

CFO insights: Are your green initiatives tax efficient?



As a chief financial officer (CFO), investments in corporate sustainability and green initiatives are much easier to justify and execute if they produce a positive return on investment (ROI), which is easier to achieve if they are supported by tax credits and incentives. Following the enactment of the American Recovery and Reinvestment Tax Act of 2009, state and local governments began passing legislation to attract green development to boost struggling local economies. With many companies losing money, some state and local governments wanting to incent development became creative and offered above the line savings in lieu of traditional income tax credits. Yet in many companies, the tax organization is not coordinated with the sustainability initiatives and these incentives are often overlooked and thus unclaimed. Many believe that the federal, state and local tax credits and incentives likely to be reduced or eliminated once more stringent regulations are put into place. This lends greater urgency to the need for coordinated action.

Here are five questions to consider for improving the tax and incentive efficiencies of your green strategy.

1. Are your energy conservation initiatives tax efficient?

There are a number of incentives at the Federal and State levels to encourage energy efficiency. One of the most popular incentives at the Federal level is the Energy Efficient Commercial Buildings Deduction, which was passed as part of the 2005 Energy Reduction Act. This incentive provides for a deduction of up to \$1.80 per square foot of real estate. The deduction is split three ways amongst improvements in lighting, heating ventilation and cooling (HVAC), and improving the building envelope to conserve energy. The full deduction can support funding for improvements that would reduce energy consumption by up to 50 percent. The availability of this deduction has been extended to 2013. While many companies have changed lighting to take advantage of this incentive, improvements in building envelope and HVAC that comply with the

incentive can provide further savings. Energy efficiency initiatives are better executed through advance planning rather than piecemeal building retrofits. Similarly, planning ahead to integrate energy conservation with tax strategy is likely to yield the greatest benefits. Without a comprehensive plan and verification of improvements, it is more difficult to claim and sustain the tax benefits.

In addition to the Federal incentive, there are literally hundreds of state and even local incentives for energy conservation. Often these incremental savings make the difference between a “go vs. no-go” decision when considering the company’s return on their investment. Incentives from multiple jurisdictions are also available for building Leadership in Energy and Environmental Design (LEED) certified buildings and buildings designed following LEED principles, even though not LEED certified.

2. Are you tapping the incentives for energy production?

For many companies, a second opportunity lies in renewable energy production to reduce energy costs. This may entail the installation of solar panels, wind, geothermal, biomass, or other types of renewable energy facilities. The American Recovery and Reinvestment Tax Act of 2009, permits the Secretary of the Treasury to provide grants of 10 to 30 percent of most of the cost for properties placed in service in 2009 and 2010. In addition, similar incentives for investments in alternative energy available from several states often are critical to the economic viability of projects. For example, a major retailer considering the use of solar panels on rooftops initially found it was uneconomic based solely on available Federal tax credits or grants. However, the addition of state level grants permitted the company to economically install solar panels in a number of retail outlets to reduce its use of non-renewable energy.

Beyond Federal, state and local tax reductions and credits, co-generation of power may also lead to rebates from utility companies or a potential revenue stream for excess power. Companies and their utility providers are becoming far more creative in this area so it is important to consider utility incentives as part of the full incentive package.

3. Are you making your products greener?

Many consumers today consider the environmental impact of their purchases. This green consciousness is driving new product design, resulting in packaging that is less destructive to the environment. In addition, consumers today are interested in where the product comes from and how it moves along the supply chain. These issues require a company to rethink the environmental profiles in product design, packaging options, and distribution.

As product development and distribution evolves to achieve corporate environmental goals, remedial changes to the current supply chain need to take place. The design and development of more green conscious products will likely result in increased capital expenditures. However, companies undergoing this change can utilize tax savings to cover the cost gap. Potential tax savings can come in the form of research and development tax credits or deductions, locating and structuring the supply chain in optimal jurisdictions, job training tax credits and grants, and negotiated agreements with local tax authorities.

A more coordinated approach to addressing corporate environmental responsibility will allow for companies investing in projects with the greatest impact for lowest relative after tax cost.

4. Are you consolidating data centers?

A company's IT organization is no stranger to scrutiny when it comes to corporate responsibility and sustainability. IT departments are among an organization's largest user of electricity and a significant producer of waste electronics. In an effort to better manage energy consumption, many CIOs have been

able to improve sustainability performance through server consolidation, application rationalization, and strategic procurement of energy – efficient hardware, better printing policies, and simple behavioral changes such as turning off desktop computers at night.

In an effort to capitalize on these technological changes, state and local governments are attempting to convert struggling regions into high-tech hubs by introducing incentives to attract data centers. The states and local governments are aligning themselves with the utility companies to provide robust incentive packages for Green IT, including incentives for both personal and real property tax exemptions in some jurisdictions. Tens of millions of dollars of tax savings can be attributed to this area – but only when sustainability is an integral part of the negotiations process.

5. No green strategy would be complete without consideration being given to possible carbon legislation. Do you have a carbon tax strategy?

The American Clean Energy and Security Act (Waxman-Markley) was passed by the United States House of Representatives, but has not yet been considered in the Senate. This bill calls for nearly 20 percent carbon emission reductions through cuts of greenhouse gasses by 2020. The bill also calls for a cap and trade system for carbon emissions. Also, the EPA is becoming more active in this area.

Due to the stringent regulation that may be placed on carbon emissions, many companies will need to develop strategies to reduce the company's carbon footprint. Many of these strategies will result in significant capital expenditures. Understanding potential "required" investments is key to making the right green investment choices today. These costs can be mitigated through tax credits and incentives that are available on the federal state and local level.

Beyond incentives, it is also important to consider tax in the development of IT systems to capture carbon emissions and related items, such as potential carbon allowances, etc., that may materialize as we move towards

a type of carbon tax strategy. The tax requirements do and will continue to be different than those required for other types of financial reporting and therefore systems planning in this area will become more and more critical.

Summary

In summary, there are a number of different tax opportunities to support green initiatives. To seize these opportunities, CFOs need to promote a closer connection between their tax organization and sustainability programs. Since many of the most valuable incentives will vary by state and local jurisdiction, a tax efficient sustainability initiative will have to give careful consideration to the advantages and disadvantages of investments made in specific jurisdictions. Tax organizations will have to coordinate expertise across multiple jurisdictions to effectively harness the value of available incentives.

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