

Going Green Yields Big Tax Breaks

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

With its huge, car-driving population; large number of diesel-spewing, transportation vehicles; dependence on port operations for imported goods and raw materials; and reliance on technology, California represents a perfect Petri dish for generating the best and worst forms of pollution as well as creating potential solutions.

While routinely overlooked by many taxpayers, existing federal and state tax law provides an impressive variety of incentive tax credits focused on researching and developing alternative energy and other technologies, as well as for implementing pollution control and energy reduction measures.

With increased focus on reducing all forms of pollution as well as our reliance on petroleum-based energy, much discussion has centered on the ways to most cost-effectively implement these pollution and energy control measures.

The Long Beach and Los Angeles Ports are leading the charge in adopting "green" action plans with their "Clean Truck" program, which will replace over 5,000 diesel-powered tractors with ones burning cleaner fuels. Moreover, port operators are increasingly focused on ways to further clean up the air and water in the local region.

A number of Los Angeles and Orange County based businesses are actively developing cutting edge pollution control and alternative fuel technologies (e.g. fuel cells, bio diesel, co-generation plants, filtering options for ship and train smokestacks, low-sulfur bunker fuel for ships, etc.).

For example, Seal Beach based Clean Energy (a Boone Pickens company) opened the first LNG filling station in Carson in late 2007. 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. These federal tax credits can yield cost reductions of up to \$32,000 for each alternative fuel truck and up to \$30,000 for each Alternative Fuel Refueling Station. Since these new technologies are costly for "first adopters," these tax breaks are critical in encouraging taxpayers that take the lead in adopting clean technologies.

Fortunately, numerous other tax breaks are 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 most significant state and federal benefits currently available to California taxpayers are listed below.

California Tax Breaks

- Enterprise Zone Sales/Use Tax Credits – Any business operating in one of Cal-

ifornia's 42 Enterprise Zones (EZ) 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 (R&D), pollution control, or energy conservation. Additionally, most technology equipment such as computers, scanners, copiers, etc. are eligible for this credit.

This EZ sales/use tax credit reduces the cost of qualifying assets by 7% to 9% (at the state level), and these asset purchases may also generate federal tax benefits.

To qualify for the state tax credit,



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the assets must a) be used exclusively in the Enterprise Zone, b) generally be purchased from a California vendor, unless such property is not readily available from a local vendor, and c) have included sales/use tax in the purchase or lease price. Many businesses in the manufacturing and logistics sector may not be aware that certain newly purchased vehicles, equipment, or technology can qualify for this valuable credit.

Unfortunately, the EZ credit does not currently apply to equipment used both inside and outside of a zone such as container tractors that pick up cargo in the ports and deliver it to areas outside the EZ. Proposals to allow new or retro-fitted clean-burning vehicles to qualify for this California credit have been advanced in Sacramento, but the current budget crisis will likely not see this change adopted in the near future.

- EZ Hiring Credits – Businesses operating in any one of the 24 Southern California EZs (or 42 zones state wide) are also entitled to an extremely valuable employer hiring credit, which can generate annual tax benefits of up to \$12,500 per year for each "qualified employee." Generally 20% or more of the employees working for an EZ located business will qualify the employer for the EZ hiring credit.

- Research & Development Credits – Taxpayers developing new or improving existing technologies, including energy and pollution control may qualify for an R&D tax credit. These credits are modeled after the federal R&D credit but only apply to qualified research activity performed in California. Credits are also available for payments made to universities and other non-profit sci-

entific research organizations for basic research. State credits can exceed 6 cents for every qualifying dollar of expense and may be carried forward indefinitely. With a high concentration of aerospace, automotive, and tech-related companies in California, the R&D credit is the most utilized incentive credit in the state. However, a large number of taxpayers remain unaware of this significant benefit.

Federal Tax Breaks

- Research & Development Credits – In addition to R&D tax credits for developing new or improving existing technologies, or for basic research payments, a federal credit is available for payments made to qualifying energy research consortia. Federal R&D credits can reach 6.5 cents for every qualifying dollar of expense and may be carried back one year and forward twenty years. Combined federal and California R&D credits can exceed 13% of qualifying expenses.

- 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.

- Hybrid Vehicles & Light Trucks/Fuel Cell Credits – These credits range from \$250 to \$4,000 for qualifying hybrid passenger vehicles and \$1,000 to \$4,000 for fuel cell motor vehicles.

- Alternative Fuel Credits – These credits range from \$2,500 to \$4,000 for vehicles weighing less than 8,500 pounds, and from \$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.
- Biodiesel and Renewable Diesel Credits – Credits are available of up to \$1.50 per gallon of biodiesel which is used or sold by the taxpayer in its trade or business.

Other Federal Environmental Tax Breaks:

- Geothermal or Solar Energy Property Credit ranging from 10% and 30%, 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.

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 solution.

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