CPA Client Bulletin

Smart Tax, Business & Planning Ideas *from your* Trusted Business Advisor℠

February 2011

Businesses Get the Green Light for Going Green

Companies have many reasons for going green these days. Business owners might hope to save energy costs or develop products that appeal to environmentally conscious consumers. Employers may want to motivate employees or follow their own ideals regarding what's best for the planet. Companies that go green can improve their reputation, expand their marketing potential, and appeal to concerned customers.

Many consumers are eager to buy products and services from environmentally friendly companies. The Natural Marketing Institute has reported that over 63 million American consumers are classified as members of the "lifestyles of health and sustainability" (LOHAS). With LOHAS attitudes, customers may be willing to pay a premium for green products and services. Such consumers often prefer to do their buying from smaller companies, which may be perceived as more likely to be green than global giants.

Going green may involve some initial costs. Fortunately, help is available. The federal government offers tax and financing incentives to companies that want to go green, and many states have their own programs.

Greener pastures

What does it mean to "go green"? That expression can cover a lot of territory, but a few common principles apply to most businesses.

Any process, product, or service that saves natural resources or reuses these resources is considered green. For example, green companies often emphasize a reduction in paper usage to minimize the amount of trees that must be cut down. A company that emphasizes electronic communications instead of paperwork is likely to be perceived as environmentally friendly. Similarly, companies that actively pursue recycling strategies for their waste products may receive plaudits for those efforts.

Green companies might use solar panels for some of their power, instead of fossil fuels. Companies that generate solar energy not only can use that energy

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America Counts on CPAs®

Investment Insight

Precious metals funds had the best record for the past 10 years, up 24.34% per year, through the third quarter of 2010, but technology funds lagged, losing 6.63% per year.

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themselves, they may be able to sell unused solar energy to the local power grid for an additional source of revenue.

A sophisticated solar power system can be used to offset expensive peak rates and help control overall energy costs. In case of a spike in oil prices—or even a shortage of imported oil—solar power will continue to be available with no increase in cost.

Flying high

Some high-profile companies are going green. The National Football League's Philadelphia Eagles reportedly will install about 2,500 solar panels, 80 20-foot-high wind turbines, and a generator that runs on a combination of natural gas and biodiesel. The team intends to make Lincoln Financial Field, where it plays its games, the first stadium capable of generating all of its own electricity.

The Eagles have hired Solar Blue, an alternative energy company, for the installation. Not only will the Eagles have a predictable source of renewable energy, immune to spikes in prices, the team expects to immediately reduce its energy costs by almost 25%. Solar Blue can sell any excess energy it creates to the local utility companies, and the Eagles have generated new revenues by selling sponsorships to other companies eager to be linked with these green business practices.

Powerful tax credits

Controlling energy costs may provide other financial benefits. Federal tax incentives exist for improvements that businesses make to rented or owned commercial buildings. If your company makes a 50% cut in energy costs by installing heating, cooling, ventilation, or internal lighting equipment, it can get a tax deduction of $1.80 a square foot. For smaller reductions in energy usage, your company might qualify for deductions of 60 cents per square foot.

Your company also can receive tax credits of 10% or 30% by installing certain alternative energy sources for its own use. If your company does not owe enough tax to use the credits, it may qualify to take those credits as grants—that is, it can apply to the IRS for cash to help with the purchase price instead of receiving the tax credit. You cannot, however, apply for both.

To get a 30% tax credit, a business can install fuel cells that generate electricity, solar equipment that generates electricity, solar equipment to illuminate a building using fiber optic distributed sunlight, or small wind turbines. (After 2016, solar equipment will generate only a 10% tax credit.)

For the 10% tax credit, your company can install equipment for producing or distributing geothermal energy; very small combustion turbines; combined heat and power systems; or for periods ending before January 1, 2017, equipment that uses the ground or ground water for heating or cooling (geothermal heat pumps).

Some of the equipment that can generate a 10% tax credit must be installed by 2016. Our office can help your company interpret these tax provisions and choose property that qualifies for the credits.

Alternative approaches

Alternative energy systems may receive other tax benefits. Purchasers of solar power systems, for example, may use five year accelerated depreciation for the project.

Moreover, states such as California, Connecticut, and New Jersey require utilities to produce some of their energy from renewable sources, such as wind and solar systems. The utilities, in turn, can purchase the renewable energy they are required to provide from private companies. For example, New Jersey issues solar renewable energy certificates (SRECs) to solar system owners. Each time a system generates 1,000 kWh of electricity, an SREC is earned and placed in the customer's electronic account. The SRECs can then be sold on the SREC tracking system, providing the system owner with revenues for up to 15 years.

Further encouragement

Government encouragement to green businesses also can take the form of money. The Energy Policy Act of 2005, for example, provides financial incentives such as loan guarantees and subsidies for

Did You Know?

From the 2000-2001 school year to the 2010-2011 school year, published tuition and fees at public four-year colleges and universities increased at an average rate of 5.6% per year beyond the rate of general inflation. As a result, the price of higher education at public institutions increased from 22% to 28% of the average price at private institutions.

Source: The College Board

developing alternative fuels. The Department of Agriculture backs a Small Business Innovation Research Program that awards from $80,000 to $250,000 to companies practicing environmentally friendly methods.

The Environmental Protection Agency gives grants to small companies working to protect the environment. Additionally, some states dole out funds to small companies that are active in areas such as pollution prevention and recycling. As of this writing, the federal tax outlook for 2011 was undetermined. Our office can advise you on which current tax incentives for going green might apply to your business. ■

Socially Responsible Investing Gains Ground

From the start of 2007 through the end of 2009, financial markets suffered major disruptions. During that period, professionally managed assets increased by less than 1%. At the same time, assets involved in socially responsible investing (SRI) increased by more than 13%, from $2.71 trillion to $3.07 trillion, according to the Social Investment Forum Foundation. SRI now accounts for nearly one out of every eight dollars under professional management in the United States.

Defining the terms

Many investors grasp the appeal of SRI. You might want your investment dollars to back worthwhile enterprises or at least refrain from supporting harmful activities. You may find it hard to define SRI, however, because one investor's idea of "social responsibility" may be different from another's.

Many such differences of opinion come readily to mind. Some SRI adherents avoid companies involved in liquor or gaming or weapons, but others might see nothing wrong with investing in the leisure or defense industries. Drilling down, a company might be involved in the most seemingly noble of purposes—seeking miracle medications, for instance—yet have issues with pollution or lack of diversity among its directors. The bottom line is that individual investors will have different priorities, which may have to be taken into account when making SRI decisions.

Playing favorites

SRI proponents urge investors to take their own priorities into account when making investment decisions. You don't have to be a do-it-yourself investor to follow this path. Say that you work with a broker or financial planner, and you invest via individual stocks and bonds. You could tell your advisor that you absolutely don't want any tobacco stocks in your portfolio, for example.

Indeed, so-called separately managed accounts (SMAs) offer such possible screens. With SMAs, advisors help investors gain access to top-rated money managers, in return for asset-based fees. SMA money managers typically allow investors to omit specific companies or industries from their portfolios, for reasons that include social or ethical objections. Many brokerage firms and investment advisors offer SMAs to their clients.

Finding funds

Many investors prefer to invest in mutual funds and exchange-traded funds, rather than individual securities. If you are interested in SRI, you can choose from hundreds of funds.

As is the case with any type of fund, investors can benefit from diversification and professional securities selection. With SRI funds, investors get managers who screen stocks for their principles, as well as for their profit potential; many individuals do not have the time or inclination to do their own screening.

On the flip side, when you invest in an SRI fund, you are depending on the fund manager's opinions regarding which stocks will mesh with your values. SRI stock funds might own shares of dozens of companies, and it's not guaranteed that each one would pass your approval. Therefore, if you are interested in an SRI fund, it's vital that you read the prospectus carefully to see if you're comfortable with the stated criteria and that you monitor changes in the portfolio carefully.

Looking at the bottom line

Some people may be so enthusiastic about values-based investing that they care little about substantial

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returns. Most investors, though, would like to see results that are at least comparable to what they might receive from a non-SRI portfolio. Can SRI produce profits for investors?

As mentioned, SRI investing now accounts for trillions of dollars. Many large institutions allocate portions of their portfolios to SRI. Apparently, savvy investors believe that they can follow their principles without sacrificing principal.

SRI supporters say that logic supports this premise. If you invest with socially and environmentally responsible companies, they argue, you will wind up owning companies that will be less exposed to scandals, fines, strikes, and class-action lawsuits, compared with their corporate peers. Over time, such good behavior probably will deliver higher profits and superior stock market performance.

Other observers disagree. By imposing extra screens on potential investments, SRI practitioners limit their choices and relinquish profitable opportunities, critics contend. SRI funds may favor certain sectors of the economy and avoid others, which could increase volatility.

As might be expected, both sides of the debate point to data to back up their claims. In reality, some SRI strategies and funds have performed well, but others have lagged—that's true of many approaches to investing. If the idea of putting your investment dollars where they'll do some good appeals to you, careful research can increase the chance that you'll also do well. ■

TAX CALENDAR

FEBRUARY 2011

February 15

Individuals. If you claimed exemption from income tax withholding last year on the Form W-4 you gave your employer, you must file a new Form W-4 to continue your exemption for another year.

Employers. Begin withholding income tax from the pay of any employee who claimed exemption from withholding in 2010 but did not give you a new Form W-4 to continue the exemption for 2011.

Employers. For Social Security, Medicare, withheld income tax, and nonpayroll withholding, deposit the tax for payments in January if the monthly rule applies.

February 28

All businesses. File information returns (Form 1099) for certain payments you made during 2010. If you file Forms 1099 electronically (not by magnetic media), your due date for filing them with the IRS is March 31.

Employers. File Form W-3, along with Copy A of all the Forms W-2 you issued for 2010. If you file Forms W-2 electronically (not by magnetic media), your due date for filing them with the Social Security Administration is March 31.

MARCH 2011

March 15

Corporations. File a 2010 calendar-year income tax return (Form 1120) and pay any tax due. If you want an automatic six-month extension of time to file the return, file Form 7004, and deposit what you estimate you owe.

S corporations. File a 2010 calendar-year income tax return (Form 1120S) and pay any tax due. Provide each shareholder with a copy of Schedule K-1 (Form 1120S), "Shareholder's Share of Income, Deductions, Credits, etc.," or a substitute Schedule K-1. If you want an automatic six-month extension of time to file the return, file Form 7004, and deposit what you estimate you owe.

S corporation election. File Form 2553, "Election by a Small Business Corporation," to choose to be treated as an S corporation, beginning with calendar year 2011. If Form 2553 is filed late, S corporation treatment will begin with calendar year 2012.

Electing large partnerships. Provide each partner with a copy of Schedule K-1 (Form 1065-B), "Partner's Share of Income (Loss) From an Electing Large Partnership," or a substitute Schedule K-1. This due date applies even if the partnership requests an extension of time to file Form 1065-B by filing Form 7004.

Employers. For Social Security, Medicare, withheld income tax, and nonpayroll withholding, deposit the tax for payments in February if the monthly rule applies.

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