The Investment Tax Credit (ITC):

Unlocking the Full Financial Potential of Solar Investments for American Farmers

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Introduction to the Investment Tax Credit

The ever-evolving landscape of renewable energy incentives, especially the federal Investment Tax Credit (ITC), offers unprecedented financial rewards for farmers who have invested in Solar energy or other certain renewable energy projects to power their farms. Through the Inflation Reduction Act (IRA) of 2022, farmers now have the potential to recoup a minimum of 30%, and up to 60%, of their solar or renewable energy project costs.

Navigating the complex requirements to apply for, claim and monetize ITC benefits can be a daunting task. Acting as your ITC advisor, American Tax Exchange (ATE) specializes in overseeing and navigating this process in a seamless, profitable manner for farmers across America.

The ITC isn't just a tax break; it's a powerful tool that can fuel your farm's sustainability and maximize your investment's profitability.

American Tax Exchange is focused on helping farmers unlock the full value of their ITC, ensuring that they don't leave a single dollar on the table. By guiding clients through every step—from IRS portal registration to compliance with intricate tax regulations—we eliminate the guesswork and guard against pitfalls as we help farmers realize substantial financial gains with confidence.

In this report, we discuss how American Tax Exchange's advisory expertise can empower you to capture your solar investment's full financial potential, streamline the ITC process, and accelerate your farm's return on investment.

Key ITC Benefits Available to Farmers

Let's begin by discussing five different ways you can benefit from the recently updated Investment Tax Credit for solar energy projects.

1. Lower Your Current Tax Year Liability: Farmers who paid to install solar energy systems in 2022 or later can offset their current-year tax liabilities by properly filing for the eligible ITC.

2. Collect a Refund for Taxes You Paid Over the Last 3 Years: Farmers who paid to install solar systems since 2022 can also claim refunds for taxes already paid over the last three years, up to the full amount of their eligible ITC value, or the total amount paid in Federal taxes over past three years.

3. Use the ITC to Offset Your Future Taxes Over the Next 22 Years: Farmers can use the ITC to offset taxes they incur in future years. The ITC may be carried forward for up to 22 years, providing substantial future tax savings and making the ITC a key component of long-term financial planning.

HOW AMERICAN TAX EXCHANGE HELPS FARMERS

Whether you are claiming the ITC in the current tax year, carrying it back to collect a refund, or carrying it forward for future tax savings, it is critically important to comply with all applicable requirements of the Internal Revenue Code and follow the protocols of the IRS project registration and establishing ITC eligibility.

American Tax Exchange helps ensure its clients comply with ITC regulations and receive the maximum financial benefit though a suite of services including:

- Facilitating registration of the project on the IRS portal
- Supplying a comprehensive project cost segregation report providing third-party analysis and audit-ready proof of the ITC value
- Providing clear guidance on preparing and filing IRS claims forms
- Brokering the sale of using our extensive network of buyers and sellers

4. Sell Your ITC and Get Cash. Farmers who do not need to personally apply their ITC to their own taxes may now elect to sell and transfer their ITC to other eligible taxpayers for cash. The cash payment the seller receives from the buyer can then be used to pay down any applicable project financing or for any other purpose the farmer may choose.

It is important that a farmer looking to sell their ITC understands the economic structure of the transaction so they can maximize their income on the sale. First, an ITC buyer will expect to receive some discount as an incentive for the purchase. For a simple example, a buyer with a $100,000 federal tax bill may offer to purchase a $100,000 ITC at a 25% discount, or for $75,000. The buyer will pay the seller $75,000 cash upfront to receive and use the seller's $100,000 ITC. When the buyer files their taxes, they will apply the full ITC against their $100,000 tax bill, thereby saving $25,000. It is a win-win for both parties in the transaction. The Seller collects a sizable amount of cash for selling an ITC they could not otherwise use, and the Buyer substantially reduces their tax payments. There are no limits to the value of ITCs that can be sold or bought.

Since the US Tax Code was changed in 2022 to allow the sale and tranfer of ITCs, billions of dollars in ITCs have already been exchanged between taxpayers, generating massive tax savings for buyers and earning valuable cash payments for sellers.

5. Lower Your Current Tax Bill by Buying ITCs: Farmers seeking to lower their federal tax expense can purchase eligible ITCs from willing sellers at discounted prices and apply the full amount of the ITC against their tax bill for the current year. Certain limitations apply and strict IRS guidelines dictate the timing, process and requirements for these transactions. That's why American Tax Exchange helps farmers source eligible ITCs and guides them through every step of their purchase.

A NOTE ON ITC PRICING, BUYER DISCOUNTS AND EXPENSES

The price a buyer will pay for a seller's ITC is closely tied to the amount of the ITC, with larger ITCs commanding higher prices and smaller discounts. The most active ITC buyers (such as corporations, real estate investment trusts, and family investment funds) seek out large ITCs since they deliver big tax savings with lower transaction costs. Small ITCs, on the other hand, often must be bundled together in complex sales that present greater risk for the buyer and require higher underwriting expense. Thus, they sell at greater discounts. Generally, buyer discounts will range from around 5% for ITCs greater than $50 million down to 25% or 30% for ITCs below $1 million. Also, these discounts are in addition to other transaction expenses, like legal, brokerage and insurance fees, which are sometimes required. However, even at lower prices, sellers of smaller ITCs can still collect significant payouts from willing buyers.

Example

Before moving on, let's look at a simple example illustrating the savings available under these options. In this example, a farmer has invested $500,000 in a solar energy system that qualifies for a 30% ITC. The table below shows the estimated transaction costs and net value to the farmer based on either keeping the ITC and applying it against taxes owed or selling the ITC to a third-party buyer.

	Keep and apply the ITC in the current/past/future tax year(s)	*Sell the ITC to a third-party buyer in the current year*
Project Investment	$500,000	$500,000
Gross ITC Value	$150,000	$150,000
ATE Advisory Fee (5%)	($7,500)	($7,500)
ATE Brokerage Fee (5%)	--	($7,500)
Legal Fees (3%)	--	($4,500)
Buyer Discount (20%)	--	($30,000)
Net Value of ITC	$142,500	$100,500

Important Rules for Claiming or Transferring an ITC

Whether you are claiming an earned ITC for your own tax savings or entering into an ITC sale, there are several other IRS rules concerning ITCs about which you should be aware. These rules are complex and their application will vary from project to project. As experts in the federal ITC program, American Tax Exchange stands ready to help farmers navigate these rules and ensure they get the maximum value for their solar energy projects though strategic consulting, supplying comprehensive cost segregation reports, and brokering ITC sales between qualified buyers and sellers.

Active vs. Passive Income. A buyer in an ITC sale may currently apply their purchased ITC to offset only their passive income, as opposed to their active income, as defined by IRS guidelines. Before purchasing an ITC, it is important for buyers to consult with their tax advisor to make certain they have sufficient passive income tax liability to utilize the entire ITC.

Clawback Risk. For a taxpayer to enjoy the full value of an ITC, the IRS requires that the solar energy system put into place remain in operation by its original owner for a minimum period of five years following its original commission date. If the system ceases operations during that period, the IRS can claw back some or all of the ITC. The amount of the clawback starts at 100% of the ITC's value during the solar power system's first year of operation and reduces by 20% each year over the first five years.

IRS clawback is a particular risk for an ITC buyer, since they are not in a position to ensure the solar power system continues to operate for the five-year minimum period. Fortunately, there are several options for mitigating this risk. First, ITC sellers may offer to contractually indemnify buyers against increased tax liability resulting from a termination in system operations. Second, sellers may offer guarantees on the part of parent entities of other creditworthy parties, providing buyers a secondary means of recovery in the event of an ITC clawback. Finaly, certain ITC transactions qualify for commercial insurance that will payout to an ITC buyer should the IRS clawback their tax savings. Such policies are an emerging feature in the insurance marketplace and are currently available only for large ITC transactions (*i.e.*, those in excess of $10 million).

While indemnification, third-party guarantees, and insurance all can help reduce buyer risk, determining which solution is right for a transaction requires careful legal and financial evaluation. Buyers and sellers should work closely with their attorneys and advisors to ensure they properly assess their own risk tolerance, identify the right mitigation strategy(ies), and draft the proper documentation to put their mitigation plan into effect. Additionally, buyers should conduct thorough due diligence on ITC sellers, including an examination of their financial statements, tax returns, and business operations, to better forecast their likelihood of continuing in business for the entire five-year clawback period.

Prevailing Wage and Apprenticeship. The US Tax Code stipulates that solar power projects larger than 1 MW (AC rating) may qualify for the maximum ITC value only if they satisfy certain rules regarding the payment of prevailing wages and the employment of apprentices. Specifically, for these projects, all laborers and mechanics employed by on the construction, alteration, or repair of the system are paid wages at rates that are not less than the prevailing rates determined by the US Department of Labor for the type of work performed in the farm's local area. Moreover, at least 15% of the labor used for the construction, alteration, or repair of the system must be performed by a qualified apprentice, and certain minimum numbers of apprentices must be employed by

Tip: Solar energy systems with an AC rating less than 1 MW are exempt from the IRS rules for prevailing wages and apprenticeship.

the system's installer and engaged in the construction effort, all in accordance with applicable tax guidelines.

If a taxpayer claiming an ITC for a project with a DC rating greater than 1 MW is unable to prove these requirements were satisfied, the eligible ITC is reduced by 80%. Therefore, it is essential that comprehensive and detailed labor records are maintained throughout all project phases and clear contractual mandates are established with contractors to ensure they comply with applicable prevailing wage and apprenticeship standards.

Timing Considerations. Properly transferring an ITC from a seller to a buyer requires that the parties follow a specific, IRS-mandated timeline. Importantly, the seller must register the project with the IRS after placing the solar power system into service, but no earlier than the beginning of the tax period when the ITC is earned and no later than 120 days before the due date (including extensions) for the tax return on which the ITC is claimed. Additionally, a farmer intending to sell their ITC to a third-party buyer must make a transfer election on an original tax return for the tax year in which the ITC is determined, meaning the transfer election must be made by the due date of the original tax return (including extensions) and cannot be made on an amended return. Otherwise, the farmer will lose the right to sell and transfer the credit to another qualified taxpayer.

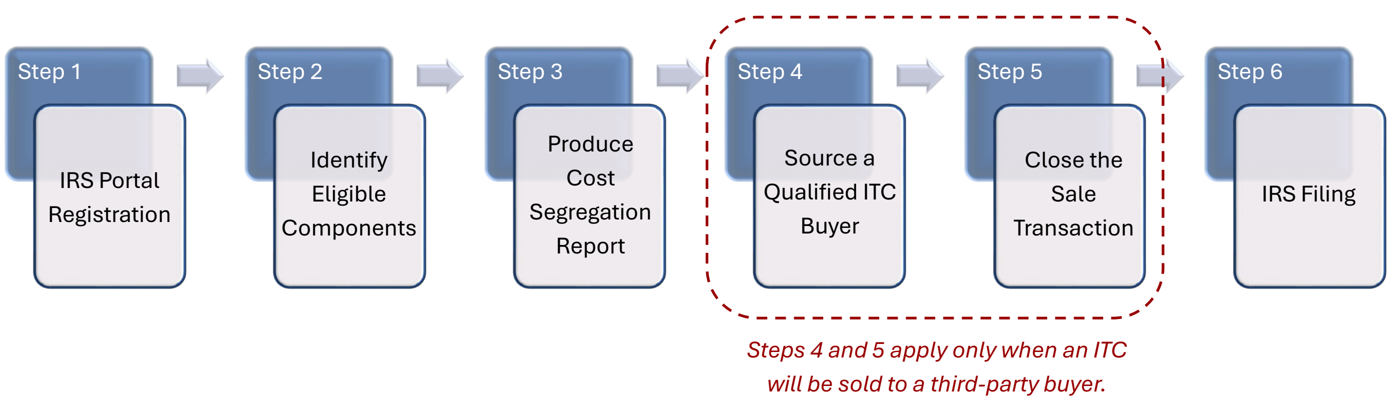
Boosting ITC Value with Adders. Perhaps the most valuable provisions of the ITC regulations are those enabling solar energy projects meeting certain criteria to qualify for bonus tax credits. These "adders" are available for projects located in federally designated "low-income communities" and "high fossil fuel communities" as well as for projects constructed with minimally sufficient quantities of US-sourced materials. Together, these adders can boost the ITC from 30% to as high as 60% of eligible project costs, providing a lucrative financial windfall for eligible farmers.

To reap the full benefit of the ITC adders, a taxpayer must prove their project satisfies all applicable eligibility requirements as supported by proper rules interpretation and documentation. American Tax Exchange helps farmers meet these requirements by providing a detailed analysis of each ITC adder as applied to their project along with the evidence required to claim any applicable adder in its cost segregation report.

Understanding the ITC Filing and Transfer Process

Navigating the complexities of claiming or transferring an ITC according to IRS rules can be a daunting task. At American Tax Exchange, we are committed to making this process is as straightforward and efficient as possible, guiding you each step of the way and ensuring you have the support needed to get optimum value from your ITC.

Below are the six steps involved in claiming or transferring an ITC, with detailed explanations on the following pages.



Step 1: Registering your Project on the IRS Portal

The first step in securing an ITC for a solar power project is to register with the IRS via its Clean Energy Registration Portal. The project owner is the only party authorized to enter information on the IRS portal; however, our team at American Tax Exchange is highly familiar with the process and can direct you, step-by-step, as you complete the registration. Once the IRS accepts your project on the portal, it will issue a special number to track your project through the remainder of the ITC claims process.

Step 2: Identifying Eligible Project Components

Solar power system installations can involve a wide variety of components, each with their associated expense. These include, for example, solar panels, mounting and racking systems, inverters, wiring, controllers, as well as structural reinforcements, roofing materials, and ground clearance work. When determining the value of an ITC, it is essential to understand exactly which components may be included in the total project cost. While most project components will qualify, there may be specific elements that do not, typically amounting to 5% of total project cost or less.

Step 3: Producing a Cost Segregation Report

American Tax Exchange provides a comprehensive and exhaustive cost segregation report for each of its, which documents entire scope of their project, provides analysis supporting the inclusion of applicable ITC adders, details the allowable components included in the ITC calculation, and evidencing compliance with prevailing wage and apprenticeship requirements, where applicable. This report is delivered in electronic format and in a printed, bound copy for use in the event of an audit.

Step 4: Sourcing a Qualified Buyer (if applicable)

For farmers wishing to sell their ITC to a third-party, finding a qualified buyer is often the most difficult part of the process. Fortunately, American Tax Exchange is establishing a marketplace for farmers to buy and sell ITCs seamlessly. Our goal is to introduce farmers seeking to buy or sell ITCs to one another and to facilitate those sales quickly and efficiently, thus helping create a stronger financial environment for all American farmers.

Step 5: Closing the Sale Transaction (if applicable)

When selling an ITC, careful attention must be paid to ensure sale documentation is correct and nothing impedes the closing and funding. American Tax Exchange works with both parties' attorneys and tax advisors to facilitate executions of sales contracts and delivery of guarantees, indemnification agreements and/or evidence of insurance, where needed. With our help, sellers and buys can rest assured their transaction will be smooth and satisfy all IRS requirements.

Step 6: Filing with the IRS

Whether a farmer is claiming an ITC for their own use or selling their ITC, the final step is to notify the IRS though proper tax filings. As mentioned above, specific regulations govern the timing of these filings. To streamline the process, our partner CPA firms will prepare all necessary tax forms and will coordinate closely with the parties' tax advisors to help them correctly file for your ITC on time.

Conclusion

American Tax Exchange is dedicated to empowering farmers across the nation to maximize their financial potential through the strategic use of the Investment Tax Credit. Whether you are looking to offset your current tax liabilities, receive refunds for past taxes, sell your ITCs for immediate cash, or buy ITCs to lower your overall tax on passive income, we are here to guide you every step of the way. Our team's expertise ensures that you navigate the complexities of the ITC process with confidence and clarity.

Don't miss the opportunity to enhance your financial future. Call or email us, and let's work together to unlock the full financial potential of your solar or renewable energy project investments!

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