



## Frequently Asked Questions on the New Federal Solar Tax Credits

This FAQ sheet should answer many of the questions facing companies in the solar energy industry about the federal solar tax credits. **While we have to be very clear that SEIA cannot offer you tax advice, which can ultimately only come from your tax professional**, this document should provide some initial guidance based on the legislative text.

In the coming weeks, SEIA will be working with the IRS to obtain formal guidance on these issues, and will keep you informed about the forms and procedures you will need to claim this valuable credit.

We encourage you to send questions to us at [info@seia.org](mailto:info@seia.org), so that we can obtain clarity on these key issues for you as soon as possible.

### Business Credit vs. Residential Credit

	Old Incentive	New Incentive	Credit window	Cap	Eligible technologies
<b>Business credit</b>	10%	30%	1/1/06 - 12/31/07 at 30%; reverts to permanent 10% thereafter	No cap	PV, CSP, solar hybrid lighting, solar domestic water heating (excluding pool heating)
<b>Residential credit</b>	None	30%	1/1/06 - 12/31/07	\$2,000 per system/ for each solar technology	PV, solar domestic water heating (excluding pool heating)

#### 1. **What are the dates of the credit? Is it applicable to existing systems?**

The credits become available for systems that are "placed in service" - activated between January 1, 2006, and December 31, 2007. If the installation is on a new home, the "placed in service" date is the date of occupancy by the homeowner.

Systems that have already been installed are not eligible.

#### 2. **What about systems that have been purchased but not installed?**

Should you sell / buy a system and even start work this year, but do not complete "original installation" of the system or "place it in service" until Jan. 1, it will qualify for the credit.

**3. Can this credit be applied to capacity additions? (i.e. I have a 1.5 kW system and I want to add 1.5 kW more.) Similarly, can I apply this credit to used equipment going into a new installation?**

This is not entirely clear at present. However, the language would suggest that both scenarios are allowed - the credits apply to the amount of expenditure on solar energy property in a given year. SEIA will work with the IRS to develop regulations favorable to the solar industry. We will pass on additional information as it becomes available.

**4. How does the residential cap on expenditures operate?**

An individual can take the 30% credit up to a \$2,000 cap for photovoltaics, while also taking the credit up to a separate \$2,000 cap for solar water heating. The credit may be carried over to future years.

Business entities have no cap on the total credit amount, provided they have a sufficient tax liability. Businesses have 2 years in which to take the credit.

**5. How does the credit work with existing state credits or utility incentives?**

The credit applies to the basis remaining after any state or utility incentives available to the taxpayer have been taken.

Example: a \$10,000 system that receives \$5,000 in state incentives would be eligible for a \$1,500 Federal credit.

**6. Are there any changes to the business solar tax credit other than percent?**

The business solar tax credit will continue to be administered as before; all that has changed is the percentage increase to 30%. Operation and legal technicalities of the business credit are well established. An accountant or tax professional familiar with these rules should be able to inform you on any specific issues.

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## **Congress Extends Federal Solar Energy Tax Credits Through End of 2008**

(WASHINGTON, DC) - In its waning hours, the 109th Congress today passed legislation that would extend the 30% solar energy investment tax credit (ITC) for homeowners and businesses for one additional year, through the end of 2008.

The Solar Energy Industries Association (SEIA) applauded the one-year extension of the solar ITC in H.R. 6111, the "Tax Relief and Health Care Act of 2006." At the same time, the industry cautioned that the lifespan of the credits is too short to encourage significant industry growth and cost reductions.

"While this bill does not constitute a long-term solar growth policy, it does provide some breathing room for solar projects in the 12- to 18-month pipeline," said Rhone Resch, SEIA President. "It ensures that the solar industry will continue to grow at a record rate in 2007. The passage of this bill with an extension of the solar ITC is recognition by Congress that solar is indispensable to our clean energy future."

An eight-year extension of the ITC will remain the solar industry's top legislative priority in 2007. A long-term extension is essential to reducing the cost of solar energy, as it would create market conditions that allow solar companies to make investments and drive down costs through economies of scale. A longer duration will also be needed to help stimulate the development of large-scale concentrating solar power projects.

SEIA's Resch expressed optimism that the 110th Congress would enact an eight-year extension as contained in S. 2677 and H.R. 5206, the "Securing America's Energy Independence Act," a bill which gained a bipartisan group of 80 House and 15 Senate cosponsors this year.

"This bill is a patch, and emphasizes the importance for Congress to enact long-term, comprehensive clean energy legislation when they return in January," said Resch. "We look forward to working with the next Congress, to craft a comprehensive and effective policy blueprint for a self-sustaining clean energy infrastructure in the United States."

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The bill contains the following provisions:

**Residential Solar Tax Credit:** Extends a 30-percent tax credit, created in the Energy Policy Act of 2005, for the purchase of residential solar water heating, photovoltaic equipment, and fuel cell property. Expires after December 31, 2008.

**Business Solar Tax Credit and Fuel Cell Tax Credit:** Extends a 30-percent business credit, established in the Energy Policy Act of 2005, for the purchase of fuel cell power plants, solar energy property, and fiber-optic property used to illuminate the inside of a structure. After December 31, 2008, the credit reverts to a permanent 10-percent level.