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### Sun Setting on Home Solar Power Tax Credits

#### Article Highlights:

- Non-Refundable Tax Credit
- Other Incentives
- Qualifications
- Financing
- Who Gets the Credit
- Credit Timing
- Newly Constructed Homes
- Batteries

If you have been considering installing a solar electric system on your home and taking advantage of the lucrative federal tax credit, time is running out. Unless Congress extends the credit, it will no longer be available after 2023.

The home solar tax credit is a very lucrative non-refundable federal tax credit for 26% (22% in 2023) of the cost of the system with no maximum. So for example, if the solar electric system cost you \$20,000 and was placed in service in 2022, your tax credit would be \$5,200 (26% of \$20,000). A non-refundable tax credit offsets your tax liability, regular and alternative minimum, dollar for dollar, and any excess is added to any credit allowable in the subsequent year.

For example, if your 2022 credit was \$5,200 and your 2022 tax liability was \$4,000, then \$4,000 of the credit would go to pay off your 2022 tax liability and the remaining \$1,200 would be added to your 2023 solar credit, if any, and used to reduce your 2023 tax liability.

Many state and local governments and public utilities also offer incentives, such as rebates and tax credits, for investment in renewable energy property. When deciding whether to make a purchase, you should consider the available incentives and your cost savings for operating the system.

**Qualifications** - To qualify for the credit, the equipment must be installed in a home that is in the U.S. and that you use as your residence. The credit can't be claimed for equipment that is used to heat a swimming pool or hot tub. If the equipment is used more than 20% for business purposes, only the expenses allocable to non-business use qualify for the credit.

The credit covers both the cost of the hardware and the expenses of installing it, such as labor costs for on-site preparation, assembly, and installation of the equipment and for piping or wiring to connect it to your home. You claim the credit in the year in which the installation is completed. If you install the equipment in a newly constructed or reconstructed home, you claim the credit when you move in.

**Financing** - Solar installation companies offer a variety of ways to pay for their systems other than cash. You could take out a loan, and if that loan were secured by your home, generally you would be able to deduct the interest on the loan. Another option is to lease the system, in which case you would not qualify for the solar credit, as the leasing agency would get the credit and the lease payments you make would not be deductible. In addition, for the lease option, you would have to deal with transferring the lease to the new owner should you decide to sell the home before the lease term is up. (This may entail you paying off the lease or the buyer assuming the debt before the sale can be finalized. Some buyers may not want to take on the additional obligation.) Another option is to allow the solar company to install the solar power system and then purchase the electricity from them. You would not be entitled to the solar credit under the latter arrangement.

**Who Gets the Credit** - You need not own the property to qualify for the credit, as you need only be a

“resident” of the home. For this credit, the tax code does not specify that an individual must own the home, only that it is the taxpayer’s residence.

**Example:** Son lives with his mother who owns the home. Son pays to have the solar system installed. The son gets the credit.

**Credit Timing** – With the credit sunsetting after 2023 the timing of completion becomes critical. For purposes of the home solar credit, timing and treatment of expenditures are treated as made when the original installation is completed, except those expenditures in connection with the construction or reconstruction of a structure are treated as made when the taxpayer's original use of the constructed or reconstructed structure begins.

***Example:** The costs of an installation of solar energy property that was started in 2022 but not completed until 2023 will be eligible only for a credit of 22% of the costs on the 2023 return, even though some or all of the costs were paid in 2022 when the credit percentage was 26%.*

**Newly Constructed Homes** - The credit can be taken for newly constructed homes if the costs of the residential energy efficient property can be separated from the home construction and the required certification documents are available.

The credit for the identifiable solar expenditures in connection with the construction or reconstruction of a structure are treated as made when the taxpayer's original use of the constructed or reconstructed structure begins.

**Batteries** – Some areas of the country are prone to power outages which would make including batteries for power storage desirable and worth the additional costs. They can be included with the original installation or can be added later and will qualify for the credit. If you already have a solar installation you can add a storage battery and qualify for the solar credit for the cost of the battery at the rate for the year the battery is installed. A battery attached to solar panels qualifies for the credit if it’s **charged only by solar energy**.

If you would like to review your options in more detail, including the tax and other aspects of purchasing a solar system for your home, please give this office a call.