has revenues of \$75 million; 300 employees, 50 who are paid more than \$45,000 per year, and 25 more employees than last year; qualified research and development expenditures of \$1 million this year; and invested more than \$20 million in new manufacturing equipment. In addition, the company has federal taxable income of \$3 million and Colorado state taxable income of \$3.3 million. Its federal tax liability is \$1 million and the Colorado 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 research and development (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 Colorado Enterprise Zone credits, as explained later in this white paper.

### **COLORADO FINANCING INCENTIVES**

Colorado law ([www.colorado.gov/DORA](http://www.colorado.gov/DORA)) mandates that all investor-owned utilities get 30 percent of their electricity from renewable sources by 2020 — one of the most stringent mandates in the country. In response, Colorado's renewable energy industry has skyrocketed, with a plethora of rebates and incentives popping up along the way to fuel that rise. And the fact that Colorado was the first state to enact a renewable portfolio standard through a ballot initiative demonstrates strong support for clean, renewable energy in the Rocky Mountain state.

Colorado is chock-full of solar incentives (<http://solar.calfinder.com>), from state rebate programs to small local incentives, including solar permit offsets offered by the cities of Aurora and Lakewood.



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### **Colorado Science and Technology Innovation Reinvestment Act (CSTIRA)**

**What is the CSTIRA?** Colorado Senate Bill 47, the *Colorado Science and Technology Innovation Reinvestment Act*, will fund \$2 million per year under the Clean Technology Discovery Evaluation Grant Program (CT DEGP). Signed into law in May 2011, it provides grants to companies in renewable energy, electric motors, lighting, and other related areas. Under the bill, grants of up to \$150,000 will be provided for early stage clean technology companies. It requires a 1:1 match from private or other nonstate public sources. Funding for the program will be made available July 1, 2013, and is authorized for 10 years.

### **Direct Lending Revolving Loan Program (RLP)**

#### **What is the Direct Lending Revolving Loan Program?**

The purpose of the RLP is to provide financing for eligible projects that promote energy efficiency or renewable energy. The funds can also be used to finance working capital and hard asset acquisitions for companies in the renewable energy sector.

**What qualifies for the RLP?** These projects may include, but are not limited to, significant energy retrofits of buildings of \$100,000 or more, direct support for companies directly involved in the renewable energy sector, and other projects that meet the goals of the program. Businesses should contact the Governor's Energy Office before submitting the application for an initial assessment of the project. Learn more and apply at [www.rechargecolorado.org/index.php/programs\\_overview/finance\\_programs](http://www.rechargecolorado.org/index.php/programs_overview/finance_programs).

## Solar gardens

**What are solar gardens?** The *Colorado Solar Gardens Act* creates opportunities to serve the rental market or those that cannot host solar facilities.

**What qualifies as a solar garden?** A solar garden is a 2 megawatt (MW) or smaller solar photovoltaic project owned by 10 or more customers living in the same county or municipality. The customer purchases a subscription or “interest” in the facility. Solar gardens can be built by businesses, nonprofits, or utilities, but must be operated by an organization solely devoted to the solar garden and its subscribers. There may be an increase in solar garden projects as the Public Utility Commission finalizes its rules regarding the required minimum and maximum purchases of MWs from solar gardens.

There are a variety of financing alternatives for solar gardens that should be closely reviewed, along with existing rebates and tax incentives, and land use and permitting issues. In addition, the structure of the solar garden project should also include the consideration of potential characterization of subscriptions being interpreted as a security under federal or state securities law.

## 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. It should also 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-2599, 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.

## Advancing Colorado’s Renewable Energy (ACRE) program

This program provides funding to promote energy-related projects beneficial to Colorado’s agriculture industry:

- Grants for agricultural, value-added cooperatives and agricultural businesses located solely in Colorado.
- Eligible projects must benefit Colorado’s agriculture industry and may include biofuel development, biomass conversion, wind, solar energy, and micro-hydro.
- The amounts of financial assistance vary by project.

## Recharge Colorado

Through the Recharge Colorado campaign, the Governor’s Energy Office, utilities, cities, and counties across the state are partnering to offer money-saving rebates and programs to enable Coloradans to participate in the new energy economy. Rebates can be reserved through the Recharge Colorado website and will be available until the money runs out. Rebates include:

- Replacement appliance rebates for clothes washers, refrigerators, and dishwashers.
- Home upgrade rebates such as insulation, furnaces, and water heaters.
- Solar electric and hot water rebates and wind rebates.

The Governor’s Energy Office and its partners are providing roughly \$18 million worth of rebates for Colorado with this program. The money is expected to provide approximately 75,000 rebates and will terminate once the \$18 million is used. More information is available at [www.RechargeColorado.org](http://www.RechargeColorado.org).

## Xcel Energy and Black Hills Energy rebates and incentives

Xcel Energy and Black Hills Energy are regional electric and natural gas companies serving a large number of Colorado citizens. The companies offer rebates and other incentives to encourage businesses to be more energy efficient, reduce operating costs, and improve their bottom lines. Visit the Xcel Energy website ([www.xcelenergy.com](http://www.xcelenergy.com)) and Black Hills Energy website ([www.blackhillsenergy.com](http://www.blackhillsenergy.com)) for more information.

## Other opportunities

The *Fair Permit Act (HB-1199)* effectively caps solar permit fees that a local or state government can charge. Installers may want to double-check invoices to ensure that customers are not being overcharged beyond what the law allows.

## COLORADO TAX INCENTIVES

### New investment tax credit

**What is the new investment tax credit?** This 1 percent tax credit for investments in qualified property is available to C corporations only, including any solar companies that are classified as C corporations.

### **What qualifies for the new investment tax credit?**

Qualified property includes tangible personal property, with a few exceptions, and other specific tangible property (not including a building or its components). Assets for which a Section 179 deduction is taken are not eligible. The credit is limited to \$1,000 per year, and any excess credit may be carried forward for three years.

### **Enterprise zone credits and incentives**

Colorado's enterprise zone program provides tax incentives to encourage businesses to locate and expand in designated economically distressed areas of the state. There are 16 enterprise zones and two sub-zones in Colorado. Businesses located in an enterprise zone may qualify for enterprise zone tax credits that encourage job creation and investment within the zone. Local jurisdictions may have additional incentive opportunities in the enterprise zone. For calendar years 2011 to 2013, the total enterprise zone credits will be limited to \$500,000 per taxpayer. However, any unused credits may be carried forward. A list of all Colorado enterprise zones and a state map showing each zone can be found at the state's web portal [www.colorado.gov](http://www.colorado.gov).

Here are some of the key features of the enterprise zone program:

#### *Investment tax credit*

- Same as the new investment tax credit, except a 3 percent tax credit for investments in a qualified property.
- The property must be used exclusively within the enterprise zone.
- The maximum credit is \$5,000, plus 50 percent of tax liability over \$5,000.
- Unused credits may be carried forward for 12 years.

#### *New business facility employee credit*

- A \$500 credit per employee at a new business facility in a designated enterprise zone.
- Any unused credit can be carried forward for five years.

#### *New business facility defined*

- A facility operated by the taxpayer in the operation of a revenue-producing enterprise.
- If the facility was acquired from another taxpayer, the revenue-producing enterprise is not the same as or substantially the same as that of the prior occupant.
- The facility is not a replacement business facility.

#### *Employer-sponsored health insurance credit*

- A new business facility is eligible for a two-year, \$200 credit per qualifying employee.
- The taxpayer must provide an employer-sponsored qualifying health insurance plan.
- Credit may be claimed for the first two full years after the facility is completed or acquired within an enterprise zone.
- Any unused credits may be carried forward for five years.

#### *Rehabilitation of vacant buildings credit*

- The owner or tenant of a previously vacant building in an enterprise zone is allowed a credit for qualifying expenditures to rehabilitate a building for commercial use.
- Credit of 25 percent of aggregate expenditures per building, up to \$50,000.
- The building must be at least 20 years old and have been vacant for at least two years.
- Excess credits may be carried forward five years.

#### *Research and development credit*

- Three percent of the amount by which expenditures in the current year exceed the average total research and development expenditures incurred in an enterprise zone in the preceding two tax years.
- No more than 25 percent of the credit must be taken in the year in which the expenditures are incurred. The remaining 75 percent of the credit must be taken over the next three years.

#### *Sales tax incentives*

- Equipment and materials purchased for use solely in an enterprise zone for manufacturing tangible personal property for sale or profit are exempt from sales and use tax.
- Taxpayers qualifying for the new business facility employee credit may qualify for a refund of taxes levied on the purchase of equipment and supplies used by the taxpayer in its enterprise zone business.

#### *Other enterprise zone credits*

- Enhanced rural enterprise zone credit.
- Agricultural processing employee credit.
- Contributions to zone administrators.
- Job training program investment credit.
- Property tax incentives (new business facility that is expanding).
- Rural technology enterprise zone credit.
- Commercial vehicle credit.

### Sales and use tax refunds and exemptions

Effective July 1, 2009, through July 1, 2017, Colorado exempts the sales, use, and storage of components from sales tax if the components are used in a system that produces electricity from photovoltaic systems and solar thermal-electric systems.

### Job growth credit

The job growth incentive tax credit provides a state income tax credit to businesses undertaking job creation projects that would not occur in Colorado without the program. For tax years beginning in 2009 through 2014, a tax credit is available to firms that create jobs in Colorado. The credit is 50 percent of the amount the employer is required to pay in federal Social Security and Medicare taxes on the created jobs. If the jobs are created in an enhanced rural enterprise zone, firms must create at least five jobs and retain them for at least one year. Otherwise, at least 20 jobs must be created and retained for one year. To qualify for the credit, the jobs must bring wages of at least 110 percent of the average wage of the county in which the new jobs are located. For each job created, firms receive the credit each year the job is retained for up to five years, but no later than 2018. Any unused credit can be carried forward for a period of 10 years.

### Solar thermal systems sales and use tax exemption

Colorado encourages the advancement of solar thermal systems through special tax treatment:

- Through fiscal year 2016, purchases of qualified solar thermal systems are exempt from state sales and use tax.
- Colorado sales and use tax exemption is provided for components used to produce electricity from a renewable energy source.
- All sales, storage, and use of components used in the production of alternating current electricity from a renewable energy source, including, but not limited to, wind, are exempt from state sales and use tax.

## COUNTY AND CITY PROGRAMS

### City and County of Denver

**Solar panel permitting** — Construction, electrical, plumbing and zoning permits are required for photovoltaic systems installed in the City of Denver. Denver provides

same-day permit review for most solar panel projects. More complex engineering projects may still be required to go through the plan review process.

### City of Boulder

**Solar Grant Program** — The Solar Grant Program provides grants for PV and solar water heating installations on housing enrolled in the city's affordable housing program, site-based nonprofit organizations, and low- to moderate-income housing owned and/or developed by a nonprofit organization. Individual grant amounts are determined on a case-by-case basis, but generally will not exceed 50 percent of the total out-of-pocket costs for the project after all rebates, tax credits, and other incentives are subtracted. There are two grant cycles each year. Submissions are due by April 23, 2013, and August 31, 2013.

## ADDITIONAL RESOURCES

Additional information on state and local incentives and rebates in Colorado can be found at the Database of State Incentives for Renewables and Efficiency ([www.dsireusa.org](http://www.dsireusa.org)).

### About CliftonLarsonAllen

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