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## Section 45

### Section 45 Production Tax Credits

Section 45 tax credits were added to the benefits of landfill gas by the Senate passage of HR4520 on October 16, 2004 and signed into law by the President on October 22, 2004. Originally, the bill provided for (1) landfill gas to be included in Section 45, (2) 1.8 cents per kilowatt hour generated in the tax year for projects that qualify, and ran for (3) 10 years from the project on-line time. To qualify, the project had to be on-line after the bill went into effect but must be on-line by January 1, 2007. To appease all the political forces and to get something done sooner rather than later all aspects of the benefit were cut in half. The net result is the 1.8 cents per kilowatt hour was cut in half to \$0.009 or 0.9 cents, the effective time of the benefit was now five (5) years and the project must be on-line by January 1, 2006.

The President's signing of the Energy Policy Act of 2005 extended the in-service date for Section 45 tax credits to January 1, 2008 and extended the term from 5 years to 10 years.

Note: The President signed the Health and Welfare Act of 2006 extending the in-service date to qualify for the Section 45 tax credits to January 1, 2009. It is anticipated the 110th Congress will visit Renewables in the coming year to provide a longer extension.

Note: The Section 45 tax credit has increased in 2007 to \$10 per MW/hour. The increase is due to inflation.

### Tax Credit Summary as of May 2007

- Tax Credit attributable to generator of electricity. If owner cannot use tax credit the lessee or operator of the facility may qualify. This is a good benefit for municipalities that cannot currently claim tax credits.
- Rate is 1.0 cent per kilowatt hour or \$10 per megawatt hour.
- Good for 10 years from time project goes on-line for projects on-line after August 8, 2005.
- Project must be on-line before January 1, 2009 and only attributable to projects on-line after the effective date of the bill or August 8, 2005.

### Example to calculate Section 45 tax credit:

Assume 1 megawatt project with 90% on-line time will produce (1000 kW's times 7884 hours per year =) 7,884,000 kW/hrs.

7,884,000 kW/hrs times \$0.01 = \$78,840.00 in tax credits for a given tax year.

Let us help you with any of your questions.

Contact Steve Allen today at **832-467-9955** or email at [steve@airandgas.net](mailto:steve@airandgas.net)

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