
FISCAL TOPICS

Fiscal Services Division

November 30, 2023



Ground Floor, State Capitol Building

Des Moines, Iowa 50319

515.281.3566

Tax Credit: Solar Energy System Tax Credit

The Solar Energy System Tax Credit is available for qualified installations at businesses located in Iowa. Prior to January 1, 2022, the credit was also available for residential installations. The Iowa credit is currently equal to 50.0% of the federal credit for qualified solar installations. The federal credit is equal to 30.0% of the installation cost of the solar energy system. The federal credit is available through 2032. A scheduled phaseout of the federal credit was repealed in August 2022. However, Iowa law is currently coupled to the earlier version of the federal credit, which contains the phaseout of the credit.

Per-installation State tax credit maximums apply. Taxpayers may receive tax credits for more than one installation, but the installations must be separate and distinct. The total amount of State tax credits approved in a year for all taxpayers combined is limited to \$5.0 million. Taxpayers must submit applications to the Iowa Department of Revenue and receive a tax credit certificate before a tax credit may be claimed. Any application in excess of the \$5.0 million cap is placed on a wait list for the next year's annual allocation. The tax credit is not refundable or transferable, but unused credits may be carried forward.

Tax Credit Background

- Enabling Legislation: 2012 Iowa Acts, chapter [1121](#) (Tax Credits and Exemptions Act)
- Iowa Code Citations:
 - Section [422.11L](#) — Individual Income Tax
 - Section [422.33](#)(29) — Corporate Income Tax
 - Section [422.60](#)(12)(a) — Bank Franchise Tax
 - Section [533.329](#)(2)(I) — Credit Union Moneys and Credits Tax
- Administrative State Agency: Department of Revenue
- Sunset Date: December 31, 2021 (former federal tax credit sunset date)
- Transferable: No
- Refundable: No
- Carryforward: Up to 10 years
- Legislative Tax Expenditure Committee Review Years: None

More Information

Department of Revenue Contingent Liabilities Report: tax.iowa.gov/report-category/contingent-liabilities

Department of Revenue Tax Credits Users' Manual:

tax.iowa.gov/reports/tax-credits-users-manual

Legislative Services Agency Individual Income Tax Guide: www.legis.iowa.gov/docs/publications/LG/711304.pdf

Solar Energy System Tax Credit Annual Report:

tax.iowa.gov/solar-energy-system-tax-credit-annual-report-2022

LSA Staff Contact: Eric Richardson (515.281.6767) eric.richardson@legis.iowa.gov

Legislative History

As originally enacted, the Solar Energy System Tax Credit was equal to 50.0% of the federal credit, and the total amount of tax credits issued in a year could not exceed \$1.5 million. The annual cap was increased to \$4.5 million for calendar year 2014 and to \$5.0 million for calendar year 2015 and after. The tax credit percentage was raised to 60.0% for calendar years 2014 and 2015, before returning to 50.0% for calendar year 2016 and after. As originally enacted, the credit could only be used by individual and corporate income tax filers. Banks (franchise tax) and credit unions (moneys and credits tax) were added beginning with calendar years 2014 and 2015, respectively.

In December 2015, the U.S. Congress revised and extended the federal solar energy credit. The 2016 Legislature coupled Iowa's tax code with the federal change ([HF 2468](#) (Revenue Department Miscellaneous Changes Act), section 4). The combined State and federal action extended the availability of the Iowa tax credit through calendar year 2021. Congress enacted additional extensions in 2020 and 2022.

Tax Credit Review, Usage, and Future Liability

The Solar Energy System Tax Credit is not included on the list of tax credits to be reviewed under Iowa Code section [2.48](#). However, the Department of Revenue is required to file an annual report with the Governor and General Assembly.

The Solar Energy System Tax Credit was first available for 2012 installations. The 2022 annual report filed by the Department covered installations and tax credits earned from 2012 through November 8, 2022 (see **Figure 1**). A total of 9,738 projects were awarded \$52.0 million in State tax credits. Residential installations accounted for 66.3% of the projects and 39.9% of the awarded tax credits. Using the \$439.8 million in reported qualified project costs and the State tax credit award amount, and assuming federal tax credits totaling \$123.6 million (28.1% of \$439.8 million), the combined federal-State tax credit amount of \$175.6 million represents 40.0% of installation costs across the 9,738 solar projects benefiting from the State tax credit. In FY 2023, there was an increase of 2,464 solar projects awarded tax credits through November 8, 2022.

Figure 1 — Solar Energy System Tax Credit Statistics

Through November 8, 2022

	# of Projects	% of Total	Tax Credit Amount Awarded	% of Total	Total Installation Cost	% of Total	Kilowatts Installed — 2014 through 2021 *	% of Total
Residential	6,456	66.3%	\$ 20,760,536	39.9%	\$170,851,670	38.8%	57,127	35.5%
Commercial	3,282	33.7%	\$ 31,279,625	60.1%	\$268,948,682	61.2%	103,591	64.5%
Total	9,738	100.0%	\$ 52,040,161	100.0%	\$439,800,352	100.0%	160,718	100.0%

*8,690 projects (89.2%) reported the amount of kilowatts installed.

The Department of Revenue reports on the annual credit usage for the Solar Energy System Tax Credit in its periodic [Contingent Liabilities Report](#). Based on Table 9 of that report, the following table (see **Figure 2**) and graph (see **Figure 3**) provide credit redemption history and projections for the Solar Energy System Tax Credit on a fiscal year basis. The blue bars of the graph indicate actual credit redemptions, while the red bars are Department of Revenue projections of future redemptions.

Figure 2 — Solar Energy System Tax Credit History

*Projected

Fiscal Year	Tax Credit Redemptions	Fiscal Year	Tax Credit Redemptions
FY 2008	\$ 0	FY 2019	\$ 4,156,242
FY 2009	0	FY 2020	3,965,114
FY 2010	0	FY 2021	4,871,091
FY 2011	0	FY 2022	4,521,251
FY 2012	0	FY 2023	6,599,208
FY 2013	338,028	*FY 2024	4,529,332
FY 2014	910,359	*FY 2025	2,580,251
FY 2015	2,198,566	*FY 2026	1,786,720
FY 2016	3,097,823	*FY 2027	1,480,949
FY 2017	3,787,993	*FY 2028	1,011,337
FY 2018	3,759,747		

Figure 3 — Solar Energy System Tax Credit Redemptions

*Projected

