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LETTER RULING NO. 2010-29

[REDACTED TEXT]
[REDACTED TEXT]
[REDACTED TEXT]
[REDACTED TEXT]

November 23, 2010

**RE: RENEWABLE ENERGY TECHNOLOGIES INCOME TAX CREDIT;
ANALYSIS OF A SYSTEM AND PROPERTY SERVED**

Dear [REDACTED TEXT]:

This responds to your July 15, 2010 ruling request, wherein you requested confirmation regarding application of the Renewable Energy Technologies Income Tax Credit, Section 235-12.5, Hawaii Revised Statutes ("HRS") ("RETITC"), as further discussed below.

QUESTIONS PRESENTED

There are two questions presented in your ruling request, which are as follows:

- (1) Whether [REDACTED TEXT] or its affiliates characterized as disregarded entities for tax purposes (collectively, the "Company") has a legitimate, non-tax reason, within the meaning of Tax Information Release ("TIR") 2010-02, for installing multiple photovoltaic systems ("System(s)") at the same project site, which then may be the basis for separate credit claims under the RETITC; and
- (2) Whether each System installed and placed in service by the Company is servicing commercial property for purposes of the RETITC.

SHORT ANSWER

Based on the facts set forth in this letter:

- (1) The Company has a legitimate non-tax reason for installing multiple systems on the same project site within the meaning of TIR 2010-02. The Company is eligible to claim the RETITC for each System that is installed and placed in service; and
- (2) The Company's Systems are each servicing commercial property for purposes of the RETITCs.

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FACTS REPRESENTED BY THE COMPANY

The Company will erect several photovoltaic Systems on [REDACTED TEXT]. An electrical engineer with [REDACTED TEXT] has evaluated the site and observed the following limiting conditions and operating parameters that will influence the system design and inverter selection:

- (1) As indicated by the environmental engineering firm, [REDACTED TEXT] the site is subject to numerous [REDACTED TEXT] requirements every [REDACTED TEXT] months for the next [REDACTED TEXT] years. The [REDACTED TEXT] requirements are set forth in a [REDACTED TEXT] Plan dated [REDACTED TEXT] and a [REDACTED TEXT] Permit dated [REDACTED TEXT]. The findings of the environmental engineer are set forth as Exhibit A. The [REDACTED TEXT] will require the system above the affected area to be de-energized for safety reasons during [REDACTED TEXT]. Additionally, [REDACTED TEXT].
- (2) The site is [REDACTED TEXT] and it is subject to requirements for temporary or permanent movement of the PV system in the event issues arise with [REDACTED TEXT]. Thus, the engineer recommends that provisions should be made to mitigate the impact on the energy production of the project should one or more of the systems be affected either temporarily or permanently.

Due to the conditions above, the electrical engineer recommends a minimum of [REDACTED TEXT] independently operating systems so the inspections [REDACTED TEXT] can occur. The findings of the electrical engineer are set forth in a certification, signed under penalty of perjury as is allowed under TIR 2010-02. *See* Exhibit B.

The Company intends to sell the electricity generated by all the photovoltaic Systems to [REDACTED TEXT]. The electricity generated will be directly fed into the local utility grid.

LAW AND ANALYSIS

A RETITC may be claimed for each eligible renewable energy technology system that is installed and placed in service in the State by a taxpayer during the taxable year. HRS § 235-12.5(a).

A. The Company is Subject to the Credit Cap for Each Separate and Independent System.

The RETITC may be claimed for each eligible renewable energy technology system that is installed and placed into service. HRS § 235-12.5(b). A single renewable energy system exists when all the components necessary for the conversion of insolation into useful electrical energy are present. TIR 2007-02, pg 4. In the photovoltaic context, a single system consists of a photovoltaic array, an inverter, an independent circuit breaker, and associated attachment and connection

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equipment sufficient to make a connection to the project site's electrical system. *See* TIR 2010-02, pg 5 and TIR 2007-02, pg 4, Ex. 4.

The Department issued TIR 2010-02 providing guidance on the determination of a "system" for purposes of the RETITC. TIR 2010-02 concludes that the determination of a "system" within the meaning of the RETITC is not determined by the number of inverters; but rather the number of separate and independent connections to the site's electrical system. The Department recognized; however, that more than one system may exist at a property site where there is a legitimate, nontax reason for a particular multi-system design. Multiple system designs include separate and independent electrical connections at the project site by means of independent circuit breakers. TIR 2010-2, pg 5. TIR 2010-02 and TIR 2010-03 provide examples of non-tax design motivations, including utility interconnection requirements and inverter efficiency, among others. *See* TIR 2010-02, pg 5; TIR 2010-03, pg 4.

As represented by the Company, each of the Company's Systems is a photovoltaic system within the meaning of TIR 2007-02, which includes the necessary panels or array of panels, inverters, and installation and attachment equipment to connect to the electrical system. Each System installed and placed in service by the Company will have separate solar panel, inverter, and associated connection equipment so that each System will connect to the utility grid separately and independently of any other Systems installed on the same property. The Company represents that the installation on the site has been appropriately divided into multiple systems for legitimate nontax reasons, as determined by a licensed electrical engineer. The reasons for the multi-system design include [REDACTED TEXT] limiting conditions and operating restrictions [REDACTED TEXT]. Additionally, the electrical engineer has signed a letter with a detailed explanation of the design conditions and justification for the multi-system design. The electrical engineer has included the appropriate penalty-of-perjury declaration, as required by TIR 2010-02. This statement was provided as a way for an electrical engineer to certify that non-tax reasons influenced the creation of the overall project's multi-system design.

B. The Company's Systems are Commercial Systems Entitled to the Commercial Credit Cap.

The amount of the RETITC allowable for each system is subject to a cap, the applicable cap amount of which depends upon the type of property being serviced by each System. HRS § 235-12.5(b). Systems installed for commercial property, for example, enjoy the highest cap for solar-powered systems, which is \$500,000 per system. HRS § 235-12.5(b)(2)(C).

If a taxpayer installs and places in service a renewable energy technology system that does not service any particular property, but is entirely directed into the energy grid of the local electricity provider, then the system is servicing a commercial property only. *See* TIR 2007-02, page 11, Example 20. The Company will be directly connected to and directly feed the local utility with the electricity generated from the System. A dedicated metering system will be installed to measure the energy sold to the utility. Because the System's are solely servicing the local electricity provider, the Company's Systems are commercial systems entitled to the \$500,000 credit cap per system under HRS § 235-12.5(b)(2)(C), as allowed under TIR 2007-02.

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CONCLUSIONS

Because the Company will install and place in service Systems that can be separately and independently connected to the utility grid for legitimate non-tax reasons, as determined by an electrical engineer, the Company may claim the RETITC for each System it installs and places into service during the taxable year, regardless of whether multiple Systems are installed on a single property.

Since energy from the Company's Systems is entirely directed into the energy grid of the local electricity provider, each System is servicing commercial property for purposes of the RETITC.

This ruling is applicable only to the Company and shall not be applied retroactively. It may not be used or cited as precedent by any other taxpayer.

The conclusions reached in this letter are based on our understanding of the facts that you have represented. If it is later determined that our understanding of these facts is not correct, the facts are incomplete, or the facts later change in any material respect, the conclusions in this letter will be modified accordingly.

The Company has reviewed and agreed that the redacted version of this ruling attached as Exhibit C will be available for public inspection.

If you have any further questions regarding this matter, please call me (808) 587-1569. Additional information on Hawaii's taxes is available at the Department's website at www.state.hi.us/tax.

Very truly yours,

JOSEPH B. TICHY
Administrative Rules Specialist

APPROVED BY:

JOHNNEL NAKAMURA
Rules Officer