
Contents

CHAPTER 1.....	1
General Explanation and Brief History of the Investment Tax Credit	1
Introduction.....	1
§1.01 Overview	1
§1.02 Brief History	2
§1.03 The Revenue Act of 1962.....	2
§1.04 Suspension of the Investment Tax Credit	2
§1.05 Tax Reform Act of 1969.....	3
§1.06 Revenue Act of 1971	3
§1.07 Tax Reduction Act of 1975	3
§1.08 Revenue Act of 1978	3
§1.09 Tax Reform Act of 1986.....	3
§1.10 1990 Revenue Recognition Act	3
§1.11 The Energy Policy Act of 2005	4
§1.12 Tax Relief and Health Care Act of 2006	4
§1.13 Emergency Economic Stabilization Act of 2008.....	4
§1.14 American Recovery and Reinvestment Act of 2009	4
§1.15 Who Can Use the Investment Tax Credit?	4
§1.16 Qualifying For the Investment Tax Credit.....	5
§1.17 How the Investment Tax Credit Helps Finance Projects.....	5
§1.18 How Permanent is the Investment Tax Credit?.....	6
CHAPTER 2.....	7
General Explanation and Brief History of the Production Tax Credit	7
Introduction.....	7
§2.01 Overview	7
§2.02 Brief History	8
§2.03 Energy Policy Act of 1992.....	9
§2.04 Tax Relief Extension Act of 1999	9
§2.05 Job Creation and Worker Assistance Act of 2002.....	9
§2.06 Working Families Tax Relief Act of 2004	10
§2.07 American Jobs Creation Act of 2004	10
§2.08 Energy Policy Act of 2005	10
§2.09 Tax Relief and Health Care Act of 2006.....	11
§2.10 Emergency Economic Stabilization Act of 2008	11
§2.11 American Recovery and Reinvestment Act of 2009	11
§2.12 Who Can Use the Production Tax Credit?	11
§2.13 Qualifying For the PTC.....	12
§2.14 How the PTC Helps Finance Projects	12
§2.15 How Permanent is the PTC?	13
CHAPTER 3.....	15
Taxpayers Who Can Use the Credit.....	15
§3.01 General Overview	15
§3.02 Individuals	15
§3.03 Nonrefundable Credits and Carry Back and Carry Forward Provisions	16
§3.04 Alternative Minimum Tax for Individuals	16
§3.05 Classification of the Underlying Business Activity	17
§3.06 Practical Considerations Regarding the Passive Activity Rules Applied to ITC and PTC Projects ..	18
§3.07 Tax Basis and At-Risk Considerations	18
§3.08 At-Risk Rules.....	19
§3.09 Inability for Individuals to Fully Fund Renewable Energy Projects	19
§3.10 Corporations	20

§3.11 S Corporations	20
§3.12 Personal Service Corporations (PSC)	20
§3.13 Closely Held Corporations	20
§3.14 Widely Held Corporations	21
CHAPTER 4.	22
Technical Income Tax Aspects of the Energy Investment Tax Credit	22
§4.01 Technical Overview	22
§4.02 Energy Credit Percentage	22
§4.03 Energy Property	23
§4.04 Disqualifying Uses	23
§4.05 Placed in Service Considerations	23
§4.06 Basis Reduction Requirement	24
§4.07 Recapture.	24
§4.08 Forbearance Agreements.	25
§4.09 Grant in Lieu of ITC	26
§4.10 Subsidized Energy Financing	26
§4.11 State Programs	27
§4.12 Renewable Energy Certificates	27
§4.13 Development Services Fees	28
§4.14 Construction Period Interest and Taxes	28
§4.15 Tax-Exempt Use Property	29
§4.16 IRS Reporting Requirements - Form 3468	30
§4.17 IRS Reporting Requirements - Form 3800	30
§4.18 At-Risk Rules.	30
§4.19 Power Purchase Agreements	31
§4.20 Leases	32
§4.21 IRC Section 7701(e) – Service Contracts	32
§4.22 Partnership Flip.	32
§4.23 Sale-Leaseback	33
§4.24 Lease Pass-Through / Master-Tenant / Inverted Lease.	34
§4.25 Economic Substance Doctrine	36
§4.26 Profit Motive	36
§4.27 Sacks v. Commissioner	36
§4.28 The ITC and the Low-Income Housing Tax Credit	37
CHAPTER 5.	39
Technical Income Tax Aspects of the Production Tax Credit	39
§5.01 Technical Overview	39
§5.02 Qualified Energy Resources – Defined.	39
§5.03 Qualified Facilities – Defined	40
§5.04 Claiming the Production Tax Credit	40
§5.05 Related Persons	40
§5.06 Original Placed-in-Service Date	41
§5.07 Inflation-based Adjustment	42
§5.08 Credit Phase-out – General	44
§5.09 Credit Phase-out – Reference Price.	44
§5.10 One-half Credit Rate Reduction for Certain Qualified Facilities	45
§5.11 Reduction for Government Grants, Tax-Exempt Bonds, Subsidized Energy Financing, and Other Tax Credits – General	45
§5.12 Grants	46
§5.13 Subsidized Energy Financing	46
§5.14 Any Other Credit Allowable	46
§5.15 Election to Claim the ITC	46
§5.16 Wind Facility – Defined.	48
§5.17 Wind Energy – Safe Harbor	48

§5.18 Wind Energy – Placed-in-Service Date	49
§5.19 Open-loop Biomass – Definition and Credit Amount	49
§5.20 Qualified Open-loop Biomass Facilities	50
§5.21 Open-loop Biomass Credit Period	50
§5.22 The 80/20 Rule	51
§5.23 Facility Defined – Open-loop Biomass	52
§5.24 Co-firing Defined	52
§5.25 Sales of Commingled Electricity	52
§5.26 Closed-loop Biomass – Defined	53
§5.27 Facility Defined – Closed-loop Biomass	53
§5.28 Geothermal Energy – Defined	54
§5.29 Geothermal Energy – Facility Defined	54
§5.30 Geothermal Energy – Credit Period	54
§5.31 Solar Energy – Defined	54
§5.32 Solar Energy – Facility Defined	54
§5.33 Solar Energy – Credit Period	55
§5.34 Small Irrigation Power	55
§5.35 Municipal Solid Waste – Defined	55
§5.36 Municipal Solid Waste – Facility Defined	56
§5.37 Municipal Solid Waste – Landfill Gas Facility	56
§5.38 Municipal Solid Waste – Trash Facility	56
§5.39 Qualified Hydropower Production – Defined	57
§5.40 Qualified Hydropower Production – Hydroelectric Dams	57
§5.41 Federal Energy Regulatory Commission	58
§5.42 Requesting Certification for Incremental Hydropower Production	58
§5.43 Qualified Hydropower Production – Hydroelectric Dams – Qualified Facility	59
§5.44 Qualified Hydropower Production – Nonhydroelectric Dams	59
§5.45 Qualified Hydropower Production – Nonhydroelectric Dams – Qualified Facility	60
§5.46 Marine and Hydrokinetic Energy	60
§5.47 Refined Coal – Defined	61
§5.48 Refined Coal – Qualified Emission Reduction Test	61
§5.49 Refined Coal – Facility Defined	62
§5.50 Refined Coal – Credit	62
§5.51 Indian Coal – Defined	62
§5.52 Indian Coal – Facility Defined	63
§5.53 Indian Coal – Credit	63
§5.54 Form 8835 – Renewable Electricity, Refined Coal, and Indian Coal Production Credit	63
§5.55 Electricity Sold to Certain Utilities Under Certain Contracts	63
§5.56 Renewable Energy Certificates	64

CHAPTER 6 65

Generally Accepted Accounting Principles for Renewable Energy Tax Credits	65
§6.01 Introduction	65
§6.02 Consolidated Method	66
§6.03 Equity Method	66
§6.04 Cost Method	67
§6.05 Impairment	68
§6.06 Allocation of Earnings – Hypothetical Liquidation at Book Value	69
§6.07 Consolidation of Variable Interest Entities	69
§6.08 <i>De Facto</i> Agent and Related Party	70
§6.09 Accounting for Investment Tax Credits (ITC) and Production Tax Credits (PTC)	72
§6.10 Accounting for Section 1603 Treasury Grants	73
§6.11 Accounting for State Subsidy Proceeds	74
§6.12 Depreciable Life of the Fixed Asset	75
§6.13 Deferred Tax Liabilities and Deferred Tax Assets	75
§6.14 Conclusion	76

APPENDIX A	77
Internal Revenue Code	77
§25D Residential energy efficient property	78
§38 General business credit	86
§39 Carryback and carryforward of unused credits	92
§45 Electricity produced from certain renewable resources, etc.	94
§45L New Energy Efficient Home Credit	109
§46 Amount of credit	113
§48 Energy credit	114
§48 Definitions; special rules. [Repealed]	121
§48C Qualifying Advanced Energy Project Credit	155
§49 At-risk rules	159
§50 Other special rules	163
§168 Accelerated cost recovery system	169
§179D Energy efficient commercial buildings deduction	205
§465 Deductions limited to amount at risk	210
§469 Passive activity losses and credits limited	220
§1409 of the Health Care and Education Affordability Reconciliation Act of 2010	234
§7701(e) Definitions	238
§7701(o) Definitions	241
APPENDIX B	243
Federal Regulations	243
Reg §1.48-4. Election of lessor of new section 38 property to treat lessee as purchaser.	244
Reg §1.269-2. Purpose and scope of section 269	256
APPENDIX C	257
IRS Revenue Procedures	258
Rev. Proc. 2001-28 Leveraged Leases	258
Rev. Proc. 2007-65 Electricity Produced From Certain Renewable Resources —	
Wind Energy — Safe Harbor For Allocation Of Credit By Partnership	265
Rev. Rul. 94-31 Electricity Produced From Wind Energy Under Section 45	270
Rev. Rul. 2006-9 Electricity Produced From Certain Renewable Resources	272
IRS Notices	274
Notice 2006-88 Electricity Produced From Certain Renewable Resources — Open-Loop Biomass. . .	274
Notice 2008-60	279
Notice 2009-52 Election of Investment Tax Credit in Lieu of Production Tax Credit; Coordination	
With Department of Treasury Grants for Specified Energy Property in Lieu of Tax Credits	
IRS Announcements	288
Announcement 2009-69	288
IRS Private Letter Rulings	290
Private Letter Ruling 200202048 – Pertaining to §45 of the Internal Revenue Code	290
Private Letter Ruling 200311021 – Regarding §45 of the Internal Revenue Code	296
Private Letter Ruling 200334031 – Requesting as to When Each	
Wind Turbine Generator in a Project is “Placed In Service.”	299
Private Letter Ruling 200439038 – Requesting Rulings on	
Behalf of Project Regarding Qualification for Tax Credits	306
Private Letter Ruling 200609001 – Requesting Ruling Regarding	
Holdco’s Qualification for Tax Credits	309
Private Letter Ruling 200609002 – Requesting Ruling Regarding	
Holdco’s Qualification for Tax Credits	314
Private Letter Ruling 200820011 – Requesting Ruling Under §48 of the Internal Revenue Code	320

APPENDIX D	322
IRS Forms	322
3468 - Investment Credit	323
3800 - General Business Credit	333
4255 - Recapture of Investment Credit	340
8835 - Renewable Electricity, Refined Coal and Indian Coal Production Credit	342
APPENDIX E	346
GAAP Guidance	346
Statement of Position 78-9 Accounting for Investments in Real Estate Ventures	347
Helpful GAAP Links	360
APPENDIX F	361
Section 1603 Guidance	361
Payments for Specified Energy Property in Lieu of Tax Credits	362
Sample Application	382
FAQ	390
APPENDIX G	400
Research and Analysis	400
PTC, ITC, or Cash Grant?: An Analysis of the Choice Facing Renewable Power Projects in the United States	401
U.S. Energy: Overview and Selected Facts and Numbers	422
Journal of Tax Credits: The Current – What is “Fair Market Value” After Announcement 2009-69? (January 2010)	461
Journal of Tax Credits: The Current – Treasury Provides Section 1603 Guidance in 35 Q&As (March 2010)	466
Journal of Tax Credits: The Current – You, Me and the Federal Assignment of Claims Acts (April 2010)	470
Journal of Tax Credits: The Current – Codification of the “Economic Substance Doctrine”— What Does it Mean for Energy Tax Credit Transactions? (May 2010)	474
Journal of Tax Credits: The Current – Placed in Service After 2010 – What Do I Do To Qualify for a Grant? (June 2010)	478
Journal of Tax Credits: The Current – Related Parties, Soft Costs and 1603 Grants (July 2010)	482
Journal of Tax Credits: The Current – Treasury Announces Transition Section 1603 Grant Rules for Projects Not Placed in Service Until After 2010 (August 2010)	485
Journal of Tax Credits: Q&A Article – Issues to Consider When Using the Section 1603 Grant Program (January 2010)	489
Journal of Tax Credits: Q&A Article – Passive Loss Issues In Connection with Solar Investments (February 2010)	491
Journal of Tax Credits: Q&A Article – Opportunities for Renewable Energy Projects to Pair 1603 Grants with NMTCs (March 2010)	494
Journal of Tax Credits: Q&A Article – Placed in Service Documentation for 1603 Grants (April 2010)	497
Journal of Tax Credits: Q&A Article – Onsite Transmission Costs – New Solar Facilities (May 2010)	500
Journal of Tax Credits: Q&A Article – State Taxation of Section 1603 Grants (June 2010)	503
Journal of Tax Credits: Q&A Article – Basics of the Advanced Energy Manufacturing Tax Credit (July 2010)	505
Journal of Tax Credits: Q&A Article – Income Recognition on Prepayments for Electricity (August 2010)	507
Charts from Bloomberg New Energy Finance	510
NEX clean energy index: 2003-2010 YTD	511
New financial investment in clean energy Q1 2004 - Q2 2010 (\$bn)	512
Global public markets new investment in clean energy Q1 2004 - Q2 2010 (\$bn)	513
Global VC and PE new investment in clean energy Q1 2004 - Q2 2010 (\$bn)	514
Global asset financing for new build clean energy assets Q1 2004 - Q2 2010 (\$bn)	515

Global acquisition transactions in clean energy Q1 2004 - Q2 2010 (\$bn)	516
Of which, corporate mergers & acquisitions Q1 2004 - Q2 2010 (\$bn)	517
Of which, asset acquisitions and refinancing Q1 2004 - Q2 2010 (\$bn)	518
APPENDIX H	519
Renewable Energy Industry Acronyms and Terminology	519
Glossary	525
Index	530
APPENDIX I	532
Reader Survey	532
2010 Tax Credit Resource Library	533
Novogradac Tax Credit Tuesdays Podcast	535