

# THE SOLAR INVESTMENT TAX CREDIT (ITC)

## What is the Solar Investment Tax Credit?

The Investment Tax Credit (“ITC”) is a 30 percent federal tax credit for solar systems on residential (under Section 25D) and commercial (under section 48) properties that, under current law, remains in effect through December 31, 2016. The Section 48 commercial ITC is used for utility-scale, commercial and residential sized projects. The company that installs, develops or finances the project uses the credit. The Section 25D residential ITC is used for residential sized projects, and the homeowner applies the credit to his/her income taxes. This credit is used when homeowners purchase solar systems outright and have them installed on their homes.

## How does the Solar Investment Tax Credit work?

A tax credit is a dollar-for-dollar reduction in the income taxes that a person or company claiming the credit would otherwise pay the federal government. The ITC is based on the amount of investment in solar property. Thus, both the commercial and residential ITC are credits equal to 30 percent of the basis that is invested in eligible property that is placed in service before December 31, 2016. After this date the commercial credit (under section 48) will drop to 10 percent and the residential credit (under Section 25D) will drop to zero—unless Congress extends this deadline or changes the “placed in service” component of the law to a “commence construction” provision.

## History of the Solar Investment Tax Credit

The Energy Policy Act of 2005 (P.L. 109-58) created a 30 percent investment tax credit (ITC) for commercial and residential solar energy systems that applied from January 1, 2006 through December 31, 2007. The Tax Relief and Health Care Act of 2006 (P.L. 109-432) extended these credits for one additional year in December 2006.

The Emergency Economic Stabilization Act of 2008 (P.L. 110-343) included an eight-year extension of the commercial and residential solar 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.

## Why is the Solar Investment Tax Credit important?

The ITC is one of the most important federal policy mechanisms to support the deployment of solar energy in the United States. Since the multi-year extension of the credit in 2008, solar prices have consistently fallen year after year while installation rates and efficiencies have continued to climb. The continued success of the ITC demonstrates that a stable, long-term incentive can drive growth, reduce prices and create jobs in solar energy.

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**The ITC is a 30 percent tax credit of the “basis” that a person has invested in “eligible property” for solar systems on residential (under Section 25D) and commercial (under section 48) properties.**

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