

# WIND ENERGY AND 1031 EXCHANGES

## "A CLEAN AND RENEWABLE GREEN ENERGY SOURCE"



### Compliments of

Given the desire to limit carbon emissions and to transition into sustainable energy systems, wind turbine systems present a proven, clean and renewable energy option. In fact, wind based energy is the fastest growing energy source in the world, expanding at a rate of 25-30% per year. As of 2005, wind based energy systems in the United States generated about 6,740 megawatts or 17 billion kilowatt hours per year. That level of production would 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 property owners and real estate investors.

### WIND ENERGY INVESTMENT OPTIONS

As a property owner, there are a number of ways to benefit from wind energy:

Some investors are strategically purchasing rural land in areas that present favorable wind conditions. A property owner that sells to such an investor can utilize a 1031 tax deferred exchange to acquire a wide range of income producing real estate. See Asset Preservation's like-kind discussion [here](#) to learn about the many replacement property alternatives available. 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 \$2,000 or more annually for a 750-kilowatt turbine). If a lease agreement is structured as a long-term ground lease qualifies 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 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. In 2007, a small wind tax credit was included in farm policy legislation (S.B. 2242) that provided a new investment tax credit of \$500 per half kilowatt of capacity, capped at \$4,000 designed to encourage investment in small wind systems in homes. This credit will expire in 2012.



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