Financing

A. Corporate Tax Credits

The most lucrative incentive for solar is the 30% investment tax credit. The federal business energy investment tax credit available under 26 USC § 48 was expanded significantly by the Energy Improvement and Extension Act of 2008 (H.R. 1424), enacted in October 2008. This law extended the duration -- by eight years -- of the existing credits for solar energy; extended eligibility for the credits to utilities; and allowed taxpayers to take the credit against the alternative minimum tax (AMT), subject to certain limitations. The credit was further expanded by The American Recovery and Reinvestment Act of 2009, enacted in February 2009 which repealed a previous limitation on the use of the credit for eligible projects also supported by "subsidized energy financing." For projects placed in service after December 31, 2008, this limitation no longer applies. The credit has been extended until 2016.

1. American Recovery and Reinvestment Act

The American Recovery and Reinvestment Act of 2009 (H.R. 1) allows taxpayers eligible for the federal renewable electricity production tax credit (PTC)** to take the federal business energy investment tax credit (ITC) or to receive a grant from the U.S. Treasury Department instead of taking the PTC for new installations. The new law also allows taxpayers eligible for the business ITC to receive a grant from the U.S. Treasury Department instead of taking the business ITC for new installations. The Treasury Department issued Notice 2009-52 in June 2009, giving limited guidance on how to take the federal business energy investment tax credit instead of the federal renewable electricity production tax credit. The Treasury Department will issue more extensive guidance at a later time.

In general, credits are available for eligible systems placed in service on or before December 31, 2016. The federal business energy investment tax credit available under 26 USC § 48 was expanded significantly by the Energy Improvement and Extension Act of 2008 (H.R. 1424), enacted in October 2008. This law extended the duration -- by eight years -- of the existing credits for solar energy; extended eligibility for the credits to utilities; and allowed taxpayers to take the credit against the alternative minimum tax (AMT), subject to certain limitations. The credit was further expanded by The American Recovery and Reinvestment Act of 2009, enacted in February 2009. The American Recovery and Reinvestment Act of 2009 repealed a previous limitation on the use of the credit for eligible projects also supported by "subsidized energy financing." For projects placed in service after December 31, 2008, this limitation no longer applies.

Grants will also be paid on commercial solar systems (not residential) on which the owner commences construction in 2009 or 2010, provided the system is placed in service by 2016. The owner would receive this grant in place of the commercial tax credit. The grant will be paid within 60 days after the equipment is placed in service or, if later, after the application is submitted and approved for the grant. Leverages amount of investment existing tax investors can put in space, which was useful when the market for tax investors dried up. Allowed grant to be transferrable, helps to get it for example, to pension funds that have lots of capital but no taxable income.

The credit or grant (see above) is fixed at 30 percent. Note that the credit for businesses is not constrained by a dollar-value cap. So regardless of whether you install a $100,000 system or a $1 million system, your company is permitted to take a 30 percent credit. In October 2008 Congress voted to extend the ITC for eight years, through 2016.

If a company plans to take the federal credit in conjunction with other incentive programs, it should be aware of a couple of important considerations. As a general rule, most incentives represent income on which federal income taxes are paid. As a result, most incentives do not decrease the basis on which the federal ITC is calculated. For example, say your business receives rebate money from the state government. Because your business will pay federal income tax on this amount, it does not affect the cost basis used to determine the 30 percent investment tax credit. State rebates, buydowns, grants and other taxable incentives fall into this category.

References

(1) Cornell Legal Information Institute: US Code Title 26, 48. Energy Credit
http://www.law.cornell.edu/uscode/26/usc_sec_26_00000048----000-.html
(2) Energy Improvement and Extension Act of 2008 (HR 1424) via Library of Congress:
http://thomas.loc.gov/
(3) American Recovery and Reinvestment Act of 2009 (HR 1) via Library of Congress:
http://thomas.loc.gov/

Links for further reading

1. Internal Revenue Service: http://www.irs.gov/
2. U.S. Code: http://uscode.house.gov/

B. Corporate Depreciation

Under the Modified Accelerated Cost-Recovery System (MACRS), business can recover their investments more quickly through accelerated depreciation on solar, geothermal, wind and photovoltaic generation assets, reducing their corporate income tax. These renewable technologies are classified as "5-year property" (26 USC § 168(e)(3)(B)(vi)) under the MACRS, which refers to 26 USC § 48(a)(3)(A), often known as the energy investment tax credit or ITC to define eligible property. The federal Economic Stimulus Act of 2008, included a 50% bonus depreciation (26 USC § 168(k)) provision for eligible renewable-energy systems acquired and placed in service in 2008. This provision was extended (retroactively to the entire 2009 tax year) under the same terms by The American Recovery and Reinvestment Act of 2009, enacted in February 2009.

To qualify for bonus depreciation, the property must have been placed in service in 2008 or 2009 ONLY. If property meets these requirements, the owner is entitled to deduct 50% of the adjusted basis of the property in 2008 and 2009. The remaining 50% of the adjusted basis of the property is depreciated over the ordinary depreciation schedule. The bonus depreciation rules do not override the depreciation limit applicable to projects qualifying for the federal business energy tax credit. Before calculating depreciation for such a project, including any bonus depreciation, the adjusted basis of the project must be reduced by one-half of the amount of the energy credit for which the project qualifies. For more information on the federal MACRS, see IRS Publication 946, IRS Form 4562: Depreciation and Amortization, and Instructions for Form 4562.

In essence, accelerated depreciation simply allows the owner to take advantage of greater tax deductions now, rather than later. What this means is that the owner will not be using straight-line depreciation, which deducts equal amounts every year. The cumulative impact of using the accelerated amount as a tax shield for a year or two may in fact be very good for the investor in the short term.

References

References to be provided after the forum.

Links for further reading

Additional links to be provided after the forum.

C. Federal Loan Program

Clean renewable energy bonds (CREBs) may be used by certain entities -- primarily in the public sector -- to finance renewable energy projects. There are many tax credits for tax-paying entities which include the 30% Investment tax credit, Production tax credit, Accelerated depreciation (MACRS), and Local tax breaks. Local governments are at a disadvantage compared to commercial entities despite the ability to issue tax-exempt debt—hence CREBs were created to level the playing field by providing low-cost financing to public entities. CREBs may be issued by electric cooperatives, government entities (states, cities, counties, territories, Indian tribal governments), and by certain lenders.

CREBs are issued, theoretically, with a 0% interest rate. The borrower pays back only the principal of the bond, and the bondholder receives federal tax credits in lieu of the traditional bond interest. The Energy Improvement and Extension Act of 2008 (Div. A, Sec. 107) allocated $800 million for new Clean Renewable Energy Bonds (CREBs). In February 2009, the American Recovery and Reinvestment Act of 2009 (Div. B, Sec. 1111) allocated an additional $1.6 billion for new CREBs, for a total new CREB allocation of $2.4 billion. The Energy Improvement and Extension Act of 2008 also extended the deadline for previously reserved allocations ("old CREBs") until December 31, 2009, and addressed several provisions in the existing law that previously limited the usefulness of the program for some projects. Participation in the program is limited by the volume of bonds allocated by Congress for the program. Participants must first apply to the Internal Revenue Service (IRS) for a CREBs allocation, and then issue the bonds within a specified time period.

The new CREBs allocation totaling $2.4 billion does not have a defined expiration date under the law; however, the recent IRS solicitation for new applications requires the bonds to be issued within 3 years after the applicant receives notification of an approved allocation. Public power providers, governmental bodies, and electric cooperatives are each reserved an equal share (33.3%) of the new CREBs allocation. The tax credit rate is set daily by the U.S. Treasury Department. Under past allocations, the credit could be taken quarterly on a dollar-for-dollar basis

to offset the tax liability of the bondholder. However, under the new CREBs allocation, the credit has been reduced to 70% of what it would have been otherwise.

Here is a breakdown of previous rounds of financing.

Use of Proceeds – previous rounds

Approved Projects (from the IRS)	Round 1 (610)		Round 2 (312)		Total
	Co-ops	Governments	Co-ops	Governments	
Solar	33	401	1	138	573
Wind	13	99	14	88	214
Landfill gas	13	23	4	41	81
Open-loop biomass	12	1	1	1	15
Closed-loop biomass	0	0	0	3	3
Hydropower	6	8	6	12	32
Trash combustion	0	0	0	3	3
Refined coal	1	0	0	0	1
Total	78	532	26	286	922

Solar received 573 out of the 922 total number of approved projects. There is an application process to be eligible for CREBS, and allocations are based on a smallest to largest allocation process. A list of disclosures (including allocation amount) can be found on the IRS website.

References

(1) Kreyci, Claire. "Public Sector Financing for Renewables with Clean Renewable Energy Bonds." NREL TAP Finance Webinar Series. June 24th, 2009. http://apps1.eere.energy.gov/wip/pdfs/tap_webcast_20090624_kreycik.pdf
(2) CREBS Allocations from 2007: http://www.irs.gov/pub/irs-tege/creb_2007_disclosure.pdf
(3) Guidance Documents for new CREBS: http://www.irs.gov/pub/irs-drop/n-09-33.pdf

Links for further reading

Additional links to be provided after the forum.

D. Loan Guarantee Program

DOE issues Loan Guarantees for projects that:

- Avoid, reduce or sequester air pollutants or anthropogenic emissions of greenhouse gases
- Employ new or significantly improved technologies as compared to commercial technologies in service in the United States

The loan guarantee covers only up to 80% of the total project cost, excluding R&D and subsidy costs, for the shorter of 90% of the project lifecycle or 30 years. The total allocated to the program is $8.5 billion, with an additional $2.5 billion allocated for subsidy cost for 1705 eligible applications. Solar is among the 1705 eligible applications.

Loan guarantees fees:

Application (First Fee) Loan Guarantee Amount	Total application fee amount	25% of application fee due with Part I submission	75% of application fee due with Part II submission
$0- $150m	$75,000	$18,750	$56,250
$150m - $500m	$100,000	$25,000	$75,000
$500m +	$125,000	$31,250	$93,750

Loan Guarantee Amount	Total Fee Amount*
$0- $150m	1% of the guaranteed amount
$150m - $500m	$375,000 + 0.75% of the guaranteed amount
$500m +	$1,625,000 + 0.50% of the guaranteed amount

Loan Guarantees, Subsidy Cost Eligibility, Technology Categories {Information from Report}

References

References to be provided after the forum.

Links for further reading

Additional links to be provided after the forum.