

What Homeowners Need to Know About the Federal Solar Tax Credit Ramp Down for Residential Solar Energy Systems

There are two federal tax credits that incentivize solar investments: (1) the Section 48 Investment Tax Credit (ITC) available to businesses who invest in solar energy systems; and (2) the Section 25D residential solar energy credit that may only be claimed by individuals who purchase a solar energy system, typically installed on the roof of their home.

These two federal solar tax credits currently give similar benefits and both will drop from 30% to 26% on January 1st, 2020; however, there are some important distinctions between the credits. You may have heard about “safe harbor” provisions that allow businesses to lock in the 30% rate if a project “commences construction” in 2019 and is completed before January 1, 2024. This safe harbor only applies to business-owned systems and is not available for systems purchased by homeowners for residential use.

Please note that this document is written for background purposes only and should not be considered tax or legal advice. For a more detailed application of these laws to your specific situation, please consult a tax professional.

Here's what you need to know:

- **If a homeowner buys the solar energy system outright** (either paying cash or financing with a loan), they **cannot** use any commence construction safe harbor provisions. To receive the full 30% residential solar tax credit, the system must be “placed in service” before the end of the day December 31, 2019. It is not enough to have signed a contract, or to have made a down payment or even to have begun construction. There is no bright-line test from the IRS on what constitutes “placed in service,” but the IRS has equated this with completed installation in a Private Letter Ruling. The residential credit is claimed on the tax return for the year in which the qualifying expenditures are incurred, and the tax rules say the costs are incurred when the installation of system has been completed. The 25D tax credit will step down to 26% in 2020, 22% in 2021, and 0% starting in 2022.
- **If a homeowner buys a newly built home with solar and owns the system outright**, the year that they move into the house sets their credit eligibility. Expenditures are generally treated as incurred when the original installation of the solar energy system is completed on an existing home. However, if a new solar energy system is purchased in connection with the new construction of a home, the costs are treated as incurred when the taxpayer begins living in the home.
- **If a homeowner leases the solar system or purchases electricity from the system through a “power purchase agreement” (PPA)**, then the tax credit is claimed by the company that is leasing the system or offering the PPA. The homeowner is not eligible to claim the tax credit on their personal federal income tax returns at all. The homeowner does not own the system and the tax credit is handled entirely by the company providing the system. (The tax credit claimed by the system owner enables them to offer better lease or PPA terms.)

Unhappy about the solar tax credit ramp down?

Help SEIA fight to defend it:
www.seia.org/DefendTheITC