How To Monetize the Federal Solar Investment Tax Credit

For Businesses

If you are taking your business solar, it's important to understand the Federal Investment Tax Credit (ITC). Wunder Capital has designed this guide to help answer your questions about the ITC and walk you through the process of how it can be monetized.

The ITC can be claimed on federal corporate income taxes for 30% of the cost of a solar photovoltaic (PV) system. The cost of the system typically includes equipment, labor, and other related costs such as permitting, engineering, and developer fees. There is no limit on how much can be claimed, and the ITC may be used to offset either income taxes or alternative minimum taxes (AMTs). Most solar PV system owners also use an accelerated depreciation schedule for their corporate deductions.

Eligibility

To be eligible for the 30% business ITC, the solar PV system must be:

1. 'Placed in service' before December 31, 2016
2. Owned by a U.S. income tax payer
3. Located in the U.S.
4. New equipment
5. Not used to heat a swimming pool

The Federal ITC & Other Incentives

Generally, solar PV system rebates, like those from utilities and local governments, are considered taxable income and do not affect reduce the tax basis when calculating the ITC. However, there are exceptions. For example, if a $100,000 rebate was provided by a utility to a multifamily complex for a $300,000 “energy conservation measure” (which includes solar), the rebate is subtracted from the tax basis, reducing the amount of the ITC claimed. In this case, the rebate is NOT considered taxable income. The ITC in this example is calculated as follows:

.3 x ($300,000 - $100,000) = $66,666.67

Ask your qualified business accounting professional to provide guidance on how to treat additional incentives with regard to the solar PV system tax basis.

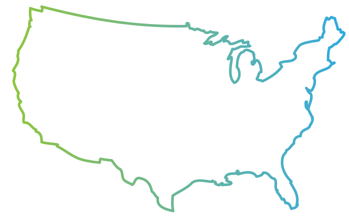
Depreciation

Solar PV systems typically have very long useful lives (25+ years) but they do not last forever. During each accounting period (year, quarter, month, etc.) a portion of the value of the PV system asset is lost. However, the owner can record this loss as a depreciation expense on their income statement (just as you might depreciate other business equipment). In effect, depreciation is the transfer of a portion of the asset’s cost from the balance sheet to the income statement during each accounting period.

Generally, customers cannot depreciate the full cost of their system because they claim the ITC. The depreciable basis of the solar PV system is calculated as follows:

Depreciable Basis = System Cost - (ITC Value * 0.5)

In most cases, this results in a depreciable basis equal to 85% of the total system cost.



For information about your local state incentives, visit the Database of State Incentives for Renewables and Efficiency.

MACRS

As an additional bonus, the solar PV system owner can also take advantage of accelerated depreciation, also referred to as the Modified Accelerated Cost-Recovery System (MACRS) by the IRS. Under MACRS, depreciation is not spread out evenly across a standard 5-year depreciation period. Instead, the business is allowed to deduct a larger portion of this amount in earlier years, according to a specified schedule, giving it the benefit of a greater immediate reduction in federal tax liability.

A solar PV system's MACRS depreciation schedule is determined by when the system was placed in service. If 40% or more of your depreciable assets that were placed in service in the past year, were placed in service during October, November, or December, then you must use the Mid-Quarter convention. If the Mid-Quarter convention is not applicable, you can use the Half-Year convention. Not surprisingly, the Half-Year convention is more common. Please see the full MACRs depreciation schedule to the right.

Year	Mid-Qtr	Half-Yr
1	35%	20%
2	26%	32%
3	15.6%	19.2%
4	11.01%	11.52%
5	11.01%	11.52%
6	1.38%	5.76%

Unused Tax Credits

Unused tax credits related to the ITC may be carried back one year and forward 20 years. After 20 years, one-half of any unused credit can be deducted, with the remaining amount expiring.

Other Issues

If the solar PV system is used by a tax-exempt entity like a school, municipal utility, government agency, or charity, then the ITC and depreciation may not be claimed.

However, in many states, a tax-exempt entity can benefit indirectly from federal tax benefits related to solar by entering into a third-party ownership arrangement - typically a power purchase agreement (PPA). A PPA enables a tax-exempt entity to purchase the electricity produced by a solar PV system that is owned by a third party for a set term and price. As the system owner, the third party captures the ITC benefits, passing the savings along to the customer in the form of lower-cost renewable power.

Financing

Some businesses use nonrecourse debt financing to help pay for the upfront costs of their system. “Nonrecourse” means the borrower is not personally liable for the loan, and the lender primarily relies on the solar PV system as collateral. Before receiving financing for a solar PV system, business owners should verify that the loan does not trigger “At-Risk” rules (see US Code Section 49). At-Risk rules require the solar PV system tax basis (for both the ITC and depreciation) be reduced by the amount of the nonrecourse loan.

An example of a commercial solar financing partner offering nonrecourse loans that do not trigger At-Risk rules is Wunder Capital. Wunder provides commercial solar loans at 4 - 6% for 5 - 10 years, and uses the value of the system to collateralize the loan (thereby never requiring personal guarantees or property assessments). This allows businesses to capture the benefits of the ITC and pay back the loan in lieu of their monthly energy bill - saving them money every year (including the year of commissioning).

Financing partners like Wunder Capital work with your local solar installer to handle all of the details, including design, permitting, and contracts.

Claiming the ITC

To claim the ITC, complete the attached IRS Form 3468 and include it with your tax return. Instructions for filling out the form are available here.

More Information

For general solar inquiries, or to learn more about solar financing options, you can visit www.WunderCapital.com or reach a solar expert at (888) 660-7823.

Additional information, guides, and factsheets are available at the Solar Energy Industries Association.

Plan on retaining ownership for 5 years. The ITC can be claimed in full the year it is ‘placed in service’, but it “vests” at a rate of 20% per year for 5 years, so any “unvested” portion is repaid to the IRS if ownership changes in that time.