

Payments for Specified Energy/Property in Lieu of Tax Credits

Section 1603 of the American Recovery and Reinvestment Act of 2009 provides payments to eligible persons who place in service specified energy property and apply for such payments.

Eligible property under this program includes only property used in trade or business or held for the production of income.

By receiving payment under Section 1603 applicants are electing to forego tax credits under section 48 and 45 of the IRC with respect to that property.

Property must be placed in service in 2009 or 2010, or after 2010 if construction began in 2009 or 2010.

The U.S. Treasury will make payments equal to 10% or 30% of the basis of the property depending on the type of property.

For property placed in service in 2009 or 2010, applications must be made by October 1, 2011.

Persons not eligible:

1. Federal, state or local government
2. Tax exempt organizations
3. Any partnership or other pass-thru entity that has, as a partner, an ineligible person, unless that person's interest is held through a taxable C Corporation.

Qualified property must be originally placed in service between January 1, 2009 and December 31, 2010, unless construction has begun within that time period, and construction is complete by the credit termination date.

When test determines if construction has begun, safe harbor is when more than 5% of the total cost has been incurred.

Original use must begin with person applying for 1603 funds. Under a lease agreement, the lessor is considered the original user of the property, unless there is an agreement to pass the application opportunity to the lessee.

Eligible basis is determined in accordance with the general rules for determining the basis of property for federal income tax purposes. Thus, the basis of property is generally its cost unreduced by any other adjustments to basis, such as depreciation. Cost includes all items properly included by the tax payer in the depreciable basis of the property such as installation costs and freight.

Eligible basis is reduced by amounts deducted under section 179. It would seem that bonus depreciation does not reduce eligible basis.

A lessor who is eligible to receive a Section 1603 payment may elect to pass-thru the Section 1603 payment to a lessee.

The lessor and lessee must agree that the lessor waives all rights to a Section 1603 payment. The lessee must agree to include, notably in gross income over the five year recapture period, an amount equal to 50% of the amount of the Section 1603 payment.

If the applicant disposes of the property to a disqualified person, or the property ceases to qualify within five years from the date, the property is placed in service. The Section 1603 payment must be repaid as follows:

- 100% within 1 year
- 80% within 2 years
- 60% within 3 years
- 40% within 4 years
- 20% within 5 years

Benefits to 1603 Exchange Funds for a 9% LIHTC Transaction

	Without Basis Boost	With Basis Boost	Without Energy Credit
Qualified Expenditure	500,000	500,000	500,000
Credit Percentage	30%	30%	
Amount of Energy Credit	150,000	150,000	
Amount of 1603 Exchange	150,000	150,000	
Qualified Expenditure	500,000	500,000	500,000
Less Basis Adjustment	75,000	75,000	
Adjusted Basis	425,000	425,000	500,000
Basis Boost	-	1.30	0
Qualified Basis	425,000	552,500	500,000
Tax Credit Rate	9%	9%	9%
Tax Credit	38,250	49,725	45,000
Equity	65%	248,625	323,213
1603 Exchange	150,000	150,000	292,500
Total Funds Available	398,625	473,213	0

Benefits to 1603 Exchange Funds for a 4% LIHTC Transaction

	Without Basis Boost	With Basis Boost	Without Energy Credit
Qualified Expenditure	500,000	500,000	500,000
Credit Percentage	30%	30%	
Amount of Energy Credit	150,000	150,000	
Amount of 1603 Exchange	150,000	150,000	
Qualified Expenditure	500,000	500,000	500,000
Less Basis Adjustment	75,000	75,000	
Adjusted Basis	425,000	425,000	500,000
Basis Boost	-	1.30	0
Qualified Basis	425,000	552,500	500,000
Tax Credit Rate	3.45%	3.45%	3.45%
Tax Credit	14,663	19,061	17,250
Equity	65%	95,306	123,898
1603 Exchange	150,000	150,000	0
Total Funds Available	245,306	273,898	112,125

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Database of State Incentives for Renewables & Efficiency



2/21/10



Federal

Incentives/Policies for Renewables & Efficiency

Financial Incentives Corporate Deduction

- Energy-Efficient Commercial Buildings Tax Deduction

Corporate Depreciation

- Modified Accelerated Cost-Recovery System (MACRS) + Bonus Depreciation (2008-2009)

Corporate Exemption

- Residential Energy Conservation Subsidy Exclusion (Corporate)

Corporate Tax Credit

- Business Energy Investment Tax Credit (ITC)
- Energy-Efficient New Homes Tax Credit for Home Builders
- Renewable Electricity Production Tax Credit (PTC)

Federal Grant Program

- Tribal Energy Program Grant
- U.S. Department of Treasury - Renewable Energy Grants
- USDA - Rural Energy for America Program (REAP) Grants

Federal Loan Program

- Clean Renewable Energy Bonds (CREBs)
- Energy-Efficient Mortgages
- Qualified Energy Conservation Bonds (QECBs)
- U.S. Department of Energy - Loan Guarantee Program
- USDA - Rural Energy for America Program (REAP) Loan Guarantees

Industry Recruitment/Support

- Energy-Efficient Appliance Manufacturing Tax Credit
- Qualifying Advanced Energy Manufacturing Investment Tax Credit

Personal Exemption

- Residential Energy Conservation Subsidy Exclusion (Personal)

Personal Tax Credit

- Residential Energy Efficiency Tax Credit
- Residential Renewable Energy Tax Credit

Production Incentive

- Renewable Energy Production Incentive (REPI)

Rules, Regulations & Policies Appliance/Equipment Efficiency Standards

- Federal Appliance Standards

Energy Standards for Public Buildings

- Energy Goals and Standards for Federal Government

Green Power Purchasing

- U.S. Federal Government - Green Power Purchasing Goal

Interconnection

- Interconnection Standards for Small Generators

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Illinois

Incentives/Policies for Renewables & Efficiency

Financial Incentives Green Building Incentive

- Chicago - Green Permit Program

Local Grant Program

- Chicago - Small Business Improvement Fund

PACE Financing

- Local Option - Contractual Assessments for Renewable Energy and/or Energy Efficiency

Private Grant Program

- Illinois Clean Energy Community Foundation Grants

Production Incentive

- Illinois Solar Energy Association - Renewable Energy Credit Aggregation Program

Property Tax Incentive

- Commercial Wind Energy Property Valuation
- Special Assessment for Solar Energy Systems

Sales Tax Incentive

- Sales Tax Exemption for Wind Energy Business Designated High Impact Business

State Bond Program

- Illinois Finance Authority Renewable Energy Project Financing

State Grant Program

- DCEO - Biogas and Biomass to Energy Grant Program
- DCEO - Energy Efficient Affordable Housing Construction Program
- DCEO - Public Sector New Construction and Retrofit Program

State Rebate Program

- DCEO - Large-Customer Energy Analysis Program (LEAP)
- DCEO - Public Sector Electric Efficiency Programs
- DCEO - Solar and Wind Energy Rebate Program
- Illinois - Residential Energy-Efficient Appliance Rebates

Utility Rebate Program

- Ameren Illinois Utilities - Grocery, Convenience, Warehouse Incentives Program
- Ameren Illinois Utilities - Large Business Energy Efficiency Incentive Program
- Ameren Illinois Utilities - Multi-Family Properties Energy Efficiency Rebate Program
- Ameren Illinois Utilities - Residential Energy Efficiency Rebates

- Ameren Illinois Utilities - Small Business Energy Efficiency Incentive Program
- City Water Light and Power - Commercial Energy Efficiency Rebate Programs
- City Water Light and Power - Residential Energy Efficiency Rebate Programs
- ComEd - Smart Ideas for Business Efficiency Program
- ComEd - Smart Ideas for Business New Construction
- ComEd - Smart Ideas for Your Home Efficiency Program
- Illinois Municipal Electric Agency - Electric Efficiency Program
- MidAmerican Energy - Commercial EnergyAdvantage Rebate Program
- MidAmerican Energy - EnergyAdvantage® New Homes Program
- MidAmerican Energy - Residential Energy Efficiency Rebate Programs
- Peoples Gas - Chicagoland Natural Gas Savings Program

Rules, Regulations & Policies Building Energy Code

- Chicago - Building Energy Code
- Illinois Building Energy Codes

Energy Standards for Public Buildings

- Energy Efficiency in State Government

Green Power Purchasing

- Illinois - Green Power Purchasing

Interconnection

- Interconnection Standards

Net Metering

- Illinois - Net Metering

Public Benefits Fund

- Energy Efficiency Trust Fund
- Renewable Energy Resources Trust Fund

Renewables Portfolio Standard

- Renewable Portfolio Standard

Solar/Wind Permitting Standards

- Statewide Renewable Energy Setback Standards

Related Programs & Initiatives Alternative Fuels and Advanced Vehicles Data Center

The U.S. Department of Energy's Alternative Fuels and Advanced Vehicles Data Center (AFDC) provides a wide range of information and resources to enable the use of alternative fuels and other petroleum-reduction options, such as advanced vehicles, fuel blends, idle reduction and fuel economy. The AFDC site offers a database of state and federal laws and incentives related to alternative fuels and vehicles, air quality, fuel efficiency, and other transportation-related topics.

Green Power Network

The U.S. Department of Energy's Green Power Network provides news and information on green power markets and activities, including opportunities to buy green power. This site provides state-by-state information on green power marketing and utility green power programs. In addition, the site lists marketers of renewable energy credits (RECs), also known as green tags or renewable energy certificates, which represent the environmental attributes of the power produced from renewable energy projects.

Weatherization Assistance Program

The U.S. Department of Energy's Weatherization Assistance Program (WAP) enables low-income families

to reduce their energy bills by making their homes more energy-efficient. Through this program, weatherization service providers install energy-efficiency measures in the homes of qualifying homeowners free of charge. The WAP program web site offers a state-by-state map of opportunities, projects and activities.

Wind Powering America

The U.S. Department of Energy's Wind Powering America site provides state-by-state information on wind projects and activities, including wind working groups, validated wind maps, anemometer loan programs, small wind guides, state-specific news, wind for schools, workshops and web casts.

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Database of State Incentives for Renewables & Efficiency



2/21/10



Federal

Incentives/Policies for Renewables & Efficiency

U.S. Department of Treasury - Renewable Energy Grants

Last DSIRE Review: 07/31/2009

Program Overview:

State:	Federal
Incentive Type:	Federal Grant Program
Eligible Renewable/Other Technologies:	Solar Water Heat, Solar Space Heat, Solar Thermal Electric, Solar Thermal Process Heat, Photovoltaics, Landfill Gas, Wind, Biomass, Hydroelectric, Geothermal Electric, Fuel Cells, Geothermal Heat Pumps, Municipal Solid Waste, CHP/Cogeneration, Solar Hybrid Lighting, Hydrokinetic, Anaerobic Digestion, Tidal Energy, Wave Energy, Ocean Thermal, Microturbines
Applicable Sectors:	Commercial, Industrial, Agricultural
Amount:	30% of property that is part of a qualified facility, qualified fuel cell property, solar property, or qualified small wind property 10% of all other property
Maximum Incentive:	\$1,500 per 0.5 kW for qualified fuel cell property \$200 per kW for qualified microturbine property 50 MW for CHP property, with limitations for large systems
Web Site:	http://www.treas.gov/recovery/1603.shtml
Authority 1:	H.R. 1: Div. B, Sec. 1104 & 1603 (The American Recovery and Reinvestment Act of 2009)
Date Enacted:	2/17/2009
Date Effective:	1/1/2009
Authority 2:	U.S. Department of Treasury: Grant Program Guidance
Date Enacted:	07/09/2009

Summary:

Note: The American Recovery and Reinvestment Act of 2009 (H.R. 1) allows taxpayers eligible for the federal business energy investment tax credit (ITC) to take this credit or to receive a grant from the U.S. Treasury Department instead of taking the business ITC for new installations. The new law also allows taxpayers eligible for the renewable electricity production tax credit (PTC) to receive a grant from the U.S. Treasury Department instead of taking the PTC for new installations. (It does not allow taxpayers eligible for the residential renewable energy tax credit to receive a grant instead of taking this credit.) Taxpayers may not use more than one of these incentives. Tax credits allowed under the ITC with respect to progress expenditures on eligible energy property will be recaptured if the project receives a grant. The grant is not included in the gross income of the taxpayer.

The American Recovery and Reinvestment Act of 2009 (H.R. 1), enacted in February 2009, created a renewable energy grant program that will be administered by the U.S. Department of Treasury. This cash grant may be taken in lieu of the federal business energy investment tax credit (ITC). In July 2009 the Department of Treasury issued documents detailing guidelines for the grants, terms and conditions and a sample application. There is an online application process, and applications are currently being accepted. See the program web site for more information, including answers to frequently asked questions.

Grants are available to eligible property* placed in service in 2009 or 2010, or placed in service by the specified credit termination date,** if construction began in 2009 or 2010. The guidelines include a "safe harbor" provision that sets the beginning of construction at the point where the applicant has incurred or paid at least 5% of the total cost of the property, excluding land and certain preliminary planning activities. Below is a list of important program details as they apply to each different eligible technology.

- **Solar.** The grant is equal to 30% of the basis of the property for solar energy. Eligible solar-energy property includes equipment that uses solar energy to generate electricity, to heat or cool (or provide hot water for use in) a structure, or to provide solar process heat. Passive solar systems and solar pool-heating systems are *not* eligible. Hybrid solar-lighting systems, which use solar energy to illuminate the inside of a structure using fiber-optic distributed sunlight, are eligible.
- **Fuel Cells.** The grant is equal to 30% of the basis of the property for fuel cells. The grant for fuel cells is capped at \$1,500 per 0.5 kilowatt (kW) in capacity. Eligible property includes fuel cells with a minimum capacity of 0.5 kW that have an electricity-only generation efficiency of 30% or higher.
- **Small Wind Turbines.** The grant is equal to 30% of the basis of the property for small wind turbines. Eligible small wind property includes wind turbines up to 100 kW in capacity.
- **Qualified Facilities.** The grant is equal to 30% of the basis of the property for qualified facilities that produce electricity. Qualified facilities include wind energy facilities, closed-loop biomass facilities, open-loop biomass facilities, geothermal energy facilities, landfill gas facilities, trash facilities, qualified hydropower facilities, and marine and hydrokinetic renewable energy facilities.
- **Geothermal Heat Pumps.** The grant is equal to 10% of the basis of the property for geothermal heat pumps.
- **Microturbines.** The grant is equal to 10% of the basis of the property for microturbines. The grant for microturbines is capped at \$200 per kW of capacity. Eligible property includes microturbines up to two megawatts (MW) in capacity that have an electricity-only generation efficiency of 26% or higher.
- **Combined Heat and Power (CHP).** The grant is equal to 10% of the basis of the property for CHP. Eligible CHP property generally includes systems up to 50 MW in capacity that exceed 60% energy efficiency, subject to certain limitations and reductions for large systems. The efficiency requirement does not apply to CHP systems that use biomass for at least 90% of the system's energy source, but the grant may be reduced for less-efficient systems.

It is important to note that only tax-paying entities are eligible for this grant. Federal, state and local government bodies, non-profits, qualified energy tax credit bond lenders, and cooperative electric companies are not eligible to receive this grant. Partnerships or pass-thru entities for the organizations described above are also not eligible to receive this grant, except in cases where the ineligible party only owns an indirect interest in the applicant through a taxable C corporation. Grant applications must be submitted by October 1, 2011. The U.S. Treasury Department will make payment of the grant within 60 days of the grant application date or the date the property is placed in service, whichever is later.

* *Definitions of eligible property types and renewable technologies can be found in the U.S. Code, Title 26, § 45 and § 48.*

** *Credit termination date of January 1, 2013, for wind; January 1, 2014, for closed-loop biomass, open-loop biomass, landfill gas, trash, qualified hydropower, marine and hydrokinetic; January 1, 2017, for fuel cells, small wind, solar, geothermal, microturbines, CHP and geothermal heat pumps.*

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