

A small group of parents at Norfolk Academy formed an LLC called Sun Dogs LLC. This allowed the parents, as the LLC, to purchase and own the solar system that was installed on Norfolk Academy in 2018. This allows the parents to take the 30% tax credit and 100% first-year depreciation tax benefit on the system. The parents have invested different fractions in the LLC, and the tax credits and income attributable to the LLC flow through to the parents’ tax forms pro-rated by their investment fractions. The school pays the LLC, as the owner of the solar panels, for the electricity generated. The school pays the same total amount for utilities as before, but now it is paying part to the utility and part to the LLC. The parents get roughly 60% of their investment back in the first year, through the combination of tax credit and depreciation. They get the remainder of the investment back over the next 7 years of payments for the electricity. At the end of 7 years, the LLC gives the panels to the school, and after that all electricity made by the system is all savings on the school utility bill. (There is no charitable tax deduction for the parents, since the system is already fully depreciated in the eyes of the IRS).

So, the school gets the solar system with no money out of pocket, and the parents/investors get the majority of their money back in the first year, and the full amount back over 7 years. If desired, the LLC could have chosen to keep the panels for 8 or 10 years, and thus made a profit.

The key element is, for these tax credits to be available to the parents, they must be taken against tax on *passive income*. Passive income, in the eyes of the IRS, is rental or lease income. For example, income from a rental property, lease of equipment, payments for a farm lease, etc. Real estate income is not passive when earned by a real estate professional.

If this method is of interest to be used by other institutions, the investors involved must have sufficient capital for the purchase of the solar system, and sufficient taxable passive income that their taxes can be offset via these credits. The credits can feed forward for 20 years, so the passive income does not have to all be earned in the same year the credits are available.

Sample templates of the LLC and PPA agreements are available at <http://solar.the-mcelroys.com/>.