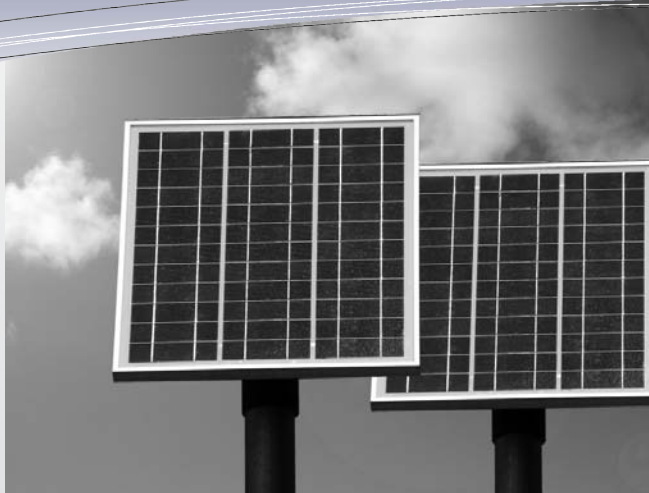




QUARTERLY
NEWSLETTER OF
WILKIN &
GUTTENPLAN, P.C.

Community Property Advisor

VOLUME 23
ISSUE 3
SUMMER 2009



this issue

Energy Tax Credits for Associations	P.1
How Community Associations Can Jump on the Green Bandwagon	P.2
News from the Firm	P.3
FASB Codification	P.4
<i>Community Property Advisor Goes Green</i>	P.4

Energy Tax Credits for Associations

by Vinay Navani, CPA, MBA, MST

Tax credits often play a significant role in the decision to make investments in alternative energy such as solar power or to upgrade existing energy related items such as windows, doors, insulation, and other similar items. While there has been an explosion of federal tax benefits aimed at homeowners to make such investments, there are a number of unique aspects of how these tax benefits work when the investment is made by Condominium Associations or Cooperative Housing Corporations (collectively "Associations"). This article will provide an overview of these credits and address some of the aspects unique to Associations.

The relevant federal tax credits are divided into two sections of the Internal Revenue Code. Section 25C, Credit for Nonbusiness Energy Property, allows for a tax credit of 30% of the costs (subject to a maximum credit of \$1,500 per taxpayer over 2009 and 2010) for certain residential energy efficient investments such as new windows. Section 25D, Credit for Residential Energy Efficient Property, allows for a tax credit of 30% of the costs for certain alternative energy investments such as solar and geothermal power.

Investments to Improve Energy Efficiency

Subject to meeting required energy saving standards published by the government, the following types of

investments are eligible for the credit under section 25C:

- Insulation
- Exterior Windows
- Skylights
- Exterior Doors
- Storm Windows
- Metal and Asphalt Roofs
- HVAC Units
- Water Heaters

Other aspects of the credit include:

- The new product must be placed in service between January 1, 2009 and December 31, 2010. Different rules applied to years before 2009.
- The new products must be installed in the primary residence of the taxpayer (more on this below).
- Note that it is not enough to simply buy a new exterior window to qualify for the 30% credit. The window must meet guidelines for energy savings. If the product qualifies, the manufacturer must provide you with a Manufacturer's Certification Statement. This is a signed statement from the manufacturer certifying that the product or component qualifies for the tax credit. Taxpayers must keep a copy of the certification statement for their records, but do not have to submit a copy with their tax return.

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(Continued on page 3)



How Community Associations Can Jump on the Green Bandwagon

by Allan Samuels, LEED AP

It is impossible these days to ignore the green movement with magazines, newspapers and newsletters filled with articles on “going green.” Yet, despite the hype, many consider going green to be an idealistic or expensive endeavor. They don’t realize that with a little effort, it is often possible to reduce one’s carbon footprint as well as save money.

Community associations, with their unique characteristics, have a considerable opportunity to reduce their carbon footprint. In fact, through a handful of changes, associations can increase energy savings, drastically reduce annual expenditures while saving thousands over a long-term period and easily jump on the green bandwagon.

Mechanical Equipment

One major opportunity for associations to go green is to upgrade its mechanical equipment to more efficient systems with improved controls. Today’s boiler systems can achieve efficiencies as high as 97 percent, converting nearly all the fuel to useful heat. Replacing a property’s boiler can cut pollution output in half, not to mention the association’s fuel bills and maintenance costs. In addition, programmable controls allow the association to adjust the times and settings of the heating and/or air-conditioning in common area buildings according to a pre-set schedule, outdoor temperature and the anticipated performance of the building. As a result, the equipment can be set to operate only when necessary and at peak efficiency.

Lighting

Experts agree that replacing regular lights with compact fluorescent lights (CFLs) can be the

cheapest and most effective way to cut energy usage immediately. CFLs bulbs use 75 percent less energy than incandescent bulbs and last six to 12 times longer. Even more efficient than CFLs are Light Emitting Diodes (LEDs). LED fixtures make great outdoor lighting for parking lots and walkways, crucial components of most associations. For further savings, associations can invest in motion sensors and controls. Motion sensors automatically turn off lights when a room or area is not occupied and controls dim the lighting based on the time of day and available natural light.

Energy Waste

Although they cannot make changes within individual units, associations can reduce energy waste in their clubhouses and other common areas. For example, properly insulating attics and wall spaces can drastically reduce the amount of heat escaping from the building. Likewise, sealing air leaks by filling in the gaps around windows, doors and air ducts can produce energy savings of five to 30 percent per year. Associations can also retrofit single for double-glazed low-E windows, which can cut heat loss/gain in half.

Renewable Energy Sources

Lastly, community associations can go green by investing in a renewable energy source such as solar paneling, geothermal heat pumps or wind turbines. Federal, state and local rebates have made renewable energy sources a viable option with reasonable payback periods. Solar cells have become especially practical now that you

can lease rather than buy the expensive solar paneling equipment.

Conclusion

Going green does not necessarily have to be an idealistic or expensive endeavor. With some small, cost-effective measures, it can mean a reduced carbon footprint and significant savings for an association. Some of the suggestions mentioned in this article are rather easy for an association to implement and in the long-term can bring about environmental and financial benefits for the association and its members. With a growing number of organizations and companies embracing green practices while also saving money, why shouldn’t your association also jump on the green bandwagon?

Allan Samuels, LEED AP is the Managing Partner of Energy Squared, LLC a sister company of Kipcon, Inc. Please visit www.enegerysquaredllc.com for more information.

“Community associations, with their unique characteristics, have a considerable opportunity to reduce their carbon footprint.”

This publication is prepared quarterly by Wilkin & Guttenplan, P.C. For further information or for complimentary copies or subscriptions, you may contact Avery Quayle at 732-846-3000 or aquayle@wgcpas.com. Information contained in this publication should not be construed as accounting advice. It is not intended, and should not be used, as a substitute for consultation with an accounting professional.
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News from the Firm

Employee Anniversaries

26 Years

Ed Guttenplan
Ed Wilkin

23 Years

Jules Frankel

21 Years

Melissa Marsicano
Debbie Norwicke

10 Years

Jill Carvalheira

9 Years

Barbara McDermott

7 Years

Gail Yeagher

Congratulations

Congratulations to Kristen Kirchner on passing the CPA exam. Way to go!

Welcome

W&G is hosting an internship program this summer for students from Monmouth University and Rutgers University.

Energy Tax Credits *(cont. from page 1)*

Alternative Energy Investments

Under section 25D, investments in certain types of solar, fuel cell, wind and geothermal energy production equipment can give rise to a credit equal to 30% of the cost of the equipment, without the overall dollar limitation discussed above. Like other energy investments, the equipment must meet certain performance standards issued by the IRS to qualify for the credit.

Impact to Associations

Due to the unique way Associations are taxed, most do not pay significant federal taxes and accordingly, the value of a tax credit is usually not attractive. However, in the case of a qualifying investment made by an Association, these two credits are considered to be made by each resident based on their "proportionate share" of expenses made by the Association. In other words, if an Association spends \$100,000 on new energy efficient windows which qualify for the credit, each resident is considered to have made their proportionate share of the investment personally, even though the expenditure was paid for with Association funds. The Association should provide a letter to each resident informing them of the details of the investment and their proportionate share so that they could claim the credit on their personal return using IRS Form

5695, Residential Energy Efficient Property Credit.

While this is welcome news, one of the challenges which Associations will face is the value of the tax credit is often a key driver in the decision to make the energy investment. In the case of Associations, the credit will be claimed by the residents while the funds are usually paid from the Association.

Associations must caution residents that since the credit is claimed on the resident's individual return, there could be factors unique to the

"Associations must caution residents that since the credit is claimed on the resident's individual return, there could be factors unique to the resident which would cause the credit to be limited"

resident which would cause the credit to be limited. For example, in order for credits to be of use, there must be a tax liability for the credit to offset. Generally speaking, these credits are "nonrefundable" credits which means that if the amount of the credit is greater than the amount of tax for the year in which the credit arises, the excess amount does not create a refund check.

Furthermore, under current law, the credits will not be available to offset the Alternative Minimum Tax (AMT) in 2010. For 2009, the credits are available to reduce both regular tax as well as AMT. Therefore, in 2010, these credits will have no value to the increasing number of taxpayers who are subject to AMT. Of course, it is possible that future tax legislation could change this impending result, but there are no assurances that this will occur.

Summary

The specific application of these two tax credits to Associations is good news to Associations and their residents. Associations who seek to take advantage of these benefits will have to balance the fact that the funds needed for the investment will come from the Association and the tax credit, if any, will be claimed by residents.

The above represents a summary of these credits and does not address all of the details which may be relevant to your situation. More detailed information about both of these credits is available here: www.energystar.gov For clarification or more information on these and other tax matters, contact your W&G tax advisor.

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FASB Codification

by Carol Donatiello Iocca, CPA

Community Property Advisor Goes Green

Beginning July 1, 2009, the Financial Accounting Standards Codification became effective. The Codification represents the single source of U.S. authoritative generally accepted accounting principles (GAAP) for non-governmental entities. All other accounting literature is now considered to be non-authoritative.

The accounting guidance located in the American Institute of Certified Public Accountants (AICPA) Audits of Common Interest Realty Associations (CIRA Guide) has been incorporated into the Codification at FASB ASC 972. As a result of the Codification the AICPA will no longer be updating the CIRA Guide.

Beginning with this issue, Wilkin & Guttenplan will begin publishing the Community Property Advisor (CPA) electronically. Newsletter subscribers will be emailed a link to the latest edition online.

If you received an email containing the electronic version of this issue, you will no longer receive a paper copy of the CPA. If you did not receive the electronic version and would prefer to receive the electronic version, send your name and email address to Avery Quayle at aquayle@wgcpas.com.

Upcoming Issues

- CIRA Survey
- Sales & Use Tax Overview
- The Fiduciary Responsibilities of Board Members

Community Property Advisor Issue 3 Summer 2009



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