

Solar Tax Credits – Before You Take the Leap

Article Highlights:

- Non-Refundable Tax Credit
- Qualifications
- Installation Costs
- Financing

When you see those TV ads for home solar power, you may get the impression that Uncle Sam is going to pick up 30% of your cost and you only have to come up with the other 70%. That is not necessarily the whole picture. True, the federal government has a 30% tax credit for the cost of a qualified solar installation (some states also have solar credits or other incentives). However, the federal credit is non-refundable and can only be used to offset your current tax liability, and any excess carries over to future years as long as the credit still applies in future years. Currently, the credit is allowed through 2021. What this means: You may not get all the credit in the first year as you might have been led to believe or assumed based upon the TV ads.

For example, suppose your solar installation costs \$25,000. That would qualify you for a solar tax credit of \$7,500. But suppose the income tax on your tax return is only \$4,000. Then, the credit would reduce your tax liability to zero, and the other \$3,500 (\$7,500 - \$4,000) of the credit is carried over to the next year's tax return, where the credit will be limited to that year's tax amount. If your tax is again less than the amount of the credit, the excess credit carries to the following year, and so on, until the credit is used up or the credit expires.

To qualify for the credit, the equipment must be installed in a home that is located 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 for the year when you move in. The credit can be taken for a newly constructed home if the costs of the solar power system can be separated from the home's other construction costs and the required certification documents are available.

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 30% solar credit and the lease payments 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 or arrange to pay it off.

Another option available in some communities is loans financed by local government and loan payments tacked onto the property tax bill. Generally, this option is at very high interest rates, and you should consider other payment methods first. Just because the payments are added to your property tax bill does not mean the

payments are deductible as property tax. Only the interest portion of the separately stated amount is deductible as home mortgage interest.

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