DAVID STERLING

Tax incentives manufacturers can use to cut costs and improve energy efficiency

The Internal Revenue Code provides three tax incentives to encourage the environmentally sustainable use of energy: the energy-efficient commercial building property deduction; the alternative fuel credit; and the qualified alternative fuel vehicle refueling property tax credit.

Manufacturers should consider these tax incentives when they evaluate the cost savings they can realize by improving the environmental sustainability of their energy usage.

Energy-efficient commercial building property deduction

Internal Revenue Code allows a deduction for all or part of the cost of energy-efficient commercial building property placed in service after December 31, 2005 and before January 1, 2014.

Energy-efficient commercial building property includes:

1. Interior lighting systems;
2. Heating, cooling, ventilation and hot water systems; and
3. The building envelope.

To qualify as energy-efficient commercial building property, a qualified professional must certify that building improvements will reduce the total annual energy and power costs of the building's heating, cooling, ventilation, hot water, and interior lighting systems by 50 percent or more when compared to a similar reference building that meets minimum specified energy standards described in Standard 90.1-2001, Energy Standard for Buildings Except Low-Rise Residential Buildings, of the American Society of Heating, Refrigerating, and Air Conditioning Engineers and the Illuminating Engineering Society of North America.

The deduction is the lesser of: (1) the cost of the energy-efficient commercial building property placed in service during the tax year or (2) $1.80 per square foot of the building space, reduced by all deductions claimed with respect to the building in any prior tax years.

If the overall 50 percent energy reduction standard is not satisfied, but improvements to one of the three energy-efficient commercial building property types described above reduce energy usage by 16 2/3 percent, then the cost of the improvements to that particular subsystem may also be deducted in the tax year placed in service. However, the deduction is limited to 60 cents per square foot of building space less total deductions claimed in prior tax years.

The deduction is claimed by the taxpayer who is entitled to depreciate the property (e.g., the owner of the building or a lessee who pays for and installs the property). Improvements to a residential rental building qualify for the deduction if it has four or more stories above ground level.

The basis of any property generating a deduction must be reduced by the amount deducted and depreciation may not be claimed on any amount that is deducted under this provision.

Alternative fuel credits

A $0.50 per gallon alternative fuel credit can be claimed by a producer or user of alternative fuel for use in a motor vehicle or motorboat. In the case of a nonliquid fuel, the credit is based on the gasoline gallon equivalent of such fuel.

The purchase of alternative fuel that is delivered in portable containers for use in a forklift (e.g., propane), is eligible for the credit.

A business that produces an alternative fuel mixture for sale or use in its business may also be eligible for an alternative fuel mixture credit. An alternative fuel mixture is a mixture of taxable fuel (gasoline, diesel or kerosene) and alternative fuel. To qualify for this credit, the mixture must be sold or used as a fuel.

see **TAX INCENTIVES** *page 12*

David Sterling is Managing Director at RSM McGladrey. He can be reached by telephone at 847-413-6226 or email david.sterling@rsmi.com.

TAX INCENTIVES

Cont. from page 11

Alternative fuels include: liquefied petroleum gas (e.g., propane), compressed natural gas (CNG), liquefied natural gas, liquefied hydrogen, liquid fuel derived from coal (including peat) through the Fischer-Tropsch process, liquid fuel derived from biomass, and P Series Fuels (as defined under section 13211(2) of title 42 of the United States Code). Alternative fuel does not include ethanol, methanol, biodiesel, or renewable diesel.

A business must be registered by the Internal Revenue Service (IRS) in order to take the alternative fuel or alternative fuel mixture credit. Application for registration is made on Form 637.

The alternative fuel credit must first be taken on Schedule C of Form 720 to reduce any taxable fuel liability for alternative fuel and CNG. The alternative fuel mixture credit must also be taken first on Schedule C of Form 720 to reduce any taxable fuel liability for gasoline, diesel fuel, and kerosene. Any excess alternative fuel credit and alternative fuel mixture credit can be claimed on Schedule C of Form 720 or Form 4136.

A taxpayer must include the credit in gross income if the cost of the fuel (including excise tax) was claimed as a deduction.

Alternative fuel users should maintain the following records for each tax period the credit is claimed:

1. Gallons purchased and used;
2. Purchase dates;
3. Names and addresses of suppliers and amounts purchased from each supplier;
4. Nontaxable use for which the fuel was used; and
5. Gallons used for each nontaxable use.

Qualified alternative fuel vehicle refueling property tax credit

The American Recovery and Reinvestment Act of 2009 increased the qualified alternative fuel vehicle refueling property tax credit for qualified non-hydrogen-related property to 50 percent of the cost of qualified property placed in service by the taxpayer during tax years beginning in 2009 and 2010. The maximum dollar amount of the credit for such non-hydrogen-related property which is subject to an allowance for depreciation increases to $50,000. The maximum credit amount for non-hydrogen-related property not subject to an allowance for depreciation increases to $2,000 for these tax years. The $50,000 and $1,000 credit limits apply to each location where qualified alternative fuel property is installed.

The Energy Tax Incentive Act of 2008 added the qualified alternative fuel vehicle refueling property credit to encourage fuel distributors to develop more alternative refueling locations. The credit allowed was 30 percent of the cost of qualified alternative fuel vehicle refueling property placed in service by the taxpayer during the tax year. The maximum dollar amount of the credit that could be claimed in any one year was $30,000 for property subject to an allowance for depreciation and $1,000 for all other property.

Qualified alternative fuel vehicle refueling property is any property (other than a building or its structural components) used to store or dispense alternative fuel into a motor vehicle fuel tank, but only if the storage or dispensing is at the point where the fuel is delivered into the tank.

For purposes of the alternative fuel vehicle refueling property credit, an alternative fuel must meet one of the following tests:

1. At least 85 percent of the volume of the alternative fuel must consist of one or more of the following: ethanol, natural gas, compressed natural gas, liquefied natural gas, liquefied petroleum gas or hydrogen.
2. At least 20 percent of the volume of the alternative fuel must consist of biodiesel, and it must also include diesel fuel and/or kerosene.
3. For vehicles placed in service after October 3, 2008, electricity is an alternative fuel.

For hydrogen-related property placed in service after December 31, 2008, and before January 1, 2011, the credit percentage remains 30 percent. However, the maximum dollar limitation of the credit for such property, if it is subject to an allowance for depreciation, is increased to $200,000. The credit is claimed on Form 8911.

Conclusion

Adopting environmentally sustainable manufacturing processes is not only good for the environment but can lead to significant cost savings. Manufacturers looking to implement energy-efficient building improvements and alternative fuel usage should assess the benefits of the tax incentives for their specific situation. ■

Reprinted with permission from the Spring, 2009 issue of . . .

The Illinois Manufacturer

The Illinois Manufacturer is the official publication of the Illinois Manufacturers' Association (IMA)
220 East Adams Street • Springfield, Illinois 62701 • 217-522-1240 • Fax: 217-522-2367
1211 West 22nd Street • Suite 620 • Oak Brook, Illinois 60523 • 630-368-5300 • Fax: 630-218-7467
Visit http://www.ima-net.org/library/tim.cfm for editorial and advertising information