

Finance Pitch: Tax Law Change Could Help Churches and Non-Profits Go Solar

By Bruce Karney (bkarney@comcast.net) June 1, 2012

Opportunity

Congress could enable tens of thousands of churches and small non-profit organizations to put solar panels on their roofs by enacting a minor and temporary change to US tax law.

Current Situation / Problem Statement

Federal incentives for solar photovoltaic (PV) systems are tax incentives. This puts churches and other non-profit entities that want to get rooftop solar at a terrible disadvantage – they have no taxes to offset. The solar industry and Wall Street have partially addressed this problem by creating Power Purchase Agreements (PPAs) and leases. However, PPAs and leases are not offered for small non-residential PV systems because the administrative overhead of a PPA is high – and it's as high for a small system's PPA as for a large one's. There is no financially viable way for most churches and other small non-profits to install solar PV without paying cash or borrowed funds.

Tax Roadblock Prevents Private Investment

Many individuals have adequate capital to purchase a 5-50 kW PV system that could be installed on a non-profit's roof as an investment. Such investor could earn a modest but attractive after tax return of 3-7% if two impediments in the tax code were removed. The first issue is the passive activity loss limitation which prevents most taxpayers from using depreciation of the solar asset to offset ordinary earned income. The second is the difficulty of passing the active participation tests. (If a taxpayer passes one of these tests, he or she can treat passive income as active).

Current tax law already allows these tax benefits to be achieved, but only by large corporate investors who have shunned this non-profit market segment. My proposal opens up a new path for capital to flow from ordinary Americans to their church or favorite small non-profit. There are millions of Americans who are wealthy enough to want to help their parish and their planet, but not so wealthy that they could ever consider an outright donation of a solar system to the non-profit organization.

Proposed Change in Law

For a limited period (from now to 2016, for example); for a limited class of small-scale renewable energy investments (such as solar PV and solar thermal); for a limited group of eligible projects (501(c) non-profit entities); for a limited group of taxpayers (such as filers with AGIs less than \$400,000 if married filing jointly or \$200,000 if single) amend the passive loss rules to allow passive losses from solar leases and power purchase agreements to offset active income, not just passive income. Having a 3 or 4 year time limit on this program would spur all parties to move quickly but would allow adequate time for dissemination of information about the opportunity to potential investors.

Scale of the Opportunity

Suppose that over the next 4 years a total 100,000 churches and non-profits enter into solar PPAs, with an average system size of 20 kW and price of \$100,000 (before incentives). That would be 2,000 megawatts – approximately equal to total amount of PV that was installed in the US in 2011. About \$10 billion of private investment would be required. This estimate does not include the impact from homeowners who purchase or lease home solar systems because they were inspired by their church's example, but their combined purchases could easily exceed 1,000 megawatts.