

You have asked me to analyze the tax benefits available to a building owner who installs a solar energy system in his building. The owner lives in one unit and rents out three other units in the building. Each unit is to have a system with an individual meter. The building is located within the city limits of the city of San Francisco. The units are to be installed and operable by December 31, 2008. You have asked me to focus on the applicable benefits available under federal tax law.

An individual who installs qualified solar energy equipment before January 1, 2009 is eligible for a residential solar tax credit under Internal Revenue Code (IRC) Section 25D. To qualify the property must be:

1. Depreciable
2. Generate energy for heat or cooling
3. Construction, erection and installation must be complete
4. The taxpayer must be the first person to use the system
5. The property must be certified for performance by the non-profit Solar Rating Certification Corporation or a comparable entity endorsed by the state of California

If these requirements are met the taxpayer may take a credit equal to 30% of the cost basis. The cost basis is reduced by any tax-exempt or subsidized financing used for the acquisition of the equipment. An individual is limited to a maximum credit of \$2,000.

A landlord who installs solar energy in his rental units is eligible for a business investment energy credit under IRC Section 48. The same requirements listed above must be met. The credit is equal to 30% of the cost basis of the equipment. The basis is reduced by any tax-exempt or subsidized financing used to purchase the equipment. There is no upper limit on the credit. The energy credit does not apply to qualified rehabilitation expenditures.

In addition to the energy credit, 50% bonus depreciation can be taken on the cost of the equipment less the 30% energy credit. The remaining basis is depreciated over a 5 year life. IRC Section 168(e) (3) (B).

To illustrate:

Solar energy equipment costing \$10,000 is installed in a rental unit.

A 30% energy credit of \$3,000 is available.

Bonus depreciation is allowed on the remaining basis: \$10,000 minus \$3,000 equals \$7,000. The bonus depreciation on this equipment is \$3,500.

The remaining basis is depreciated over a 5 year period. The first year of depreciation would be calculated as follows: Cost \$10,000 less credit of \$3,000 less bonus depreciation of \$3,500 equals \$3,500 times 20 percent, depreciation = \$700.00.

Solar Equipment Cost \$10,000
Credit \$3,000
Bonus Depreciation \$3,500
1st year depreciation \$700
Total first year tax benefits available \$7,200.

The tax savings will depend on the individual's tax bracket.

I have contacted the Legislative Aide for this area in the Franchise Tax Board. I will be asking her what we can expect in the near future in the way of California tax benefits.

The City of San Francisco does have incentives for installation of solar energy equipment. The incentives are available for owners of residences and for installation in a building which consists completely of rental property. I am doing further research to see what the treatment will be for a building in which one of the units is occupied by the owner.

I would be happy to assist you in any further analysis applicable to a specific set of facts for an individual taxpayer.

Sincerely,

Robert Brownstein CPA