

Frank Lunn

From: Greg Shepard <greg@bfsmail.com>
 Sent: Monday, December 26, 2011 3:31 PM
 To: undisclosed-recipients
 Subject: Ra3 Important Tax Info

TO ALL: THE THIRD AND LAST E-MAIL TODAY THAT I DEEM TO BE IMPORTANT. PRINT THIS OUT AND KEEP IT IN YOUR RAPOWER3 FILE.

First, I am not a CPA or a tax advisor. So any info that I give to you must be received with that in mind. Please check with your own tax advisor or just simply use CPA Bryan Bolander who is our recommendation for RaPower3 team members. Bryan's email is bryan@vcb-cpa.com.

DEPRECIATION: This year in 2011 you may depreciate 100% of the purchase price of your solar energy systems placed in service. Depreciation is a key component to being able to take all of the tax benefits that you are entitled to receive.

HOW IT WORKS: The rules say you must take half of the tax credit and then subtract that from the purchase price to calculate your depreciation. PURCHASE PRICE = \$3,500. TAX CREDIT = \$1,050 PER SYSTEM. HALF OF \$1,050 = \$525 SO SUBTRACT THAT FROM \$3,500 AND YOU GET \$2,950. THEREFORE, \$2,950 IS WHAT YOU ARE ALLOWED TO DEPRECIATE THIS YEAR PER SYSTEM PURCHASED.

WHAT FORMS DO YOU USE? Start with form #4562. So if you purchased 50 systems with the idea of using our five-year carry forward program, you get to depreciate a lot. $50 \times 2,950 = \$147,500$. This amount would go on form 4562. The amount from form 4562 is then transferred to Schedule C which are the financial gains and losses from operating a business. In the case of 50 systems, you would record a \$147,500 loss. This amount goes to line 12 of the first page of your 1040 form. This will reduce your adjusted gross income to where you probably won't owe any taxes for 2011 or 2010. It might even help your 2009 tax situation. Your CPA would have to figure that out and then amend your taxes for those years.

AM I REALLY IN THE SOLAR ENERGY BUSINESS? Yes. You make important decisions and demands for your business with the Equipment Purchase Agreement, Bonus Contract and the Operations and Maintenance Agreement. You are an independent contractor with RaPower3. You can, if you want, sell systems for us and receive a commission. Those that receive a commission check will receive a 1099 form from RaPower3 as required by the IRS.

MY CPA SAYS THAT I MUST BE A MATERIAL PARTICIPANT AND BE ACTIVE RATHER THAN PASSIVE TO RECEIVE THE DEPRECIATION BENEFITS. HOW DO I DO THAT? Go to irs.gov. put in material participant in the search engine space in the upper right hand corner. The below info was copied from the irs.gov site. As you can see, there are seven ways you can qualify for material participation. All you have to do is meet one of the seven criteria. A few of you will qualify with number one in that you and your spouse spend more than 500 hours on RaPower3.

This is why keeping all of my e-mails is important. Many of you went to our convention. That counts as hours. Anytime you tell someone about the RaPower3 opportunity, you are adding hours. Many of you would meet the hundred hour rule. You have to work more than a hundred hours in a year and those hours have to be more than any of YOUR employees. The employees at RaPower3 don't count. In this case, you would qualify under the #3 criterion.

But, you are an independent contractor. Unless you set up an LLC, you are a sole proprietor of your solar energy business with no employees. Almost all of you fall into this category. This means, you qualify under guideline #2 meaning you do all the work in your solar energy business and you have no employees: Even if you spend less than 100 hours on your RaPower3 business.

To determine material participation in an activity, the taxpayer must meet ONE of the following:

1. ___ Does taxpayer and/or spouse work more than 500 hours a year in the business?
 2. ___ Does taxpayer do most of the work? Even if taxpayer does not meet 500 hour test, but his participation is the only activity in the business, he materially participates. Example: sole proprietor with no employees.
 3. ___ Does taxpayer work more than 100 hours and no one (including non-owners or employees) works more hours? Example: If owner puts in 175 hours a year and an employee works 190 hours a year, taxpayer would not meet material participation test.
 4. ___ Does taxpayer have several passive activities in which he participates between 100-500 hours each, and the total time is more than 500 hours? The following activities should not be included in the above test: rental activities; activities involving portfolio or investment income, and activities in which the taxpayer does most of the work.
 5. ___ Did taxpayer materially participate in activity for any 5 out of 10 preceding years (need not be consecutive)? Example: taxpayer who retired and his children now run business, but he stills owns part of partnership.
 6. ___ Did taxpayer materially participate in a personal service activity for any 3 prior years (need not be consecutive)? Personal service activity includes fields of health, law, engineering, architecture, accounting, actuarial science, performing arts and consulting.
 7. ___ Do the facts and circumstances indicate taxpayer is materially participating? Test does not apply unless taxpayer worked more than 100 hours a year. Furthermore, it does not apply if: any person, other than the taxpayer, received compensation for managing the activity; or, if any person spent more hours than taxpayer managing the activity.
- REMINDER: Limited partners under IRC § 469(h)(2) are generally passive. The exceptions to the limited partner rule are tests 1, 5 and 6 above. If taxpayer holds both a general and limited partner interest, he will have all seven tests available.

If the answer to any of the above questions is YES the taxpayer meets the material participation standard. Losses or income should not be reflected on Form 8582, and the taxpayer may generally deduct in full the amount of the loss in the current year. If the taxpayer materially participated, losses or income are reflected on the return as non-passive.

If the answer is NO to all seven tests, the material participation standard is not met, and losses are passive. Taxpayer will be allowed losses only to the extent of passive income.

I HOPE THIS HELPS. HAVE A HAPPY NEW YEAR!!

Greg

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