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Ryan C. Sheppard, CPA, CFF
Partner
Knight Roller Sheppard CPAS, LLP
rcs@krscpasllp.com

Q: What does the IRS consider “solar property”?

A: Solar property is both residential and commercial property, including equipment, which uses solar energy to generate electricity to heat or cool a structure or to provide solar process heat.

Q: Are there any tax benefits to going “solar”?

A: Yes! Not only are you eligible for a federal solar tax credit, but you can generally deduct 85% of the cost basis using either Section 179 or bonus depreciation in the first year in service.

Q: What is the solar tax credit?

A: The federal solar tax credit allows you to deduct up to 26% (for tax year 2020) of the cost of installing solar energy systems. There is no cap to the value of the system installed, and this deduction applies to both residential and commercial solar installations. For tax year 2021, the solar tax credit will be reduced to 22%. Thereafter, the solar tax credit is reduced to 10%.

Q: How do you qualify for the solar tax credit?

A: There are two methods for a taxpayer to establish that construction of solar property has begun for purposes of the solar tax credit. A taxpayer may establish the beginning of construction by starting physical work of a significant nature. Alternatively, a taxpayer may establish the beginning of construction by meeting a safe harbor based on having paid or incurred five percent or more of the total cost of the solar property.

Q: How do you claim the tax credit?

A: The tax credit will be included on your business tax return (if commercial solar property) and your individual tax return as an investment tax credit. If your business is a pass-through entity, you will claim the credit on your individual tax return as noted on your K-1. The credit is nonrefundable which means it cannot exceed your tax liability. However, any excess credit that is not claimed in the first year can be carried back 1 year and forward 20 years.