

New Energy & Related Tax Provisions: Potential Benefits for Coops and Members

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SAFETEA-LU (Public Law 109-59)

- Safe, Accountable, Flexible, Efficient Transportation Equity Act: A Legacy for Users



Farm Diesel Fuel Tax Refund

- Prior Law: Previously taxed diesel fuel or kerosene used in a nontaxable use
 - Refund of the tax is payable (without interest) to ultimate purchaser
- Diesel fuel or kerosene used on a farm for farming purposes
 - Refund payments are paid to the ultimate registered vendor, only person who may make the claim
- New Provision: The ultimate vendor refund claim provision for diesel fuel or kerosene used on a farm for farming purposes is repealed
 - Refunds paid to the ultimate purchaser under the rules applicable to nontaxable uses of diesel fuel or kerosene
- Effective: sales after September 30, 2005

Crop Duster Excise Tax Refund

- Prior Law: Fuel used on a farm for farming qualifies as a nontaxable use
- Aerial applicators (crop dusters) are allowed to claim a refund of the tax on aviation gasoline if the farm owners or operators give written consent
- This provision applies only to fuel consumed in the airplane while operating over the farm; the fuel consumed traveling to and from the farm is not exempt

Crop Duster Excise Tax Refund

- New Provision: Written consent from farm owner or operator is no longer needed for the aerial applicator to claim the exemption for aviation gasoline
- In addition, the exemption is expanded to include fuel consumed when flying between the farms where chemicals are applied and the airport where the airplane takes off and lands

Credit For Alternative Fuels And Fuel Mixtures

- Alternative fuels include:
 - Liquefied petroleum gas
 - Compressed or liquefied natural gas
 - Liquefied hydrogen
 - Any liquid fuel derived from coal (including peat) through the Fischer-Tropsch process
 - Liquid hydrocarbons derived from biomass
 - P Series fuels, as defined by the Secretary of Energy

Credit For Alternative Fuels And Fuel Mixtures

- Refundable 50¢ excise tax credit per gallon (or gallon of gasoline equivalent)
 - Allowed to the registered vendor or user of an alternative fuel or alternative fuel mixture as fuel in a motor vehicle or motorboat
 - Alternative fuels eligible for the credit do not include ethanol, methanol, or biodiesel
- Effective: sale or use October 1, 2006 – September 30, 2009 (September 30, 2014 for liquefied hydrogen)

Winners and Losers: Sporting Goods

- Sport fishing equipment - subject to a 10% excise tax
 - Tax on fishing rods capped at \$10
 - Electric outboard motors & fishing tackle boxes taxed at 3%
- A 10% or 11% excise tax
 - Imposed on the sale of certain firearms and ammunition by the manufacturer, producer, or importer
 - Persons who manufacture, produce, or import fewer than 50 firearms per year are exempt from the tax

2005 Energy Tax Incentives Act

- Alternative 'Motor Vehicle' Credits
- Alternative Fuel Vehicle Refueling Property Credit
- Biodiesel and Renewable Diesel
- Alcohol Used As Fuel
- Tax Credit For Energy Efficient Improvements To Principal Residence



Alternative 'Motor Vehicle' Credits

1. Qualified fuel cell 'motor vehicle' credit
2. Qualified Advanced lean-burn technology 'motor vehicle' credit
3. Qualified hybrid 'motor vehicle' credit
4. Qualified alternative fuel 'motor vehicle' credit

1. Qualified 'Fuel Cell' Motor Vehicle Credit

- Propelled by power from cells that convert chemical energy directly into electricity by combining oxygen with hydrogen fuel
- Credit is based on the weight of the vehicle
- Automobiles and light trucks
 - Can be increased up to an additional \$4,000 based on fuel efficiency (compared to 2002 standards)
- Vehicles weighing less than 8,500 pounds & placed in service after December 31, 2009
 - \$8,000 credit reduced to \$4,000
- Effective: January 1, 2006 – December 31, 2014

2. Qualified 'Advanced Lean-Burn Technology' Motor Vehicle Credit

- Vehicle uses an internal combustion engine that:
 - Operates using more air than necessary for complete combustion
 - Incorporates direct injection
 - Achieves at least 125% of the 2002 model year city fuel economy
 - 2004 and later vehicles - meets or exceeds EPA emissions standards
- Effective: January 1, 2006 – December 31, 2010. Credit calculated similar to hybrid vehicles

3. Qualified 'Hybrid' Motor Vehicle Credit

- Vehicle powered from onboard sources & includes
 - An internal combustion or diesel (heat) engine
 - A rechargeable energy storage system (batteries)
- Meets or exceeds certain EPA emissions standards
- Credit for hybrid automobile or light truck (weighing 8,500 pounds or less)
 - Mirrors the advanced lean-burn technology motor vehicle credit

Credit For Hybrid Automobile Or Light Truck Phase-Out

- May claim the full amount of the allowable credit up to the end of the first calendar quarter after the quarter in which the manufacturer records the sale of the 60,000th hybrid and/or advanced lean-burn technology motor vehicles
- Credit drops to 50% for the 1st two phase-out quarters, 25% for the next 2 quarters and 0% thereafter

Credit For Hybrid Vehicles

- Before phase-out: possible maximum of \$2,400 (fuel economy credit) and \$1,000 (conservation credit) for autos/light trucks
- Credit for heavier vehicles is 20%, 30%, or 40% of the vehicle's qualified incremental hybrid cost, based on fuel economy
- Effective: January 1, 2006 – December 31, 2010 (autos/light trucks) or 2009 (all others)

4. Qualified 'Alternative Fuel' Motor Vehicle Credit

- Vehicles operate only on qualifying alternative fuels and will not operate on gasoline or diesel
- Alternative Fuels
 - Compressed Natural Gas
 - Liquefied Natural Gas
 - Liquefied Petroleum Gas
 - Hydrogen
 - Any liquid fuel that is at least 85% methanol
- Credit is either 50% or 80% of the incremental cost of the new alternative fuel vehicle compared with the same model gasoline or diesel fuel vehicle

Alternative Fuel Motor Vehicle Credit

- The 50% base credit increases to 80% if the vehicle meets the most stringent emissions standards
- The maximum allowable credit is \$2,500 for vehicles weighing less than 8,500 lbs.
- 4 GVW categories and credit ceilings
- Reduced credit applies to some mixed-use fuel vehicles weighing more than 14,000 pounds
- Effective: January 1, 2006 – December 31, 2010

Reduced Credit Allowed For Mixed-fuel Vehicles

- Mixed-fuel vehicles use a combination of an alternative fuel and a petroleum-based fuel
- Mixed-fuel vehicles weighing more than 14,000 pounds may be eligible for a reduced credit
 - If the mixed fuel is at least 75% alternative fuel, the vehicle is eligible for 70% of the otherwise allowable credit
 - If the mixed fuel is at least 90% alternative fuel, the vehicle is eligible for 90% of the otherwise allowable credit

Alternative Fuel 'Vehicle Refueling' Property Credit

- Allows a 30% credit for the cost of installing clean-fuel vehicle refueling property in the United States
- Refueling property be used in a trade or business
 - Credit for retail clean-fuel vehicle refueling property is limited to \$30,000
- Installed at the taxpayer's principal residence
 - Credit for residential clean-fuel vehicle refueling property cannot exceed \$1,000

Alternative Fuel Vehicle Refueling Property Credit

- A qualifying fuel is either of the following:
 - At least 85% (by volume) ethanol, natural gas, compressed natural gas, liquefied natural gas, liquefied petroleum gas, or hydrogen
 - At least 20% biodiesel in a mixture with diesel fuel, determined without regard to any use of kerosene
- **Effective:** January 1, 2006 - December 31, 2010 (hydrogen property, thru 12-31-14)

Fuel Definitions

- Biodiesel – monoalkyl ester of long chain fatty acids derived “from plant or animal matter”
- Renewable Diesel – derived through process that “reduces biomass (complex organic materials, such as turkey offal) into light crude oil”
- Agri-biodiesel – derived solely from “virgin oils” (e.g., esters from virgin vegetable oils from corn, soybeans, sunflower seeds, ..) and from “animal fats”

Biodiesel and Renewable Diesel

- The income and excise tax credits are extended through 2008
- Two new parts of the income tax credit are available for sales and use after December 31, 2005
- Renewable diesel becomes a qualifying fuel, with a \$1 per gallon credit (previously \$.50)
- Renewable diesel does not qualify as agri-biodiesel
- **Effective:** sale & use, January 1, 2006 – December 31, 2008

Agri-biodiesel

- New small agri-biodiesel production credit is 10¢ per gallon for up to 15 million gallons of agri-biodiesel
- The fuel can be used by the producer or sold to another person for one of three purposes:
 - Production of a qualified biodiesel mixture in a trade or business (other than casual off-farm production)
 - Use as a fuel in a trade or business
 - Sale at retail, if the biodiesel is put into the fuel tank of the buyer's vehicle
- Eligible small producer has a total agri-biodiesel production capacity that does not exceed 60 million gallons a year

Allocation By Cooperatives

- An eligible small producer has a total agri-biodiesel production capacity that does not exceed 60 million gallons a year
- A cooperative may elect to pass through all or part of the small agri-biodiesel producer credit to its patrons
- The credit is apportioned pro rata based on the quantity or value of business done with or for the patron for the tax year

Alcohol Used As Fuel

- Prior Law: Small ethanol producer may claim a 10¢ per gallon credit up to 15 million gallons per year
 - Small ethanol producer has a production capacity that does not exceed 30 million gallons per year
- New Provision
 - Limit on production capacity for small ethanol producers - increased to 60 million gallons per year, mirrors the small agri-biodiesel provision
 - Provides an election to pass the small ethanol producer credit through to cooperative patrons
- Effective: tax years ending after August 8, 2005

2005 Energy Tax Incentives Act

- Tax Credit For Individuals For Energy Efficient Improvements To Principal Residence
 - Maximum credit of \$500 for both categories, with a maximum of \$200 for windows
 - Effective: January 1, 2006-December 31, 2008
- So what qualifies?



Tax Credit Energy Efficient Improvements To The 'Building Envelope'

- 10% credit
- Insulation systems that reduce heat loss/gain
- Exterior windows (including skylights)
- Exterior doors
- Metal roofs (meeting applicable Energy Star requirements)

Credits For Residential Energy Property

- \$50 for each advanced main air circulating fan in a furnace
- \$150 for each qualified natural gas, propane, or oil furnace or hot water boiler
- \$300 for qualified energy-efficient property
 - heat pumps
 - water heaters
 - central air conditioners

Residential Energy 'Efficient' Property

- Solar Energy Property
 - Qualified solar panels, solar water heating equipment, or a fuel cell power plant in the home
- Two types of solar energy property qualify:
 - Qualified photovoltaic (PV) property - uses solar energy to generate electricity
 - Qualifying solar water heating property derives at least half of the energy used from the sun

Energy 'Efficient' Property Credit Could Exceed \$5,000!

- The credit is 30% of qualifying expenditures
- The \$2,000 annual limit is applied separately to photovoltaic and solar water heating systems
- The \$500 credit is for each half-kilowatt of fuel cell property capacity
- A taxpayer who qualifies for both credits can exceed \$5,000 in a year



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*References include 2005 Tax Practitioner Workshop Publications, "Description and Technical Explanation of the Conference Agreement of H.R. 6, Title XIII, The "Energy Tax Incentives Act of 2005" and www.irs.gov as well as numerous Cooperative Tax Publications