

Frequently-Asked Questions

The following frequently-asked questions are an excerpt from SEIA's *Guide to Federal Incentives for Solar Energy* version 3.0, released May 21, 2009. The full version of the tax manual is available to SEIA members. If you are not a member of SEIA, you can join at <http://www.seia.org/cs/membership>.

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1. If I receive a rebate for my system from my state or local government, does that reduce the basis on which I can claim the federal 30% ITC?

A rebate received in a commercial context must usually be reported as taxable income by the recipient. A recipient who must report a rebate as income claims the gross amount paid for solar equipment as his "tax basis" in the equipment for purposes of calculating the commercial solar tax credit or Treasury cash grant.

Grants from state or local governments must ordinarily be reported as taxable income and do not reduce the tax basis for calculating the 30% tax credit for the equipment whose purchase price is paid in part with the grant.

2. If I receive a rebate for my system from my utility, does that reduce the basis on which I can claim the federal 30% ITC?

A rebate received from a utility in a commercial context usually must be reported as taxable income by the recipient. A recipient who must report a rebate as income claims the gross amount paid for solar equipment as his “tax basis” in the equipment for purposes of calculating the commercial solar tax credit or Treasury cash grant.

A rebate received by a homeowner in a residential context usually does not have to be reported as income when the rebate is received from the local utility. A homeowner who does not report the rebate as income takes a “tax basis” in solar equipment equal to the net amount he paid. In other words, if the solar equipment has a gross cost of \$20,000, but a rebate from the local utility pays \$2,000, then his tax basis in the equipment for purposes of calculating the residential tax credit is \$18,000.

3. Can I take the 30% federal grant instead of the 30% tax credit?

The grant program option applies only to commercial systems and does not apply to residential systems.

The owner of new solar equipment put to commercial use and placed in service in 2009 or 2010 qualifies potentially for a 30% cash grant from the US Treasury. The owner would receive this grant in place of the commercial tax credit. The grant will be paid within 60 days after the equipment is placed in service or, if later, after the application is submitted and approved for the grant. Grants will also be paid on commercial solar systems on which the owner commences construction in 2009 or 2010, provided the system is placed in service by 2016.

4. If I build a new house for sale, can I take the residential credit or the commercial credit?

The homebuilder is not usually entitled to the tax credit. The commercial credit can only be claimed on solar equipment put to commercial use. It is claimed by the person who owns the equipment when it is placed in service. A homebuilder does not usually place a house in service, unless he retains ownership of the house and uses it as a rental property.

In most situations where someone builds a house and sells it with solar equipment already installed, the new homeowner is the one entitled to any tax credit. He claims a residential credit. He must use the house as his residence.

5. If I don't have enough tax liability to take the full tax credit in the year my system is installed, can I apply the remainder of the credit to the following years' taxes?

Unused commercial credits can be carried forward for up to 20 years. Unused residential credits can be carried forward at least until tax year 2016 (the year the residential credit expires). It is unclear whether residential credits can be carried forward past 2016.

6. What if I have to sell my house, can I still claim the credit?

The residential credit is not recaptured if the house is later sold. However, the homeowner will have had to have reduced his tax basis in the house by the amount of the credit. He is more likely to have a gain on sale.

7. Does the 30% credit cover the cost of installation labor?

The cost of labor to install solar equipment goes into the "basis" for calculating the credit. However, only labor tied to eligible solar equipment goes into the basis. Thus, for example, if part of the labor is for replacing a roof under the solar panels, that part would not count.

8. Is there a standard tax form for claiming the 30% credit?

If so, where can I find it? The commercial credit is claimed on IRS Form 3468. The residential credit is claimed on IRS Form 5695. Tax forms can be found at www.irs.gov. However, the 2009 forms may not be available yet on the IRS website as the agency is updating them to reflect the changes in the "American Recovery and Reinvestment Act" signed into law February 17, 2009.

9. I installed my residential system in 2008. Can I claim the full 30% credit?

You can claim a credit only up to the cap of \$2,000 per system that was installed before 2009. There is no cap for PV or solar thermal systems installed after 2008.

10. I received government loans to finance my system, does that affect the credit I can claim?

Any government loan considered "subsidized energy financing" --- and most should be --- is used to reduce the "basis" on which the credit is calculated before 2009. For the commercial credit, if the system was partly constructed before 2009, then there will be reduction in basis for the share of the cost incurred before 2009 that was financed with such a loan. For the residential credit, there is no reduction on account of such a loan for any system on which installation was completed after 2008. It does not matter if work started in 2008.