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Why solar energy is an excellent investment

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The start of 2013 marks a new and bright year for America as unemployment rate is going down, and the real-estate markets steadily climbing back; all part of the economy's slow path towards recovery. However, as the overall status of the economy climbs higher and higher, so does the taxes that come along with such momentum. In 2013, the expiration of the Bush-Era tax cuts will result in an increase in long-term capital gains taxes, from a maximum rate of 15% to a maximum rate of 20%, and a huge hike for short-term capital gains and rental income to a high of 39.5%. With such drastic increases in taxes for real-estate developers and owners, it comes as no surprise that many smart investors are looking for ways to hedge their money in smarter investments.

Invest Smartly: Investors, developers, and real-estate owners should not look at the new tax increase as an inevitable gloom that they have to burden, but rather look in the market for other ways that would minimize their tax liabilities, but still keep their money safe. Such alternatives only seem to exist in tax-haven countries, or for people that can afford million-dollar tax consultants that somehow figure out ways to maneuver money around to avoid the taxman. The reality is that they exist, and in the form of Business Energy Investment Tax Credit (ITC).

Why Solar? The ITC (originally signed by congress in 2009) is a tax credit awarded to owners of solar systems in the United States. This tax credit is equal to 30% of an entire solar system's cost, and is unlimited in amount. So if you own a \$1 million solar system, you would get \$300,000 in federal tax credits. So what about the remaining 70%? Solar systems not only generate a 30% ITC, but they are also considered to be depreciable asset class that falls under the 5-year Modified Accelerated Cost-Recovery (MACR) model. With all that said, there is almost enough tax credit for 50% of the solar systems cost. That means out of the \$1 million solar system, you get back about \$500,000 in avoided taxes.

Although solar offers a tremendously valuable opportunity to hedge one's income from taxes, it does provide a very safe residual form of revenue. Let's take that \$1,000,000 solar system that you own and lease it to somebody, a small business in the areas. You sell that business owner discounted electricity generated from your solar system and now you have a monthly revenue stream. With electric prices in New England at historic highs, and rising, this solar system would help generate about \$70,000 in electrical revenue. In addition to the electricity from the solar system, you are also eligible for Solar Renewable Energy Certificates (SREC); a virtual commodity minted by the State to system owners that can be sold at auction to utility generating companies. These SRECs are valued at \$285 for every megawatt hour of solar energy your system produces, which would equate to roughly \$108,000 per year.

With all these values added, your solar system pays for itself in less than 3 years with an average internal rate of return in Massachusetts around 18-20%, and hedge you \$500,000 in taxes that you would have had to pay anyways.

And Why Now? Although this investment strategy looks very appealing and no-brainer in many cases, it will not be here forever. The ITC is set to expire in 2016, and the SREC program has a fixed cap on participants. The SREC program in Massachusetts is already half full, and once it's filled, it won't be accepting any more participants. So before this exclusive club of low-risk and tax avoiding solar system owners close its doors, you should consider investing with money that you would already be paying to the government. After all, the Sun is the oldest and most reliable asset this Earth has.

Tom Wu is CEO of Invaleon Technologies, North Andover, Mass.

New England Real Estate Journal - 17 Accord Park Drive #207, Norwell MA 02061 - (781) 878-4540