



Dr. Harold Wong's **SOLAR BUSINESS INVESTMENTS**

SOLAR REEFER PURCHASE PLAN FAQS

What is the estimated tax treatment and amount of credit a buyer can expect from a solar-powered reefer purchase?

The current solar tax credit is 30% (30% x \$70,000 = \$21,000). It is used in the year the reefer is "placed in service", and is the same tax credit as purchasing solar panels for a home. In addition, business solar equipment is eligible for depreciation. High-income clients may want to take advantage of Section 179 or 100% "bonus" depreciation. It's calculated as follows: \$70,000 purchase price of the solar reefer system minus half of the 30% solar tax credit, which equals \$59,500. You will normally report it on Schedule C along with your income and business deductions.

Those who do not have high taxable income may elect 10-year straight-line depreciation, so that annual depreciation exceeds the 7% income received from the power purchase agreement. When the 2005 Energy Policy Act was passed, solar business equipment qualified for 5 years MACRS (accelerated) depreciation. You can take less depreciation as the IRS never minds if you take less than you are entitled to. Any excess solar tax credit or net operating losses can be carried back 3 year or forward for 22 years. **Please check with your tax preparer first as all individual circumstances may vary!**

What is the time commitment required to qualify as material participation as opposed to a passive activity?

If you want to use maximum tax benefits, investors must spend at least 100 hours per year managing and monitoring the investment and that amount of time "must be at least as much as all other investors". Wall Street investors cannot qualify as material participants because thousands of participants are pooled; so no one investor can prove they spent more time than all others. In contrast, the solar reefer investor is the only person that owns the solar refrigeration unit. In 2018 a Tax Court case, the taxpayer won on the 100-hour monitoring requirement for material participation. We recommend that you document that you diligently spent at least 100 hours per year managing and monitoring your investment for at least the first 5 years.

How can I manage and monitor my investment?

Every day a solar-powered reefer system operates there is computerized data reported. That data fills up a 5 MEG file daily. Investors can leave a portable hard drive and pick up the data periodically; OR can request that we mail you the data on a USB drive every quarter; OR set up a "drop-box".

What is my total financial obligation?

The total cost for the solar-powered reefer system is \$70,000. The lease period is for 10 years. During that time all reefer repairs, parts, labor, and training are the responsibility of Advanced Energy Machines LLC (AEM), the manufacturer. The end user (grocery chains and large food companies) pays all Insurance. There are no other fees charged to the purchaser. The purchase price may increase in 2022 due to the rising cost of lithium batteries and supply chain issues.

What documents must I sign for the purchase?

You sign a purchase agreement for the solar-powered reefer energy system with AEM; a power purchase agreement that will pay you 7% annually for power generated; and a repurchase agreement requiring you to sell back the reefer unit to AEM for the amount invested. The terms are for 10 years.

Who are the end users who want the AEM solar reefers?

Large grocery chains and food distribution companies like Whole Foods, Starbucks, and Safeway that transport frozen and refrigerated food. Current users are in California only.

Who manages leasing of the solar reefer systems?

AEM takes care of all aspects of the leasing process for the investor through our non-profit arm. This provides additional asset protection to the investor. Our national leasing distributor, PLM Leasing, is the largest owner of refrigerated trailers in America. AEM may also directly procure leases with end users. The 10- year lease model is standard for both refrigerated trailers and diesel-powered reefers. You purchase the solar-powered reefer energy system only. You have no responsibility or ownership rights to the trucks or trailers.

Do multiple trucking companies use my reefer?

Normally the same end user uses your solar-powered reefer system for the entire period of the lease.

Who pays me back the \$70,000 at the end of the lease?

Advanced Energy Machines LLC will pay you the \$70,000. You will report the payment as ordinary income. You do not participate in any profit or loss incurred by Advanced Energy Machines LLC after it buys your 10-year-old reefer.