U.S. DEPARTMENT OF ENERGY

Office of ENERGY EFFICIENCY & RENEWABLE ENERGY

Guide to the Federal Investment Tax Credit for Commercial Solar Photovoltaics

Photo credit Dennis Schroeder, NREL

Disclaimer: This guide provides an overview of the federal investment tax credit for those interested in commercial solar photovoltaics, or PV. It does not constitute professional tax advice or other professional financial guidance. And it should not be used as the only source of information when making purchasing decisions, investment decisions, or tax decisions, or when executing other binding agreements.

Overview

- The solar investment tax credit (ITC) is a tax credit that can be claimed on federal corporate income taxes for 30% of the cost of a solar photovoltaic (PV) system that is placed in service during the tax year.[1] (Other types of renewable energy are also eligible for the ITC but are beyond the scope of this guidance.)
- In December 2020, Congress passed an extension of the ITC, which provides a 26% for systems commencing construction in 2020-2022, 22% for systems commencing construction in 2023, and 10% for systems commencing construction in 2024 or thereafter. Any PV system placed in service after 2025, regardless of when it commenced construction, can receive a maximum tax credit of 10%.[2]
- Typically, a solar PV system that is eligible for the ITC can also use an accelerated depreciation corporate deduction.

The **U.S. Department of Energy Solar Energy Technologies Office** supports early-stage research and development to improve the affordability, reliability, and performance of solar technologies on the grid. The office invests in innovative research efforts that securely integrate more solar energy into the grid, enhance the use and storage of solar energy, and lower solar electricity costs.

Eligible Projects

To be eligible for the business ITC (section 48 of the tax code), the solar PV system must be:

- Used by a business subject to U.S. federal income taxes (i.e., it cannot be used by a tax-exempt entity like a charity)
- Located in the United States or U.S. territories (though can only be used against federal income tax obligations)[3]
- Systems must use new and limited previously used equipment[4]
- Not used to generate energy for heating a swimming pool.

The eligible ITC percentage scales down over time as follows:

- 30% tax credit for projects commencing construction between January 1, 2006, and December 31, 2019, but placed in service before 2026 (before 2024 for projects commencing construction in 2019 and which use the IRS continuity safe harbor. See below for further detail on "continuity safe harbor").
- 26% tax credit for projects commencing construction between January 1, 2020, and December 31, 2022, but placed in service before 2026 (before 2025 for projects commencing construction in 2020 and which use the IRS continuity safe harbor. See below for further detail on "continuity safe harbor").
- 22% tax credit for projects commencing construction between January 1, 2023, and December 31, 2023, but placed in service before 2026.
- 10% tax credit for projects commencing construction after December 31, 2023, or placed in service after December 31, 2025.[5]

A solar project is considered to have commenced construction if:

- At least 5% of final qualifying project costs are incurred. Expenses have to be "integral" to generating electricity, and equipment and services have to be delivered (or delivered within 3.5 months after payment).
- Or, "physical work of significant nature" is commenced on the project site or on project equipment at the factory. Physical work has to be "integral" to the project. Preliminary activities on site (e.g., clearing the site or building a fence or an access road) do not count as "integral."

Both tests require that the project make continuous progress towards completion once construction has begun, which the