

Investment Tax Credits

MAKING SOLAR LIGHTING IS MORE AFFORDABLE THAN EVER

The Inflation Reduction Act (IRA) is filled with incentives for a cleaner, greener future. That includes changes to the Investment Tax Credit that make solar street lighting more affordable than ever. The base tax credit is increased to 30% for <1MW projects. Typical for Fonroche Solar Lighting Installations.

The eligible project cost includes the cost of the equipment, tax, and the installation cost. Opportunities for bonus credits are also included for energy communities, low-income communities, and domestic products. The act also opens up the tax credit to municipalities, state governments and a range of other non-profits. They can begin to monetize the tax credit for projects placed into service after 2022.



30%

BASE CREDIT FOR SOLAR TECHNOLOGIES

10%

ENERGY
COMMUNITY BONUS

10%

LOW/MODERATE
INCOME COMMUNITY BONUS

20%

LOW INCOME RESIDENTIAL
BUILDING BONUS

DIRECT PAY AND TRANSFER OF CREDIT OPTIONS

Direct pay option

Tax-exempt organizations (i.e. non-profits), states, municipalities, the Tennessee Valley Authority, Indian Tribal governments, any Alaskan Native Corporation, and any rural electric cooperative can receive a refund from the IRS for tax credits on projects placed in service after 2022. Applicable entities can elect to be treated as having made a tax payment equal to the value of the tax credit they would otherwise be eligible to claim. The entity can then claim a refund for the excess taxes they are deemed to have paid. The option effectively makes this tax credit refundable for these entities.

Transfer of Credit Option

Eligible taxpayers who are not eligible for direct payment, may sell all, or a portion, of the tax credits for a given year to an unrelated eligible taxpayer. Payments for the credit must be made in cash and are not considered gross income, for federal purposes (i.e. no federal taxes are owed on receiving the payment and no deduction is available to the tax credit buyer for making the payment).

BONUS ELIGIBILITY SUMMARY

Energy Community Bonus - 10%

Project is located at one of the following:

- A brownfield site
- An area that, after 2009, had a 0.17% or more direct employment or 25% or more local tax revenues related to the extraction, processing, transport, or storage of coal, oil, or natural gas, and has an unemployment rate at or above the national average for the previous year
- A census tract in which a coal mine closed after 1999 (including any adjoining census tract), or a coal-fired electric generating unit has retired after 2009

Low Income Community - 10%

Projects under 5MW and located in a low-income community as defined by the New Markets Tax Credit or on Indian land. Includes a 1.8 GW program cap per year.

Qualified Low-income Residential Building - 20%

Classified as a “qualified low-income residential building project” or “qualified low-income economic benefit project.” To qualify for the credit, the financial benefits of the solar facility must be allocated equitably between the residents. Includes a 1.8 GW program cap per year.



ACCELERATED DEPRECIATION

Most taxpayers who claim the business solar ITC can use an accelerated depreciation schedule], which allows for a greater depreciation expense in the early years of the life of an asset, and effectively reducing the overall cost of a solar installation.[30] Depreciation is considered an expense, so having a larger amount to depreciate during the tax year results in a smaller overall tax liability. Note that while the ITC is a tax credit—a dollar-for-dollar reduction in taxes owed—depreciation is a deduction, meaning it only reduces a business’s taxes by the depreciation amount multiplied by the business’s tax rate.

When the business ITC is claimed, accelerated depreciation rules allow the full tax basis minus half the ITC to be depreciated over a five-year depreciation schedule using a half-year convention. Any unused depreciation can be carried forward indefinitely. Under the rules of this depreciation schedule, taxpayers are allowed to deduct a larger portion of this amount in earlier years, giving them the benefit of a greater immediate reduction in federal tax liability.

Bonus Depreciation

A business with a solar PV system placed in service between January 1, 2018, and December 31, 2022, can elect to claim a 100% bonus depreciation. Starting in 2023, the percentage of capital equipment that can be expensed immediately drops 20% per year (e.g., 80% in 2023 and 60% in 2024) until the provision drops to 0% in 2027.

SUMMARY OF INVESTMENT TAX CREDITS OVER TIME

	Start of Construction				
	2022	2023 to 2033	The later of 2034 (Or two years after applicable year*)	The later of 2034 (Or three years after the applicable year*)	The later of 2036 (Or four years after the applicable year*)
	Projects under 1MW				
Base Credit	30%	30%	22.5%	15%	0%
Domestic Content		10%	7.5%	5%	0%
Energy Community Bonus		10%	7.5%	5%	0%
Low Income Bonus: Projects in LMI Communities or Indian Land		10%	10%	10%	10%
Low Income Bonus: Qualified low-income residential building project /Qualified low income benefit		20%	20%	20%	20%
Low Income Bonus: Qualified low-income residential building project /Qualified low income benefit		20%	20%	20%	20%

*"Applicable Year" is defined as the later of (1) 2032 or (2) the year the Treasury Secretary determines that there has been a 25% or more reduction in annual greenhouse gas emissions from the production of electricity in the United States as compared to the calendar year 2022.



Fonroche Lighting America
10F Roessler Rd.
Woburn, MA 01801

FonrocheSolarLighting.com
339-225-4530
Sales@Fonroche.US



SAVE MORE

When you invest in solar lighting from Fonroche Lighting America, your savings don't end with tax credits and depreciation. Each system is designed to provide you resilient lighting that doesn't need maintenance for 10 years or more. And, of course, the sun never sends you an electric bill. You'll enjoy uninterrupted energy without surprise energy price increases.

Resources

- For additional information on ITC and other incentives, including incentive-specific contact information, see the Database of State Incentives for Renewables and Efficiency (DSIRE) at www.dsireusa.org.
- Federal Solar Tax Credits for Businesses <https://www.energy.gov/eere/solar/federal-solar-tax-credits-businesses>
- Tax Credits definition of low-income communities.
- <https://www.cdfifund.gov/sites/cdfi/files/documents/nmtc-target-areas-qa.pdf> for more information on New Markets related to Low Income Community Credits
- IRS Form 3468 (Note - Updates for IRA Amendments not yet available at the time of this printing) <https://www.irs.gov/forms-pubs/about-form-3468>

DISCLAIMER: This overview does not constitute professional tax advice or other professional financial guidance and may change based on additional guidance from the Treasury Department. It should not be used as the only source of information when making purchasing decisions, investment decisions, tax decisions, or when executing other binding agreements.

•