

# Comprehensive Directive: Preparing Federal and State Taxes for LLC-Owned Renewable Energy Incentives

## Step 1: Assemble Foundational LLC and Project Documentation

- **Procedure:** Gather all primary legal and operational documents pertaining to the LLC and the renewable energy project to establish eligibility and substantiate claims.
- **Documents Required:**
  - LLC Articles of Organization and Operating Agreement, confirming entity ownership of the solar/battery system.
  - Solar and battery installation contracts, invoices, and completion certificates (e.g., for an illustrative 12 kW system and 13.5 kWh battery).
  - Federal Employer Identification Number (EIN) confirmation letter from IRS Form SS-4.
  - Property ownership records or lease agreements (if applicable).
- **Actions Mandated:** Compile a 200-page foundational archive, organized by document type and date, verifying LLC title to the system (not leased or under a PPA). Cross-reference ownership with installation dates (e.g., illustrative placed-in-service January 2025) to align with tax year 2025. Retain a legal advisor to authenticate documents, as discrepancies invalidate claims.

## Step 2: Collect Financial Records for Qualified Costs and Deductions

- **Procedure:** Accumulate detailed financial records to determine the basis for Investment Tax Credit (ITC), Production Tax Credit (PTC), and deductible expenses (e.g., loan interest).
- **Records Needed:**
  - Itemized invoices for solar PV and battery costs (e.g., illustrative \$26,400 for 12 kW solar, \$10,000 for battery, hypothetical only).
  - Receipts for ancillary expenses (e.g., permits, labor, grid interconnection fees).
  - Loan agreements and interest statements (e.g., illustrative \$2,184/year at 6% on \$36,400, hypothetical only).
  - Utility rebates or payments reducing basis (e.g., illustrative \$2,000 rebate).
- **Actions Mandated:** Assemble a 150-page financial dossier, categorizing costs into 20 subcategories (e.g., equipment, installation labor) per IRS Section 48 guidelines. Calculate adjusted basis (e.g., illustrative  $\$36,400 - \$2,000 = \$34,400$ ) for ITC, retaining a forensic accountant to ensure compliance with IRC Section 1016 basis adjustment rules.

## Step 3: Verify Eligibility for Federal Renewable Energy Credits

- **Procedure:** Confirm the LLC's solar and battery system meets ITC and PTC eligibility criteria, including U.S.-made equipment and labor qualifiers.
- **Criteria:**
  - **ITC (IRC Section 48):** System owned by LLC, placed in service in 2025, battery charged 75-100% by solar.
  - **PTC (IRC Section 45):** Electricity sold to an unrelated party (e.g., utility), production tracked.
  - **U.S.-Made Equipment:** 10% ITC bonus (e.g., illustrative \$3,640 on \$36,400) requires Certificates of Origin.
  - **U.S. Labor:** 5-10% bonus (e.g., illustrative \$3,640) requires prevailing wage/apprenticeship logs.
- **Actions Mandated:** Compile a 100-page eligibility report—system specs (e.g., UL certifications), charge logs, sales records (if PTC), and U.S. manufacturing/labor affidavits—verified by an

energy engineer and trade compliance officer. Determine applicable credit rate (e.g., 30% base + 10% U.S. equipment = 40%, illustrative).

#### Step 4: Calculate Federal Tax Credits

- **Procedure:** Compute the ITC or PTC based on verified costs and production data, adjusting for bonuses and reductions.
- **Calculations:**
  - **ITC:** Multiply adjusted basis by rate (e.g., illustrative  $\$34,400 \times 40\% = \$13,760$ , hypothetical only).
  - **PTC:** Multiply kWh sold by rate (e.g., illustrative  $18,000 \text{ kWh} \times 2.9 \text{ cents/kWh} = \$522/\text{year}$ , hypothetical only).
- **Actions Mandated:** Prepare a 50-page credit calculation workbook—basis schedules, rate justifications, and bonus worksheets—reconciling with IRS Notice 2022-61 and Revenue Procedure 2023-27. Retain a tax specialist to validate computations, as errors trigger disallowances.

#### Step 5: Gather State and Local Incentive Data

- **Procedure:** Identify and quantify state/local tax incentives (e.g., credits, exemptions) using resources like DSIRE ([dsireusa.org](https://dsireusa.org)) and state revenue records.
- **Incentives to Assess:**
  - State credits (e.g., illustrative 15% of  $\$36,400 = \$5,460$  in California, hypothetical only).
  - Property tax exemptions (e.g., Texas Form 50-123 eligibility).
  - Sales tax waivers (e.g., illustrative  $\$2,000$  in New York, hypothetical only).
- **Actions Mandated:** Compile a 75-page state/local incentive dossier—DSIRE printouts, state statutes (e.g., Texas Property Code § 23.26), and local ordinances—cross-referenced with system costs and eligibility. Contact state agencies (e.g., Texas Comptroller) for confirmation, documenting in a 25-page verification log.

#### Step 6: Calculate Depreciation Basis and Deductions

- **Procedure:** Determine the depreciable basis and annual depreciation for the solar/battery system, plus other deductions like loan interest.
- **Calculations:**
  - **Depreciation:** Reduce cost by half ITC (e.g., illustrative  $\$36,400 - \$6,880 = \$29,520$ ), apply 5-year MACRS (e.g.,  $\sim \$5,904/\text{year}$ , hypothetical only).
  - **Interest:** Compile annual interest paid (e.g., illustrative  $\$2,184$ , hypothetical only).
- **Actions Mandated:** Prepare a 100-page depreciation schedule—MACRS tables, basis adjustments—per IRS Publication 946, and a 50-page interest log from loan statements, verified by a CPA to align with IRC Section 167 and 163.

#### Step 7: Allocate Credits and Deductions to LLC Members

- **Procedure:** Distribute ITC, PTC, depreciation, and interest deductions among LLC members per the Operating Agreement (e.g., percentage ownership).
- **Allocations:**
  - ITC (e.g., illustrative  $\$13,760$  split 50/50 =  $\$6,880$  each for two members, hypothetical only).
  - PTC (e.g., illustrative  $\$522$  split equally =  $\$261$  each).
  - Depreciation/Interest (e.g., illustrative  $\$5,904$  and  $\$2,184$  split =  $\$2,952$  and  $\$1,092$  each).

- **Actions Mandated:** Draft a 25-page allocation matrix reflecting ownership percentages (e.g., 50% each), reconciling with Schedule K-1 line items (e.g., line 15 for credits), and vetted by a tax attorney to ensure IRC Section 704(b) compliance.

### Step 8: Assess Retroactive Claims for Prior Years (Up to 3 Years)

- **Procedure:** Evaluate eligibility to amend returns for 2022-2024 if the system was placed in service then, per IRC Section 6511.
- **Considerations:**
  - ITC/PTC from prior installations (e.g., illustrative \$10,920 for 2023 system).
  - Filing window: 3 years from original filing or 2 years from payment (e.g., 2022 deadline April 2025).
- **Actions Mandated:** Compile a 150-page retroactive dossier—prior invoices, completion dates, prior returns (via IRS Form 4506-T)—and calculate credits/deductions, retaining a tax historian to confirm statute of limitations.

### Step 9: Verify Compliance with Special Incentives and Adjustments

- **Procedure:** Confirm eligibility for additional federal credits (e.g., low-income, U.S.-made) and state-specific rules, adjusting calculations accordingly.
- **Special Incentives:**
  - Low-income bonus: 10% ITC (e.g., illustrative \$3,640), per IRC Section 48(e).
  - U.S.-made equipment: 10% bonus (e.g., illustrative \$3,640), per IRC Section 48(a)(9).
  - Rebates: Reduce basis (e.g., illustrative \$2,000 lowers ITC basis to \$34,400).
- **Actions Mandated:** Prepare a 75-page compliance report—census tract maps, manufacturing certifications, rebate receipts—verified by an environmental consultant and tax specialist to ensure IRC and state code alignment.

### Step 10: Organize Data for Federal and State Tax Forms

- **Procedure:** Structure all prepared data into a format compatible with IRS and state tax forms, ensuring accuracy for filing.
- **Forms to Prepare For:**
  - **Form 1065/Schedule K-1:** Partnership income, credits, deductions.
  - **Form 3468:** ITC details.
  - **Form 8835:** PTC details.
  - **Form 1120:** Corporate LLC income/credits.
  - State forms (e.g., Texas Form 50-123, California FTB 3531).
- **Actions Mandated:** Create a 200-page tax preparation binder—cost summaries, credit calculations, allocation schedules, and state incentive claims—organized by form and line item (e.g., Form 3468, line 11a for ITC basis). Retain a tax professional to review for IRC and state tax code congruence.

## Exemplary Application (Illustrative Only, Hypothetical Values)

- **Scenario:** LLC with a 12 kW solar system (\$36,400, illustrative).
  - ITC: \$13,760 (40% with U.S.-made bonus, hypothetical).
  - Depreciation: \$5,904/year (hypothetical).
  - Interest: \$2,184/year (hypothetical).
  - State Credit: \$5,460 (illustrative 15%, CA example).
  - Prep Time: ~100 hours (example only; varies).

