**Are There Special Tax Forms Needed to Take the Credit?**

Yes. You will need Form 3468 (Investment Credit), and you may need form 3800 (General Business Credit).

## Accelerated Depreciation

The federal government offers a 5-year accelerated depreciation. Property placed in service after September 10, 2001 and before January 1, 2005 may qualify for additional, first year "bonus depreciation" of 30% or 50%. The cost basis is reduced by the "bonus depreciation" to arrive at the remaining depreciable basis.

**Who is Eligible to Take 5-year Accelerated Depreciation for Solar Equipment?**
Any commercial entity that invests in or purchases qualified solar energy property may use the accelerated depreciation schedule. The accelerated depreciation schedule cannot be claimed for property used mainly outside the United States, used by governmental units and foreign persons and entities, or used by a tax-exempt organization (unless the property is used mainly in an unrelated trade or business). Consult with a tax professional regarding possible Alternative Minimum Tax implications.

**Who is Eligible for the Special Bonus Depreciation Benefit?**
Under the Job Creation and Worker Assistance Act of 2002, any commercial entity that invests in or purchases solar water heater and photovoltaic equipment is eligible for the special depreciation. Equipment must be purchased after September 10, 2001 and before September 11, 2004, and placed in service before January 1, 2005. Qualifying purchases are eligible to take an additional 30% depreciation in the first year. Under the Jobs and Growth Reconciliation Tax Act of 2003, property placed in service after May 5, 2003 and before 2005 is eligible for a 50% bonus depreciation in the first year.

**Is the Special 50% Depreciation In Addition to the MACRS Year 1 Depreciation?**
Yes, but the depreciable basis of the equipment is reduced by the 50% bonus depreciation in calculating the remaining depreciation deductions.

**What is the Actual Deduction Schedule?**
The Modified Accelerated Cost Recovery System (MACRS) 5-year depreciation schedule uses a 200 percent declining balance method. Without this legal provision for solar equipment, depreciation for such equipment would be taken over the standard 20-year period.

Half Year Convention

| | |
|---|---|
| Year 1 | 20.00% |
| Year 2 | 32.00% |
| Year 3 | 19.20% |
| Year 4 | 11.52% |
| Year 5 | 11.52% |
| Year 6 | 5.76% |

**How Do I Calculate the Accelerated Depreciation?**

**Step 1 - Determine Depreciable Basis**

The basis for depreciation is the installed cost of the solar energy system LESS any and all cash incentives. The following example shows first year depreciation deduction for a project with an

## Sample Tax Incentives Calculations

The following example shows how the tax credit and accelerated depreciation would be calculated in combination with the California 15% Income Tax Credit and the San Diego SELFGEN Incentive Program. Please note that these do not factor in the time value of money. Tax rates may vary.

| | |
|---|---|
| Total Project Size | 30 Kilowatts |
| Total Project Cost for Solar Equipment Installation | $270,000 |

Sample Calculation

Total Project Size **30 Kilowatts AC**

| | |
|---|---|
| Total Installed Cost | $270,000 |
| San Diego SELFGEN Program | |
| Rebate = lesser of $4.50 per watt or 50% of installed cost | |
| $135,000 = $4.50 X 30,000 watts | |
| $135,000 = $270,000 X 50% | |
| | -$135,000 |
| Initial Cost | $135,000 |
| | |
| 7.5% State Solar Energy Tax Credit | |
| (See separate San Diego Regional Energy Office | |
| "State Tax Incentive for Solar Electric and Wind Energy Investments") | |
| Credit = Installed cost less all cash incentives | |
| ($270,000 - $135,000) X 7.5% | |
| | -$ 10,125 |
| Federal 10% Investment Tax Credit (businesses only) | |
| Credit = Installed cost less all cash incentives | |
| ($270,000 - $135,000) X 10% | |
| | -$ 13,500 |
| | $111,375 |
| | |
| Federal Depreciation Savings ($128,250 X 34% tax rate) | -$ 43,605 |
| State Depreciation Savings ($114,750 X 8% tax rate) | -$ 9,990 |
| **Final After Tax Cost** *(after final depreciation deduction)* | **$ 57,780** |

*(See detailed breakout of all rebates, credits and depreciation for commercial customers on following page)*

## Sample Net Cost by Year Calculations

The following example shows how the tax credit and accelerated depreciation would be calculated in combination with the California 15% Income Tax Credit, the San Diego SELFGEN Incentive Program and energy savings to show net cost of the system by year. Please note that these do not factor in the time value of money. Tax rates may vary.

| | |
|---|---|
| Total Project Size | 30 Kilowatts AC (33kW DC) |
| Total Project Cost for Solar Equipment Installation | $270,000 |

Sample Calculation:

| Yr. | Total System Cost | SELFGEN 50% Rebate | 10% Federal Tax Credit | 7.5% State Tax Credit | Federal Depreciation Savings | State Depreciation Savings[1] | Estimated Energy Savings | Net System Cost |
|---|---|---|---|---|---|---|---|---|
| 1 | ($270,000) | $135,000 | $13,500 | $10,125 | $26,163 | $1,998 | $6,138 | ($77,076) |
| 2 | | | | | $6,977 | $3,197 | $6,077 | ($60,826) |
| 3 | | | | | $4,186 | $1,918 | $6,016 | ($48,706) |
| 4 | | | | | $2,512 | $1,151 | $5,956 | ($39,088) |
| 5 | | | | | $2,512 | $1,151 | $5,896 | ($29,529) |
| 6 | | | | | $1,256 | $575 | $5,837 | ($21,861) |
| 7 | | | | | | | $5,779 | ($16,082) |
| 8 | | | | | | | $5,721 | ($10,361) |
| 9 | | | | | | | $5,664 | ($4,697) |
| 10 | | | Break even in year 10 | | | | $5,607 | |

1 Assumes non-corporate business. Corporate businesses cannot use the state MACRS depreciation schedule.
2 Based on an annual PV output of 1,5500 kw-h/kw at an electricity rate of $.12. Savings calculations are based on a 33kW DC with 1% module degradation.
3 Assumes .34 Federal Tax Rate
4 Assumes .08 State Tax Rate

## More Information on Solar Electric Power Generation

SOLARIS PV
2475 Jefferson St. #101
Carlsbad, CA 92008
www.solarispv.com

***Please note:*** *Interested businesses should consult the federal tax code and/or a certified public accountant or tax attorney to determine exact eligibility and provisions of the incentives described below.*