The Solar Investment Tax Credit + The Domestic Content Bonus Credit = A BIG $$$ IMPACT for YOU!

So, you know that solar purchases can qualify for Investment Tax Credits… but what exactly are the details? **And how much is the potential credit (spoiler alert – It's at the bottom of this article)?** Tax credits are a powerful tool that can help you reduce taxable income and directly impact your annual tax bill. A dollar-for-dollar reduction of the income tax you owe, a tax credit can reduce the amount of tax you owe or increase your tax refund.

The Solar Investment Tax Credit (ITC)

An article (Updated: Apr 12, 2023, 8:09am) by Deane Biermeier, Contributor to Forbes Home (https://www.forbes.com/home-improvement/solar/solar-tax-credit-extension-2023/) does a nice job of filling in the blanks:

Since 2006, the Solar Investment Tax Credit has offered tax reduction incentives for homeowners who choose to "go solar". On August 16, 2022, embracing residential solar energy became even more enticing when the Federal Government signed the Inflation Reduction Act of 2022 into law. Among numerous climate-conscious consumer and industry incentives, the most impactful is the increase, expansion, and extension of the Residential Clean Energy Credit—also known as the Solar Investment Tax Credit (ITC).

The ITC effectively raises the amount of credit you can apply against your income tax burden **from 26% to 30%**. **Instead of decreasing next year as scheduled, it's been extended until 2032 before it reduces again.** The tax credit is also retroactive to solar energy systems installed during the 2022 tax year. Here's what you need to know about the ITC and how to make it work for you.

The Solar Tax Credit reduces your income tax in exchange for going solar. The ITC allows homeowners and business owners who have purchased and installed solar photovoltaic (PV) energy generation systems in 2022 or will do so before 2033 to claim a federal tax credit equal to **30% of the overall cost of the system's components, installation, and associated fees during the year of installation**.

A tax credit is a one-for-one dollar amount reduction from income tax that you would have paid without the credit. If your solar PV system costs $20,000 and you claim the ITC at 30%, you will owe $6,000 less in income tax for the year, effectively lowering the system's total cost to $14,000.

As the new law currently stands, if the amount of tax you owe for the year you become eligible is less than the credited amount, you can roll the difference over to the following year. The ITC will lower to 26% in 2033 and again to 22% in 2034. The credit will be eliminated at the end of that year if it doesn't receive another extension.

If you meet the eligibility requirements to receive the Solar Tax Credit, you'll need to complete and include Form 5695 with your federal tax return for the tax period in which the PV system is first installed and made operational.

Eligibility for the Solar Investment Tax Credit (ITC)

You could be eligible to receive the ITC on your federal tax return if the following statements are true. Consult your tax accountant to ensure your eligibility and for exception information.

- The PV system is an original, new installation or is operational for the first time.
- You own the system outright or have financed the parts and installation with a loan.
- You aren't leasing the system or paying anyone for the energy created by the system.
- You're claiming the credit based on the cost of the PV system, its components, installation, and fees. Items and appliances that operate on the created energy aren't included in this tax credit.

What Expenses Are Included?

The new law expands the list of expenses covered by the tax credit to include energy storage components, including standalone devices, with a rated capacity of three-kilowatt hours or more. Other covered expenses continue to include the cost of the solar panels and their components, sales tax, permits and other fees, essential wiring, inverter systems, hardware, site prep and installation charges.

Check out the **Homeowner's Guide to the Federal Tax Credit for Solar Photovoltaics** for more information on the ITC including eligibility requirements and how to claim it on your taxes.

The Domestic Content Bonus Credit

The domestic content ("Made-in-USA") bonus credit was designed to boost American manufacturing, by providing a 10% bonus for projects under the Solar Investment Tax Credit (ITC) for meeting domestic content requirements. Projects that use *American-made* racking, ground screws, trackers, solar panels (solar panels must have domestic solar cells to receive the full credit), inverters and energy storage systems can receive the bonus credit, under certain requirements.

The domestic content bonus applies to projects built using required amounts of domestic-produced steel, iron, and manufactured products. A product is considered to be "Made-in-USA" under this rule if 40% of the cost to manufacture it (when used on projects beginning construction before 2025) was completed within the United States. That rule increases to 45% for projects starting construction in 2025, 50% in 2026 and 55% thereafter. The cost of a U.S. product is defined as "direct materials and direct labor costs that are paid or incurred … to produce the U.S. product." The manufacturer of a U.S. product is considered to be the one performing the actual manufacturing process, not a distributor or secondary sales division. The calculate the actual "Made-in-USA" component cost, the taxpayer must divide the cost of the manufactured products or components made in the USA by the entire cost of all the U.S. and foreign manufactured products used to build the project.

To receive the bonus, all steel and iron manufacturing processes used in significant structural components must take place in the United States. This requirement is not applicable for steel or iron subcomponents (such as nuts, bolts, screws, and clamps). Racking, piles, ground screws and rebar used in foundations are considered to be "steel and iron products."

Solar trackers, solar panels and inverters are classified under the “manufactured products” designation. American-assembled solar panels must have the following domestically made materials to receive the full credit amount: solar cells, frame and back rail, glass, encapsulant, backsheet, junction box, edge seals, pottants, adhesives, bus ribbons and bypass diodes. Solar Energy Industries Association (SEIA) reps suggested partial credit amounts could be granted, but a deeper review of the IRS materials will need to be completed.

In summary: projects smaller than 1 MW that use domestic products can get the bonus credit. Consult your tax accountant to ensure your eligibility and for exception information.

Vroom Solar modules, our Solar-Direct, Multi-Load Management Control Center, and both rack and tub mounting solutions in the Vroom Solar packaged Kit will qualify as domestically produced solar equipment. This means the ratio of “Made-in-USA” components to the total Kit cost is well above the current 40% hurdle, and thus the entire Vroom Solar Kit MSRP qualifies for an additional 10% Domestic Content Bonus tax credit.*

Example: Buyer’s Potential Impact of Tax Credits applicable to Vroom Solar Kits

Scenario: You (ultimate end-user) buy a 1,600-watt Vroom Solar Kit from an Authorized Dealer/Distributor or direct from Vroom Solar for the full MSRP of $5,995 and self-install the DIY Kit.

If your solar-direct PV system costs **$5,995** and you claim the Solar ITC at 30%, you will owe **$1,798.50 less** in income tax for the year, effectively lowering the system’s total cost to **$4,196.50**. This credit could be higher still if site prep and installation charges were also incurred (see **What Expenses Are Included** above).

If your solar-direct PV system costs **$5,995** and you claim the **10% bonus** for projects under the investment tax credit (ITC) for meeting domestic content requirements **(“Made in USA”)**, you will owe additionally **$599.50 less** in income tax for the year. The bonus credit effectively lowers the system’s total cost even further, to **$3,597.00.**

In this example, the buyer’s net effective cost/watt for the entire Vroom Solar Kit is reduced:

$3,597.00/1,600 (watts) = $2.25/Watt

For Vroom Solar 3200-watt models, the buyer’s net effective cost/watt for the entire Vroom Solar Kit is reduced even further:

$4,797.00/3,000 (watts) = $1.60/Watt

*Consult your tax accountant to ensure your eligibility and for exception information.