

What is the Residential Clean Energy Credit?

The US government offers tax credits for solar systems. **The Inflation Reduction Act renamed and extended the existing solar tax credit through 2034 for solar system installations on residential property.** It also increased the credit's value.

Here is a summary of the benefits of the solar tax credit and how you can claim it.

How does the federal solar tax credit work?

In a nutshell, when buying solar equipment for your home and having tax liability, you can typically claim a non-refundable Residential Clean Energy Credit. This credit offsets your income tax liability dollar-for-dollar, and any excess can be carried over to future years if the credit is still valid. **Please understand you don't get a credit if your federal tax liability is zero.**

- There are no income limits on the solar tax credit, so all individual taxpayers can claim the credit on qualifying solar energy equipment investments made to their homes in the United States.
- If you purchase power generated by solar equipment through a lease agreement or power purchase agreement, you aren't the system owner and thus can't claim the credit on your taxes.

What costs are covered by the solar tax credit?

The qualified energy-saving equipment covered by the Residential Clean Energy Credit includes:

- Solar-powered equipment that generates electricity or heats water.
- Solar power storage equipment for 2022, but a capacity of at least 3 kilowatt hours (kWh) is required beginning in 2023.
- Qualifying installation and labor costs.

☞ The tax credit doesn't apply for systems that you lease or for systems that you use to heat a swimming pool or hot tub.

Qualified homes

To qualify for the solar credit, the energy-saving improvements need to be made to your US residence, which can include your:

- House
- Houseboat
- Mobile home



- Cooperative apartment
- Condominium
- Manufactured home that conforms to Federal Manufactured Home Construction and Safety Standards

How do I qualify for the solar tax credit?

To qualify for claiming the solar tax credit on your tax return, you'll first need to meet some eligibility criteria:

- Your solar equipment needs to be **installed between January 1, 2017, and December 31, 2034.**
- The solar equipment must be **located at your residence** in the United States.
- The solar **equipment is new** or being used for the first time (meets the original installation requirement for claiming credit).

Also, you'll need to **meet one of these two** requirements to claim the credit:

- **Purchase** the solar system with cash or through some form of financing that isn't a lease or an agreement to pay a solar company for electricity generated by the system.
- **Purchase an interest** in a community solar project separate from your residential property if the electricity generated is credited against and doesn't exceed your home's electricity consumption.

What are the residential solar tax credit amounts?

Your home can qualify you for Residential Clean Energy credit of **up to 30% of your total qualifying cost**, depending on the year the equipment is installed and placed in service.

- 30% for equipment placed in service in tax years 2017 through 2019
- 26% for equipment placed in service in tax years 2020 through 2021
- 30% for equipment placed in service in tax years 2022 through 2032
- 26% for equipment placed in service in 2033
- 22% for equipment placed in service in 2034
- After 2034, the credit is scheduled to end.

You take the amount directly off your total tax as a credit rather than as a deduction from your taxable income.

☞ Note: There are other regulations for rental properties, but we will not cover them here.

Filing requirements for the solar tax credit

To claim the credit, **you must file IRS Form 5695 as part of your tax return.** You'll calculate the credit on Part I of the form and then enter the result on your 1040.

Great News!

If in 2023 you end up with a more considerable credit than you have income tax due — a \$3,000 credit on a \$2,500 tax bill, for instance—you can't use the credit to get money back from the IRS. Instead, you can carry the unused portion of the credit over to the following tax year. In this example, the \$500 credit greater than your tax bill (\$3,000 - \$2,500) can be carried over to the following year.

The residential solar tax credit has been extended through 2034 and expanded in value, so now might be a great time to add solar energy to your home.

If you failed to claim the credit in a previous year, you can file an amended return to claim the credit.

The tax credit can lower the effective cost of going solar while lowering your overall carbon emissions compared to conventional power sources. When combined with other energy-efficiency home improvement credits made more accessible and worthwhile by the Inflation Reduction Act, investments in qualifying energy-related improvements have become more financially rewarding for homeowners to install.



DISCLAIMER: The information in this summary is provided for general informational purposes only and does not constitute professional tax advice. While we have made every attempt to ensure the accuracy and completeness of the information provided, it should not be relied upon as a substitute for obtaining personalized advice from a qualified tax professional. Clario Consulting Corporation disclaims any liability for the accuracy, completeness, or usefulness of any information contained in these documents. It will not be held responsible for any losses or damage, direct or indirect, arising out of or in connection with the use of this information.