



How Do I Get a 30% Tax Credit on My Solar Installation and Can I Include a New Roof as Part of My Solar Installation Expense?

Freedom Solar and Accounting for Tax can provide you with the answers to this two-part question and the answer to the first part can be found below and on the IRS website (link included). The second answer is compiled by John Miller, tax expert and founder of Accounting for Tax. Tax regulations can be tricky to understand for those of us not steeped in the IRS code but John provides a definitive answer supported by citing the actual tax codes that Yes, a new roof qualifies for the 30% tax credit when installed along with the solar installation and improvements.

Since the credit came into effect, hundreds of Freedom Solar clients have taken advantage of this combined tax credit and saved thousands of dollars on their investment. For more information about how Freedom Solar can help you save money every day and reduce your monthly electric bill, contact us: info@freedomsolar.net or 408-613-2300.

1) Residential Energy Efficient Property Credit

- This tax credit is 30 percent of the cost of alternative energy equipment that you installed on or in your home.
- In addition to solar photovoltaic panels (PV), qualified equipment includes solar hot water heaters, solar electric equipment and wind turbines.
- There is no limit on the amount of credit available for most types of property. If your credit is more than the tax you owe, you can carry forward the unused portion of this credit to next year's tax return.
- You must install qualifying equipment in connection with your home located in the United States. It does not have to be your main home.
- The ITC currently is available through the year 2023 but each year the credit amount gets smaller.

Use Form 5695, Residential Energy Credits, to claim these credits. You can get Form 5695 at IRS.gov or order it by calling 1-800-TAX-FORM (800-829-3676).

<https://www.irs.gov/uac/newsroom/get-credit-for-making-your-home-energy-efficient>

2) Can I Include a New Roof as Part of My Solar Installation Expense?

The Solar Investment Tax Credit (ITC) is a 30 percent tax credit for solar systems on residential (under Section 25D) and commercial (under Section 48) properties. Equipment that uses solar energy to generate electricity including storage devices, power conditioning equipment, transfer equipment, and parts related to those items, are eligible for the investment tax credit (ITC) provided for under Section 48 of the Internal Revenue Code. A roof-mounted solar power system “constitutes energy property under Section 48(a) (3) except to the extent that Treasury Regulation Section 1.48-9 requires a portion of the basis of the property is allocable to any portion of such property that performs a function of a roof, e.g., protection from rain, snow, wind, sun, hot or cold temperatures, or that provides structural support or insulation.” For commercial property, the roof as a structural component of a solar installation must be allocated to the portion directly connected to the production of energy savings to be able to be included in the credit. The remaining part of the roof would not apply. This requires that any expense for the roof would need to be allocated between solar and non-solar use. Where the roof itself enhances the production of solar energy as in the instance for example of reflective coating, the roof would be considered part of the system.

The tax credit provided for in Section 25D for homeowners who install solar on their own residences is actually more accommodating than the credit provided for in Section 48 for commercial investors in solar power systems. Specifically, Section 25D(e)(2) provides that “no expenditure relating to a solar panel or other property installed as a roof (or portion thereof) shall fail to be treated as [tax credit eligible] solely because it constitutes a structural component of the structure on which it is installed. Thus, manufacturers of roof-mounted solar systems with significant parts that serve a non-solar function may want to consider recommending that their residential customers finance or pay for the system including any structural support as may be required including a new roof where the roof conditions are not favorable to the success of the solar installation. This way, the residential system owner can claim the tax credit under Section 25D of Title 26 of the Internal Revenue Code which also states the following:

(1) Labor costs

Expenditures for labor costs properly allocable to the onsite preparation, assembly, or original installation of the property described in subsection (d) and for piping or wiring to interconnect such property to the dwelling unit shall be taken into account for purposes of this section.

(d) Definitions

(2) Qualified solar electric property expenditure

The term “qualified solar electric property expenditure” means an expenditure for property which uses solar energy to generate electricity for use in a dwelling unit located in the United States and used as a residence by the taxpayer.

(2) Solar panels

No expenditure relating to a solar panel or other property installed as a roof (or portion thereof) shall fail to be treated as property described in paragraph (1) or (2) of subsection (d) solely because it constitutes a structural component of the structure on which it is installed.

The Investment Tax Credit (ITC) is currently a 30 percent federal tax credit claimed against the tax liability of residential (Section 25D) and commercial and utility (Section 48) investors in solar energy property. The Section 25D residential ITC allows the homeowner to apply the credit to his/her 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.

The existence of the ITC through 2023 provides market certainty for companies to develop long-term investments that drive competition and technological innovation, which in turn, lowers costs for consumers.

A tax credit is a dollar-for-dollar reduction in the income taxes that a person or company claiming the credit 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 equal to 30 percent of the basis that is invested in eligible property which have commenced construction through 2019. The ITC then steps down to 26 percent in 2020 and 22 percent in 2021. After 2023, the residential credit will drop to zero while the commercial and utility credit will drop to a permanent 10 percent

Commercial and utility projects which have commenced construction before December 31, 2021 may still qualify for the 30, 26 or 22 percent ITC if they are placed in service before December 31, 2023. The Treasury and IRS are currently drafting guidance which will inform solar developers of which percentage of ITC they will qualify for depending on when they started their project

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.

For additional information on how going solar will generate a tax benefit for your personal situation please contact:

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