Tax Credits and Incentives

Are you taking advantage of opportunities?

Marty Karamon — Principal, Deloitte Tax LLP
Jeremy DeMuth — Senior Manager, Deloitte Tax LLP

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Agenda

- Identifying Tax Credit and Incentives Opportunities
- Research & Development Credits
- Hiring Credits
- New Markets Tax Credit Financing
- Energy Credits
- Tax Equity Investment Opportunities
- A view from the Hill

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Introductions

Marty Karamon

Principal — New York

Credits & Incentives

Jeremy DeMuth

Senior Manager — Chicago

Credits & Incentives

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Identifying Tax Credits and Incentives Opportunities

Credit and Incentive Triggers

R&D
Product Improvement
- Product Development
- Process Development
- Process Improvement
- Software Development

Employment Activities
- Jobs creation
- Jobs transfer
- Jobs skill upgrade

Real Estate & Capital Investment
- Equipment expenditures
- Business relocation
- Infrastructure improvement

Sustainability Initiatives
- Recycling
- Pollution control
- Green spend
- Solar Panels
- Wind Power
- Fuel Cells

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Everyone Has a Role

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Research and Development Credits - Federal

American Taxpayer Relief Act of 2012 (ATRA)

- Extended research credit through December 31, 2013
  - Applies to expenses incurred during 1/1/12 — 12/31/13
- Modified the rules under section 41(f) for:
  - Adjusting the credit calculation for acquisitions/dispositions of substantial business assets
  - Allocating the group credit to members of the controlled group
  - Changes to section 41(f) effective for taxable years beginning after December 31, 2011
- April 10, 2013 the President released his 2014 Budget providing for:
  - Permanent Research Credit
  - ASC increased to 17%
  - Continuation of regular credit
  - Effective 12/31/12

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IRC Section 41 Federal Research Credit

- Federal credit for incremental research expenses made during the tax year
- The credit is generally computed as:
  - 20% of the excess of qualified research expenses for the current year over a base year credit against corporation tax liability for qualified in-house research expenses
  - 20% of basic research payments made to qualified organizations
  - 20% of amounts paid or incurred by a taxpayer in carrying on any trade or business to an energy research consortium for qualified energy research
- Alternative Simplified Credit Computation (14% Credit Rate) available
- Qualified research expenses cover in-house expenses for the taxpayer's research and include wages, supplies and computer charges

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IRC Section 41 Federal Research Credit

The Four Statutory Criteria:
(Must have all four)

Permitted Purpose

The activity must relate to a **new or improved** product or process intended to improve :

- Function
- Performance
- Reliability
- Quality

Technological in Nature

The activity performed must **fundamentally** rely on principles of:

- Physical science
- Biological science
- Computer science
- Engineering

Elimination of Uncertainty

The activity must be intended to discover information to **eliminate uncertainty** related to:

- Capability of a product or process
- Method of a product or process
- Appropriateness of a product design

Process of Experimentation

Substantially all of the activities must relate to a process of experimentation involving:

- Evaluation of alternatives
- Confirmation of hypotheses through trial and error, testing and/or modeling
- Refining or discarding of the hypotheses

- **Qualified R&D expenses may be W-2 Wages, Supplies, and Contract Research (vendor payments)**
- **W-2 Wages include those for performing qualified activity, as well as those directly supervising and directly supporting qualified activity**

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IRC Section 41 Federal Research Credit

Additional 3 Part Test for Internal-Use Software

Innovativeness Test

•"Innovative" means software intended to:

- •Significantly reduce costs
- •Significantly improve performance
- •Maintain and/or achieve a competitive advantage

Innovativeness Test (continued)

•"Innovative" means software intended to:

- •Be unique or novel, and
- •Differ in a significant and inventive way from prior software implementations or methods

Significant Economic Risk

•"Significant economic risk" means:"

- •Substantial resources were committed, and
- •Uncertainty exists as to whether the resources can be recovered within a reasonable period

Commercially Unavailable

•"Commercially unavailable" means:"

- •Significant modifications or enhancements were made, and
- •The development must meet the innovative and economic risk standards

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IRC Section 41 Federal Research Credit

Nonqualified Activities

- **Research (including contract research) conducted outside the United States, Puerto Rico, or other U.S. possessions**

- **Research after commercial production:**
  - Exception: may still qualify if related to process improvements

- **Research where the taxpayer does not retain substantial rights**
- **Funded research**

- **Research related to management functions or techniques, surveys, routine collection of data**

- **Market Research**

- **Adaptation of an existing product to a particular customer's requirement or need, without any uncertainty present**

- **Reverse engineering**

- **Research relating to style, taste, cosmetics, or seasonal design factors**

- **Routine testing, quality control, or maintenance**
  - Testing or inspection to determine whether particular units of materials or products conform to specified parameters is non-qualified activity (quality control).
  - Testing to determine if the design of a product or process is appropriate may be qualified activity (quality assurance).

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New Proposed Regulations: Supply Costs

- The regulations confirm the outcome of the Tax Court's decision in TG Missouri.
  - The proposed regs provide that the ultimate sale or use of the "pilot model" is irrelevant; and the definition of a "pilot model" embraces what we typically qualify as a "prototype supply".
  - The Preamble indicates that during the period that these proposed regulations are not finalized, the IRS will not challenge return positions taken that are consistent with these proposed rules.
- The impact of the proposed regs on Union Carbide v. Commissioner, T.C. Memo. 2009-50, aff'd 697 F.3d 104 (2d Cir. 2012), cert. denied 133 S. Ct.1626 (2013) is unclear.
  - The proposed regulations clarify that the cost of materials used to conduct testing on a new or improved production process — regardless of whether inventory for sale is simultaneously produced as that testing is undertaken — may be treated as section 174 expenses, because such costs are "incident to" the research and experimentation activities;
  - the proposed regulations do not specifically address the extent to which such costs may be credit-eligible expenses, i.e., such expenses may continue to be viewed as too indirect to qualify for the research credit.
- Importantly, the proposed regulations place tremendous pressure on the taxpayer being able to substantiate that it is still resolving design uncertainties at the time that it is incurring what would otherwise be production expenses

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Common Issues Requiring Analysis

- Prototype costs
- Missed opportunities to make ASC election on timely filed return
- Certification process of Pharmaceutical companies
- New case law affecting treatment of funding under fixed price contracts
- New methodology for allocating costs among controlled group members
- Calculation of gross receipts for purposes of base amount
- Definition of High Threshold of Innovation for Internal Use Software
- End of Tier 1 Regime

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States Offering Research Credits

- Alaska
- Arizona
- Arkansas
- California
- Colorado
- Connecticut
- Delaware
- Florida
- Georgia
- Hawaii
- Idaho
- Illinois
- Indiana
- Iowa
- Kansas
- Louisiana
- Maine
- Maryland
- Massachusetts
- Minnesota
- Mississippi
- Nebraska
- New Hampshire
- New Jersey
- New Mexico
- New York
- North Carolina
- North Dakota
- Ohio
- Oregon
- Pennsylvania
- Rhode Island
- South Carolina
- Texas
- Utah
- Vermont
- Virginia
- West Virginia
- Wisconsin

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Expiring State Research Credits

Recently expired or near expiration:

- Michigan (January 1, 2012) only applicable against MBT; not the new Corporate Income Tax
- Delaware (December 31, 2013)
- North Carolina (January 1, 2016)

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Hiring Credits — Federal

Hiring Incentives to Restore Employment (“HIRE”) Act of 2010

- HIRE Act Employment Tax Exemption — IRC § 3111(d)
  - Exempts employer from paying OASDI Social Security tax (6.2%) on wages paid between 3/19/10 and 12/31/10 to eligible employees hired between 2/4/10 and 12/31/10
  - Savings of up to $6,622 per employee (2010 FICA Wage Cap of $106,800 X 6.2%)
  - An employer may either apply the payroll tax exemption or claim the WOTC for an employee, but not both
- HIRE Act Employee Retention Tax Credit— IRC § 38(b)
  - Available to employers who hired eligible employees in 2010 and retained them for at least 52 consecutive weeks
  - Wages for last 26 weeks must equal at least 80% of wages of first 26 weeks
  - Credit is the lesser of $1,000, or 6.2% of the wages paid over 52 consecutive weeks
  - May claim credit for first taxable year ending after March 18, 2010
  - Employer may claim retention credit for qualified employee even if the employer has also claimed the WOTC for the same employee

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Federal Empowerment Zone Credit ("FEZ")

- Provides for an annual federal income tax credit of up to $3,000 per qualified employee
- Available to employers who employ individuals that live and work in a FEZ
- Credit is calculated on qualified zone wages paid during the tax year
  - Only the first $15,000 of annual wages per employee is taken into account for the credit
  - Wages used in computing the WOTC credit must be deducted from qualifying wages for FEZ purposes

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WOTC Overview

The opportunity — WOTC

A federal tax credit for companies that hire and retain qualified employees from a variety of targeted groups

The credit can be worth up to *$9,600* for each qualified employee,

Legislative Updates:

- The American Taxpayer Relief Act of 2012 extends WOTC through December 31, 2013
- Electronic signature methodology announced on February 9, 2012
- Veterans Opportunity to Work (VOW) to Hire Heroes Act (P.L. 112-56), signed into law in November 2011

Reduces a companies cost of hiring

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WOTC qualifying categories

Temporary Assistance for Needy Family (Welfare) recipients

Supplemental Nutritional Assistance Program (SNAP) recipients

Designated Community Residents based on employee address

Vocational Rehabilitation Referrals

Summer Youth

Supplemental Security Income recipients

Qualified Veteran

- Veteran receiving SNAP benefits
- Veteran unemployed for at least four weeks, but less than six months
- Veteran unemployed for at least six months
- Disabled veteran with a hiring date that is not more than one year after having been discharged from active duty
- Disabled Veteran unemployed for six months

Long-term Temporary Assistance for Needy Family recipients

Ex-Felon

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Companies are surprised to learn who they are hiring

In March (2013), the most recent month for which data are available, more than 15%, or some 1 in 7 people, in the U.S. were on food stamps.

The Wall Street Journal
June 8, 2013

140% Increase in Food Stamp use since 1990. More people than ever before are receiving benefits from the Supplemental Nutrition Assistance Program.

The Wall Street Journal
June 8, 2013

…military families are on a pace this year to redeem more than $100 million in food aid on military bases.

The Huffington Post
June 19, 2013

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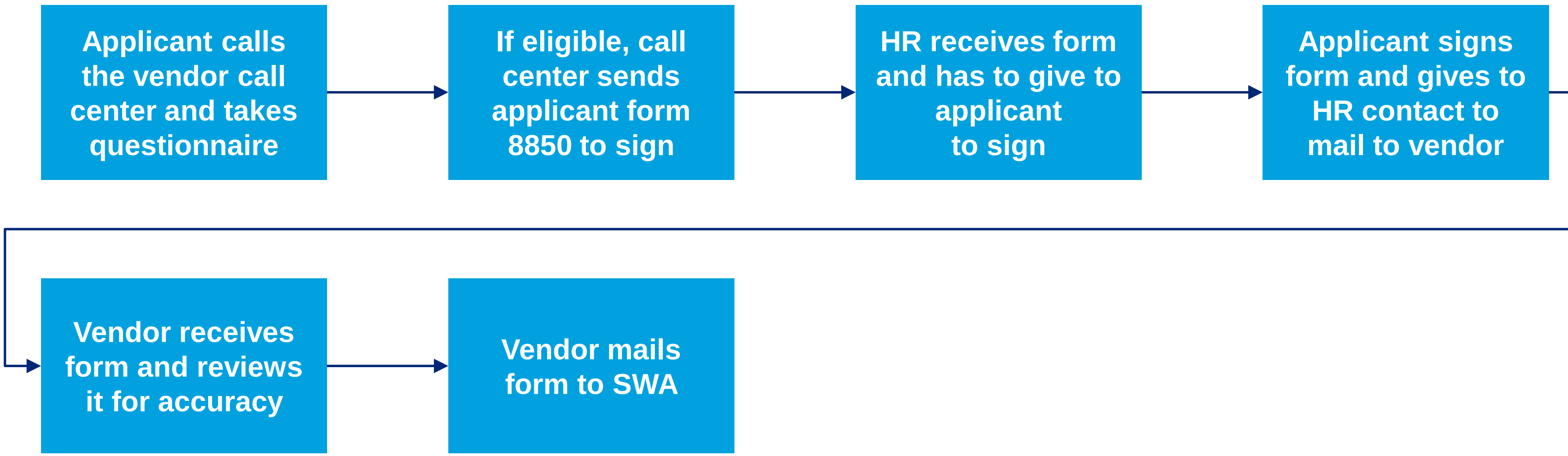
Deloitte's T4WOTC™ reduces cost of implementation

Integration with a company's hiring process is critical to achieving savings

Traditional paper based process



Deloitte's electronic process with T4WOTC™

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New Markets Tax Credit Financing

NMTC Program Overview

OPPORTUNITY SUMMARY: Receive a bank loan that is not repaid.

- BENEFIT?
  - Receive a $2 million to $3 million loan for every $10 million of capital expenditures.
  - Project pays low (e.g. 2% to 3%) interest rate for 7-year period.
  - Cancellation of Indebtedness Income for tax purposes at the end of the 7-year period.
- WHAT IS IT?
  - Federal tax credit program signed into law in December 2000 to spur private investment and economic development in urban and rural Low-Income Communities (LICs).
  - NMTC legislation is renewed through program year 2013.
  - Approximately 1/3 of the country is in a LIC, as defined by poverty rates and median family income ratios in urban or rural areas.
- Qualifying Projects can include:
  - Commercial and Industrial Real Estate
  - Manufacturing Facilities (e.g. new construction, expansion, or equipment purchases)
  - Business Loans (e.g. asset purchases or working capital)
  - Residential Rental / Commercial Mixed-Use Real Estate
  - Renewable energy development (e.g. solar panels or wind turbines)
  - Community Facilities (e.g. hospitals, education, public-benefit facilities)

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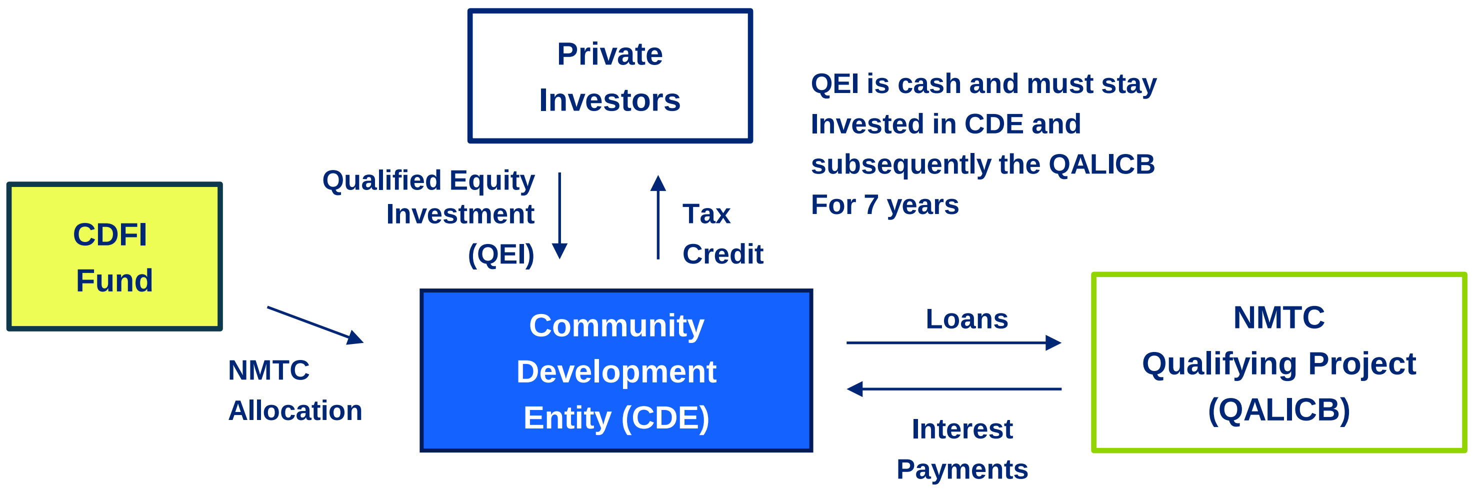
NMTC Program Overview
How it Works



HOW IT WORKS

- **CDFI Fund** (part of Treasury) allocates NMTC authority to registered Community Development Entities ("CDEs") through a competitive application process. These third party intermediates then look to investors and potential projects for investments into qualifying low income communities.
- **Tax Credit Investors** make cash investments in CDEs in exchange for the tax credits. The Tax Credit Investor receives more back in tax credits than it puts into the transaction, making them willing to walk away from the loan into the project at the end of a seven-year period.
- **CDEs** use Tax Credit Investor cash and other funds (e.g. market-rate loans or project sponsor funds) to make loans to the project. The tax credit equity portion is typically "forgiven" at the end of 7 years, providing the economic value to the project. Receive fee and services income for the use of allocation.

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NMTC Deal Economics: NMTC Leveraged Transaction

Participant's role	Key benefits
1. Tax Credit Investor	• 12 to 15% after tax IRR earned through tax credits and allocable losses • $0.70 to $0.72 per $1 tax credit
2. Economic Investor	• ROI earned through interest income plus return of "A Note" principal • Bank—Market rate • Developer/Project Sponsor • Other sources — Grants, FHLB, etc.
3. Master CDE/NMTC Allocatee	• Investment decision control • 0.5% to 5.0% suballocation fee ("carry") • Management fees to cover costs
4. QALICB	• Below-market financing which may include equity-equivalent financing ("B Note" NMTC equity)

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NMTC Economic Summary

PROGRAM OVERVIEW:

- Cash Benefit to Qualifying Projects: Reduce eligible capital expenditures by 12%–18% if the location of the development is in a low income community.
- A portion of the development costs is provided in the form of a loan from a Tax Credit Equity Investor.
- The Tax Credit Equity Investor receives more back in tax credits than it puts into the transaction, making them willing to walk away from the loan into the project at the end of a seven-year period.
- $20 million Investment ends up costing approximately $16.5 million after all fees and interest costs.

BENEFIT SUMMARY

Closing:

$20,000,000	— NMTC allocation
x 39%	— Tax Credit Earned Over 7-years
$ 7,800,000	**— Tax Credit Benefit (EARNED BY 3RD PARTY)**
x 0.77	— Price Paid for NMTCs
$ 6,006,000	**— Tax Credit Investment**
(1,000,000)	— Upfront Allocation Fee (5%)
(450,000)	— Loan Closing Costs (origination, legal, accounting, other)
$ 4,556,000	— B Note ($5,006,000) net of closing costs

Annual costs:

$ (1,015,000)	-Annual Asset Management fees and audit/tax preparation for investment entities ($145,000 annually for 7 years)

Exit:

$ (1,000)	— put price to purchase B Note
(1,751,750)	— deferred 35% tax on B Note COD income
$ (1,752,750)	

Economic Benefit:

$ 3,533,894 Net Pre-Tax Cash Flow over 7 Years

$ 2,912,890 Approximate After-Tax NPV benefit at 6% discount rate

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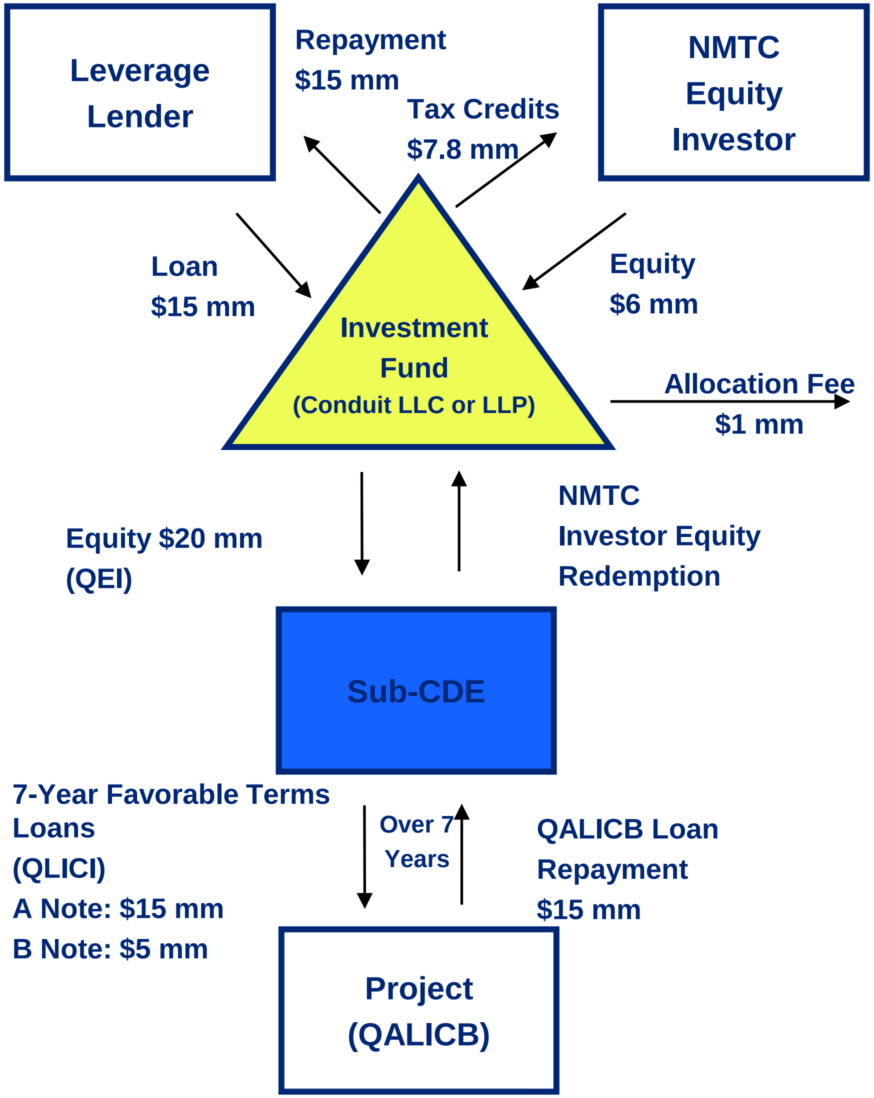
Example NMTC Leveraged Investment Structure



Transaction Summary

- The investment fund, the conduit LLC, obtains lender financing of $15 million and an equity contribution of $6 million (assuming $0.77 tax credit pricing).
- The investment fund pays ~$1mm of allocation fees to CDE and provides a QEI to the Sub-CDE totaling $20 million.
- The Sub-CDE provides $20 million in debt financing to the QALICB, structured as $15 million in senior debt at market interest and $5 million in subordinated debt with nominal interest.
- The senior debt is structured to mature in seven years, consistent with the schedule of tax credits available to investors. The subordinated debt is structured to mature in 30 to 35 years.
- The Sub-CDE earns interest on the $20 million: B Note interest pays CDE annual management fee; A Note interest flows to the investment fund LLC to service the debt provided by the Leverage Lender.
- At the end of the seven-year compliance period, the $15 million note is repaid or refinanced and the $5 million note is “forgiven” through a put option to the borrower, at which time the CDE redeems the QEI.

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Deloitte NMTC Services Overview
Tailored, Comprehensive, Results-Oriented

- **Deloitte Project Sponsor Services**
  - Deloitte Tax LLP's New Markets Tax Credit team has provided comprehensive services to NMTC program participants since the program's inception
  - Consulted on over 45 NMTC transactions that have leveraged over $900 million of NMTC Allocation.
  - Apply a tailored and thorough approach, assisting clients through each step of a NMTC transaction:
  - Project planning, NMTC qualification and structuring; identify NMTC allocation (CDEs) and investors; tax planning and diligence in deal closing stages.

- **Deloitte Serves All NMTC Participants**
  - Comprehensive services to NMTC investors, CDEs, and Borrowers.
  - Allocation Application Preparation: Deloitte has been involved with the preparation of a multitude of NMTC applications since the program's inception and has helped its clients to win $923 million of NMTC Allocation. Several of Deloitte's clients have enjoyed multiple, consecutive wins, proving the effectiveness and success of Deloitte's application process.
  - CDFI Fund and IRS Compliance: Deloitte has developed an all-inclusive, customized electronic NMTC compliance package that is tailored to each individual client. This package includes tailored worksheets that facilitate the CDFI Fund's CIIS reporting requirements, a comprehensive compliance calendar, invaluable references, and a complete listing of all required documents and reports.
  - Tax Return and Audit Services: Deloitte prepares tax returns and audits for CDEs, subsidiary-CDEs, and project borrowers.

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NMTC Program Overview
Sample Deloitte-Driven NMTC Projects

Project Type	Brief Description	NMTC Allocation
Biomass Plant	Construction of a new 30 million pound biomass plant to produce biosuccinic acid using proprietary technologies. Financing included a DOE grant and USDA loans. Lake Providence, LA.	$27.7 million
Real Estate: Retail	Construction of three new retail buildings (totaling 19,536 square feet) leased to 8 tenants as part of a new retail and entertainment center. Sheridan, CO.	$10 million
Tractor Manufacturer Facility Expansion	Construction of a new 73,000 square foot facility and purchase of manufacturing machinery and equipment. Jackson, MN.	$15 million
Food Packaging and Distribution Center	Construction of a 130,000 square foot Midwestern Distribution Center processing plant site to store and distribute fresh and frozen pork products. Marshalltown, IA.	$10 million
Real Estate: Office & Retail	Acquisition, construction and equipping of 123,360 square foot, 8-story office and retail building in Moline, Illinois. Financed with both Midwestern Disaster Area Bonds and NMTC allocation. Moline, IL.	$30 million
Wind Turbine Facility and Equipment	Construction of a new facility and equipment purchase for wind turbine gearbox repair and refurbishment. Abilene, TX.	$10 million
Corn Processing Facility	Expansion of a corn processing facility. Keokuk, IA.	$10 million

*** Referrals available upon request**

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Energy Credits — Federal

A High Level Summary of Incentives

Production Tax Credit

- 10-year credit period for qualified resources
- 2.2 cents per kWh
- Credit reduction for subsidized or tax-exempt financing
- Third-party sales requirement
- Owner/producer requirement
- No basis reduction in property

Investment Tax Credit

- One-time tax credit (30% or 10% of eligible basis)
- No credit reduction for subsidized or tax-exempt financing after 12/31/08
- No third-party sales requirement
- No ownership requirement
- 50% basis reduction of property
- Recapture applies
- Normalization required

ARRA Section 1603 Treasury Grant

- Cash payment (30% or 10% of eligible basis)
- If not placed in service in 2009 through 2011, construction must begin during 2009 through 2011, completed by required placed-in-service date
- Received within 60 days of receipt of complete application
- May be taxable by certain states or localities
- No ownership requirement
- 50% basis reduction of property
- Limited recapture applies
- Normalization required

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Summary of Qualifying Resources and Facilities

Qualified Resources/ Facilities	Credit Amount	Placed-in-Service Date	30% ITC Election	Treasury Grant
Solar	30%	Before 1/1/2017	N/A	30%
Fuel cell	30%	Before 1/1/2017	N/A	30%
Stationary microturbine	10%	Before 1/1/2017	N/A	10%
Geothermal heat pump	10%	Before 1/1/2017	N/A	10%
Small wind	30%	Before 1/1/2017	N/A	30%
Combined heat/power	10%	Before 1/1/2017	N/A	10%
Geothermal	10%	N/A	IRC § 45 is available	10%

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Summary of Qualifying Resources and Facilities (cont.)

Qualified Resources/ Facilities	Credit Amount for 2013	Placed-in-Service Date	30% ITC Election	Treasury Grant
Wind	2.3 cents/kwh* (10 years)	Before 1/1/2014	2009-2013	30%
Geothermal (new facilities)	2.3 cents/kwh* (10 years)	Before 1/1/2014	2009-2013	30%
Closed-loop biomass	2.3 cents/kwh* (10 years)	Before 1/1/2014	2009-2013	30%
Open-loop biomass	1.1 cent/kwh* (10 years)	Before 1/1/2014	2009-2013	30%
Municipal solid waste (landfill gas, trash)	1.1 cent/kwh* (10 years)	Before 1/1/2014	2009-2013	30%
Hydropower	1.1 cent/kwh* (10 years)	Before 1/1/2014	2009-2013	30%

*** Adjusts for inflation**

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Summary of Qualifying Resources and Facilities (cont.)

Qualified Resources/ Facilities	Credit Amount for 2013	Placed-in-Service Date	30% ITC Election	Treasury Grant
Indian coal	$2.2/ton* (7 years)	Before 1/1/2009 (not extended)	N/A	N/A
Marine and hydrokinetic renewables (including small irrigation power)	1.1 cents/kwh* (10 years)	Before 1/1/2014	2009-2013	30%

*** Adjusts for inflation**

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IRC § 179D — Energy Efficient Commercial Buildings Deduction

- **A taxpayer may deduct the cost of energy-efficient commercial building property placed in service before December 31, 2013**
  – This deduction may not exceed the excess of the product of $1.80 and the square footage of the building, over the aggregate amount of IRC § 179D deductions allowed for all prior years
- “Energy-efficient” property is
  – Depreciable to the taxpayer;
  – Installed in the United States and within the scope of Standard 90.1-2001;
  – Installed as part of the; and
    - Interior lighting systems,
    - heating, cooling, ventilation (HVAC) and hot water systems, or
    - the building envelope, and
  – Must be certified by licensed engineer or contractor unrelated to taxpayer
    - Modeling generally required using certified software to compare energy and power consumption against baseline reference building
    - Certification must include field inspection of the building after placed in service to confirm the building has achieved the savings goals

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Tax Equity Investment Opportunities

Tax Credit Investment Opportunities

Tax Credit	Brief Summary	Expiration
Low-Income Housing Credit (§42)	Investment-based tax credit for the acquisition, development or rehabilitation ("qualified investment") of residential rental property made available to low-income residents. Tax credits are allocated by IRS to State Housing Credit Agencies which award tax credits to eligible affordable housing developers.	Permanent
New Markets Tax Credit (§45D)	Investment-based tax credit offered to investors that acquire a capital interest in Community Development Entities (CDEs) that in turn are required to use proceeds to make qualified low-income community investments (QLICIs) in businesses located within low-income communities. Tax credit are allocated by Treasury to CDEs and the CDEs choose which projects receive the benefit from the tax credit allocation.	Round 9 (2011) was the final allocation round under the current statute.
Rehabilitation Credit (§47)	Investment tax credit for the costs incurred to rehabilitate certified historic structures (and certain other pre-1936 commercial buildings).	Permanent
Energy Credit (§48)	Investment tax credit for the costs incurred to acquire, construct, reconstruct, or erect certain qualified energy property (i.e., solar, fuel cell, stationary microturbine, geothermal heat pump, small wind, combined heat and power, geothermal).	Placed in service before Jan. 1, 2017 (30%); permanent 10%
Renewable Energy Production Tax Credits ("PTC") (§45)	Production-based credits for facilities originally placed in service within applicable period and to the extent producing electricity from specific energy resources designated as "qualified" (i.e., wind, closed-loop biomass, open-loop biomass, geothermal, solar, small irrigation, landfill gas, municipal solid waste, hydropower, and marine and hydrokinetic)	Placed in Service before Jan. 1, 2013 (wind); Jan. 1, 2014 (others)
Energy Credit in lieu of PTC (§48(a)(5))	Election available to treat certain PTC-eligible facilities as energy credit property provided no PTC is claimed with respect to the facility.	Placed in service before Jan. 1, 2013 (wind); Jan. 1, 2014 (others)
ARRA Grant in lieu of tax credits (ARRA §1603)	Grant available in lieu of energy credit or PTC to reimburse a portion of the eligible basis attributable to certain specified energy property. To qualify construction must have begun on the property or facility prior to January 1, 2012, and a grant application must have been filed on or before September 30, 2012.	Placed in service before Jan. 1, 2013 (wind); Jan. 1, 2014 (others)

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Tax Credit Investment Opportunities (cont.)

Tax Credit	Brief Summary	Expiration
Qualifying Advanced Coal Project Credit (§48A)	Investment tax credit for qualified investment in qualifying integrated gasification combined cycle (IGCC) projects or qualifying advanced coal-based electric generation projects. Tax credit allocations awarded to specific projects based on a competitive application and review process.	Phase III Applications (reallocation of Phase I) due Oct. 15th, 2012 ($658.5M reallocation)
Qualifying Gasification Project Credit (§48B)	Investment tax credit for qualified investment in qualifying gasification projects. Gasification technology must convert a solid or liquid product from coal, petroleum residue, biomass, or other recovered waste materials into a synthesis gas for direct use or subsequent chemical or physical conversion. Tax credit allocations awarded to specific projects based on a competitive application and review process.	Phase II Applications due Nov. 2nd, 2009.
Qualifying Advanced Energy Project Credit (§48C)	Investment tax credit for qualified investment in certain property used to re-equip, expand, or establish a domestic manufacturing facility for the production of specified advanced energy property, or property, that after further manufacture, will become specified advanced energy property. Tax credit allocations awarded to specific projects based on a competitive application and review process.	All $2.3B of 48C credits have been allocated. Future allocation of unused credit possible.
Refined Coal Production Tax Credit (§45(e)(8))	Production-based credit for a facility originally placed in service within the applicable period that produces a liquid, gaseous, or solid fuel from coal that satisfies certain emissions reduction standards.	Placed in Service before Jan. 1, 2012 (Refined Coal)
Indian Coal Production Tax Credit (§45(e)(10))	Production-based credit for a facility originally placed in service within the applicable period that produces coal from coal reserves which, on June 14, 2005 were owned by an Indian tribe, or held in trust by the U.S. for the benefit of an Indian tribe or its members..	Placed in Service before to Jan. 1, 2009
Railroad Track Maintenance Credit (§45G)	Credit for railroad track maintenance expenditures incurred by Class II and Class III railroads. Credit limitation calculated as a function of the total number of railroad track miles owned or leased by the eligible taxpayer. Statute also provides taxpayers the ability to assign credits to certain other taxpayers.	Expenditures incurred before Jan. 1, 2012

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Tax Credit Investment Opportunities (cont.)

Tax Credit	Brief Summary	Expiration
Accelerated Cost Recovery Non-Fossil Fuel (§168(e)(3)(B)(vi), §168(l), §168(m), §168(n), §169, §291)	Accelerated cost recovery and expensing provisions for certain renewable and alternative energy property, cellulosic biofuel plant property, reuse and recycling property, disaster assistance property, and pollution control facilities	(§168(e)(3)(B)(vi) — Permanent, §168(l) — placed in service before Jan. 1, 2013; §168(m) — permanent; §168(n) — certain disasters prior to Jan. 1, 2010; §169 — permanent; §291 — permanent)
Bonus Depreciation (§168(k))	Accelerated cost recovery for certain property acquired before December 31, 2011 (100%) and December 31, 2012 (50%) with certain exceptions and special rules	Placed in Service before Jan. 1, 2013 (100%); Placed in Service before Jan. 1, 2014 (50%)

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Tax Credit Syndication Market

The market for tax credits continues to grow

- Energy Policy Act of 1992
- American Jobs Creation Act of 2004
- Energy Tax Incentives Act of 2005
- Tax Relief and Health Care Act of 2006
- Emergency Economic Stabilization Act of 2008
- American Recovery and Reinvestment Act of 2009
- Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act of 2010

Credit Programs	IRC	Credit Period	Estimated 2012 Market Size
Low Income Housing Tax Credit	§42	10 years	$7.5B
New Markets Tax Credit	§45D	7 years	$4.0B
Historic Tax Credit	§47	1 year*	$0.7B
Renewable Energy PTC and ITC	§48 §45	1 year* ITC 10 years PTC	$3.6B

* 5 year recapture period

Current market challenges and opportunities

- Credit crisis drove down pricing of credits (i.e., higher returns required by tax equity investors) because the market was not as liquid and there were fewer tax paying investors
- Expiration of grant program and completion of “grandfathered” projects expected to cause significant increase in renewable energy tax equity market ($14B grants awarded to date; $4.5B in 2011 and $4.5B through Q3 2012).

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A View from the Hill

Notable business extenders

Scope of extenders

- Increasing scope of current programs
- Extending current programs
  - Comparison to 2010 and 2012
- Timing of extenders bill

Tax Reform

- Timing
- Potential outcomes

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Questions & Answers

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