

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

The Investment Tax Credit (ITC) is currently a 30 percent federal tax credit claimed against the tax liability of residential (Section 25D) and commercial and utility (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.

59% compound annual growth

in the solar industry over the last decade, since the ITC was enacted

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. Both the residential and commercial ITC are equal to 30 percent of the basis that is invested in eligible property which have commence construction through 2019. The ITC then steps down to 26 percent for projects that begin construction in 2020 and 22 percent for projects that begin in 2021. After 2021, the residential credit will drop to zero while the commercial and utility credit will drop to a permanent 10 percent.

Commercial and utility projects which have commenced construction before December 31, 2021 may still qualify for the 30, 26 or 22 percent ITC if they are placed in service before December 31, 2023. The Treasury and IRS are currently drafting guidance which will inform solar developers of which percentage of ITC they will qualify for depending on when they started their project.

The IRS issued guidance (Notice 2018-59) on June 22, 2018 that explains the requirements that a taxpayer must meet to establish that construction of a qualified solar facility has begun for purposes of claiming the ITC.

In December 2018, Congress passed the Tax Cuts and Jobs Act, a comprehensive tax reform bill that modified many aspects of the U.S. tax code. The commercial and residential ITC were maintained under this legislation.

The recent 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

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 for one additional year 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.

Impact of the 2015 ITC Extension

The ITC has proven to be one of the most important federal policy mechanisms to incentivize the deployment of both rooftop and utility-scale solar energy in the United States. As a result of the multi-year extension of the credit enacted in late-2015, solar prices have continued to fall while installation rates and technological efficiencies are continuing to climb. The ITC is nothing short of a tax policy success story and we expect this fact to continue to play out over the next several years.

Specifically, we expect the roughly 53 gigawatts of solar energy cumulatively installed in the US at the end of 2017 to reach more than 100 GW by the end of 2022. Moreover, the roughly 250,000 Americans currently employed in solar is expected to nearly double to 420,000 in the same time period - all this while spurring roughly \$140 billion in economic activity. The continued success of the ITC demonstrates that stable, long-term federal tax incentives can drive economic growth while reducing prices and creating jobs in one of America’s fastest-growing industries.

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