

MDV-SEIA Fact Sheet



Federal Incentives for Commercial Solar Applications

Federal Investment Tax Credit for Commercial Solar Energy Property

The 10% investment tax credit, otherwise known as the business energy tax credit, has been permanently extended as part of the passage of the Energy Policy Act of 1992. This means that the solar energy industry will no longer be burdened with the prospect of a continually expiring and reinstated credit. (U.S. Code Citation: 26 USC Sec. 48)

Who is eligible for the credit?

Any company that invests in or purchases qualified solar energy property can take the credit -- up to 10% of the investment or purchase and installation amount -- when income tax forms are filed. Only commercial entities can take the credit. This credit should not be confused with the residential tax credit, which permanently expired in 1985. The credit cannot be claimed for property used mainly outside the United States, used by governmental units and foreign persons and entities, or used by a tax-exempt organization (unless the property is used mainly in an unrelated trade or business).

How is solar energy property defined?

Solar energy property is defined as equipment that uses solar energy to generate electricity, to heat or cool (or provide hot water for use in) a structure, or to provide solar process heat.

Solar energy property that qualifies for the credit INCLUDES:

- ?? Equipment that uses solar energy to generate electricity, including storage devices, power conditioning equipment, transfer equipment, and related parts, and equipment up to (but not including) the stage that transmits or uses electricity, and
- ?? "Dual use equipment" (equipment that uses both solar and non-solar energy, such as pipes and hot water tanks) only if its use of energy from non-solar sources does not exceed 25% of its total energy input in an annual measuring period, and only to the extent of its basis or cost allocable to its use of solar energy.

In addition, solar energy property MUST BE --

- ?? Completely installed and operational in the year in which the credit is first taken,
- ?? Constructed, reconstructed, or erected by (or at the request of) the taxpayer,
- ?? Originally used by the taxpayer, if acquired by the taxpayer,

- ?? In conformance with any performance or quality standards prescribed by regulation, and
- ?? Subject to depreciation or amortization.

What does NOT qualify as solar energy property?

Solar energy property DOES NOT INCLUDE –

- ?? Public utility property,
- ?? The material and components of "passive solar systems" (i.e., systems based on the use of conductive, convective, or radiant heat transfer) even if combined with "active solar systems" (i.e., systems based on the use of mechanically forced energy transfer),
- ?? Equipment used for most swimming pools (consult your tax advisor), and
- ?? Equipment that uses solar energy to generate steam at high temperatures for use in industrial or commercial processes.

Are there cases when the full 10% credit cannot be taken?

Yes, if the solar energy property is financed in whole or in part by subsidized energy financing or by tax-exempt private activity bonds. The credit may taken only on the portion of the investment or purchase which is not subsidized. For example, if for a \$100,000 investment (otherwise known as the cost or basis) \$20,000 is allocable to subsidized financing or tax-exempt private activity bonds, the credit would amount to 10% of \$80,000. In addition, the cost or basis of property for investment credit purposes may be limited if you borrowed against the property and are protected against loss, or if you borrowed money from a person who is related, or who has other than a creditor interest in the business activity. In these cases, the cost or basis must be reduced by the amount of this "nonqualified non-recourse financing" as of the close of the tax year in which it is placed in service.

Are there limitations on the amount of credit I can take?

In any one year you may not take any tax credit that exceeds the total tax owed. The allowable tax credit for any given year is also limited to \$25,000, plus 25% of the total tax remaining after the credit is taken. For example, if you are allowed the full 10% credit for an investment of \$500,000, which is \$50,000, and you owe \$100,000 in taxes, you may take \$25,000 plus 25% of the remaining \$75,000 (\$18,750), which equals \$43,750. Credit not allowable in one year may be taken in other tax years (see below).

Do I have to use the credit in the year the purchase or investment is made?

No. If you cannot use part or all of the credit because of tax liability limitations, you may carry any excess back to each of the three preceding years, beginning with the earliest. If you have an unused credit after carryback, it may be carried forward to each of the 15 years after the year of the credit.

Are there special tax forms needed to take the credit?

Yes. You will need form 3486 (Investment Credit), and you may need form 3800 (General Business Credit) and their corresponding instruction forms. Disclaimer: This fact sheet should be consulted only for general guidance. MDV-SEIA encourages investors or purchasers of qualified solar energy property to seek professional tax advice.

Modified Accelerated Cost Recovery System (Accelerated Depreciation)

In addition to the above tax credit provisions, Section 168 of the Internal Revenue Code contains a Modified Accelerated Cost Recovery System (MACRS) by which businesses can recover investments in solar, wind, and geothermal property through depreciation deductions. The MACRS establishes a set of class lives for most property, ranging from three to 31.5 years, over which the property may be depreciated. For property placed in service after 1986, the current MACRS class life for applicable renewable energy technologies is five years. The types of systems covered by MACRS are:

- ?? Solar property that meets the same standards for eligibility required by the Federal 10% tax credit;
- ?? Wind property, including wind turbines, wind electric generators, storage devices, power conditioning equipment, transfer equipment, and related parts, up to the electrical transmission stage, subject to the same 25% limit on dual-fueled equipment required for solar property; and
- ?? Geothermal property including equipment used to produce, distribute, or use energy derived from a geothermal deposit, but only in the case of electricity generated by geothermal power, up to the electrical transmission stage.

About MDV-SEIA

The **Maryland-DC-Virginia Solar Energy Industries Association (MDV-SEIA)** is the regional trade organization of the photovoltaics and solar thermal manufacturers, distributors, and component suppliers. Our membership also includes companies that design, sell, install and maintain solar energy equipment for residential, commercial, and institutional customers throughout the Mid-Atlantic Region.

For more information contact

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