Solar Investment Tax Credit (ITC)

SEIA Solar Energy Industries Association®

Solar ITC 101: What is the Solar Investment Tax Credit?

The solar Investment Tax Credit (ITC) is one of the most important federal policy mechanisms to support the growth of solar energy in the United States. **Since the ITC was enacted in 2006, the U.S. solar industry has grown by more than 8,600%** - creating hundreds of thousands of jobs and investing billions of dollars in the U.S. economy in the process. In 2015, SEIA successfully advocated for a multi-year extension of the credit, which has provided critical stability for businesses and investors. Despite the overwhelming success and popularity of the ITC, the value of the credit will unfortunately start decreasing after 2019.

54% average annual growth
in the solar industry since 2006, when the ITC was enacted

Quick Facts

- The ITC is a 30 percent tax credit for solar systems on residential (under Section 25D) and commercial (under Section 48) properties.
- The residential and commercial solar ITC has helped the U.S. solar industry grow by more than 8,600% percent since it was implemented in 2006, with an average annual growth of 50% over the last decade alone.
- The 2015 extension of the ITC has provided market certainty for companies to develop long-term investments that drive competition and technological innovation, which in turn lowers energy costs for consumers.

Impact of the Solar ITC

The ITC has proven to be one of the most important federal policy mechanisms to incentivize clean energy in the United States. Solar deployment, at both the distributed and utility-scale levels, has grown rapidly across the country. The long-term stability of this federal policy has allowed businesses to continue driving down costs. The ITC is a clear policy success story – one that has resulted in a stronger and cleaner economy.

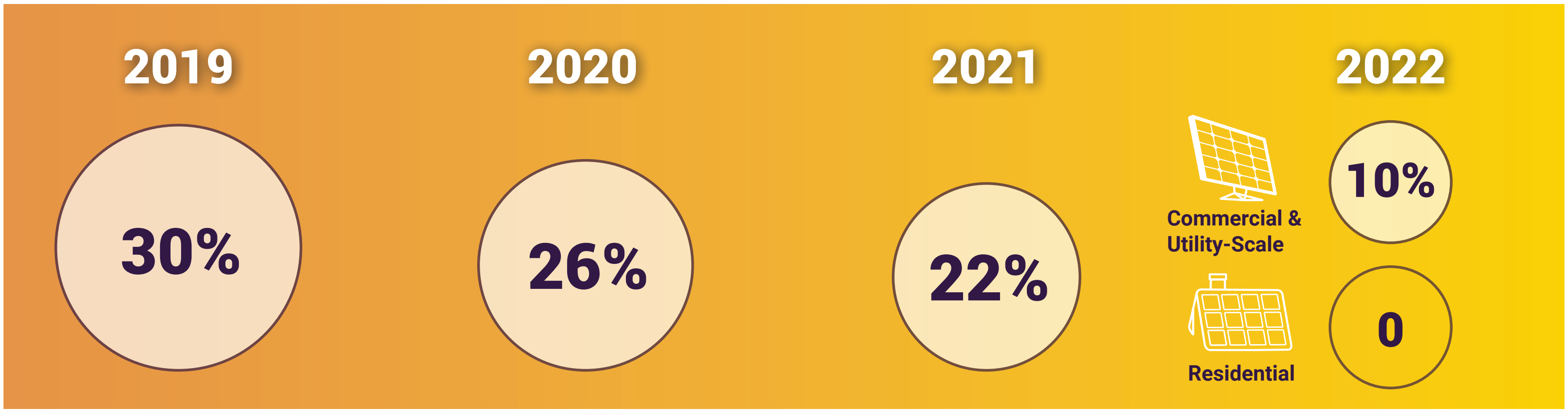
How Does the Solar Investment Tax Credit Work?

The Investment Tax Credit (ITC) is currently a 30 percent federal tax credit claimed against the tax liability of residential (under Section 25D) and commercial and utility (under Section 48) investors in solar energy property. The Section 25D residential ITC allows the homeowner to apply the credit to his/her personal income taxes. This credit is used when homeowners purchase solar systems outright and have them installed on their homes. In the case of the Section 48 credit, the business that installs, develops and/or finances the project claims the credit.

> “**The 2015 ITC extension is expected to nearly quadruple solar deployment by the end of 2020 while doubling U.S. solar employment and spurring $140 billion in economic activity**

Solar Investment Tax Credit (ITC) 101

A tax credit is a dollar-for-dollar reduction in the income taxes that a person or company would otherwise pay the federal government. The ITC is based on the amount of investment in solar property. Both the residential and commercial ITC are equal to 30 percent of the basis that is invested in eligible solar property which has begun construction through 2019. The ITC then steps down according to the following schedule:



History of the Solar ITC

The Energy Policy Act of 2005 (P.L. 109-58) created a 30 percent ITC for residential and commercial solar energy systems that applied to projects placed in service between January 1, 2006 and December 31, 2007. In 2006, the Tax Relief and Health Care Act (P.L. 109-432) extended these credits through December 31, 2008.

In 2008, the Emergency Economic Stabilization Act (P.L. 110-343) included an eight-year extension of the residential and commercial ITC, eliminated the monetary cap for residential solar electric installations and permitted utilities and companies paying the alternative minimum tax (AMT) to qualify for the credit.

In 2015, the Omnibus Appropriations Act (P.L. 114-113) included a multi-year extension of the residential and commercial ITC described above and changed the previous "placed-in-service" standard for qualification for the credit to a "commence construction" standard for projects completed by the end of 2023.

In 2017, the Tax Cuts and Jobs Act (P.L. 115-97) maintained the residential and commercial ITC (as amended by the 2015 Act).

In addition, the IRS is working on a broader regulatory project to better define what property qualifies as solar energy property as defined under Section 48. Examples of property under consideration are energy storage, carports, solar canopies and roofing.

For more information about SEIA's tax work, visit www.seia.org/tax