

Is the HERO Solar Financing Solution Really a Hero?

Article Highlights:

- HERO Program
- Payments Included in Property Tax Payments
- Payments Are Not Deductible Property Tax Payments
- Deducting HERO Interest Payments
- Energy Credits

The Home Energy Renovation Opportunity (HERO) Plan is a program that finances the purchase and installation of eligible energy-efficient and water-saving upgrades in a taxpayer's home. These upgrades include solar panels, air conditioning, roofing, windows, lighting controls, and landscape-related products.

The HERO program originated in Riverside County in Southern California, the purpose being to provide financing for high-cost energy-related improvements for a taxpayer's home, such as solar panels, with principal and interest payments added to the taxpayer's property tax bill for the year. The HERO program has since spread to almost all counties in CA, and even some areas outside of California. You can also find ads for this program popping up frequently on the Internet.

The fact that the loan payments are included with the property tax payments has led to considerable misunderstanding, with many real estate agents and others claiming the entire payment is tax deductible, which is not true. Although included in the tax bill, the HERO payments are separately stated and not deductible as property tax.

However, the portion of the HERO payment that represents interest is generally deductible as home mortgage interest. Although the interest portion is not spelled out on the property tax bill, the HERO program does supply each borrower with a loan amortization schedule that allows the homeowner to determine the amount of interest paid for the year and the amount that may be deductible. Another issue is that the IRS requires lenders to issue Form 1098, which shows the amount of interest paid by the homeowner each year. The IRS uses that information to match the amount of interest deducted by the homeowner, and mismatches will result in an IRS inquiry. With the HERO program no 1098 is issued, and care must be taken with regard to how the interest is deducted on the tax return to avoid receiving a letter from the IRS. This problem has been so prevalent that the IRS Chief Counsel's Office issued an advice letter, and most recently the California Franchise Tax Board offered guidance on the issue.

The HERO program has very liberal qualifications, with no money down, fixed rates and variable terms between 5 and 20 years. However, compared to today's interest rates, those charged by the HERO program are quite high, generally in excess of 8%, and individuals should explore other avenues of financing first.

Although many of these energy-related improvements will qualify for tax credits, these credits are not refundable, which means they will only reduce your tax liability to zero, and the excess can be carried forward to future years as long as the credit is still in existence. The most substantial federal credit available is the popular solar credit of 30% of the cost of a solar installation, with no cap on the credit.

Example: *If you install a \$25,000 solar system on your home, the federal credit would be \$7,500. However, if your tax liability for the year is only \$1,500, you will only be able to use \$1,500 of the credit, and the balance carries forward to a future year.*

The solar credit percentage remains at 30% through 2019, and then gets lower each year until the credit ends in 2021.

If you are considering making energy-related home improvements and would like to discuss the tax benefits and your financing options, please give this office a call.