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CPAs & BUSINESS ADVISORS

THE RISE OF THE CLIMATE ECONOMY 2.0

Energy Credits and Incentives in the Build Environment

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Shawn Deluhery

Director, Tax Credits, Incentives, & Strategy

sdeluhery@eidebailly.com

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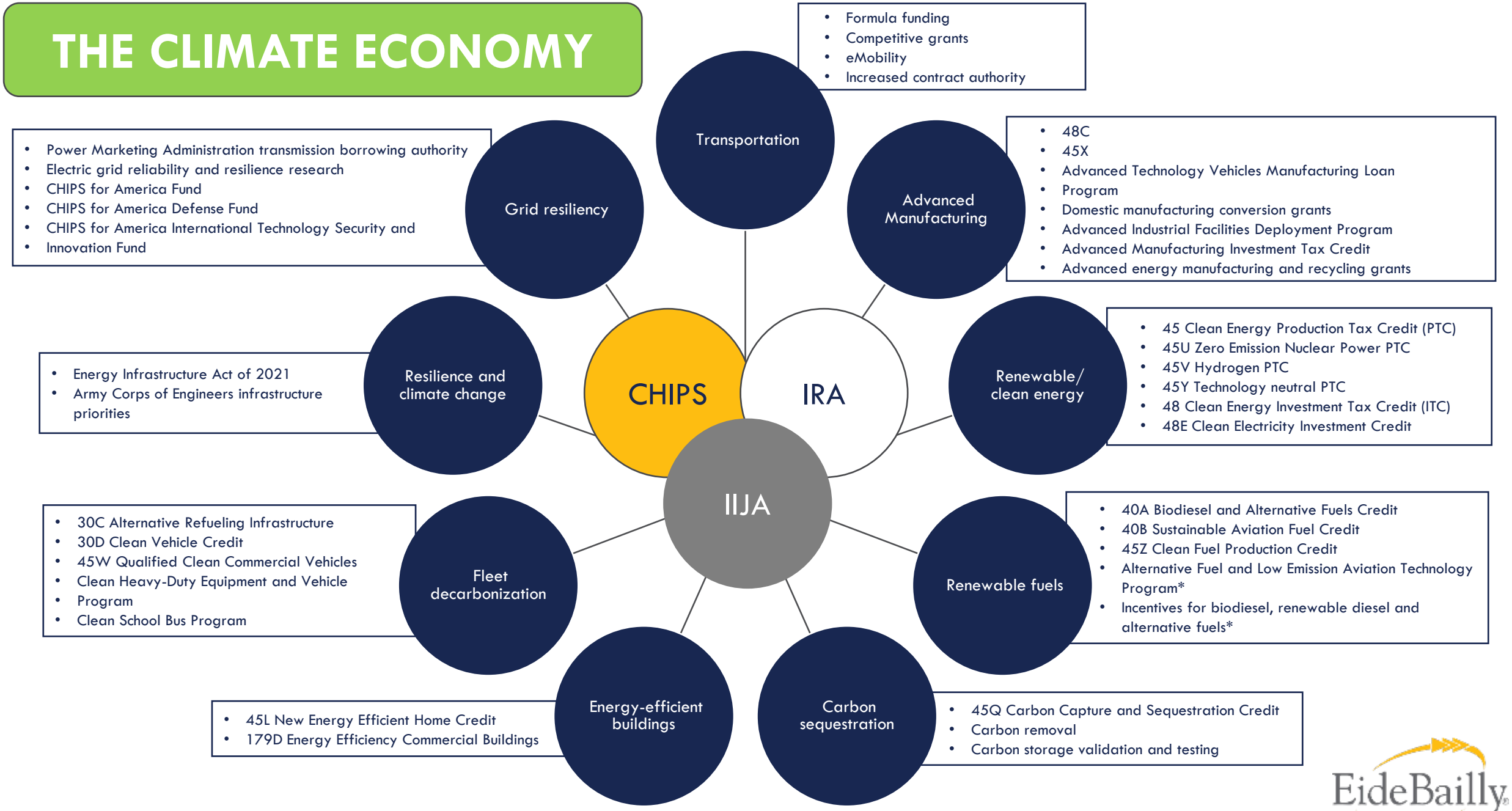
THE CLIMATE ECONOMY

$560 billion of energy incentives according to the Congressional Budget Office

$1.7 trillion of energy incentives according to private reports


CO2
CO2
CLIMATE ECONOMY
10 Years of Materiality
10 Years of Availability

THE CLIMATE ECONOMY



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COME TOGETHER

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Strategic Relationship Collaboration

Discovery
Programming

- Understand the sustainability and energy efficiency goals of the construction project
- Provide education sessions on the energy tax incentives in the Inflation Reduction Act and other relevant laws and regulations
- Collaborate on Request for Proposals
- Collaborate with your CPA or attorney
- Co-present and sponsor webinars and conferences

Create a strategy and lay a foundation to account for energy incentives on capital projects

Phase 1
Design

- Dashboard energy incentives for renewable, energy efficiency and decarbonization projects
- Assist with alternate bids for energy property that reflects the potential credit or rebate
- Produce an assessment memorandum detailing energy incentive options and ranges of Investment and Production Tax Credits
- Advise on prevailing wage and apprenticeship requirements in the Inflation Reduction Act

Customize a plan to maximize energy incentives that align with sustainability objectives

Phase 2
Construction

- Identify energy property already being constructed that qualify for incentives
- Document increased credit percentages and utilize tax accounting methods to maximize basis for incentive calculations
- Draft IRS forms, statements, and elections to claim the credits included in supporting deliverables
- Run energy models and certify the 179D Energy Efficient Building Deduction

Implement the energy incentive strategy with a turnkey approach

“We have money and momentum.”

- Robin Carnahan, Administrator of the U.S. General Services Administration

ENERGY INCENTIVE PROGRAM

Clean Energy Investment Tax Credit (Section 48)

Investment in equipment that produces energy from alternative sources:

- Solar
- Wind
- Geothermal
- Fuel Cells
- Microturbines
- Combined heat and power systems
- Equipment that recovers waste energy
- Energy storage (batteries, ice)
- Biogas
- Microgrid controllers
- Electrochromic Glass

WHAT DO I GET?

- Basic credit = 6% of cost
- If wage rules met = 30% of cost
- If domestic content = + 10%
- If in a “energy community” + 10%
- Additional bonuses for solar and wind with an environmental justice allocation.

BONUS FOR CLEAN ENERGY INCENTIVES

- Low-income communities
- Energy communities
- Pay prevailing wages
- Use registered apprentices
- Meet domestic content requirements

5x BONUS

CLEAN ENERGY PROPERTY TAX CREDIT

The Formula

Credit Percentage

- Basic credit = 6%
- If wage rules met = 30%
- If domestic content = + 10%
- In energy community = + 10%
- Additional bonuses for solar and wind with an environmental justice allocation.

X

Basis Considerations

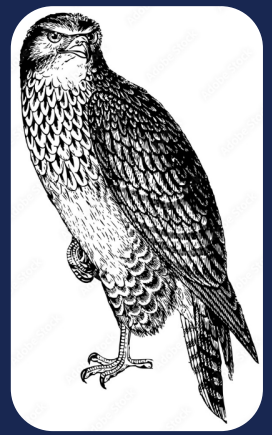
- Cost Segregation Needed
- Section 263A (UNICAP)
- Interconnected property
- Dual use property (TR 1.48-9)
- Basis reduction 50% of credit
- Tax-exempt bonds reductions
- Federal grant funding

BASIS X PERCENTAGE EXAMPLE

$800,000 x 6% = $48,000

$5,000,000 x 40% = $2,000,000

- Functional Interdependence Test
- Soft cost indirect spread (263A)
- Eligible bonus percentages
- Registration process



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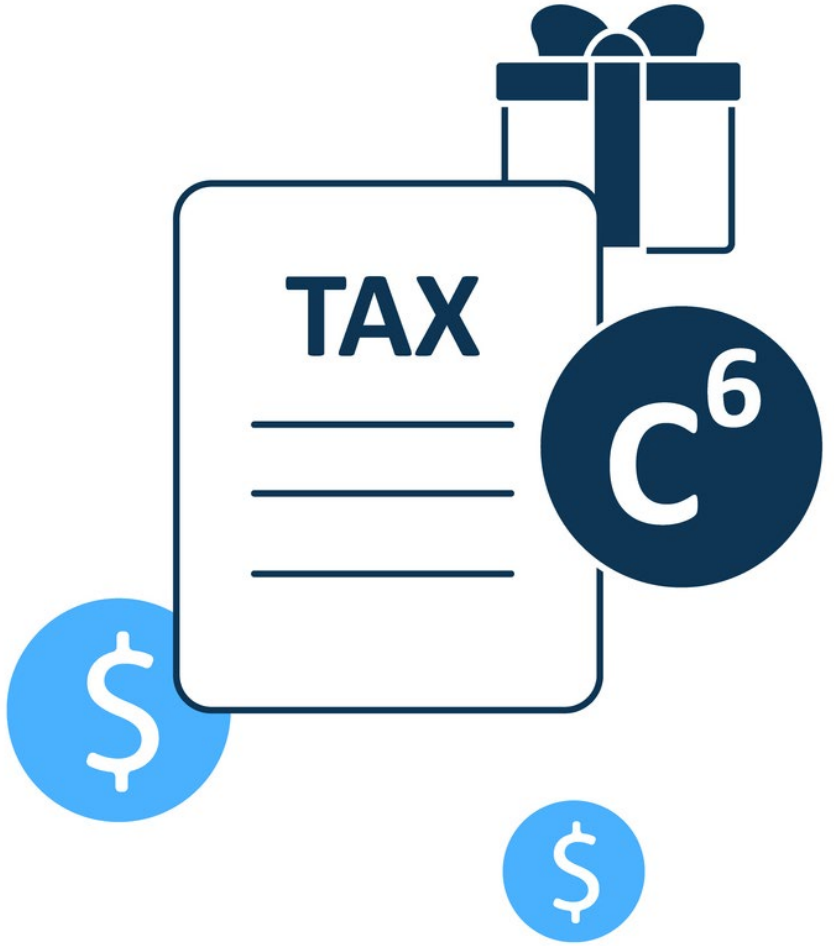
MONETIZING THE ENERGY CREDIT

- Registration Process
  - Placed in Service
  - 120 days before filing
- Annual Tax Filings
- Documenting timeline
  - Beginning of Construction
  - Placed in Service
- Recapture risk when energy credits are monetized:
  - Must hold the property for 5 years.



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INFLATION REDUCTION ACT – MONETIZING CREDITS

- Section 6417: Direct Pay
- Eligible for 1st 5 years:
  - 45V Clean Hydrogen
  - 45X Advanced Manufacturing Production
  - 45Q Carbon Oxide Sequestration
- Eligible Entities:
  - Tax-exempt
  - State or political subdivision
  - TN Valley Authority
  - Tribal Government
  - Alaska Native corporation
  - Rural Electrical Co-ops
  - Certain Partnerships and S Corporations
- Section 6418: Transferability
  - Everyone not listed in 6417
  - Transfer for Cash, cannot be resold
  - Buyer not eligible for direct pay
  - Proceeds not includable as income or expense
  - Passive vs Active treatment
  - Risk on Transferee
  - Consideration for tax insurance instrument

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QUALIFIED ENERGY PROPERTY

Clean Electricity Investment Tax Credit (Section 48E)

Investment in equipment that:

- Produces clean electricity
- Greenhouse Gas Emissions rate < 0
- Technology neutral

Investment in energy storage technology:

- Electrical
- Thermal
- Hydrogen

**Placed in service post 12/31/2024.*

QUALIFIED ENERGY PROPERTY

SECTION 48

Completely phases out:

- Combined heat and power systems (fossil fuel component)
- Microgrid controllers*
- Electrochromic Glass*
- Fiber optic solar*

Remains under Section 48:

- Geothermal (iii - produce, distribute, or use energy)

SECTION 48E

Produces Electricity:

- Solar
- Wind
- Equipment that recovers waste energy
- Energy storage
- Biogas
- Microturbines
- Fuel Cells

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PLANNING CONSIDERATIONS

DESIGN & PLANNING

1. Defining the scope of project, 30% designs
2. Identify qualifying energy property and estimate potential incentives.
3. Review and advise on increased percentage requirements.
4. Review bids regarding prevailing wage and apprenticeship.
5. Collaborate with design team on approach to collect supporting data.
6. Understanding financing impacts.

UNDER CONSTRUCTION

1. Monitor increased percentage requirements.
2. Track and/or review prevailing wage and apprenticeship.
3. Assist with any foot faults on increase credit percentages and bonus amounts.
4. Review domestic content data.
5. Monitor changes to project scope and impacts on incentives

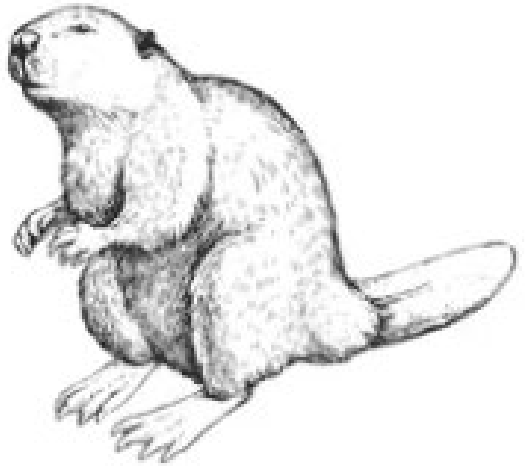
MOSTLY COMPLETE

1. Cost componentization analysis
2. Collect supporting data for increase credit percentage and bonus amounts.
3. Application and registration filings
4. Calculations
5. File and claim credits

THE CHARACTERS

Leadership

Owners, C-Suite, Controllers, Facility Engineers



Designer

Architect, Engineer, Contractor

Energy Incentive Consultant

CPAs, Professional Engineers, Lawyers

1 THE CHALLENGE

- Bidding process
- New behavioral health hospital
- 250,000 square feet
- $20M for the Heating, Ventilation and Air Conditioning System base bid
- HVAC choices were a natural gas-powered system or a geothermal one

The hospital wanted to be energy efficient and sustainable but did not have the funds to cover the $6,000,000 for the upgrade to a geothermal-powered system.

1 THE RESOLUTION

The moral of the story is to run an energy incentive assessment to help you, your board and your bank make decisions.

Leadership

- $7.8M incentive direct pay
- Covers $6M upgrade to geothermal
- $1.8M extra in direct pay
- Sustainable and Green
- Utility bill 10-year payback

Designer

- $1.25M deduction
- $600K more in designer fees from increased scope
- Goodwill from a happy client
- Right down main street for the Research & Development Credit (R&D)

2 THE CHALLENGE

- During construction
- $30M child crisis center
- $4M of electrical costs
- Solar panels were quoted at $1M

The non-profit had put this out to bid and started construction before the renewable legislation under the Inflation Reduction Act came out. They wanted to introduce a renewable(s) building. Solar panels were quoted at $1M.

2 THE RESOLUTION

The moral of the story is that it is not too late to have conversations with your design team about introducing a renewable.

Leadership

- $1.5M direct pay “rebate”
- Covers the solar panels
- $500K extra
- Sustainable and Green
- Utility bill 7-year payback

Designer

- $5/SF 179D deduction
- $1M solar scope increase
- Goodwill from a happy client
- Right down main street for the Research & Development Credit (R&D)

3 THE CHALLENGE

- Post construction for a school
- HVAC system uses thermal energy ice storage
- $800K on the thermal energy storage
- Placed into service on January 15, 2023

The school system had multiple capital improvement projects in 2023. They wanted to know if any of the building property was eligible for energy incentives.

3 THE RESOLUTION

The moral of the story is to look back at your capital projects that were placed into service in 2023.

Leadership

- $320,000 direct pay “rebate”
- Found money
- Sustainable and Green

Designer

- $500,000 deduction
- Goodwill from a happy client

4 THE CHALLENGE

- County in California
- $50M microgrid project
- Under construction with a completion date in 2025

The county municipality was considering a microgrid system for seven county buildings as a stand-alone electric grid. They were on the fence on when and if they should move forward.

4 THE RESOLUTION

The moral of the story is that timing is everything.

Leadership

- $20,000,000 direct pay “rebate”
- Electric grid upgrade
- Sustainable and Green

Designer

- Won a large project
- Goodwill from a happy client

5 THE CHALLENGE

- Manufacturer
- Distribution Addition
- Placed into Service in fall of 2023
- HVAC system is powered by geothermal

The manufacturer built a 126,000 SF addition to their existing facility. They wanted to offset as much taxable income as allowed.

5 THE RESOLUTION

The moral of the story is that the IRA energy incentives stack nicely with existing credit & incentive laws.

Leadership

- $1,800,000 in bonus deductions
- $400,000 credit for the geothermal
- $675,000 179D energy deduction

Designer

- Goodwill from a happy client

6 THE CHALLENGE

- Developer
- New retail building
- $1M of electrochromic glass

The developer built a new retail building that used electrochromic glass for the atrium façade. They were looking for credits to offset the upgrade to electrochromic glass.

6 THE RESOLUTION

The moral of the story is to run through the dozen+ of qualified clean energy equipment to see if the numbers make sense to introduce renewables or decarbonization projects in your developments.

Leadership

- $6,000,000 in bonus deductions
- $300,000 credit for the electrochromic glass (broke even on upgrade)
- $250,000 179D energy deduction
- Considering solar on future projects

Designer

- Goodwill from a happy client
- Scope increase of electrochromic glass

FINANCIAL CONSIDERATIONS

- Not all cost basis amounts are the same
- Extent of usage / productivity
- Cost investment now, credit and utility efficiency come later
- Grants
- Bonds / loans impact to energy credit
- Tax credit and the IRS

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WHAT WILL $1.7 TRILLION DO?

REWARD BEHAVIOR

CHANGE BEHAVIOR

THANK YOU!

Shawn Deluhery
Director, Energy Credits & Incentives
sdeluhery@eidebailly.com
612.253.6577

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eidebailly.com