

# The Use of Solar Tax Credits to Finance Solar Power at a Place of Worship

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# Disclaimer

- *This presentation is not intended to provide legal advice, only to provide a high-level, elementary description of solar tax credits and one method of sale.*
- *Anyone considering the purchase of tax credits or their sale should consult with their own legal and financial advisors in advance.*

# Solar Tax Credits

- Section 48 of the Internal Revenue Code allows a 30% subsidy to encourage the installation of equipment to generate electricity from solar power – in the form of a tax credit.

# Tax Credit Value

- A tax credit is worthless in the hands of an organization that is exempt from federal income taxation.
- However, a tax credit has real value in the hands of a taxpayer. It directly reduces the amount of tax that would otherwise need to be paid.

# Making Use of the Subsidy Indirectly

In order to make use of tax credit subsidies, non-profits and other tax exempt organizations may sell their tax credits to a taxpayer.

The sale proceeds are then used to pay for the installation of solar arrays – successfully making use of the subsidy for its intended purpose.

# Who would buy a solar tax credit?

- C Corporations (regular, plain vanilla corporations)
- Banks with Community Reinvestment Obligations
- Individuals with “Passive Activity Losses”
  - Examples: real estate investors not involved in day to day management, or business owners actively involved for 500 hours or less/year



# Other Investor Benefits

- 30% solar tax credit may all be applied the first year the solar array is placed in service, or carried forward to future years
- 99% of depreciation also passes through to investors – on an accelerated schedule
- BUT, investor must remain part owner of the LLC for five years to keep the full tax credit

# How is the Sale Done?

- Creation of a limited liability company (LLC) with at least two owners.
- The LLC will be the legal owner of the solar array and is a taxable entity
- Typically, the religious organization where the solar array will be installed owns a 1% share of the LLC
- Investors own 99% of the LLC.



# LLC Operating Agreement

- Establishes financial arrangements among LLC owners in accordance with tax law
- Sets rules for running the LLC
- Appoints a Manager
- Sets record-keeping and accounting standards for the LLC
- Details when and how the LLC may be dissolved

# Where is Benefit to the Religious Organization?

- Contributes less \$ to install the solar array (or contributes same \$, but gets a larger array)
- Reduced carbon footprint
- Saves \$ on electric bill
- Sells excess energy to the electric company
- Ultimately becomes the sole owner – LLC is dissolved

# Example

- Cost of the Project
    - Solar array and installation \$51,000
    - Legal and accounting fees 5,000
    - \$56,000
  - Sources of Funds
    - Investor \$13,500
    - Church or other/donations 42,500
    - \$56,000
- Net: 24% savings to church (etc.)

# Caveat

- Selling Tax Credits requires experienced professionals to assist – complex tax rules must be followed
  - Accountant
  - Lawyer
- Annual accounting fees, property insurance, maintenance costs and taxes are ongoing costs to LLC.

# Caveat #2

- Must not offer or sell LLC shares to the general public
- Need to follow “private placement” rules of the Securities and Exchange Commission
- Not very difficult, but must be followed with care.

