



Business Energy Tax Credits

It has now been just over one year since the Inflation Reduction Act was signed into law. We thought this would be a good time to highlight some of the tax incentives available if you may be thinking about whether alternative energy technologies can help you in managing the cost of the energy used in your business.

There is a substantial federal income tax benefit called the “business energy credit” that applies to the acquisition of a wide array of alternative energy property. The credit is intended primarily for business users of alternative energy.

The business energy credit equals **6%** of the basis of the following types of property:

- (1) equipment, the construction of which begins before calendar year 2025, that uses solar energy to generate electricity for heating and cooling structures, for hot water, or for heat used in industrial or commercial processes (except for heating swimming pools). If property was placed in service before 2022, the credit rate is 26%.
- (2) equipment, the construction of which begins before calendar year 2025, using solar energy to illuminate the inside of a structure using fiber-optic distributed sunlight (or electrochromic glass, for property placed in service after Dec. 31, 2022). If property was placed in service before 2022, the credit rate is 26%.
- (3) certain fuel-cell property the construction of which begins before calendar year 2025. The credit cannot exceed an amount equal to \$1,500 for each 0.5 KW of capacity. If property was placed in service before 2022, the credit rate is 26%.
- (4) certain small wind energy property the construction of which begins before calendar year 2025. If property was placed in service before 2022, the credit rate is 26%.
- (5) certain waste energy property, the construction of which begins before calendar year 2025.
- (6) energy storage technology, the construction of which begins before calendar year 2025.
- (7) qualified biogas property, the construction of which begins before calendar year 2025.
- (8) microgrid controllers, the construction of which begins before calendar year 2025.
- (9) certain equipment, the construction of which begins before calendar year 2035, that uses the ground or ground water to heat or cool a structure, if construction begins before Jan. 1, 2033 and is placed in service after Dec. 31, 2021. If construction begins after Dec. 31, 2032 and before Jan. 1, 2034, the credit rate is 5.2%, further reduced to 4.4% for construction in calendar year 2034.

The credit equals **2%** of the basis of the following types of property:

- (1) certain equipment used to produce, distribute, or use energy derived from a geothermal deposit, the construction of which begins before calendar year 2025.
- (2) certain microturbine property, the construction of which begins before calendar year 2025.
- (3) certain cogeneration property, the construction of which begins before calendar year 2025.

Each of the above credit percentages is **multiplied five times** for a project if **one** of the following conditions is satisfied:

- (1) the project has a maximum net output of electrical or thermal energy less than 1 megawatt,
- (2) the taxpayer complies with (A) certain wage requirements (including for renovations and alterations for a five-year period after placement in service) and (B) apprenticeship program requirements for the project, or
- (3) the construction of the project begins less than 60 days after IRS issues guidance about the wage and apprenticeship program requirement.

There are also increases in the credit for use of domestic materials, for projects in certain energy communities or for certain "environmental justice" facilities.

However, there are several restrictions on the credit. For example, the credit isn't available for property acquired with certain types of non-recourse financing. Additionally, for property for which the credit is allowable, the "basis" (that is, the "tax cost" for computing depreciation deductions and gain or loss on disposition) is reduced by 50% of the allowable credit.

On the other hand, a favorable aspect of the credit is the possibility that, for the same property, the credit can sometimes be used in combination with other subsidies - for example, federal income tax expensing, state tax credits or utility rebates.

We are aware there are business considerations, unrelated to the availability of tax and non-tax subsidies, that can influence your decision whether to use alternative energy. For instance, you will want to be satisfied that you have a plan for managing the costs, in time and money, of maintenance and operation of the alternative property.

Further, if you choose to use alternative energy, you might choose to do so without owning the equipment, even though that would mean forgoing the business energy credit. For example, some contractors provide installation of solar equipment for free, keep ownership of the equipment and charge you for energy use in an arrangement that might work better for you than an acquisition subsidized by the tax credit (and, possibly, other benefits).

As you can see, there are many issues, both tax and non-tax, to consider in deciding whether to use alternative energy and the terms on which you might choose to use it. We would be pleased to assist in resolving these alternative energy issues.

This alert covers only some of the tax rules related to business energy credits that could potentially benefit you, your family and your business. The tax rules in this area are complex and there are many issues to consider in deciding whether to use alternative energy. Please contact us if you have questions, want more information, or would like us to help you with a specific business energy credits situation, so that by working together we can deliver the best tax results for you.

**Tax Tips and Tax Newsletters are now available on our website-
Click Below for Updates!**

[WEEKLY TAX TIPS](#)

[TAX BUSINESS NEWSLETTER](#)

[MONTHLY CLIENT UPDATE](#)

Traphagen CPAs & Wealth Advisors

SUCCESS
VISION | CARE | TRUST

201-262-1040
www.tfgllc.com



Traphagen CPAs & Wealth Advisors | 234 Kinderkamack Road, Oradell, NJ 07649

[Unsubscribe marissa@tfllc.com](mailto:marissa@tfllc.com)

[Update Profile](#) | [Constant Contact Data](#)
[Notice](#)

Sent by carolynn@tfllc.com powered by



Try email marketing for free today!