WHAT IS THE PURPOSE OF A FEDERAL TAX CREDIT FOR RENEWABLE ENERGY

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Encourage investment in a public good (reduced pollution and robust energy generation

Encourage investment in renewable technology research and development

World Resources Institute

Thank you for using NATP's research services. I have summarized your question below and provided an answer based on the facts you presented.

Your question was:

Machinery that is depreciated. Business purchased a piece of machinery, but has not received the equipment yet. The manufacturer is using the machinery for advertising and paying the business rent. Can the business depr. the asset?

Here is the answer:

Yes, as long as the asset has been placed-in-service and is producing income - the depreciation deduction will be allowed. www.irs.gov Depreciation Basics In general, if property is acquired for use in a business or another income-producing activity and is expected to last more than one year, taxpayers cannot deduct the entire cost as a business expense in the year it was acquired. They must depreciate the cost over the property's useful life (as defined by the Internal Revenue Code) and deduct part of the cost each year on the Form 4562, Depreciation and Amortization. Code Arranged Explanations EXP ¶1674.001 General factors governing depreciation. The tax law is designed to tax income less the costs of producing it. Among these are the costs of tangible and intangible assets that aid in the production of income. Ordinarily, the assets don't last forever. They wear out or cease to be useful to the taxpayer, so their cost is, in effect, consumed during the period of their usefulness in his trade or business or production of his income. In recognition of this, an annual deduction for depreciation is allowed. Basic rules. A taxpayer's right to the depreciation deduction depends in part on the nature of his interest in the property. The test is whether the person claiming the deduction will suffer an economic loss from a decrease in value due to depreciation. In general, depreciation is allowable on all tangible and intangible property with a limited useful life of more than one year that is used in a trade or business or held for the production of income. Depreciation deductions can't

Anderson 000153

EXHIBIT 576
WIT: Anderson
DATE: 8-4-17
Denise M. Thomas, CRR/RPR

be taken on inventories or stock on trade, and land apart from any improvements or development isn't depreciable.

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The energy credit is a component of the general business credit (Sec.38(b)(1). An unused general business credit generally may be carried back one year and carried forward 20 years. (Sec. 39) The taxpayer's basis in the property is reduced by one-half of the amount of the credit claimed. For projects whose construction time is expected to equal or exceed two years, the credit may be claimed as progress expenditures are made on the project, rather than during the year the property is placed in service. Similarly, the credit only applies to expenditures made after the effective date of the provision.

Anderson 000154

On 8/2/10, Chris Novak <cnovak@natptax.com> wrote:

Question Charge: $26.50

1001082
Neldon Johnson

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Here is the answer:

Yes, as long as the asset has been placed-in-service and is producing income - the depreciation deduction will be allowed.

www.irs.gov
Depreciation Basics
In general, **if property is acquired for use in a business or another income-producing activity** and is expected to last more than one year, taxpayers cannot deduct the entire cost as a business expense in the year it was acquired. They must depreciate the cost over the property's useful life (as defined by the Internal Revenue Code) and deduct part of the cost each year on the Form 4562, Depreciation and Amortization.

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Anderson 000156

Neldon Johnson

Thank you for using NATP's research services. I have summarized your question below and provided an answer based on the facts you presented.

Your question was:

Wholesaler selling inventory items to retailer. The retailer sells it and then pays back everything except 10% of the profit. How is this reported?

Here is the answer:

For reporting purposes the question of when does title pass will determine when the sale took place. If he is a cash basis taxpayer then he would not report the income or deduct the cost of the inentory until he receives the proceeds. If he is accrual then he would accrue the expected income and deduct the expense. If the inventory is on consignment he retains ownership until payment is received. ¶G-5009. When does title pass. When title passes depends upon the laws of the state involved and the agreement of the parties. 46 -- 46 Brown Lumber Co v. Com., (1929, CA Dist Col) 8 AFTR 9777 , 35 F2d 880 . 105.8.4 Items Included in Inventory According to the regulations, The inventory should include all finished or partly finished goods....Merchandise should be included in the inventory only if title thereto is vested in the taxpayer. Accordingly, the seller should include in his inventory goods under contract for sale but not yet segregated and applied to the contract and goods out upon consignment, but should exclude from inventory goods sold (including containers), title to which has passed to the purchaser. A purchaser should include in inventory merchandise purchased (including containers), title to which has passed to him, although such merchandise is in transit or for other reasons has not been reduced to physical possession, but should not include goods ordered for future delivery, transfer of title to which has not yet been effected. 73 The distinction between goods to which the taxpayer has title, which are included in closing inventory, and goods "title to which has passed to the purchaser," which are excluded from inventory, invites smiles from commercial lawyers, who know that this is a simplistic dichotomy. The title passage test is, however, applied flexibly if a taxpayer adheres to a consistent practice in determining goods includable in inventory. 74 In any event, it is essential to accrue the sales price for goods not included in closing inventory and to remove goods from inventory once a sale of the goods is recorded.

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Anderson 000157

Basic rules.
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Anderson 000158

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