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## Federal Fuel Cell Tax Incentives; *An investment in clean and efficient technologies*

### Background

On February 17<sup>th</sup>, 2009, President Obama signed into law the American Recovery and Reinvestment Act (ARRA). The bill made modifications to existing Investment Tax Credits (ITC) for residential fuel cells. It also created a temporary Grant-in-Lieu of Tax Credit Program.

The grant program, found in section 1603 of the act, established grants for specified energy property in lieu of tax credits. The program was established because the recession has had a significant impact on taxable income. Therefore, fewer tax equity investors are available to "monetize" the incentives. Section 1603 Grants are intended to address this problem by providing a substitute for renewable energy tax credits. Links to the program can be found here:

The application for the Grants program can be found here: <https://treas1603.nrel.gov/>. This site provides guidance: <http://www.ustreas.gov/recovery/docs/guidance.pdf>. Finally, terms and conditions are found here: <http://www.ustreas.gov/recovery/docs/energy-terms-and-conditions.pdf>

### Available Incentives

The current ITC for residential and business fuel cells include the following:

#### Fuel Cell for Business Installation

- Credit of 30% of the cost up to \$3,000 per kW
- Minimum 0.5 kW capacity
- Valid until December 31<sup>st</sup>, 2016
- Electricity-only efficiency of more than 30%
- Eligibility extended to all utilities and telecommunications firms
- Allowance of credit is permissible against Alternative Minimum Tax. This allows persons subject to AMT to take the credit against that portion of their tax liability

#### Fuel Cell for Residential Property

- Credit of 30% of the cost up to \$1,000 per kW (**30% of the cost up to \$3,334 per kW for a Joint-Occupancy Residence**)
- Minimum 0.5 kW capacity
- Valid until December 31<sup>st</sup>, 2016
- Electricity-only efficiency of more than 30%
- Allowance of Credit is permissible against Alternative Minimum Tax. This allows persons subject to AMT to take the credit against that portion of their tax liability

### Impact of the ITCs

The ITC entitles the taxpayer to subtract the amount of the credit (dollar-for-dollar) from total federal tax liability. A tax credit is different from a tax deduction – which subtracts money from gross income before tax liability is calculated.

### More Information

For more information, consult the Internal Revenue Service bulletin, "Energy Credit for Qualified Fuel Cell Property and Qualified Microturbine Property," Notice 2008-68 ([http://www.irs.gov/irb/2008-34\\_IRB/ar10.html](http://www.irs.gov/irb/2008-34_IRB/ar10.html)) or your tax advisor. Please note that Notice 2008-68 does not have information on changes reflected above regarding the grant program or the change to residential fuel cell installations.

### Examples of Incentive Calculation

The ITC provides a 30% incentive, capped at \$3,000 per kW for businesses (30% incentive, capped at \$1,000 per kW for residences and \$3,334 for joint occupancy residences). Here are some examples of the incentive level based on different fuel cell systems and their price:

#### For business installations:

1. Assume a price of \$100,000 for a 50 kW fuel cell system.

- 30% of system price (\$10,000) = \$30,000  
or
- 50 kW X \$3,000 = \$150,000

**Incentive = \$30,000**

2. Assume a price of \$600,000 for a 50 kW fuel cell system

- 30% of system price (\$600,000) = \$180,000  
or
- 50kW X \$3,000 = \$150,000

**Incentive = \$150,000**

#### For residential installations:

1. Assume a price of \$15,000 for a 5 kW fuel cell system.

- 30% of system price (\$15,000) = \$4,500  
or
- 5 kW X \$1,000 = \$5,000

**Incentive = \$4,500**

2. Assume a price of \$60,000 for a 5 kW fuel cell system

- 30% of system price (\$60,000) = \$18,000  
or
- 5 kW X \$1,000 = \$5,000

**Incentive = \$5,000**

#### For Joint-Occupancy residential installations:

1. Assume a price of \$15,000 for a 5 kW fuel cell system.

- 30% of system price (\$15,000) = \$4,500  
or
- 5 kW X \$3,334 = \$16,670

**Incentive = \$4,500**

2. Assume a price of \$60,000 for a 5 kW fuel cell system

- 30% of system price (\$60,000) = \$18,000  
or
- 5 kW X \$3,334 = \$16,670

**Incentive = \$16,670**

\* Information contained in this brief was fashioned by the US Fuel Cell Council and is for general information only. Fuel cell manufacturers and purchasers should first consult a qualified tax attorney for additional information.

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