

Solar Energy Equipment: Arizona Tax Court Addresses Valuation Question



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The Arizona Tax Court (“Court”) addressed in an October 2nd opinion an issue arising out of the construction of a solar energy facility. See *Sun Streams 2 LLC v. Arizona Department of Revenue*, 2024 WL 4379548 (Ariz. Tax Ct. Oct. 2, 2024).

The question considered was whether the Arizona Department of Revenue (“Department”) properly valued the renewable energy equipment (“Equipment”) for tax purposes.

Sun Stream 2 LLC (“Sun Streams”) owns a solar energy generation facility in Maricopa County, Arizona. The facility includes Equipment subject to valuation under Arizona Revised Code §42-14155.

Sun Streams paid \$245,293,281 (“Construction Price”) to construct the equipment. The company argued that this amount is the full cash value of the equipment.

The Department disagreed with this determination. It determined that the full cash value of the equipment to be \$340,196,473 (“Purchase Price”). This value was based on what SS2 Partners, LLC (“SS2P”) paid when it purchased a 100% membership interest in Sun Streams after DAI Management Consultant, Inc (“DAI”), appraised the Equipment’s value,

Sun Streams moved for summary judgement arguing that the Department erroneously valued the Equipment for the 2023 and 2024 tax years in excess of the value prescribed in Arizona Revised Code §42-14155. The company requested that the Court base the Equipment’s full cash value on the original cost.

The Department cross-motivated for summary judgment on the same issues.

Arizona tax law provides that renewable energy equipment is taxed every year based on the equipment’s taxable original cost. The taxable amount is 20% of the full cash value of the renewable energy equipment. The Court was therefore required to consider how the original cost of the Equipment was determined.

Arizona Revised Code §42-14155(D)(4) defines the “original cost” of equipment as “the actual cost, without trending of acquiring or constructing the property, including additions, retirements, adjustments, and transfers.” (emphasis added). Further, the original cost of the equipment has been interpreted to mean the cost to the person devoting the property to service.

SS2P purchased their interest in Sun Streams prior to it using the Equipment. Because this action was filed before SS2P could use the Equipment, the Court was unable to determine the original cost based on which party originally put the Equipment to use.

The Court then evaluated the definition of the Equipment's purchase price. The purchase price of property is not an estimate. Instead, it is the actual cost incurred in acquiring the property. As such, the plain language of Arizona Revised Code §42-14155(D)(4) allows the Department to use the purchase price of the Equipment as its original cost. Therefore, the court granted the Department's motion for summary judgment in part as to the use of the purchase price as the original cost of the Equipment.

Sun Streams further argued that the Equipment's purchase price included tax benefits and future revenue streams. This was argued to be separate from the Equipment's original cost. DAI's appraisal of the Equipment reference of the agreements associated with the Equipment was noted.

Although DAI did not assign an incremental value to these agreements, the Court found there was an issue of fact as to whether the appraisal only valued the equipment. Therefore, it denied the Department's cross motion for summary judgment as to the amount of the purchase price allocated to the Equipment and the resulting calculation of full cash value.

A copy of the opinion can be downloaded [here](#).