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## FEDERAL

### Incentives/Policies for Renewables & Efficiency



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## Modified Accelerated Cost-Recovery System (MACRS) + Bonus Depreciation (2008-2012)

Last DSIRE Review: 12/18/2010

Program Overview:

**State:** Federal

**Incentive Type:** Corporate Depreciation

**Eligible Renewable/Other Technologies:** Solar Water Heat, Solar Space Heat, Solar Thermal Electric, Solar Thermal Process Heat, Photovoltaics, Landfill Gas, Wind, Biomass, Geothermal Electric, Fuel Cells, Geothermal Heat Pumps, Municipal Solid Waste, CHP/Cogeneration, Solar Hybrid Lighting, Anaerobic Digestion, Microturbines, Geothermal Direct-Use

**Applicable Sectors:** Commercial, Industrial

**Start Date:** 1986

**Authority 1:** [26 USC § 168](#)  
**Date Effective:** 1986

**Authority 2:** [26 USC § 48](#)

**Authority 3:** [H.R. 4853](#)  
**Date Enacted:** 12/17/2010  
**Date Effective:** 09/09/2010 (retroactive, 100% bonus depreciation)  
**Expiration Date:** 12/31/2011 (100% bonus depreciation)  
12/31/2012 (50% bonus depreciation)

### Summary:

Under the federal Modified Accelerated Cost-Recovery System (MACRS), businesses may recover investments in certain property through depreciation deductions. The MACRS establishes a set of class lives for various types of property, ranging from three to 50 years, over which the property may be depreciated. A number of renewable energy technologies are classified as five-year property (26 USC § 168(e)(3)(B)(vi)) under the MACRS, which refers to 26 USC § 48(a)(3)(A), often known as the energy investment tax credit or ITC to define eligible property. Such property currently includes:

- a variety of solar-electric and solar-thermal technologies
- fuel cells and microturbines
- geothermal electric
- direct-use geothermal and geothermal heat pumps
- small wind (100 kW or less)
- combined heat and power (CHP).
- The provision which defines ITC technologies as eligible also adds the general term "wind" as an eligible technology, extending the five-year schedule to large wind facilities as well.

In addition, for certain other biomass property, the MACRS property class life is seven years. Eligible biomass property generally includes assets used in the conversion of biomass to heat or to a solid, liquid or gaseous fuel, and to equipment and structures used to receive, handle, collect and process biomass in a waterwall, combustion system, or refuse-derived fuel system to create hot water, gas, steam and electricity.

The 5-year schedule for most types of solar, geothermal, and wind property has been in place since 1986. The federal *Energy Policy Act of 2005* (EPAct 2005) classified fuel cells, microturbines and solar hybrid lighting technologies as five-year property as well by adding them to § 48(a)(3)(A). This section was further expanded in October 2008 by the addition of geothermal heat pumps, combined heat and power, and small wind under *The Energy Improvement and Extension Act of 2008*.

The federal *Economic Stimulus Act of 2008*, enacted in February 2008, included a 50% first-year bonus depreciation (26 USC § 168(k)) provision for eligible renewable-energy systems acquired and placed in service in 2008. This provision was extended (retroactively for the entire 2009 tax year) under the same terms by *The American Recovery and Reinvestment Act of 2009*, enacted in February 2009. Bonus depreciation was renewed again in September 2010 (retroactively for the entire 2010 tax year) by the *Small Business Jobs Act of 2010* (H.R. 5297).

In December 2010 the provision for bonus depreciation was amended and extended yet again by *The Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act of 2010* (H.R. 4853). Under these amendments, eligible property placed in service after September 8, 2010 and before January 1, 2012 qualifies for 100% first-year bonus depreciation. For 2012, bonus depreciation is still available, but the allowable deduction reverts from 100% to 50% of the eligible basis.

To qualify for bonus depreciation, a project must satisfy these criteria:

- the property must have a recovery period of 20 years or less under normal federal tax depreciation rules;
- the original use of the property must commence with the taxpayer claiming the deduction;
- the property generally must have been acquired during the period from 2008 - 2012; and
- the property must have been placed in service during the period from 2008 - 2012.

If property meets these requirements, the owner is entitled to deduct a significant portion of the adjusted basis of the property during the tax year the property is first placed in service. As noted above, for property acquired and placed in service after September 8, 2010 and before January 1, 2012, the allowable first year deduction is 100% of the adjusted basis. For property placed in service from 2008 - 2012 for which the placed in service date does not fall within this window, the allowable first-year deduction is 50% of the adjusted basis. In the case of a 50% first year deduction, the remaining 50% of the adjusted basis of the property is depreciated over the ordinary MACRS depreciation schedule. The bonus depreciation rules do not override the depreciation limit applicable to projects qualifying for the federal business energy tax credit. Before calculating depreciation for such a project, including any bonus depreciation, the adjusted basis of the project must be reduced by one-half of the amount of the energy credit for which the project qualifies.

For more information on the federal MACRS, see *IRS Publication 946, IRS Form 4562: Depreciation and Amortization, and Instructions for Form 4562*. The [IRS web site](#) provides a search mechanism for forms and publications. Enter the relevant form, publication name or number, and click "GO" to receive the requested form or publication.

*\*Note that the definitions of eligible technologies included in this entry are somewhat simplified versions of those contained in tax code, which often contain additional caveats, restrictions, and modifications. Those interested in this incentive should review the relevant sections of the code in detail prior to making business decisions.*

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**Contact:**

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