



# Tax Incentive Based Financing Options for Renewable Energy

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# Concept:

Using non-competitive, economically valuable federal tax incentives to secure **tribal and private capital sources** to support financing and development and of renewable electricity

- *Investment Tax Credit, or*

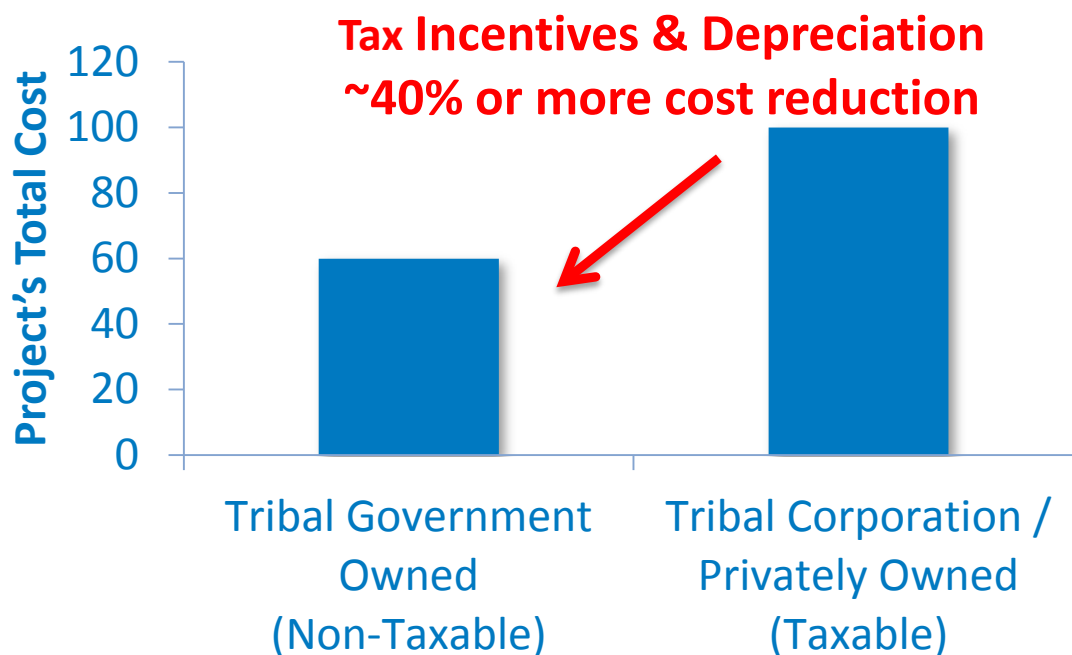
- *Production Tax Credit*

&

- *Depreciation*

# Why Seek Tax Incentive – Based Financing?

- Tax incentives (ITC/PTC and Depreciation) can represent up to half the project value, or reduce project's costs by **~40-50%** (capital or LCOE)
- Quick recovery of capital by financier – **5 or 6 years**
- Tribal ownership can be contractually structured as soon as year 6
- May be possible to combine with other forms of finance such as new market tax credits (NMTCs)



# Investment Tax Credit (ITC)

- One-time federal tax credit worth either 30% or 10% of project's eligible tax basis (by technology)
  - 30% ITC available for solar
- Schedule: Project must "start construction" to qualify by:

	2016	2017	2018	2019	2020	2021	2022
Solar Technologies	30%	30%	30%	30%	26%	22%	10%

- Example: 1 MW solar project costing \$2 M
  - Tax Credit = \$600,000 recovered in year 1 of project (\$2M x 30%)

For more information on the investment tax credit, see:  
<http://programs.dsireusa.org/system/program/detail/658>

# Production Tax Credit (PTC)

- 2.3¢ for every kWh generated for wind, geothermal for 10 years
  - 1.2 ¢/kWh for other renewable technologies
- Available for 10-years after project is built
- Schedule: Wind projects must “start construction” to qualify
  - Other Non-wind technologies placed in service by 12/31/16

	2016	2017	2018	2019	2020
Wind	100% (~2.3¢/kWh)	80% (~1.84¢/kWh)	60% (~1.38¢/kWh)	40% (~.92¢/kWh)	0%

- Example: 1 MW wind, costing \$1.5M with 35% capacity factor =
  - ~\$70k annually for 10 years = \$700k after 10 years

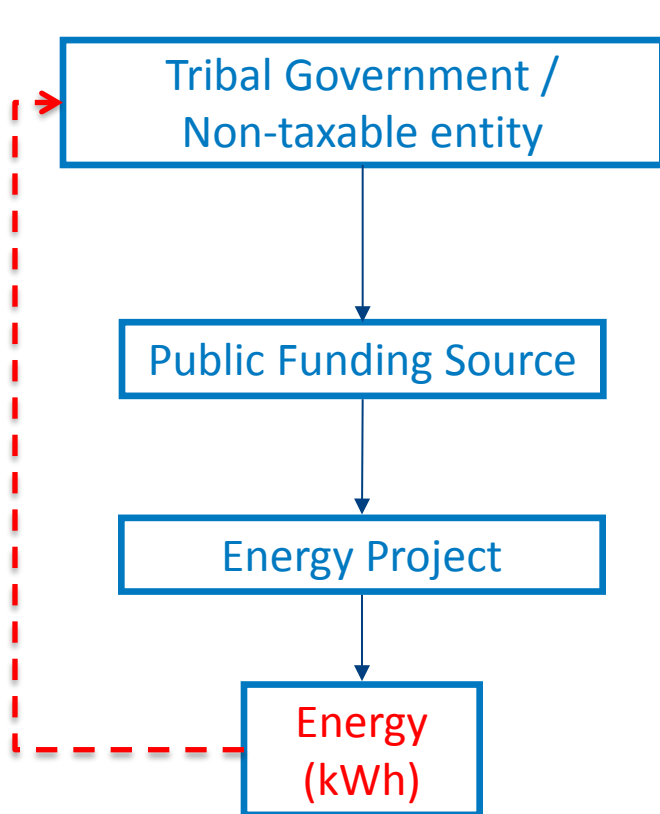
For more information on the production tax credit, see:  
<http://programs.dsireusa.org/system/program/detail/734>

# Tribal Non-Taxable Funding vs. Tax Equity Financing

Grant-based funding:

Primary Benefit:

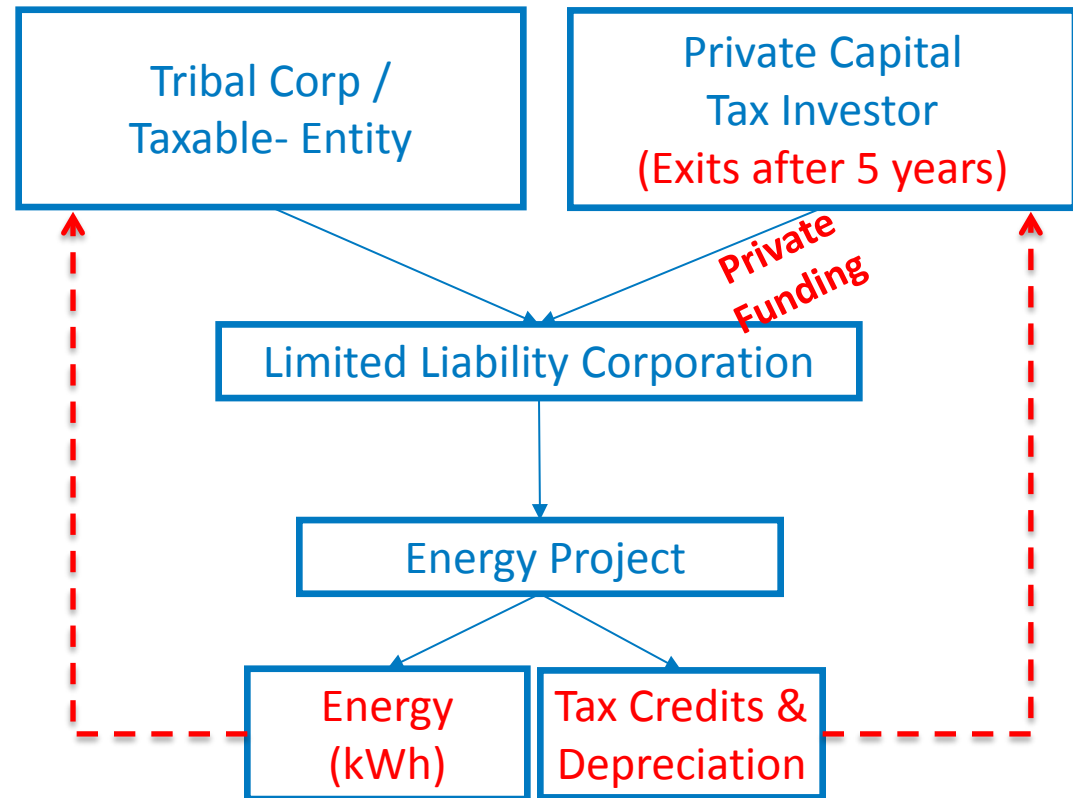
*Energy/Cost Savings*



Tax Equity Partnership

Primary Benefits:

*Energy / Cost Savings, and Valuable Tax Benefits*



# Challenges of Tax Credits and Tax-Equity Finance

1. Tax credits cannot be used efficiently by entities without significant tax liability
2. Transaction costs can be high – particularly at first
3. Need to find a tax equity partner
4. Investors generally want large projects or portfolio of projects (\$1-2 M min)

# More Information

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# Accelerated Depreciation

- **Modified Accelerated Cost Recovery System (MACRS)**
  - Allows for depreciation of assets over 5 years (instead of lifetime)
  - Allows owner to “write off” business expenses such as an energy project from taxable income
- **Available to all ITC or PTC eligible technologies**
- **MACRS Depreciation is IN ADDITION to ITC or PTC**
- **Example: 1 MW solar project costing \$2 M**
  - Depreciation = ~ \$400,000 recovered over years 1-6 of project