Climate Change and Sustainability Services

Tax opportunities to lower costs and generate revenue in the low-carbon economy
Your sustainability strategy

A framework for transformation

Identifying relevant tax opportunities and issues, including incentives, credits, grants and subsidies, can help your organization fund its climate change initiatives and enhance its programs’ bottom line. The key is to make sure that tax directors, CFOs and sustainability executives fully understand the impact of sustainability initiatives at all levels of the organization. Having a holistic perspective helps your organization properly manage tax issues and positions it to secure appropriate incentives and credits, rather than managing the risk of a missed opportunity later.
The tax system is evolving with respect to carbon management, including new regulations and taxes. Additionally, government-funded incentives, credits and grants are playing an ever-increasing role in how businesses approach sustainability within their organizations.

Ernst & Young’s Climate Change and Sustainability Services can assist you with effectively managing the new compliance and regulatory requirements, as well as help you take full advantage of the myriad tax opportunities available to help you lower costs and generate revenue in the new low-carbon economy.

Best practice for managing the tax effect of sustainability strategy

Our experience indicates that there are four key factors that drive sustainability strategies; revenue generation, cost reduction, stakeholder expectations and government regulations. Further, we have found that most sustainability initiatives put in place for a company to respond and act upon these drivers fall into four categories: Reduce, Switch, Innovate and Offset (RSIO). The text below indicates some of the activities associated with the RSIO framework, and the RSIO graphic illustrates areas within an organization that are commonly impacted. As a beginning step to understand the tax issue arising from the RSIO activities, Ernst & Young recommends early collaboration among tax directors, CFOs and sustainability executives.

1. **Reduce**: reduce the carbon intensity of the supply chain; increase the efficiency of buildings, vehicles, machinery and other infrastructure; design and manufacture low-carbon products

2. **Switch**: move to low-carbon, low-emission energy sources and fuels; encourage or mandate personal behavior changes (e.g., recycling, teleconferencing)

3. **Innovate**: research and develop innovative solutions to implement internal Reduce, Switch, Innovate and Offset initiatives; design and manufacture advanced energy and reduced emissions products and services

4. **Offset**: leverage Clean Development Mechanisms (CDMs) to reduce net global emissions

“For a climate change and sustainability program to be most effective, organizations should have the right people at the table from the outset. The CFO, VP of tax and tax director are all relevant participants, and in having regular contact with the CSO, procurement, facilities and operations, the company is positioned to gain the most benefit from tax-related climate change and sustainability opportunities.”

— Paul Naumoff, Americas Leader of Climate Change and Sustainability Tax Services

Download our current thought leadership and research findings at ey.com/climatechange
Why Ernst & Young?

Our integrated and multidisciplinary teams, drawn from our deep bench of subject-matter professionals, will help you identify the right tax opportunities for your organization and work with you to develop customized recommendations that are innovative and effective:

» **International tax services**
  Our professionals provide a variety of services related to climate change and sustainability at a global level, including services related to global incentives, Clean Development Mechanisms (CDMs), international restructuring and Tax-Effective Supply Chain Management (TESCM).

» **Federal/country-level tax services**
  Our federal tax professionals provide subject-matter insight in many areas relating to climate change and sustainability, including federal incentives for both renewable energy and energy efficiency initiatives, tax credit monetization, advanced energy manufacturing incentives, government assignment of tax deductions, development of grant applications, negotiations with energy providers and research and development.

» **Indirect tax services**
  Our professionals have subject-matter experience with indirect service offerings related to climate change and sustainability, including state, local and utility incentives related to energy efficiency, renewable energy and advanced energy manufacturing, as well as Leadership in Energy and Environmental Design (LEED) advisory services.

The Reduce, Switch, Innovate, Offset framework provides a useful way to connect important tax issues and opportunities to your company’s sustainability initiatives.

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**Washington Council Ernst & Young (WCEY)**

Our Climate Change and Sustainability Services Teams also work closely in the US with Washington Council Ernst & Young (WCEY). WCEY is a bipartisan leader with a record of strategic innovation earned by tailoring legislative and regulatory initiatives to meet clients’ interests. By offering clients an edge on such issues as corporate, domestic and international taxation and energy policy, WCEY helps them to identify issues that could possibly affect their legislative process, while initiating processes to manage these issues proactively.
Results

Read how some of our clients have used tax planning, incentives, grants and subsidies to lower costs and generate revenue in the low-carbon economy.

Reduce

- Ernst & Young served as advisors on one of the world’s largest LEED certifications for existing buildings.

- Ernst & Young identified and secured incentives for client’s energy efficiency capital expenditures, including qualifying and calculating a US$15m federal tax deduction for the energy-efficient lighting being used in all of the big box retailer’s new stores.

Innovate

- Ernst & Young secured over US$277m of tax credits for manufacturing equipment to produce energy-efficient, advanced energy and cleantech products. This accounted for more than 10% of the total US$2.3b allocation of these competitive tax credits, and resulted in a 60% success rate for our clients, compared with an average success rate of 36%.

- Ernst & Young’s US network of professionals has worked with a diverse group of clients to qualify for 48C, including energy-efficient engine manufacturers, low VOC paint producers, wind turbine component manufacturers, solar component manufacturers and automotive suppliers.

Switch

- Ernst & Young has assisted clients in structuring and monetizing production and investment tax credits, including the syndication of various tax credits representing over US$2b of annual investments.

- Projects include fuel cell, wind, biomass and solar, retail and investment banks, utilities, real estate developers, renewable energy developers and manufacturers, private equity firms and PPA providers.

Offset

- Ernst & Young is one of the leading advisors to Clean Development Mechanism (CDM) projects in the world. We have been engaged in more than 750 CDM projects globally. This includes almost 200 successful CDM registrations, 148 CDM issuances and the approval of 12 UNFCCC methodologies.

- CDM is a mechanism under the Kyoto Protocol that allows developed countries with a GHG reduction target to invest in projects that reduce emissions in developing countries. CDM investments give rise to a project revenue stream via the sale of Certified Emission Reduction, or CER, units from the CDM.

“Together with Ernst & Young, we achieved extraordinary success with our sustainability efforts!”

Nicholas Rumanes, Vice President, Las Vegas Sands Corp.

Download our current thought leadership and research findings at ey.com/climatechange
Cleantech and climate change: the role of tax as a catalyst for change

Ernst & Young surveyed our professionals in 38 countries to get an accurate picture of the role tax incentives, credits and subsidies play and how countries may plan to use tax programs in the future. Read this report to find out which tax measures may apply to your company in each of the countries in which it operates.

IRC Section 48C: advanced energy manufacturing tax credit

Section 48C was designed to strengthen domestic manufacturing for clean energy and create jobs. It applies to facilities that make products that will reduce GHG emissions or air pollutants. Successful 2010 applicants have included wind turbine and solar panel manufacturers, and producers of fuel-efficient tires and jet engines. This tax credit is anticipated to be extended by Congress in 2011.

IRC Section 179D: energy efficiency tax deduction for commercial buildings/government assignment of tax deduction

Section 179D offers a deduction for installing energy-efficient commercial building equipment, including lighting, HVAC and building envelope. Find out whether your building improvements qualify and take advantage of the opportunity to improve your building’s efficiency, reduce operational costs and be a good corporate citizen.

Using tax credits as an effective tax rate management tool

Some of the most underused effective tax rate management tools are tax credit investments. The government has created a number of targeted tax credit programs to encourage investment in renewable energy, developing affordable housing and supporting low-income communities. Learn how you can take advantage of the dollar-for-dollar reduction in federal tax liability in exchange for capital.
Business incentives and tax credits: capital investment analysis
Companies that invest in people, property, training and other changes to the business, including sustainability initiatives, can improve an organization’s ability to generate revenue from these capital investments by taking advantage of business incentives and tax credits. Find out how we can help you target and secure incentives from federal, state and local governments.

Energy efficiency tax incentives
There are millions of dollars in tax incentives, credits, deductions and rebates available to companies that are focused on energy performance and sustainability. Are you taking full advantage of all the programs at the federal, state and local levels?

Clean Development Mechanism (CDM)
Under the Kyoto Protocol, companies in developed countries with a GHG reduction target can invest in projects that reduce emissions in developing countries. Find out how investors and CDM participants can make money by selling Certified Emission Reduction (CER) units from the CDM.

United States renewable energy attractiveness indices
This quarterly report discusses the most recent indices for wind, solar, biomass and geothermal technologies, as well as an overall score for all renewable energy technologies. The Q4 2008 edition also provides a legislative update regarding the American Recovery and Reinvestment Act of 2009.

A new green era of luxury: the world’s largest green hotel opens in Las Vegas
In January 2008, the US Green Building Council (USGBC) certified The Palazzo Resort Hotel Casino in Las Vegas, Nevada, as the largest green building in the world. Read how the Las Vegas Sands Corp. worked with architects, engineers and Ernst & Young LLP’s LEED advisors to design and build this 8 million-square-foot, 50-story facility.

Make money, save money and manage risk in the low-carbon economy
Climate change and sustainability are opening up new opportunities to increase revenue and reduce costs. They also introduce a wide variety of new risks. Ernst & Young’s Climate Change and Sustainability Services can help you demystify the highly complex world of climate change and sustainability. We can help you to identify ways to make money, save money and manage risk in the new low-carbon economy.
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