



# Iowa Department of **REVENUE**

## **Solar Energy System Tax Credit Annual Report for 2015 Released December 30, 2015 Revised January 15, 2016**

### **Reporting Requirements**

Iowa Code section 422.11L requires that the Iowa Department of Revenue (IDR) submit an annual report to the Governor and the General Assembly on or before January 1 regarding the number and value of the Solar Energy System Tax Credits claimed during the previous calendar year, and any other information IDR may deem relevant and appropriate. This report meets that requirement for 2015.

### **Tax Credit Eligibility**

A Solar Energy System Tax Credit is available for individual and corporation income taxpayers for solar energy systems installed on property located in Iowa. The tax credit is nonrefundable, but any tax credit in excess of tax liability can be carried forward up to ten tax years. The tax credit was enacted in May 2012, but was retroactive to solar energy systems placed in service on or after January 1, 2012. For tax years beginning on or after January 1, 2014, the tax credit can also be claimed against franchise tax paid by banks; for tax years beginning on or after January 1, 2015, the tax credit can also be claimed against the moneys and credits tax paid by credit unions.

The Iowa Solar Energy System Tax Credit equals a percentage of the federal tax credits offered for solar energy systems. Federal tax credits are available for property placed in service before January 1, 2021 after the tax credit was extended for five years at the end of 2015. Under current Iowa law, the Iowa tax credit is available for tax years 2012 through 2016, but if the Legislature couples with the recent federal change, the Iowa tax credit will be available through 2021. Taxpayers who claim this tax credit are not eligible to claim a Renewable Energy Tax Credit under Iowa Code Chapter 476C for the production of solar electricity.

### **Solar Energy System Tax Credit**

For residential installations during tax years beginning on or after January 1, 2014 but before December 31, 2015, the Solar Energy System Tax Credit is equal to 60 percent of the federal Residential Energy Efficient Property Tax Credit related to solar systems provided in section 25D(a)(1) of the Internal Revenue Code for solar electric property and section 25D(a)(2) of the Internal Revenue Code for solar water heating property.

The federal tax credit is claimed on federal form 5695, Residential Energy Credits for individuals and equals 30 percent of installation costs. The Iowa tax credit for an individual cannot exceed \$5,000.

For business installations, including banks, C corporations, credit unions, partnerships, limited liability companies (LLC), and S corporations, the Solar Energy System Tax Credit is equal to 60 percent of the federal energy credit as provided in sections 48(a)(2)(A)(i)(II) of the Internal Revenue Code for solar electric, heating and cooling property, and 48(a)(2)(A)(i)(III) of the Internal Revenue Code for equipment using solar energy to illuminate structures using fiber-optic distributed sunlight. The federal tax credit is claimed on federal form 3468, Investment Credit, for corporations, banks, and credit unions and equals 30 percent of installation costs. The Iowa tax credit for a business cannot exceed \$20,000.

Effective for installations on or after January 1, 2016, the awards for both residential and business installations will roll back to 50 percent of the federal credit, the Iowa tax rate that was in place for 2012 and 2013 installations. The caps will remain the same.

The aggregate amount of Solar Energy System Tax Credits awarded to individuals, banks, credit unions, and corporations per calendar year is capped at \$5 million beginning tax year 2015 or later, up from \$4.5 million in tax year 2014. Beginning in 2014, \$1 million of the cap is reserved for residential installations. The calendar year cap in 2012 and 2013 was \$1.5 million each year. IDR has implemented a process for eligible taxpayers to apply for the tax credit after the solar energy system has been placed in service, moving the application on-line at the end of 2015. The tax credits are awarded on a first-come, first-served basis until the award cap is reached each year.

Although residential installations receive priority until the \$1 million set-aside for residential installations is met, if IDR receives applications for tax credit awards in excess of the \$5 million available, complete applications are ordered by the postmark date. IDR establishes a wait list for the next year's allocation of tax credit awards and the current year installations are awarded tax credits for the following year in the order listed on the wait list.

## **Receiving an Award**

Taxpayers must submit an application to IDR to receive a tax credit award. At the end of September 2015, the paper application was replaced with an electronic application, available online through the Tax Credit Award, Claim & Transfer Administration System (CACTAS).

IDR awards the tax credit once the following information is provided:

- The completed application
- A copy of the invoice or other documentation showing the cost of the installed system
- A document verifying that the system qualifies for the federal tax credit

- The utility completion sheet
- Corporations, banks, and credit unions must also provide the date place in service
- The amount of the Iowa tax credit to be reserved
- A signed copy of the Tax Credit Applicant Certification form available within the CACTAS application

For installations made in 2014 and later, the application must be submitted to IDR before May 1 of the following year. IDR sends a tax credit certificate and an award letter for each approved award. The tax credit certificate includes a unique tax credit certificate number, the taxpayer's name, address, and the amount of the tax credit.

### Summary of Solar Energy System Tax Credit Awards

Table 1 is a summary of Solar Energy System Tax Credit awards over the last four years. In 2013, the \$1.5 million cap was met, although as a result of amended claims or revocations the amount fell slightly below the cap. Similar amendments to awards made in 2014 explain the total falling below the \$4.5 million cap. Effective with the 2014 award year, any unused awards can be rolled over to the following year.

**Table 1. Solar Energy System Tax Credit Awards**

Award Year	Residential Installations			Business Installations			Total	
	Number of Tax Credit Awards	Amount of Tax Credit Awards	Average Tax Credit Award	Number of Tax Credit Awards	Amount of Tax Credit Awards	Average Tax Credit Award	Number of Tax Credit Awards	Amount of Tax Credit Awards
2012	158	\$292,266	\$1,850	45	\$359,880	\$7,997	203	\$652,146
2013	168	\$356,270	\$2,121	114	\$1,143,076	\$10,027	282	\$1,499,346
2014	320	\$1,002,424	\$3,133	314	\$3,409,464	\$10,858	634	\$4,411,888
2015	397	\$1,399,312	\$3,525	305	\$3,669,355	\$12,031	702	\$5,068,667
Total	1,043	\$3,050,272		778	\$8,581,775		1,821	\$11,632,047

Note: Reflects applications approved as of December 21, 2015

Total awards for 2015 are slightly above \$5 million through December 21, 2015 with almost \$1.4 million awarded to residential installations, meeting the \$1 million residential set-aside. Awards during the first four years of the program have totaled \$11.6 million. Not all applications received for installations in 2015 have been processed; applications approved after the 2015 cap is met will be placed on a waitlist and will receive awards under the 2016 cap.

The average Solar Energy System Tax Credit award has increased over time, with some of the increase due to the rise in the maximum credits for installations in 2014 and later. The maximum award for tax year 2013 for a residential installation was \$3,000 compared to \$5,000 in tax years 2014 and later. The maximum award for a business installation was \$15,000 in 2012 and 2013, and rose to \$20,000 in tax years 2014 and later. The average 2015 award for individual residential installations increased slightly from 2014 to \$3,525 (see Table 1). This was despite a drop in the share of applications that met the maximum award threshold. In 2015, 33 percent of the number of awards

issued for residential installations equaled the maximum tax credit compared to more than 46 percent in 2014. The pattern is reversed for business installations. In 2015, 23 percent of awards for business installations equaled the maximum, compared to only 11 percent in 2014.

While the 2012 cap was not fully utilized, applications for installations completed after 2012 have easily exceeded the cap in all other years (see Table 2). For the 2013 cap, the first 282 installations during tax year 2013 used up the available funds, pushing the remaining 201 installations on a wait list with awards later issued under the 2014 cap. Likewise, for 2014 installations, 369 installations reviewed after the \$4.5 million cap was met were pushed to a wait list and issued tax credit awards under the 2015 cap. An additional 16 awards in 2015 were made for installations during 2013 or earlier; there was no application deadline for installations prior to tax year 2014. In 2014, 21 percent of the cap was awarded for prior year installations; in 2015, 57 percent of the cap was awarded for prior year installations.

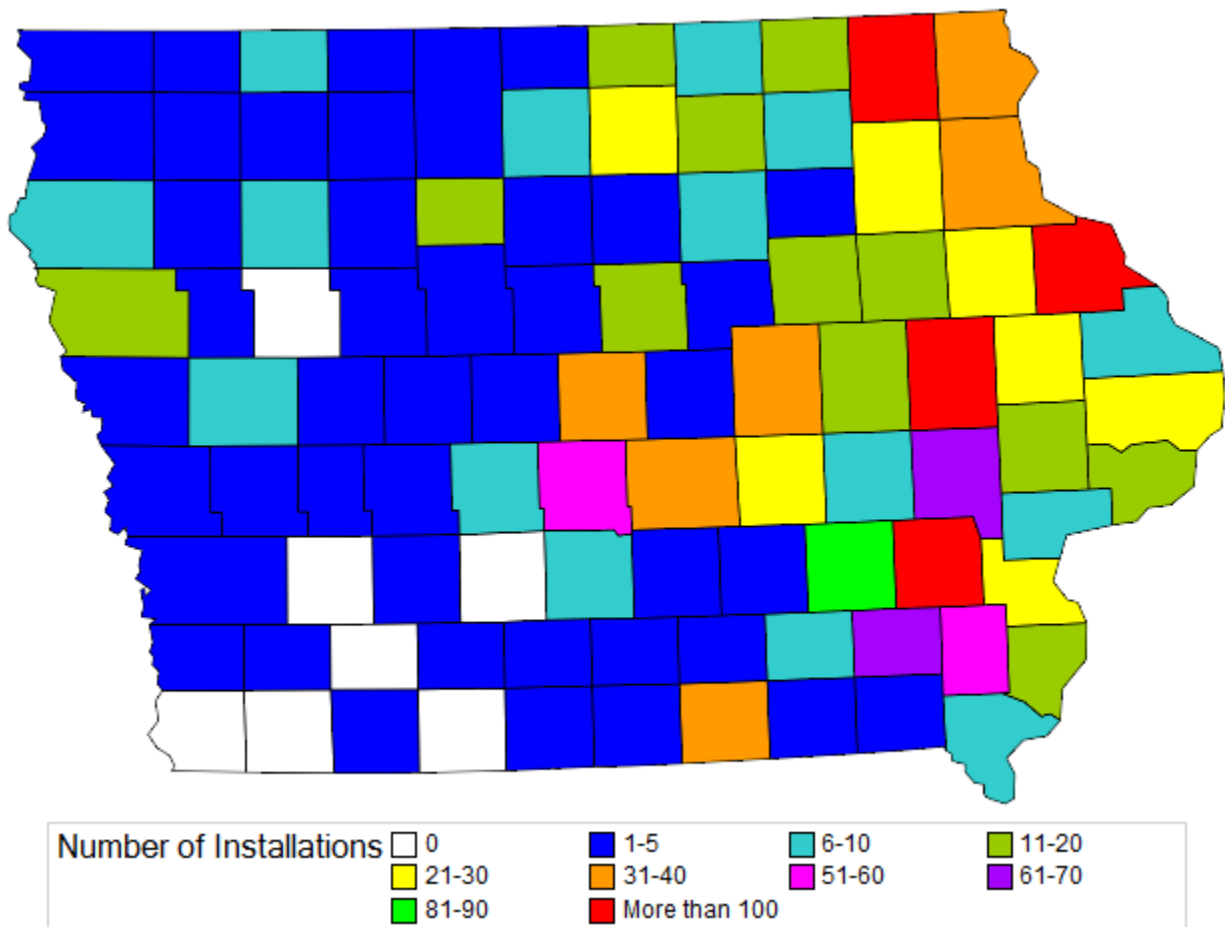
**Table 2. Solar Energy System Tax Awards by Installation Year**

Award Year	Current Installation Year		Installation in Prior Years		Percent of Cap Used by Installations from Prior Year
	Count of Awards	Total Awards	Count of Awards	Total Awards	
2012	203	\$652,146	0	\$0	0%
2013	282	\$1,499,346	0	\$0	0%
2014	433	\$3,506,104	201	\$905,784	20.5%
2015	317	\$2,179,982	385	\$2,888,685	57.8%
<b>Total</b>	<b>1,235</b>	<b>\$7,837,578</b>	<b>586</b>	<b>\$3,794,469</b>	

Note: During the 2015 award year, installations in prior years may include tax year 2014 or earlier

Awards in the first four years of the Solar Energy System Tax Credit have been issued for 1,821 different projects in Iowa, including installations in 92 different counties (see Figure 1). Although installations have been widespread, the prevalence is geographically concentrated in Eastern Iowa. Woodbury and Humboldt counties were the only counties in Western Iowa to see more than 10 installations. Nine counties had 51 or more installations; Dubuque, Linn, Washington, and Winneshiek counties each had over 100 installations.

**Figure 1. Solar Energy System Tax Credit Awards by County from 2012-2015**



Awards made to-date reflect over \$85 million in solar energy system investments by lowans (see Table 3). The average reported residential installation costs increased from \$28,988 in 2014 to \$33,792 in 2015. The reported average cost of business solar energy system installations also increased from \$74,182 in 2014 to \$82,271 in 2015, based on applications approved to-date. Applicants installed 802 solar energy systems during calendar year 2014. Recall that installations for 2015 are incomplete as taxpayers have until May 1, 2016 to submit their applications.

**Table 3. Solar Energy System Tax Credit Installation Costs by Installation Year**

Installation Year	Residential Installations			Business Installations			Total	
	Count	Total Cost	Average Cost	Count	Total Cost	Average Cost	Count	Total Cost
2012	159	\$2,749,004	\$17,289	45	\$3,057,192	\$67,938	204	\$5,806,196
2013	309	\$6,126,010	\$19,825	189	\$14,504,940	\$76,746	498	\$20,630,950
2014	380	\$11,015,465	\$28,988	422	\$31,304,624	\$74,182	802	\$42,320,089
2015	195	\$6,589,464	\$33,792	122	\$10,037,086	\$82,271	317	\$16,626,550
<b>Total</b>	<b>1,043</b>	<b>\$26,479,943</b>	<b>\$25,388</b>	<b>778</b>	<b>\$58,903,842</b>	<b>\$75,712</b>	<b>1,821</b>	<b>\$85,383,785</b>

During the 2014 application year, IDR began collecting the total kilowatt capacity (KW) of each solar energy system installed. For 2014, almost 85 percent of the number of installations for businesses and almost 69 percent of the number of residential applications included KW, which accounted for almost 85 percent of total business installation costs and more than 70 percent of residential installation costs. During 2015, for the applications processed to date, 100 percent of business applicants reported a total of 3,243 KW installed and 93.3 percent of residential reported a total of 2,180 KW. The average capacity of a residential solar energy system was 8.7 KW in 2014, rising to 12 KW in 2015; the average capacity of a business solar energy system was 23.8 KW in 2014, rising to 26.6 KW in 2015.

**Table 4. Total KW of the Solar Systems Installed Yearly by Application Type**

Installation Year	Application Type	Number of Installations that Reported KW	Total KW	Average KW	Percent of Installations	Percent of Installation Costs with KW
					Reporting KW	Reported
2014	Business	357	8,492	23.8	84.6%	84.5%
	Residential	261	2,281	8.7	68.7%	70.3%
2015	Business	122	3,243	26.6	100.0%	100.0%
	Residential	182	2,180	12.0	93.3%	99.5%
Total		922	16,196	17.6		

Note: 2015 as of December 21, 2015

### Claiming the Credit

Taxpayers with tax credit awards can claim the Solar Energy System Tax Credit using the IA 148 Tax Credits Schedule. They must include the tax credit certificate number on the form or the tax credit claim will be denied. Business tax credit awards received by pass-through entities or sole proprietors, such as farmers, can be claimed by the owners, partners, or shareholders on their individual income tax return. Therefore, the number and amount of claims used by individuals is greater than the number of awards issued for residential installations.

The tax credit is nonrefundable meaning that it can only be used to offset Iowa tax liability and that any amount in excess of tax liability cannot be refunded to the taxpayer; but the tax credit does have ten year carryforward.

### Summary of Solar Energy System Tax Credit Claims

During the first three tax years for which claims could be made, a total of \$4.0 million of Solar Energy System Tax Credits were used to offset Iowa tax liability. Taxpayers with credits in excess of their tax liability have ten additional tax years in which to make claims. Based on claims verified to-date, \$1.7 million in credits will be carried forward to

be claimed in 2015 or later. Table 5 includes a summary of Solar Energy System Tax Credits claimed each tax year.

**Table 5. Solar Energy System Tax Claims by Tax Year**

Tax Year	Number of Tax Credit Claims	Total Amount of Tax Credits Carried Forward from Previous Year	Total Current Year Amount of Tax Credits	Total Amount of Tax Credits Available	Total Amount of Tax Credits Applied to Tax Liability	Total Amount of Tax Credits Carried Forward
2012	248	\$0	\$707,127	\$707,127	\$462,528	\$246,954
2013	502	\$188,886	\$1,681,959	\$1,870,845	\$1,085,725	\$785,425
2014	1,026	\$580,476	\$3,543,515	\$4,139,318	\$2,426,990	\$1,707,527
Total	1,776	\$769,362	\$5,932,601		\$3,975,243	

Note: Claim collection and verification is incomplete for tax years 2013 or later.

Note that the total amount of tax credits applied to tax liability and the total amount of tax credits carried forward in a tax year can exceed the amount of tax credits awarded for installations completed for that same year. A fiscal year filer may claim the tax credit on the previous tax year return if the installation was completed at the start of the following year that falls within the fiscal year. For example, a taxpayer could have a 2013 tax year that began May 1, 2013 and extended through April 30, 2014. If the installation was completed prior to April 30, 2014, the 2014 award could be claimed on the 2013 tax return.

Tax year 2014 claims include both those credits awarded for 2013 installations and credits carried forward from tax year 2013 claims. IDR is in the process of verifying tax years 2013 and 2014 claims for those taxpayers that failed to include a valid tax credit certificate number, and will deny those claims if an award cannot be identified. The seventy-four claims without a valid tax credit certificate number, with a total of \$108,307 in applied claims and \$87,704 in carry forward, are included in the numbers above. All other claims have been matched to tax credit awards.

Table 6 summarizes the Solar Energy System Tax Credit Claims by tax type each year. The average amount of tax credits applied to tax liability for a corporation was \$2,946, franchise was \$14,940, and individuals was \$2,291 on 2014 tax returns filed and verified to-date. Banks could apply for the Solar Energy System Tax Credits, to claim against franchise tax liability, beginning in tax year 2014.

**Table 6. Solar Energy System Tax Credit Claims Applied by Tax Type**

Tax Year	Tax Type	Total Amount of Tax Credits Applied to Tax Liability	Average Amount of Tax Credits Applied to Tax Liability
2012	Individual	\$417,286	\$1,746
	Corporation	\$45,242	\$5,027
2013	Individual	\$943,579	\$2,025
	Corporation	\$142,146	\$4,307
2014	Individual	\$2,231,482	\$2,291
	Franchise	\$74,702	\$14,940
	Corporation	\$120,806	\$2,946

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