



THE GREENER SIDE OF TAXES



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Green has become the buzzword of choice for everyone from government officials to retail establishments to residential and commercial developers. In October, 2008 the State released the NJ Energy Master Plan. It identified four major energy challenges, if we continue with *business as usual*:

Challenge 1: The growth in the supply of electricity has not been keeping up with the growth in demand.

Challenge 2: The price of energy has increased substantially over the past few years, has become increasingly volatile, and these trends are expected to continue.

Challenge 3: Without action, our contribution to global warming and other pollutants will continue to increase.

Challenge 4: The State has much less authority over the supply and price of electricity than it used to.

The Master Plan introduces an alternative green scenario with the following goals:

Goal 1: Maximize energy conservation and energy efficiency.

Goal 2: Reduce peak electricity demand.

Goal 3: Strive to exceed the State's Renewable Portfolio Standard (RPS) and meet 30% of the State's electricity needs from renewable sources by 2020.

Goal 4: Develop a 21st century energy infrastructure.

Goal 5: Invest in innovative clean energy technologies and businesses to stimulate the industry's growth in NJ.

Governor Corzine directed that we reduce energy consumption at least 20% by 2020. Actions outlined in the Master Plan to achieve this goal include:

- Transition the State's current energy efficiency programs to be implemented by the electric and gas utilities; and achieve the desired results while remaining cost effective. These programs will emphasize a whole building approach to energy efficiency.
- Increase energy efficiency in new buildings with a statewide building code that will make new construction at least 30% more energy efficient than buildings under current State code by the end of 2009.
- Increase energy efficiency in existing buildings through enhanced energy efficiency standards for new appliances and other types of equipment currently not covered by existing standards beginning in 2009.

- Increase awareness about the importance of energy conservation and energy efficiency upgrades by developing an education and outreach program for the public. This will result in a shift in the way the State's consumers think about, and use energy.

It is clear that alternative sources of renewable energy will have a positive impact on the environment and save money in utility costs. Thanks to some new federal and state legislation, as well as extended legislation, some of that cost of going "green" may be offset by tax credits or other government programs.

FEDERAL TAX INCENTIVES

- **Business Energy Tax Credit** – Provides for a 30% credit for qualified fuel cell, solar energy (through 2016) and qualified small wind energy property. There is also a 10% credit available for other energy property, such as qualified microturbine and geothermal property. The credit for solar energy property is reduced to 10% after 2016. The Energy Credit is part of the General Business Credit and is reported on Form 3800. Keep in mind that the basis of the property must be reduced by 50% of the credit.
- **Energy Efficient Commercial Buildings Deduction** – A deduction is allowed for the cost of energy efficient commercial building property that is installed as part of the interior lighting systems, heating, cooling, ventilation, and hot water systems; or the building envelope. Generally, these costs would be depreciated over 39 years. However, this accelerated deduction is limited to the excess of the product of \$1.80 and the square footage of the building, over the aggregate amount of the deduction for all prior years. The energy efficient property only qualifies if it meets a 50% energy use reduction test, which must be certified by a "qualified individual" as defined in the code. This deduction is available through 2013.
- **New Energy Efficient Home Credit** – Provides a credit to eligible contractors who build new homes meeting certain energy saving requirements. The builder may generate a credit for up to \$2,000 per dwelling unit. The contractor's basis in the home is reduced by the amount of the credit. The expiration date is December 31, 2009.
- **Nonbusiness Energy Property** – Homeowners can also benefit from going "green." Installation of qualified energy improvements, such as certain insulation systems, exterior windows and doors; and metal roofs may provide up to a \$500 lifetime tax credit. Only \$200 of the maximum credit can be claimed for qualifying window expenditures. The credit is calculated at 10% of the cost of the energy efficient improvements. The Emergency Economic Stabilization Act of 2008 extended this credit to include the 2009 tax year.
- **Residential Energy Efficient Property** – A credit equal to 30% of the cost of qualified solar electric, solar water heating, fuel cell, small wind energy, and geothermal heat pump property is available to homeowners. Generally, the credit is limited to \$2,000. However, for qualified solar electric property purchased after 2008, there is no limitation.
- **Energy Conservation Subsidies Exclusion** – Taxpayers who receive a subsidy for the purchase or installation of any energy conservation measure from a public utility or participated in a public utility's energy conservation program are allowed an exclusion of any benefit received from income.

NJ TAX INCENTIVES

- **Property Tax Exemption for Renewable Energy Systems** – Legislation has recently been enacted to exempt renewable energy systems from property taxes. Taxpayers must obtain a certificate reducing the assessed value of their property by applying to their local property tax assessor.
- **Solar and Wind Energy Systems Exemption** – NJ fully exempts the purchase of solar and wind energy equipment from sales tax.

GRANTS, LOANS AND OTHER INCENTIVES

There are many little known financial incentives for “green” initiatives. Grant and loan programs, like the Rural Energy for America Program (REAP) which Congress enacted in May of 2008 and funded with \$55 million for the coming year, or the Energy Efficient Mortgage program (EEM) which is insured through the FHA and VA loan programs, will enable taxpayers in the commercial and residential sectors to invest in energy conservation and renewable energy production. The federal government also offers other types of incentives in the form of interest-free bonds, loan guarantees and other incentive payments.

The newly created Solar Renewable Energy Certificates, Energy Star programs and various state rebate programs will make energy conservation, as well as new energy-saving technology affordable to many businesses and residents, including low-income families. More details about all of these programs, as well as programs for other states can be found on the Database of State Incentives for Renewables & Efficiency (DSIRE) website at <http://www.dsireusa.org>. The NJ Master Energy Plan is available at http://nj.gov/emp/docs/pdf/081022_emp.pdf.

Considering the current political and economic climate, we are bound to see even more "green" incentives that encourage construction of green buildings and homes. With programs making energy efficiency more affordable, a quicker rebound in the NJ housing market could result.

As one of the leading accounting and consulting firms for the construction industry as well as a Master Sponsor of the New Jersey Builders Association, Cowan, Guteski & Co., P.A. provides clients with advice and counsel on tax credits that they may be entitled. Contact Dawn Greenberg, CPA – Tax Principal with the Construction Services Group at 732-349-6880 extension 118 or dgreenberg@cowanguteski.com to discuss your particular situation.

The technical information in this article is necessarily brief. No final conclusion on these topics should be drawn without further review and consultation. Please be advised that, based on current IRS rules and standards, the advice contained herein is not intended to be used, nor can it be used, for the avoidance of any tax penalty assessed by the IRS.

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