

***“Reduce Emissions While Reducing Your Taxes”***

*By: Blake E. Christian, CPA, MBT*

December 2007

California has been both a contributor to global warming, as well as a true trend-setter in developing environmentally friendly solutions to the world’s pollution and energy concerns.

With a huge car-driving population, reliant on port operations for imported goods and raw materials, large numbers of diesel-spewing vehicles for transportation, and a large number of consumers of both business and personal goods, California represents a perfect Petri dish to see the worst and best of all forms of pollution as well as environmental and energy solutions.

The next decade will be very telling as to whether our actions back up our well-documented desire to operate our businesses, vehicles and residences in much more eco-friendly manners.

While routinely overlooked by many taxpayers, existing tax law provides an impressive variety of Incentive Tax Credits focused on pollution and energy reduction.

Since there is widespread agreement that we need to focus significant attention and hard dollars on reducing all forms of pollution and reduce our reliance on petroleum-based energy, it should follow that we also focus our efforts on ways to most cost-effectively implement pollution and energy control measures.

The Long Beach and Los Angeles Ports are leading the charge in adopting “green” action plans. The “Clean Truck” program, complete with cleaner burning Liquid Nitrogen Gas (LNG) port equipment and container trucks are already in use and will likely become the dominant transport vehicle in the coming years. A number of other area businesses are actively developing alternative fuel technologies.

Seal Beach based Clean Energy (a Boone Pickens company) opened the first LNG filling station in Carson earlier this month. This will likely be repeated throughout the region and state as the transportation industry adopts these cleaner-burning trucks. Certain components of both filling stations and alternative-fuel trucks are eligible for tax credits of up to 30% of the cost, thereby assisting those taxpayers that take the lead in adopting clean technologies.

Fortunately, there are numerous tax breaks already built into the state and federal tax statutes, including research and development credits and specific equipment credits, which can dramatically reduce the after-tax cost of reducing your business or residential carbon footprint.

The following benefits are currently available under the state and/or federal tax statutes:

**California Tax Breaks**

- 1) **Enterprise Zone Sales/Use Tax Credits** – any business operating in one of California’s 42 Enterprise Zones is eligible to claim an income/franchise tax credit equal to the sales or use tax paid on purchased or certain leased assets used in

manufacturing, processing, research & development, pollution control or energy conservation. Proposals to allow new or retro-fitted clean-burning vehicles to qualify for this California credit are also being evaluated. This benefit translates into an asset acquisition reduction in the 7% to 9% range at the state level, and these eligible assets often generate federal tax benefits.

- 2) **Research & Development Credits** – Available to taxpayers conducting in-house development of new technologies, including energy and pollution control. Combined federal and state credits up to 13% of incremental R&D expenditures.

### **Federal Tax Breaks**

- 1) **Energy Efficient Commercial Building Credits** – any business owning or leasing a commercial building that is 50% or more energy efficient than a standard building can take a credit of up to \$1.80 per square foot. Partial credits are also allowed to the extent the building meets energy efficiency standards (25% to 50% greater) with respect to lighting, HVAC or window/doors, etc.
- 2) **Hybrid Vehicles & Light Trucks/Fuel Cell Credits** – The credits range from \$250 to \$4,000 for qualifying hybrid passenger vehicles and \$1,000 to \$4,000 for fuel cell motor vehicles.
- 3) **Alternative Fuel Credits** – The credits range from \$2,500 to \$4,000 for vehicles less than 8,500 pounds, up to \$20,000 to \$32,000 for vehicles with a gross weight of more than 26,000 pounds. Efforts are underway to allow similar state credits.

#### **Other Federal Environmental Breaks:**

- Geothermal or Solar Energy Property Credit ranging from 10% and 30% potential credits respectively;
- Advanced “Lean Burn Technology” Vehicle credits ranging from \$400 to \$2,400 credits per vehicle;
- Certain shortened tax depreciable lives on pollution control equipment and current year “expensing” options for certain soil remediation costs.

While additional tax breaks are currently being considered at both the federal and state level, the aforementioned tax benefits should be fully evaluated by all taxpayers in order to implement the most environmentally friendly solutions in the most economically viable manner.

Those businesses that are leaning towards “doing the right thing”, but have economic concerns, will find these tax breaks to be very attractive and will often swing the pendulum in their favor for implementing the best long-term technology.

\*\*\*\*\*

***Blake Christian, CPA, MBT is a Tax Partner in the Long Beach office of HCVT LLP and is Co-Founder of National Tax Credit Group, LLC, a software development firm focused on location based federal and state tax incentives.***

You can reach Blake at 562-216-1800 or [blakec@hcv.com](mailto:blakec@hcv.com)