



Energy Tax Credits: Part Three of Three

Introduction

This is part three of a three part advisory on state level energy credits. Taxpayers who are taking advantage of the federal tax incentives may be equally as interested in taking advantage of state energy incentives as well. Twenty-two states have incentives for taxpayers to follow regarding energy efficiency and independence. This advisory will discuss the remaining eight of the state incentives.

North Carolina has a wind energy equipment tax credit for corporations equal to 35% of the cost of equipment required to capture and convert wind energy into electricity or mechanical power. There is also a solar equipment

corporate income tax credit equal to 35% of the cost of equipment that uses solar radiation to warm or cool areas and substances such water that are traditionally heated with electricity and gas.

The state of Oklahoma has an "energy efficient residential construction" corporate and personal income tax credit. The amount of the credit is \$2000 for houses meeting a particular standard and \$4000 for houses meeting a higher specified standard. A clean burning motor vehicle corporate and personal income tax credit is in effect. It is in the amount of 50% of the cost of qualified property. An ethanol production credit of 20 cents per gallon produced is available for the

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A CASE STUDY

A Circuit Court has held that formula prices based upon a buy-sell agreement was not controlling. The decedent owned numerous corporations involved in multiple industries. In an attempt to keep the corporations in the family, a buy sell agreement utilized a formula which discouraged selling to outside

parties. The estate used the formula in the buy-sell to value the estate and filed an estate tax return. The IRS assessed a deficiency and the parties began suit. The courts noted that 1) the valuation method (known as book value) was an arbitrary manner in which to define value, 2) intangible assets were not included in the value, 3) there

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first 25 million gallons of ethanol produced each year for five years.

Oregon has an alternative energy device credit for devices used to heat areas, cool, electrical energy, domestic water heating, swimming pool devices, or heating hot tubs. Alternative fuel stations will also receive a credit of up to 750 for the cost of building or installing a fuel station for alternative fuels.

Rhode Island has a similar tax credit, but is for 50% of the costs of installing and purchasing equipment for an alternative fuel station. There is also a tax credit (personal and corporate) for renewable energy equipment costs.

South Carolina has a recycling investment corporate tax credit for taxpayers that construct or operate qualified recycling equipment equal to 30% of the cost of the taxpayer's investment.

Utah has an alternative energy tax credit for corporate and personal income taxpayers. The credit is for 25% of the costs of the system, including installation up to \$2000 per residence and up to \$50,000 per commercial unit. There is a clean vehicle corporate and personal tax credit for up to \$5000.

Virginia has a recycling machinery and equipment corporate income tax credit for 10% of the purchase price paid for machines used in Virginia that manufacture, compound, or produce items of tangible personal property from recyclable materials for sale.

The final state, West Virginia has an alternative fuel motor vehicles corporate and personal income tax credit for new, retrofitted, or converted motor vehicles that run on alternative fuels. Alternative fuels include propane, methanol, ethanol, an 85% blend of ethanol, or electricity. The maximum allowable credit for vehicles less



than 10,000 pounds is \$3750, \$9250 for vehicles weighing between 10,000 and 26,000 pounds, and \$50,000 for a truck or bus weighing over 26,000 pounds.

Conclusion

States are doing plenty to encourage their taxpayers to use and adopt alternative energy and energy conserving measures. Best of all, any of these measures can be implemented by the end of the year and result in tax savings for the taxpayer. Call the Center if you have any questions regarding either federal or state fuel saving tax credits!!!

Points of Interest

- Twenty-two states have incentives for taxpayers to follow regarding energy efficiency and independence.**
- States are doing plenty to encourage their taxpayers to use and adopt alternative energy and energy conserving measures.**
- Best of all, any of these measures can be implemented by the end of the year and result in tax savings for the taxpayer**

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was not a method to reevaluate the price over any term, 4) no negotiations existed between the parties, and 5) withdrawing from the business meant exclusion from the terms and benefits of the will. It was further revealed that the agreement was not supported by consideration and the entire agreement was for the purpose of circumventing proper valuation methods. Accordingly, the court ruled that the estate was deficient and had to pay additional taxes.

Editor's Comment: Buy-Sell agreements can be binding for estate valuation purposes. The best buy-sell agreements address the issue of how the company is to be valued and are not blatant attempts by estate planners to render the estate tax law surplus usage. Here, estate value was considered to be book value of the assets involved. It has been my experience that usually book value is not an accurate reflection of value or even zero at times. This method is clearly not acceptable. When drafting a buy-sell, be sure to 1) accomplish the legal goals (ie. define what happens if specific events happen, and 2) state a fair way to value the estate.

Contact the valuation specialists at The Center to assist in preparing a valuation methodology that is acceptable to the IRS. We can work with your local professionals in drafting buy-sell agreements that will hold up to IRS requirements.



Accessing Retirement Savings Plans to Fund a Business Acquisition

Many prospective business buyers, who may be very sophisticated in other aspects of acquiring a business, are unaware that in certain circumstances they may use some or all of their IRA, 401k, 403b, or other tax-favored retirement savings accounts to help finance their business acquisition -- without incurring income tax or early withdrawal penalties.

There are several steps in the process that all need to be carefully orchestrated, and several firms have emerged that specialize in helping prospective buyers successfully complete this task without fear of owing tax or penalties.

For many buyers, this can free up 100's of thousands of dollars which can be used to supplement the cash down payment, provide needed working capital, fund necessary improvements, etc. In some cases these additional funds enable a buyer to afford a larger business, or include the purchase of commercial real estate as part of the overall acquisition of the business.

Whether or not this is a wise personal decision for a specific buyer depends upon many factors, and shouldn't be undertaken without consulting your personal financial advisor and thoroughly considering all the risks and alternatives.

If you know of someone who's thinking of buying a business, or of a business owner who's thinking of selling a business and who might benefit from a free consultation with us, have them contact me, or any of the M&A professionals at The Bradway Group (www.bradwaygroup.com)

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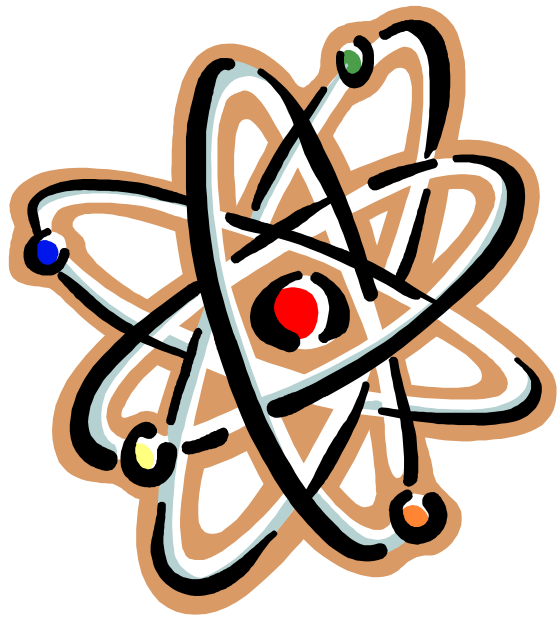
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Frequently Asked Questions...



Q. What can I do now to improve my business tax situation for the end of the year?

A. There is still plenty of time to take action to improve your business tax situation for this year. If you are a cash basis taxpayer, increase your expenses by paying your bills in advance. Examples of this include paying employees early, paying vehicle payments early, and the like. Delaying income also helps. You may delay the deposit of checks by holding them until January 2007.

Q. What can I do to improve my personal tax situation?

A. There are a few things that can be done to improve your personal tax situation. One for instance, open an IRA account and fund the account up to the statutory maximum. If you are interested in improving the energy efficiency of your home, plenty of tax credits are available and may still be seized by the end of the year. Now is the time to install a new furnace. Year end is also a perfect time to review your investment portfolio. If you have stocks that have gone down in value, consider selling the stock and taking the loss to offset up to \$3000 of income.

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