



Greening American Businesses: an old tax strategy helps solve a new problem

- ***Like-Kind Exchanges can provide billions of dollars to help U.S. companies transition to sustainable infrastructures***
- ***1031 is "the greenest tax code in America"***

by Sam Smith, PhD

Once regarded as a moral and enviro-political mandate, the greening of America has now become inevitable for businesses across the nation. With the election of Barack Obama, it seems almost guaranteed that decarbonization will kick into overdrive, according to his Web site, [Change.gov](#). Making this transition won't be cheap. According to the International Energy Agency, reducing the world's carbon dioxide emissions by half between now and 2030 could cost a staggering \$45 trillion, and since the U.S. consumes about a quarter of the world's energy resources, a significant percentage of this burden will fall on America – and American businesses in particular.

Though investments in sustainable infrastructure will eventually pay themselves off in ongoing operational savings, significant up-front costs are unavoidable. Business will be forced to wring ever more value out of increasingly tight budgets to meet these sustainable operational realities. With only some [federal](#), [state](#) and [local](#) incentives, how are businesses going to pay for these cash-intensive upgrades, especially in tight economic times like we face at present?

Financial experts point out that a tax code that's been on the books since 1921 offers substantial help for businesses looking to green their operations. Section 1031 of the Internal Revenue Code stipulates that when companies sell a depreciated asset, they can defer the tax gains associated with the sale (often up to 40% of the sale price) if they then use the proceeds to purchase a "like-kind" asset.

Brent Abraham, CEO of Accruit – a qualified intermediary providing Like-Kind Exchange (LKE) services – calls Section 1031 "the greenest tax code in America." He says with the new emphasis on alternative energies, LKEs can provide American businesses with billions of dollars in additional working cash for the transition.



So how does an LKE work? Say Bob's Rent-a-Car wants to upgrade their fleet to include higher-mileage hybrid models. They launch a program to replace 100 of their gasoline-only vehicles per year for the next five years. In doing so, they're able to sell the old cars for more than their depreciated tax value, realizing a significant taxable gain. However, if the company uses the proceeds from the sale to buy hybrids for the fleet, then that tax burden is deferred – with a potential benefit of nearly \$1,000,000.

Some of the changes looming over the business landscape may seem obvious: energy companies, for instance, will migrate away from coal and oil over time, replacing extraction and refining equipment with alternate energy infrastructure – wind, solar, etc. However, the task is actually much larger and companies in literally every industry are affected. For example in addition to the example above, businesses could:



- Replace gasoline powered fleet with natural gas and hybrid (and eventually electric or hydrogen) powered vehicles; this will be especially important for companies operating diesel vehicles in states with stricter clean-air laws;
- Upgrade energy-inefficient office infrastructure (including heating/cooling, plumbing, lighting and IT assets);
- Evolve the supply chain to better manage locally grown products, buying in larger quantities and switching to "just in time" supply chains that don't rely on cheap oil;
- Update manufacturing around smarter process flow, streamlining each manufacturing process (taking bends out of hydraulic fluid distribution pipes, for example, thereby improving pumping efficiency).

"There simply aren't many businesses out there, in any industry, that can't take advantage of 1031s for upgrading their operations," he explains. "Literally, if you sell any asset and replace it with a similar, more efficient asset, you can use an LKE to defer the associated tax gain."

A new study by the UMass Political Economy Research Institute (PERI) calls for the government to spend \$100B over the next two years on greening the infrastructure, with half that total in tax credits, and Abraham says the time has clearly come for Americans to get serious about reducing their business' carbon footprint. "These kinds of tax credit programs are a big impetus for us all, and it's even better to know that the new programs can work hand-in-hand with a very old program to make the greening process easier for companies across every sector."