UFA UNITED FUND ADVISORS℠

RENEWABLE ENERGY INVESTMENT TAX CREDITS

Credit Overview

The Renewable Energy Investment Tax Credit (ITC) provided under Section 48 of the Internal Revenue Code permits project owners or third-party investors to receive a credit against Federal income taxes for the installation of designated renewable energy generation equipment.

The ITC is an investment-based credit and the amount of the credit depends upon the type of renewable energy equipment. The ITC totals 30% of the cost of solar energy property, fuel cells and small wind turbines. The ITC totals 10% of expenditures for geothermal heat pumps, microturbines and combined heat and power systems.

Pursuant to the Energy Improvement and Extension Act of 2008, the ITC is generally available for systems, including solar energy and fuel cells, that are placed in service on or before December 31, 2016. The ITC may be claimed in the year in which the eligible system is placed in service. There is no tax credit cap per project. The ITC may be carried back one year or carried forward for five years. The ITC may be used against Alternative Minimum Tax.

The ITC was further enhanced by the American Recovery and Reinvestment Act of 2009 (ARRA). Notable changes include:

- Projects, including wind, geothermal and biomass projects, that qualify for the Section 45 Production Tax Credit (PTC) may receive the ITC in lieu of the PTC. This election is available for eligible projects that are placed in service before December 31, 2010.

- Projects, including solar and wind, can receive a cash grant from the US Department of Energy in lieu of the ITC. This election is available for eligible projects that are (a) placed in service in 2009 or 2010 or (b) placed in service by the end of 2016, if construction begins in 2009 or 2010. The grant functions similarly to a refundable tax credit. The amount of the grant is generally equal to the amount of the otherwise eligible ITC (i.e., 30% of cost of the project). For federal tax purposes, the grant proceeds are not includible in gross income for the project, but the project basis for depreciation purposes is reduced by 50% of the amount of the grant. The grant may be treated as income for State or other tax purposes. Governments, tax-exempt organizations, cooperative electric companies and certain pass-through entities with such owners are ineligible for the grant. The grant is paid only with respect to "specified energy property," which includes only tangible property that is an integral part of the project for which depreciation is allowable and is located at the site of the eligible project.

- The basis reduction for solar property financed through subsidized energy financing or tax-exempt bonds for purposes of calculating the ITC is phased out.

In addition, ARRA extended the bonus depreciation on qualified property through 2009. Specifically, for projects that are placed in service by December 31, 2009, bonus depreciation of 50% of the adjusted basis of the property may be claimed. The remaining 50% of the adjusted basis of the property may be depreciated over the ordinary recovery period under MACRS. Before calculating depreciation for a project, including any bonus depreciation, the adjusted basis of the project must be reduced by one-half of the amount of the ITC for which the project qualifies.

If you have any questions regarding ITC financing, please contact United Fund Advisors.

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