



## Energy tax incentives in the American Recovery and Reinvestment Act of 2009

The recently enacted "American Recovery and Reinvestment Act of 2009" (the 2009 economic stimulus act) includes a package of tax incentives to encourage investments in renewable energy projects or more-efficient technologies. I'm writing to give you an overview of these new provisions. Please call our offices for details of how the new changes may affect you, your investments, or your business.

**Long-term extension and modification of renewable energy production tax credit.** The new legislation extends the placed-in-service date for wind facilities for three years (through December 31, 2012). It also extends the placed-in-service date through December 31, 2013 for certain other qualifying facilities: closed-loop biomass; open-loop biomass; geothermal; small irrigation; hydropower; landfill gas; waste-to-energy; and marine renewable facilities.

**Temporary election to claim the investment tax credit in lieu of the production tax credit.** Facilities that produce electricity from solar facilities are eligible to take a 30% investment tax credit in the year the facility is placed in service. Facilities that produce electricity from wind, closed-loop biomass, open-loop biomass, geothermal, small irrigation, hydropower, landfill gas, waste-to-energy, and marine renewable facilities are eligible for a production tax credit, payable over a ten-year period. The Act provides a temporary election to claim the investment tax credit in lieu of the production tax credit.

**Business energy credit.** The new law enhances the business energy credit by eliminating the cap on small wind property and repealing the basis reduction requirement for subsidized energy financing.

**Energy-efficient existing homes.** The new law extends the tax credit for improvements to energy-efficient existing homes through 2010. For 2009 and 2010, the amount of the tax credit is increased from 10% to 30% of the amount paid or incurred by the taxpayer for qualified energy efficiency improvements during the tax year. The property-by-property dollar caps on the tax credit are also eliminated, and an aggregate \$1,500 cap applies to all property qualifying for the credit.

**Residential energy property.** The new law removes the dollar limitations on certain energy credits, e.g., for qualified small wind energy property (\$4,000 cap); for qualified solar water heating property (\$2,000 cap); and qualified geothermal heat pumps (\$2,000).

**Tax credits for alternative fuel pumps.** The new law provides an increase for 2009 and 2010 in the 30% alternative refueling property credit for businesses (capped at \$30,000) to 50% (capped at \$50,000).

**Credit for investment in advanced energy facilities.** The new law establishes a new manufacturing investment tax credit for investment in advanced energy facilities, such as facilities that manufacture components for the production of renewable energy, advanced battery technology, and other innovative next-generation green technologies.

**Grants in lieu of electricity production credit and energy credit.** Under current law, taxpayers are allowed to claim a production tax credit for electricity produced by certain renewable energy facilities and an investment tax credit for certain renewable energy property. These tax credits help attract private capital to invest in renewable energy projects. Current economic conditions have severely undermined the effectiveness of these tax credits. As a result, the new law allows taxpayers to receive a grant from the Treasury Department in lieu of tax credits. Most facilities are eligible for a 30% grant, but some (geothermal, qualified microturbine, combined heat and power,

and geothermal heat pump) qualify only for a smaller, 10% grant. To earn a grant, the facility must be placed in service in 2009 or 2010, or construction must begin in either of those years and must be completed prior to the termination of the credit.

**Vehicles.** The new law provides a tax credit for purchases of plug-in electric drive vehicles ranging from \$2,500 to \$7,500 depending on battery capacity. The new law also restores and updates the electric vehicle credit for plug-in electric vehicles that would not otherwise qualify for the larger plug-in electric drive vehicle credit and provides a tax credit for plug-in electric drive conversion kits.

**More funding for bonds.** The new law authorizes additional funds for new clean renewable energy bonds and qualified energy conservation bonds.

If you would like more details about these or any other aspects of the new law, please do not hesitate to call.

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