

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

The solar Investment Tax Credit (ITC) is one of the most important federal policy mechanisms to support the growth of solar energy in the United States. **Since the ITC was enacted in 2006, the U.S. solar industry has grown by more than 10,000%** - creating hundreds of thousands of jobs and investing billions of dollars in the U.S. economy in the process. In 2020, SEIA successfully advocated for a two-year delay of the credit stepdown, which has provided critical stability for businesses enduring the economic effects of the COVID-19 crisis.

52% average annual growth

in the solar industry since 2006, when the ITC was enacted

Quick Facts

- The ITC is a 26 percent tax credit for solar systems on residential (under Section 25D) and commercial (under Section 48) properties.
- The residential and commercial solar ITC has helped the U.S. solar industry grow by more than 10,000% percent since it was implemented in 2006, with an average annual growth of 52%.
- The 2020 ITC phasedown delay has provided market certainty for companies to develop long-term investments that drive competition and innovation, which in turn lowers energy costs for consumers.

Impact of the Solar ITC

The ITC has proven to be one of the most important federal policy mechanisms to incentivize clean energy in the United States. Solar deployment, at both the distributed and utility-scale levels, has grown rapidly across the country. The long-term stability of this federal policy has allowed businesses to continue driving down costs. The ITC is a clear policy success story – one that has resulted in a stronger and cleaner economy.

The 2020 ITC extension is expected to spur an additional 20 gigawatts (GW) of solar deployment over the next five years, while injecting an extra \$22 billion into the economy

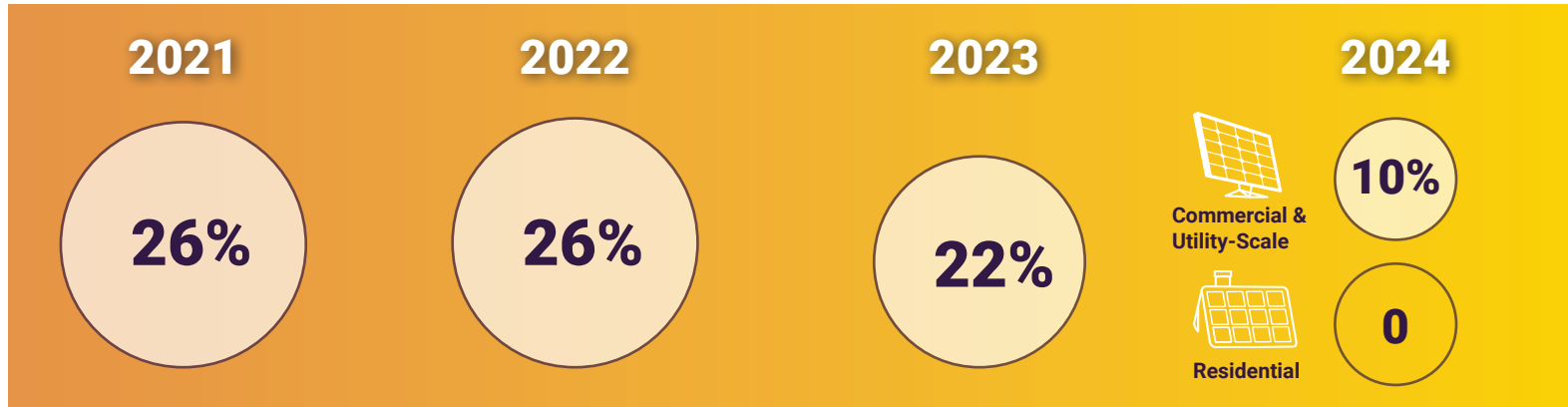
How Does the Solar Investment Tax Credit Work?

The ITC is currently a 26 percent federal tax credit claimed against the tax liability of residential (under Section 25D) and commercial and utility (under Section 48) investors in solar energy property. The Section 25D residential ITC allows the homeowner to apply the credit to their 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.

Solar on New Residential Homes

If a homeowner buys a newly built home with solar and owns the system outright, the homeowner is eligible for the ITC the year that they move into the house. If the homeowners leases the solar system or purchases electricity from the system through a power purchase agreement (PPA), then the ITC is claimed by the company that leases the system or offers the PPA.

A tax credit is a dollar-for-dollar reduction in the income taxes that a person or company 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 currently equal to 26 percent of the basis that is invested in eligible solar property which has begun construction through 2022. The ITC then steps down according to the following schedule:



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 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 December 2020, the Consolidated Appropriations act delayed the further phasedown of the ITC for two years, until 2023. In addition, the legislation moved the placed-in-service date to January 1, 2026.

For more information about SEIA’s tax work,
visit www.seia.org/tax