TAX INSIGHTS

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DOUBLE DOWN ON GREEN

Protect the environment and lower taxes through conservation or renewable energy credits and incentives

Not only is Texas a leading provider of crude oil and natural gas, but the state's abundant sunlight and persistent winds offer businesses yet another opportunity to lead the nation by tapping renewable energy sources to power manufacturing plants, distribution centers and office buildings.

Despite the fact that Texas companies can leverage more than 80 federal, state and local incentive programs to defray the cost of purchasing and installing renewable energy systems and energy conservation equipment, executives in the Lone Star state are still leaving money on the table.

Renewable energy and conservation incentives and credits allow companies to demonstrate environmental stewardship, increase operating efficiencies and lower income taxes by defraying the cost of purchasing renewable energy and energy conservation equipment and systems. Unfortunately, the funds often go unused, and the programs won't last forever.

Laura Roman, tax and strategic business services partner, answers a few key questions about the opportunities to lower taxes and operating expenses, and positively impact the environment by taking advantage of underutilized conservation and renewable energy credits and incentives.

Why should companies consider switching to renewable energy or energy efficient building materials?

The benefits include the opportunity to lower energy consumption and utility bills by installing modern, energy-efficient manufacturing equipment, windows or HVAC systems, and the chance to promote a positive public image by launching green initiatives and supporting environmental stewardship. Plus, both tenants and building owners can utilize the incentive programs and reap the financial rewards. For example, the improvements help owners by boosting property values, while tenants benefit from increased energy efficiency, which ultimately reduces operating costs.

What types of incentives are available?

There are more than 54 federal and 28 state and local programs that can be used for equipment purchases or upgrades that reduce energy consumption or utilize solar, wind, ethanol and biodiesel energy. The programs include tax deductions; credits and exemptions; loans and grants; and rebates and performance-based incentives. For example, Texas businesses can qualify for commercial energy efficiency rebates, energy efficient incentive programs, green building corporate tax credits and sales tax exemptions for purchasing energy and water-efficient products. While the U.S. Treasury Department offers renewable energy grants for projects involving solar photovoltaics, landfill gas, wind, biomass, hydroelectric,

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geothermal, municipal solid waste, CHP/cogeneration, solar hybrid lighting, hydrokinetic, wave energy, and ocean and fuel cells using renewable fuels or micro turbines.

Best of all, executives don't have to commandeer large amounts of cash to complete the projects because companies can tap different programs to train employees, purchase equipment or pay for installation contractors. So, companies can still invest in that much-needed marketing program or software upgrade if they utilize renewable energy incentives and credits to hire renewable energy specialists, replace inefficient manufacturing equipment or install a new HVAC system.

How do the incentives provide financial benefits?

Essentially there are five areas where companies benefit.

- Gross income exclusions. Companies can deduct from gross income the full amount of incentive payments or grant funds they receive for qualified renewable energy or energy conservation projects f
- Dollar-for-dollar deductions. There are no sliding scales or phased-out deductions. Companies can use every dollar they invest in qualified renewable energy and energy conservation projects to reduce their tax liability.
- Accelerated depreciation. Under IRS 179D, companies can depreciate the cost of purchasing new plant and energy equipment at a faster rate than typically allowed. So, instead of taking 39 years to recover the cost of new lighting, HVAC system or building envelope, the owner of a 100,000-square-foot building can deduct up to $1.80 per square foot or up to $180,000 in the first year.
- Ancillary funding and allowances. Funding is available to hire specialized workers or train current employees on the use of renewable energy equipment and processes.
- Multiple opportunities. Companies can tap numerous incentives for each project including loans, performance-based incentives, deductions, tax exemptions and grants, as well as property and sales tax rebates.

Should executives be aware of any special qualifications or rules?

The incentive plans and tax codes are fairly straightforward, but there's no need to spend hours interpreting the criteria or deciphering nebulous clauses when a tax professional is intimately familiar with the nuances of each program. At the same time, a tax professional may help identify additional opportunities to complete the project without tapping cash reserves, and can often share tips and ideas from experience helping other companies navigate the process.

How can executives evaluate the ROI and choose the most advantageous projects?

Companies should discuss ideas and energy needs with architects, contractors and energy professionals so they can create a list of feasible projects and determine the costs for the various improvements. Review the list with an accountant, since he or she is familiar with the tax code and incentives, and can provide an estimate of the cash outlay and ROI. Finally, act now! Remember, it costs virtually nothing to investigate these opportunities, and there's no sense in waiting when the money to complete renewable energy or energy conservation projects is there for the taking.

Weaver has offices in Dallas, Fort Worth, Houston, Austin, San Antonio, Midland and Odessa.

CONTACT US

LAURA ROMAN, CPA, CMAP
Partner, Tax and Strategic Business Services

Laura.Roman@weaverllp.com
432.570.3030

Weaver has offices throughout Texas.
More at weaverllp.com