

The Solar Investment Tax Credit Frequently Asked Questions

Information taken from:

http://seia.org/galleries/pdf/ITC_Frequently_Asked_Questions_10_9_08.pdf

On October 3, 2008, the President signed the Emergency Economic Stabilization Act of 2008 into law (P.L. 110-343). This legislation contains a number of tax incentives designed to encourage both individuals and businesses to make investments in solar energy, including 8-year extensions of the section 48 business solar investment tax credit (ITC) and the section 25D residential solar ITC. The following is a brief summary of the provisions directly and indirectly benefitting the solar industry, and answers to frequently asked questions about how the provisions operate.

Provisions Directly Benefitting the Solar Industry:

Business Solar Investment Tax Credit (IR Code §48). The bill extends the 30% ITC for solar energy property for eight years through December 31, 2016. The bill allows the ITC to be used to offset both regular and alternative minimum tax (AMT) and waives the public utility exception of current law (i.e., permits utilities to directly invest in solar facilities and claim the ITC). The five-year accelerated depreciation allowance for solar property is permanent and unaffected by passage of the eight-year extension of the solar ITC.

Residential Solar Investment Tax Credit (IR Code §25D). The bill extends the 30% ITC for residential solar property for eight years through December 31, 2016. It also removes the cap on qualified solar electric property expenditures (currently \$2,000), effective for property placed in service after December 31, 2008. The bill allows individual taxpayers to use the credit to offset AMT liability, and to carry unused credits forward to the next succeeding taxable year. The \$2,000 monetary cap on solar water heating property was not lifted and remains in effect.

Provisions Indirectly Benefitting the Solar Industry:

Extension of Energy-Efficient Buildings Deduction. Current law allows taxpayers to deduct the cost of energy-efficient property installed in commercial buildings. The amount deductible is up to \$1.80 per square foot of building floor area for property installed in commercial buildings as part of: (i) interior lighting systems, (ii) heating, cooling, ventilation, and hot water systems, or (iii) the building envelope. Expenditures must be certified as being installed as part of a plan designed to reduce the total annual energy and power costs with respect to the interior lighting systems, heating, cooling, ventilation, and hot water systems of the building by 50 percent or more in comparison to certain established standards. The bill extends the energy efficient commercial buildings deduction for five years, through December 31, 2013.

Qualified Energy Conservation Bonds. The bill creates a new category of tax credit bonds, "Qualified Energy Conservation Bonds" (QECBs) to finance State and local government initiatives designed to reduce greenhouse emissions. QECBs can be issued to finance capital expenditures incurred for: (1) reducing energy consumption by at least 20%; (2) implementing green community programs; and (3) rural development involving the production of electricity from renewable resources. The bonds can also be used to finance research facilities and provide research grants for, among other things, technologies to reduce peak use of electricity. There is a national limitation of \$800 million, allocated to States, municipalities and tribal governments.

Frequently Asked Questions:

- When is the extension of the ITC effective for commercial property?

Answer: The extension of the ITC for commercial solar property is effective on the date of enactment, October 3, 2008. Since the existing credit was not scheduled to expire until December 31, 2008, this means that the credit has been seamlessly extended through 12/31/2016.

- What is the effective date for the allowance of the sec. 48 commercial ITC against AMT liability?

Answer: The allowance of the sec. 48 ITC against AMT liability is effective for taxable years beginning after the date of enactment. For most taxpayers, this will mean that the credit against AMT is effective beginning on January 1, 2009. However, business taxpayers have flexibility in choosing their fiscal year for tax purposes. If a taxpayer uses a fiscal year that runs from November 1 - October 31st, it would mean that they can begin using the credit against AMT beginning November 1, 2008, rather than having to wait until January 1, 2009.