



### **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 2014.

### **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 credit is nonrefundable, but any tax credit in excess of tax liability can be carried forward up to ten tax years. The 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.

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, 2017. Therefore, the Iowa tax credit will be available for tax years 2012 through 2016 under the current law. 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, the Solar Energy System Tax Credit for tax year 2014 and later 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. The Iowa tax credit for an individual cannot exceed \$5,000.

For business installations, including banks, C corporations, 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)(3)(A)(i) of the Internal Revenue Code for solar electric, heating and cooling property, and 48(a)(3)(A)(ii) 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 and banks. The Iowa tax credit for a business cannot exceed \$20,000.

The aggregate amount of Solar Energy System Tax Credits awarded to individuals, banks, and corporations per calendar year is capped at \$4.5 million effective for 2014 or later and \$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 credit after the solar energy system has been placed in service. The tax credits are reserved 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 \$4.5 million available the applications are prioritized by the postmark date. IDR will establish a wait list for the next year’s allocation of tax credit awards and the tax credits for the following year will first be awarded in the order listed on the wait list.

**Receiving an Award**

Taxpayers must submit an application to IDR, which is available on [IDR's website](#).

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 and banks must also provide the date place in service
- The amount of the Iowa tax credit to be reserved

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 award letter for each approved award. The letter 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**

The following is a summary of Solar Energy System Tax Credit awards. In 2013, the \$1.5 million cap was met, although later amended claims or revocations pushed the amount slightly below.

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

Tax Year	Residential Installations			Business & Bank 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	156	\$289,818	\$1,858	46	\$361,830	\$7,866	202	\$651,648
2013	167	\$353,681	\$2,118	115	\$1,145,665	\$9,962	282	\$1,499,346
2014	316	\$1,001,376	\$3,169	313	\$3,377,347	\$10,790	629	\$4,378,723

Total awards for 2014 are nearly \$4.4 million through December 29, 2014 with more than \$1 million awarded to residential installations. Due to the timing of the reporting requirement, not all applications received for installations in 2014 have been processed; it is anticipated that the current pending applications will meet the award cap for calendar year 2014.

The average residential 2014 award for an individual jumped over \$1,000 from 2012 and 2013, reflecting the increase in the maximum award from \$3,000 to \$5,000 effective in 2014. In 2014, 61 percent of awards for residential installations equaled the maximum tax credit, compared to 57 and 65 percent in 2012 and 2013. The maximum award for business installations was increased from \$15,000 to \$20,000 in 2014, resulting in an \$830 increase in the average award. In 2014, 21 percent of awards for business installations equaled the maximum, compared to 33 and 31 percent in 2012 and 2013. As taxpayers continue to apply for the tax credit based on systems placed in service during 2014, the amounts will change.

### 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 carry forward.

### Summary of Solar Energy System Tax Credit Claims

The following is a summary of Solar Energy System Tax Credits claimed for tax years 2012 and 2013.

**Table 2. Solar Energy System Tax Credit Claims, Tax Year 2012**

Tax Type	Number of Tax Credit Claims	Total Amount of Tax Credits Applied to Tax Liability	Average Tax Credit Applied	Total Amount of Tax Credits Carried Forward	Average Tax Credit Carried Forward
Individual	223	\$391,512	\$1,756	\$194,535	\$872
Corporation	9	\$45,242	\$5,027	\$44,690	\$4,966
Total	232	\$436,754	\$1,883	\$239,225	\$1,031

**Table 3. Solar Energy System Tax Credit Claims, Tax Year 2013**

Tax Type	Number of Tax Credit Claims	Total Amount of Tax Credits Applied to Tax Liability	Average Tax Credit Applied	Total Amount of Tax Credits Carried Forward	Average Tax Credit Carried Forward
Individual	401	\$883,478	\$2,203	\$482,241	\$1,203
Corporation	19	\$86,658	\$4,561	\$90,683	\$4,773
Total	420	\$970,136	\$2,310	\$572,924	\$1,364

Note that total amount of tax credits applied to tax liability and total amount of tax credits carried forward in tax year 2012 exceeds the amount of tax credits awarded for installations completed in 2012. 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 2012 tax year that began May 1, 2012 and extended through April 30, 2013. If the installation was completed prior to April 30, 2013, the 2013 award could be claimed on the 2012 tax return.

Tax year 2013 claims include both those credits awarded for 2013 installations and credits carried forward from tax year 2012 claims. IDR is in the process of verifying tax year 2013 claims for those taxpayers that failed to include a valid tax credit certificate number. The eighty-eight claims without a valid tax credit certificate number, with a total of \$142,901 in applied claims and \$45,174 in carry forward, are included in the numbers above. All other claims have been matched to tax credit awards.

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