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Isaac M. O'Bannon • May. 29, 2014

Tax law is already complex, and the recent changes to the clean energy tax credits and deductions can be even more so.

"With the elimination of the 1603 cash grant, the primary tax incentive driving renewable energy investment will be the Investment Tax Credit or ITC," said Kathy Parker, speaking last week in Boston at the Renewable Energy Development Incentives and Financing Seminar, hosted by the Environmental Business Council of New England. Kathy Parker, CPA, MST is a partner at CPA firm, Rodman & Rodman, P.C., and a leader at the firm's "Green Team" renewable energy practice.

The ITC is not simply a deduction, explained Parker. It is a tax credit good for up to 30% of the cost of the project, and is often an incentive that can only be enjoyed by entities with substantial passive income and a large tax appetite. Passive losses can only be offset by passive income.

"C corporations with large income are great candidates to take losses, but sometimes these investors are hard to find or the deals are too small for larger investors to take an interest," noted Parker. The credit can also be used to offset the Alternative Minimum Tax (AMT).

Parker went on to say that passive investors are individuals or entities participating in management activities less than 500 hours per year. Losses and credits are limited through what the IRS defines as Passive Activity Loss (PAL). PAL can offset other passive income not related to the renewable energy project. Losses can be carried