

Wind Energy and 1031 Exchanges



A Clean and Renewable Green Energy Resource



Given the desire to limit carbon emissions and to transition into sustainable energy systems, wind turbine systems seem to offer a workable alternative. Wind energy presents a proven, clean and renewable energy option at a reasonable cost. In fact, wind-based energy is one of the fastest growing energy sources in the world, expanding at a rate of 25-30% per year. Wind-based energy systems in the United States generate over 6,740 megawatts or 17 billion kilowatt-hours per year. That level of production can support about 1.6 million American households (with 4.3 million people) each year. The use of wind-powered systems will rapidly expand in the coming decades and will present opportunities for U.S. taxpayers.

WIND ENERGY INVESTMENT OPTIONS

As a taxpayer who owns property, there are a number of ways you can benefit from wind energy:

Some taxpayers are strategically purchasing land in rural areas which have favorable wind conditions. A taxpayer who sells land to such an investor can utilize a 1031 exchange to defer capital gain taxes and acquire a wide range of income-producing real estate. Alternatively, an owner of wind favorable property might generate income by selling a renewable option to an investor interested in future energy development and (or) lease the property to an investor or wind energy operator who would install wind turbines and related systems. A typical land lease agreement might pay the property owner 2-4% of the gross annual turbine revenue (generally \$2,500 or more annually for a 750-kilowatt turbine). If a lease agreement were structured as a long-term ground lease and qualify as like-kind property, the tenant might be able to utilize a 1031 exchange to defer tax on the sale of the leasehold interest together with the wind energy improvements.

TAX CREDITS FUEL WIND ENERGY GROWTH

Finally, the U.S. Government offers tax credits to developers and producers of wind energy in order to encourage the development of these systems. For example, a Production Tax Credit (PTC) is an income tax credit for the production of electricity from qualified wind energy facilities as well as other sources of renewable energy. This tax credit only applies to utility-scale turbines and was created under the Energy Policy Act of 1992. The amount of the credit is adjusted annually for inflation.

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