OPEN MEETING AGENDA ITEM

0000130732

ORIGINAL

RECEIVED

2011 OCT 26 P 3:33

AZ CORP COMMISSION
DOCKET CONTROL

SolarCity SUNGEVITY MAINSTREAM ENERGY

Arizona Corporation Commission Docket No;
E-01933A-11-0269

Frequently Asked Questions about Residential Solar Leasing

What incentives are available to homeowners who purchase or lease a solar system?

	Leased	Purchased
Federal Investment Tax Credit	Yes – 30%[1]	Yes – 30%
TEP Rebate	Yes - $0.75 / Watt	Yes - $0.75 / Watt
AZ State Tax Credit	No	Yes - $1000
Depreciation	Yes – 5 year depreciation of 85% of value[2]	No

Arizona Corporation Commission
DOCKETED
OCT 26 2011
DOCKETED BY

Which type of financing receives greater tax and incentive benefits—leased systems or purchased systems?

For a number of reasons, it is difficult to quantify whether a particular homeowner financially benefits more than another based on the method they choose to finance their system. First, available tax incentives differ based on financing approach; homeowners who purchase their system have access to an Arizona state tax credit for which homeowners who lease a system do not qualify. Homeowners who finance their systems with a home equity loan have access to interest payment deductions while homeowners who lease their systems indirectly benefit from depreciation benefits through reduced rents. Second, a homeowner's ability to realize value from tax incentives is highly dependent on his or her financial situation. Retirees, for example, often cannot benefit from the federal investment tax credit ("ITC") as much as employed homeowners who have more taxable income. Third, a homeowner's ability to qualify for financing – such as home equity lines of credit or a lease – depends on their credit profile. Ultimately, homeowner eligibility for and access to tax incentives is highly customized and unique to each individual.

[1] A homeowner that leases a system benefits from a 30% ITC indirectly since the lessor can afford to permit lower rents.

[2] As with the ITC, a homeowner that leases a system can benefit from depreciation indirectly. In this scenario, homeowner cannot claim either the ITC or depreciation itself.

What is the federal investment tax credit?
Internal Revenue Code (IRC) Section 25 provides a 30% investment tax credit ("ITC") for the cost of new solar generation equipment a homeowner installs at its house. The equipment must be installed before 2017.

A similar 30% ITC is available under IRC Section 48 for businesses that install new solar generation equipment on a house and place it into service by the end of 2016. For systems that are placed in service after 2016, the ITC for businesses is restricted to 10%.

In either case, the ITC accrues to the owner (or, in some cases, the lessee) of the solar equipment and is available to certain business owners, homeowners and taxable entities. The credit is limited to the amount of tax the claimant owes, and it is further reduced in certain other cases.

Is it possible for not-for-profit entities to claim an ITC?
Not-for-profit entities cannot claim an ITC. However, a for-profit owner can provide solar to a not-for-profit in Arizona under a solar services agreement. This allows a not-for-profit solar user to benefit indirectly from the owner's eligibility for an ITC because the owner can afford to provide solar at a reduced rate.

What is the Treasury Grant Program?
The federal Treasury Grant Program ("TGP") was created in February 2009, under the American Recovery and Reinvestment Tax Act (the "Act"). This program (section 1603 of the Act) offers a cash grant equal to 30% of the cost of the solar generation equipment in lieu of an ITC that a business owner otherwise would receive. Homeowners may not receive a cash grant.

The TGP was originally enacted to spur investment in renewable energy and to assist companies who did not owe enough taxes to be able to make efficient use of an ITC.

The TGP is available for systems owned by a for-profit business placed in service during 2009, 2010, 2011, or after 2011 if construction began on the property during 2009, 2010 or 2011.

What is depreciation?
Depreciation is the ability to "write-off," or deduct, the cost of an asset. This expense allows businesses to recover their investment in certain property through deductions to their taxable income. Federal tax law allows businesses to depreciate 85% of the cost of solar equipment on an accelerated basis, typically over five years.

How can homeowners finance their systems if they don't choose to lease them?
A homeowner can acquire a solar installation in a number of ways. The homeowner can "finance" it by using savings to purchase the system or take out a personal loan.

Alternatively, homeowners can take out a home equity loan, which provides a tax benefit because interest payments are deductible. For example, here are the numbers for a solar system for a typical homeowner who has a mortgage that is less than 80% of the home's value:

Tax rate for homeowner: 30% (ignoring state taxes)
System Value: $20,000

Homeowner:
Home Equity Loan: $20,000
Home Equity Loan Rate: 10%
Term: 20 years (matches 20-year solar lease)
Sum of interest payments: $25,034
Total tax benefit: $7,510

How is the basis for the ITC determined for leased solar systems?
The 30% ITC available for businesses is claimed on the cost of the system to the owner (or the fair market value ("FMV") of the system to a lessee, if claimed by the lessee). Where a person purchases a system from a third party, that person's cost typically equates to FMV.

The 30% ITC available for homeowners is claimed on the cost of the system to the homeowner.

What is FMV and how is it determined?
FMV is the price at which property would change hands between a willing buyer and a willing seller when neither is under any compulsion.

FMV is generally determined by considering three valuation methods: the cost, market and income approach. The cost approach considers the cost to reproduce a given system, the market approach considers comparative transactions in a market and the income approach (in the case of a lease product) uses a discounted cash-flow analysis to determine today's value of the future cash flows associated with a system.

To manage any conflict between perceived and actual value, the IRS has long held that an asset's FMV should be determined through an independent, third-party appraisal. Appraisals are performed by accredited professional appraisal firms that are trained and qualified to determine an asset's value.

How are systems that are leased different from systems that are purchased?
Leased systems come with a number of additional benefits that typically are not included when a system is purchased. These benefits include monitoring services, maintenance, free inverter replacement, insurance, roof warranties, and production guarantees.

Does it cost less to install a leased system than it does to install a system that is purchased?
No. Leased systems cost the same to install as systems that are purchased outright. Leased residential systems use the same equipment, labor, permits, designs, etc. as systems that are purchased by homeowners. Therefore, the costs for the physical installation of systems are the same regardless of who owns them.