



Keep More of Your Hard Earned Money: State & Federal Tax Credits and Cash Back Opportunities*

A Briefing by State of Hawaii Department of Taxation and Grant Thornton

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Agenda

Ø **Act 221/215** at a Glance

(R&D Credit/Investment Credit/Comfort Letters/Certification)

Ø Accounting consequences of **Federal and Hawaii Renewable Energy CleanTech Initiatives**

(Newly revised credit and grant incentives)

Ø **Helpful Hints** for your R&D Company

(GET, Use Tax, other)

Ø Ask the experts

Ø Networking



Act 221/215 at a Glance

R&D Activity Tax Credit:

For qualified QHTB's a 20% refundable tax credit may be taken for qualified research expenditures (QREs). This act is due to expire December 2010.



R&D Investment Tax Credit:

For qualified QHTB's, provides a 100% return on investment over a 5 year period. Due to expire December 2010.

Act 178 amends the High Technology Business Investment Tax Credit. For investments made on or after May 1, 2009 and on or before December 31, 2010:

- Claims tax of the investment credit is limited to 80 percent of tax liability;
- Credit carryovers are eliminated;
- Going forward a one-to-one credit allocation ratio is allowed.

QHTB Definition

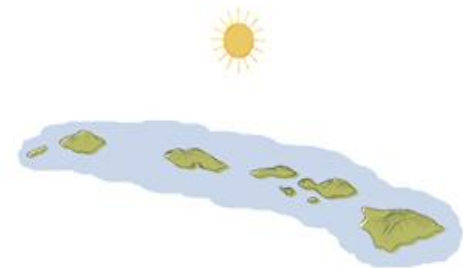
"Qualified high technology business"

- More than 50% of its total business activities are qualified research (more than 75%, conducted in Hawaii) OR
- More than 75% of its gross income is derived from qualified research

QHTB Definition (continued)

"Qualified research" means:

- The same as in IRC 41(d) (research and development);
- The development of computer software;
- Biotechnology;
- Performing arts products;
- Sensor and optic technologies;
- Ocean sciences;
- Astronomy; or
- Non-fossil fuel energy-related technology



Comfort Letters

You can apply for a Qualified High Tech business comfort ruling request with the Department of Taxation. This requires:

- Description of company;
- In depth detail on the project(s) and how the project(s) qualify for the Federal definition of R&D;
- How the company meets the definition of a "QHTB";
- Analysis of applicable law and application of law to the facts;
and
- Description of business and future business plans.

Tax filings required to certify credit amounts

N318A: Filed by the QHTB or by the investors to certify the investment credit with the State. Filed on March 30th for calendar year filers.

N319A: Filed by the QHTB or to certify the R&D activities credit with the State. Filed on March 30th for calendar year filers.

N317: Filed by the QHTB to provide informational data to the State. Filed on June 30th for all QHTB's.

Accounting consequences of **Federal and Hawaii Renewable Energy CleanTech Initiatives**

(Newly revised credit and grant incentives)

Legislation over the last several years has greatly expanded the universe of energy tax incentives available to ordinary businesses.

The bulk of these incentives are geared toward conservation, energy efficiency, and alternative and renewable fuels. Businesses can also take advantage of many of the energy tax incentives meant for consumers or the energy industry.

Federal incentives

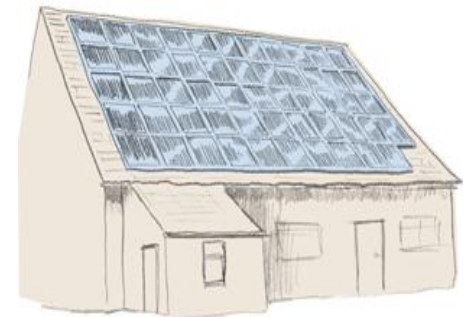
(Underlined to be discussed in more detail)

- **Green incentives and credits for ordinary businesses**
 - Energy-efficient commercial business deduction
 - Business energy investment tax credit (Sec. 48)
 - Alternative motor vehicle credit
 - Plug-in electric vehicle credit
 - Alternative refueling property credit
 - Qualified reuse and recycling property
 - Fringe benefits for employees



Federal incentives, continued

- **Incentives for specific manufacturers and developers**
 - Energy-efficient appliance credit
 - Energy-efficient new homes credit
 - Alcohol fuel (ethanol) producer credit
 - Biodiesel and renewable diesel credit



Federal incentives, continued

- **Incentives geared to energy industry**
 - Renewable electricity production credit (Sec. 45)
 - Advanced energy manufacturing credit (Sec. 48C)
 - Alternative fuel credit
- **Personal incentives for individuals**
 - Residential energy-efficient home improvements credit (Sec. 25C). 30% personal credit up to \$1,500 for energy efficient property (water heaters, A/Cs, insulation, windows, doors and certain roofs).
 - Residential energy-efficient property credit (Sec. 25D) 30% personal credit up for energy efficient property (solar water heaters, solar electric, geothermal heat pumps, fuel cells and wind turbines).

Business energy investment tax credit (Section 48)

Applies to: Renewable energy systems installed by the businesses

Provides taxpayers a 10 percent or 30 percent credit for alternative energy property designed to generate power for the taxpayer's own use.

The recently passed stimulus bill also allows businesses to apply to the IRS to take this credit as a grant.

Business energy investment tax credit (Section 48), continued

Property qualifying for the 30 percent credit includes:

- Qualified fuel cell property that generates electricity
- Solar property used to generate electricity, for heating or cooling,
- Qualified small wind turbines

Property qualifying for the 10 percent credit includes:

- Solar to illuminate a building using fiber optic distributed sunlight
- Equipment for producing or distributing geothermal energy
- Qualified micro turbines (small combustion turbines)
- Combined heat and power systems
- Equipment that uses the ground or ground water to heat or cool a structure

Incentives geared to energy industry

Renewable electricity production credit (Section 45)

Applies to: Utility companies or businesses that produce excess renewable energy

- Section 45 provides a per-kW credit for producing and selling electricity from renewable sources (wind, solar, hydro, geothermal, marine, hydrokinetic and biomass).
- Used by the utility industry and by some manufacturers and businesses that produce excess electricity from renewable sources and sell it back to the grid.
- The new stimulus bill allows taxpayers who qualify for this credit to elect to claim the Section 48 credit instead. The new stimulus bill also will allow taxpayers to apply to take this credit as a grant.

Advanced energy manufacturing credit (Section 48C)

Applies to: Manufacturers of renewable energy products.

- Section 48C provides a new 30 percent credit for investment in qualified property used in qualified advanced energy manufacturing projects.
- It is one of the only credits created specifically for energy property manufacturers rather than the taxpayer placing energy property in service.
- Treasury has established a certification program and may allocate up to \$2.3 billion in credits.

Federal Section 1603 Grants in Lieu of Tax Credits

Incentive for businesses to expedite these initiatives.

- Applies to properties eligible for Section 45 production credit and Section 48 energy credits and are placed in service in 2009 and 2010.
- Property must be for business use and for production of income.
- Eligible Taxpayers – All except; Government, Tax Exempt and political organizations (and partnerships Govn., Tax Exempt & political org. members).
- Signed application form must be submitted. Required annual report for 5 years.
- Unlike the tax credit, the grant is not reported on the tax return. It is neither includible in gross income or deductible as a tax credit. Therefore not subject to AMT, at-risk and PAL.

Eligible Technologies for 1603 Grants

Specified Energy Property	Credit Termination Date	Applicable Percentage of Eligible Cost Basis
Large Wind	Jan 1, 2013	30%
Closed-Loop Biomass Facility	Jan 1, 2014	30%
Open-loop Biomass Facility	Jan 1, 2014	30%
Geothermal under IRC sec. 45	Jan 1, 2014	30%
Landfill Gas Facility	Jan 1, 2014	30%
Trash Facility	Jan 1, 2014	30%
Qualified Hydropower Facility	Jan 1, 2014	30%
Marine & Hydrokinetic	Jan 1, 2014	30%
Solar	Jan 1, 2017	30%
Geothermal under IRC sec. 48	Jan 1, 2017	10%*
Fuel Cells	Jan 1, 2017	30%*
Microturbines	Jan 1, 2017	10%*
Combined Heat & Power	Jan 1, 2017	10%
Small Wind	Jan 1, 2017	30%
Geothermal Heat Pumps	Jan 1, 2017	10%

* Certain additional requirements apply

Hawaii Renewable Energy Technologies Income Tax Credit (SB 464)

For each **Solar Energy System**: 35% or the cap amount, whichever is less. For each **Wind-powered Energy System**: 20% or the cap amount whichever is less.

- Refundable credit for solar energy systems. A taxpayer may elect to reduce the eligible credit amount by thirty percent whereby this reduced amount can be taken as a refundable credit ($35\% * 70\% = 24.5\%$).
- For multiple owners the tax credit shall be apportioned.
- In the case of a partnership, S corporation, estate, or trust, the tax credit shall be computed at the entity level.

Solar Energy System

For a **Solar Energy System** used to heat water for household use, the cap amounts shall be:

- a) \$2,250 per system for single-family residential property;
- b) \$350 per unit per system for multi-family residential property; and
- c) \$250,000 per system for commercial property.



Solar Energy System, continued

For all other **Solar Energy Systems** the cap amounts shall be:

- d) \$5,000 per system for single-family residential property (may be less under certain conditions);
- e) \$350 per unit per system for multi-family residential property; and
- f) \$500,000 per system for commercial property.

Solar Energy System, continued

For all **Wind-powered Energy** Systems the cap amount shall be:

- a) \$1,500 per system for single-family residential property;
- b) \$200 per unit per system for multi-family residential property; and
- c) \$500,000 per system for commercial property.



Helpful Hints for your R&D Company (GET, Use Tax, other)

GET: No special exemptions for QHTBs. QHTBs are subject to GET on the sale of goods and services by the QHTB. Likewise, no special exemption exists for sales of goods or services to QHTBs.

Use Tax: Goods imported into Hawaii and services used or consumed in Hawaii that are purchased by the QHTB from an out-of-state vendor, who is not subject to general excise tax, are subject to use tax imposed on the QHTB. A QHTB can get a credit for any sales tax paid on the transaction in the seller's state. No special exemption exists for QHTBs.

Questions, answers, discussion....

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