

# EMBRACE THE LONG-TERM VALUE OF SOLAR ENERGY

*Article by:*

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## Embrace the Long-Term Value of Solar Energy

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There are valuable short-term and long-term incentives available for incorporating a solar array in a facility, from significant tax deductions and tax credits to increased energy independence. Because of the current tax environment, we recommend giving strong consideration to the long-term value of the credits over the greater short-term value of the deductions.

The federal government offers an Advanced Energy Tax Credit of up to 30 percent of the cost of installing an energy system, and for the time being it can be taken as a cash grant in lieu of a credit. Ohio's Advanced Energy Fund offers a similar grant worth up to 50 percent of the cost or \$200,000. The federal grant/credit is reduced if the owner also accepts certain tax deductions that are available on energy systems.

The deductions are particularly valuable for owners who prioritize short-term cost savings. Recent federal legislation increased the amount of immediate expensing, so that as much as \$500,000 per year can be written off from qualifying purchases that total \$2 million or less in 2010 and 2011. And a project placed in service by the end of 2010 would be eligible for 50 percent bonus depreciation, thus accelerating the tax savings.

However, with marginal tax rates for individuals set to rise in 2011, it might be wise to delay those deductions. By declining the Section 179 deduction and claiming only normal depreciation this year, an owner will qualify for a larger credit or grant while also being able to claim more depreciation – and thus a larger deduction – in future years, when the tax liability figures to be larger; and the vendor will benefit from lower marginal tax rates on 2010 gross profit. Congress may even renew bonus depreciation for 2011. The solar array is a five-year asset for tax depreciation purposes.

In addition to the long-term tax savings that a solar-energy project can generate, it also reduces the owner's reliance on public utilities. For that reason, you should consider adding the largest array that your property can reasonably accommodate. A smaller array will cost less – you might be able to fund it completely through incentives, with no out-of-pocket costs – but it may generate less energy than your facility demands, which means you will have to purchase a significant amount of current and future energy from a public utility that may not be able to reduce its rates. If you choose to upgrade your array at a later date, the incentives that are available today might not be available then.

From financing to implementing the energy project, a bit of long-term strategy could mean major long-term savings.

For more information on the incentives that are available and how they fit your particular needs and opportunities, please contact me at [jmichel@barnesdennig.com](mailto:jmichel@barnesdennig.com) or call 513.241.8313.

## ABOUT THE AUTHOR

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### Industry Focus:

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## John F. Michel, CPA Director

John brings 25 years of experience in public accounting and a wide base of knowledge to Barnes Dennig, where he expands the firm's influence in areas of alternative energy assessment and financing.

Prior to joining Barnes Dennig, John spent 15 years as a national tax partner for a Global Six public accounting firm, offering tax advisory services to companies of various sizes and across multiple industries. He has worked with privately held and publicly traded companies, domestic and international, from start-up to more than \$1 billion in assets. As such, he can offer unique insights to a local company and is particularly valuable to a local company with a thirst for growth.

John has advised companies on deal structuring, project financing, procuring economic incentives, due diligence and tax consulting.

His articles have appeared in technical and industry journals, and he is a frequent source of insight for the mainstream media and to legislators and policy makers. He also serves on the board of directors of two privately held companies. He earned a Bachelor's degree in accounting and finance from Wright State University and a Masters in Taxation from the University of Cincinnati.