

Solar PV Financial Incentive Overview for Businesses

Investment Tax Credit

Solar PV qualifies for a 30% Investment Tax Credit (ITC) on commercial properties (under IRS Section 48). The ITC provides a dollar-for-dollar reduction of the income taxes a company would otherwise pay the federal government. The ITC is based on the investment made by the company in the solar system.

Depreciation

There are two depreciation rules for solar PV applicable to companies:

- Bonus Depreciation which allows 50% of the depreciation of a solar system to be taken in the year the system is placed in service, after an adjustment of 15% for ITC.
- Modified Accelerated Cost Recovery System (MACRS) with a cost recovery period of 5 years on the remaining balance.

Steps/methods for calculating ITC and depreciation:

- The 30% ITC is applied to the basis of the solar PV investment
- The depreciation available is 85% of the total solar PV investment which is investment asset value less ½ of the 30% ITC (or 15%)
- Bonus Depreciation is 50% of the ITC adjusted amount and is taken in the year the asset is placed in service (50% for 2016-2017, 40% in 2018, 30% in 2019, 0% thereafter)
- MACRS also starts the year the solar system is placed in service using the half-year rule based on the remaining asset value after both the ITC adjustment and Bonus Depreciation are taken
- Depreciation of the remaining asset value follows the IRS MACRS schedule (see example on other side of page)



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Example

Solar investment by customer => \$117,647

Investment Tax Credit at 30%

ITC = \$117,647 x .30, or \$35,294 (dollar-for-dollar federal tax savings)

Depreciation

Depreciation adjustment for 30% ITC => \$117,647 x .85 = \$100,000 depreciation available

Bonus Depreciation in Year 1 => \$100,000 x .50 => \$50,000

MACRS Depreciation in Year 1-6 per IRS schedule:

Year	1	2	3	4	5	6
Bonus Depreciation	\$50,000					
MACRS %	20%	32%	19.2%	11.52%	11.52%	5.76%
MACRS Depreciation	10,000	\$16,000	\$9,600	\$5,760	\$5,760	\$2,880
Balance Remaining	\$40,000	\$24,000	\$14,400	\$8,640	\$2,880	\$0
Total Depreciation	\$60,000	\$16,000	\$9,600	\$5,760	\$5,760	\$2,880

Sources: SEIA.org, DSIRE.org, IRS depreciation schedule for 5-year assets using half-year convention

Please Note: This document is based on Michigan Solar Solutions' understanding of the tax implications for solar PV. This document should not be considered as a replacement for consulting an accountant or tax advisor more familiar with your particular company tax situation.



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