



B O U L A Y

Federal Tax Incentives: Renewable Energy



Income Tax Credits

Electricity Produced from Certain Renewable Resources – I.R.C. § 45

Known as the Renewable Energy Production Tax Credit (“PTC”), this credit currently equals 2.4 cents per kilowatt hour (for 2018) produced at a qualifying facility and sold to an unrelated party from resources including: wind; closed-loop biomass; and geothermal energy. For municipal solid waste, qualified hydropower, marine and hydrokinetic energy, small irrigation power, and open-loop biomass facilities, the credit is 1.2 cents per kilowatt hour. The credit is reduced for facilities receiving government grants, tax-free or otherwise subsidized financing, or claiming other Federal tax credits. The credit is available for a 10-year period, beginning on the date the facility is placed in service. The PTC is available for facilities other than wind for which construction began before January 1, 2018. For wind facilities, the PTC is available for projects beginning construction through 2019, but it begins to phase out for facilities that start construction after 2016. For wind facilities that began construction in 2017, the PTC is reduced 20%; if construction begins in 2018, the credit is reduced 40%; and if construction begins in 2019, the PTC is reduced 60%.

Energy Credit – I.R.C. § 48

Sometimes referred to as the Renewable Energy Investment Tax Credit (“ITC”), this credit equals 30 percent of the cost of qualifying small wind, solar, and fuel cell property placed in service, and 10 percent of the cost of other energy property, such as geothermal heat pumps, stationary microturbines, and combined heat and power systems. The depreciable tax basis of the qualifying property is reduced by 50 percent of the amount of the credit. For qualifying small wind energy, fuel cell, geothermal heat pump, combined heat and power systems, and microturbine property, this credit applies where construction starts before January 1, 2022. For qualifying solar, small wind, and fuel cell property, the credit remains 30% through 2019, then drops to 26% for projects that begin construction in 2020 and 22% for projects beginning in 2021. The ITC for solar electric or heating property is scheduled to drop to 10% for projects that begin construction after 2021 (and for projects that begin before 2022 but are not placed in service before 2024). Fiber-optic (illumination) solar, fuel cell, and qualified small wind property get no credit if placed in service after December 31, 2023.

Facilities eligible for the PTC (see above) are allowed to elect the 30% ITC in lieu of claiming the PTC under § 45 for projects that began construction before 2018. For qualifying wind facilities, the election to claim the ITC in lieu of the PTC is available for projects beginning before 2020, though the credit phases down by 20% in 2017, 40% in 2018, and 60% in 2019.

Residential Energy Efficient Property – I.R.C. § 25D

Known also as the Residential Alternative Energy Credit, this credit equals 30 percent of the cost of qualifying small wind, solar water heating, solar electric, geothermal heat pump, and fuel cell property placed in service before January 1, 2022 in a U.S. dwelling used as a residence by the taxpayer. Expenditures that are allocable to swimming pools and hot tubs are not eligible for the credit. The credit remains 30% through 2019. For qualifying property placed in service in 2020, the credit is 26%, and for 2021, the credit is 22%.