



Solar Investment Tax Credits 101

2022 is an excellent year to invest in solar.

This is the last year to use the solar Investment Tax Credit at 26%.

Adopting solar before your competitors doesn't just give you more time to use the tax credit and utility savings. You can also tell a story your competition can't.



Solar Investment Tax Credits 101

Why 2022 is the year to invest in solar.

This is the last year that businesses and homeowners can claim a 26% solar Investment Tax Credit (ITC). The ITC then enters a final phase-out and will level off at 10% in 2024. With a high tax credit and low installation costs, 2022 may be the most affordable year for solar.

Key Points



WHAT IS THE ITC?

The ITC is a federal income tax incentive that allows you to deduct a percentage of the total cost of installing a solar energy system from federal taxes with no cap. The credit includes equipment, wiring, labor, and even battery energy storage systems. It is a critical component in many customers' financial calculations.



THE STEP DOWN

The tax credit will be phased out over several years, with a smaller credit each year. Here's how the credit will step down:

- **2022** – 26%
- **2023** – 22%
- **2024 & after** – 10% for commercial, 0% for residential



HOW DO BUSINESSES USE THEIR CREDIT?

Use your tax savings to grow your business, improve price competitiveness, and increase profits. However you choose to reinvest your tax credit, the savings and other advantages compound over time – giving your company an edge over your competition.

How the ITC Works

Who qualifies?

Any homeowner or business with tax exposure is eligible to claim the credit. If you pay federal income tax, you're eligible. Government entities, schools, and non-profit organizations are not eligible. If your organization is tax-protected, it can't claim a tax credit.

What if I don't qualify?

A solar project structured as a power purchasing agreement (PPA) can claim a credit if the project owner pays taxes. Many educational and municipal solar projects are structured this way.

The ITC is a critical piece of the puzzle for the investors backing your PPA solar project. They will want to capture as much tax credit as possible to make their investment in your solar project payback. If a PPA is on the table for your institution, you should encourage your investors to move forward this year.

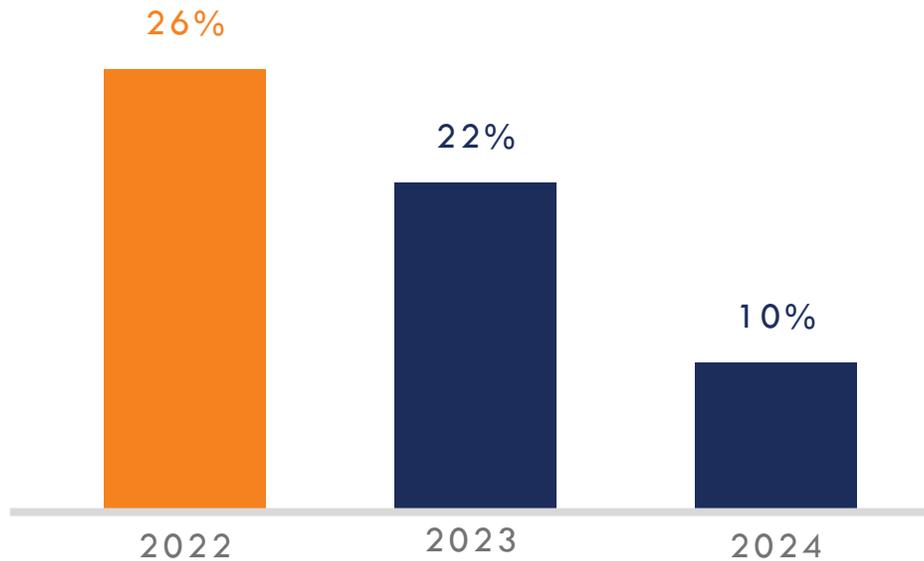
What if I don't have enough tax appetite?

If your business is eligible for the credit, but you don't have the tax appetite to benefit from the full credit in the first year, you can take advantage of carrybacks and carryforwards. The tax credit can be carried back one year and carried forward 20 years. If your business still hasn't claimed the full credit after 20 years, you are eligible for a refund equal to half the remaining credit. The rest is lost.

What about depreciation?

Under the federal tax code, renewable energy systems including solar can take advantage of one of two accelerated depreciation options. Either they can claim 100% bonus depreciation, or they can use the 5-year Modified Accelerated Cost-Recovery System (MACRS) depreciation schedule. The total depreciation amount will depend on your businesses' tax rate.

SOLAR ITC STEP DOWN SCHEDULE



How do I make sure I get the credit this year?

In 2018 the IRS issued guidance on what exactly is meant by starting construction for the purposes of claiming the tax credit. The Solar Energy Industries Association (SEIA) summarized these methods as follows:

“(1) starting physical work of a significant nature (Physical Work Test), or (2) meeting the so-called Five Percent Safe Harbor test (i.e., paying or incurring five percent or more of the total cost of the facility in the year that construction begins).”

In either case, once a project begins continuous progress has to be made towards completion. We can help with this. One of our specialties is walking our customers through every step of the solar process – including all permits, inspections, and applications needed to ensure you get your tax credit.

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Will the tax credits be extended again?

You may have heard about the solar energy provisions of the now-stalled Build Back Better Act. The \$2.2 trillion spending bill included \$555 billion in funding for clean energy and climate change-related programs with a 10-year extension for the ITC. Although Build Back Better is considered dead by most Beltway policy watchers, there is a growing effort to pass the energy and climate portion as a standalone bill. If that effort succeeds, the resulting bill would likely contain the same provisions.

However, counting on a standalone clean energy bill is a risky strategy. Most people and businesses considering solar energy should operate under the assumption that the ITC will continue to step down next year. If you are considering solar energy, this is the year to act. Get in touch with us discuss your options. Our team of engineers and finance experts has experience designing systems optimized for financial performance at every scale – from residential to commercial to utility.

Want to take advantage of solar tax credits in 2022?
Start with a FREE solar consultation with our energy experts.

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