

TAX EFFECTS AND BENEFITS

Heads up on giving tax advice

Don't straight-up give tax advice if you aren't a "tax professional".

Consider including something like:

"We aren't tax professionals and this isn't tax advice. We recommend that you confirm our tax assumptions with a qualified professional."

By the way, I'm not a tax pro and this isn't tax advice.

Non-profits and local governments don't pay taxes





Tax deduction \neq tax credit

A tax deduction reduces taxable income.

A tax credit is a dollar-for-dollar tax reduction.

A \$1,000 federal tax deduction reduces taxable income by \$1,000.

A \$1,000 federal tax credit reduces tax owed by \$1,000.



Tax deduction math

A \$1,000 federal tax deduction reduces taxable income by \$1,000.

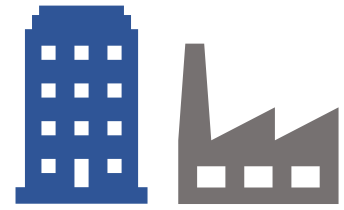
This is worth: \$1,000 times the business's tax rate.

If the tax rate is 21%, it's worth: $\$1,000 * 21\% = \210 .



A \$1,000 deduction

...is worth \$210



Lost tax deduction

The electric bill is a deductible expense.

If the electric bill is reduced, the electric-bill tax deduction is also reduced.

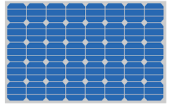
If the bill is \$1,000, but would have been \$2,000 without PV+...

How much after-tax value is lost if the tax rate is 21%?

Lost tax-deduction value



\$2,000 old bill * 21% tax rate = \$420 tax deduction



\$1,000 new bill * 21% = \$210 tax deduction

$\$420 - \$210 = \$210.$

ANSWER

\$210 of tax-deduction value was lost.

Lost tax deduction

Let's include it in our models.

The Inflation Reduction Act!

Signed into federal law in August 2022.

Incentives are available through 2033.



The Inflation Reduction Act!

Signed into federal law on August 16, 2022.

Incentives are available through 2033.



Federal Tax Credit

The 30% residential tax credit (IRS section 25D) ended on 2025-12-31.

Federal Tax Credit

The 30% non-residential tax credit (IRS section 48E) continues with revisions.

Called the “Clean Energy Investment” tax credit.

Third-party ownership is okay.

Federal Tax Credit

For PV (or wind):

Must start construction by 2026-07-04.

...Or must be placed in service by 2027-12-31 (except ESS).

Federal Tax Credit

For ESS:

30% thru 2033

22.5% in 2034

15% in 2035

“Specified Foreign Entity” (SFE)

SFEs don't get the tax credit.

Included countries: China, Russia, Iran, and North Korea.

Or a company incorporated in an above country.

Or a citizen of an above country (that isn't also a U.S. citizen).

Etc.

“Foreign Entity of Concern” (FEOC)

A subset of SFEs.

SFE: Clear connection to a covered country.

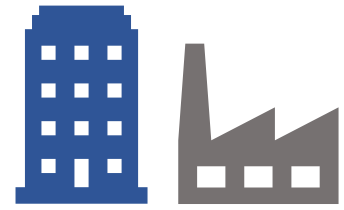
FEOC: Problematic level of SFE influence.

FEOC and system components

A percentage of components (by value) must be non-FEOC.

For PV in 2026, 40%+ must be non-FEOC. Add 5% per year until 60%.

For storage in 2026, 55%. Add 5% per year until 75%.

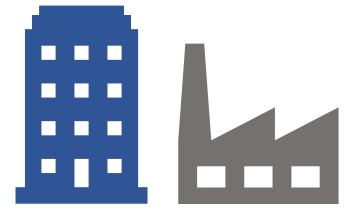


Prevailing wage and apprenticeship

For projects with over 1 MW capacity...

Prevailing wages must be paid to all “laborers and mechanics”.

15% apprentice employment must be used.

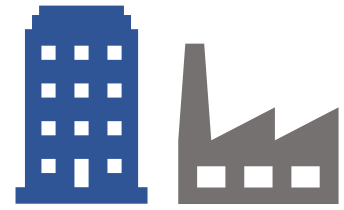


10% Domestic Content adder

If manufactured materials are partially made in the U.S...

50% in 2026

55% in 2027



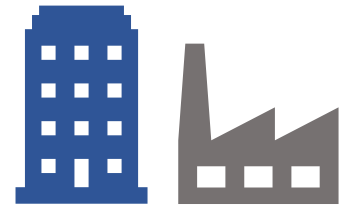
10% Energy Community adder

An “energy community” can be...

A brownfield site.

An area with a closed coal mine or power plant.

An area that’s had hydrocarbon-related industry.



Low-Income Community adder

Qualifying communities...

Low-income community (10%)

Indigenous land (10%)

Part of a low-income project (20%)

No PV-power charging requirement

The battery's power source no longer matters.

Tax-exempt entities

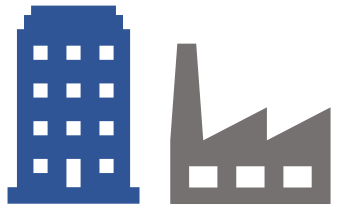
...Can get the tax-credit value as an IRS cash payment.

Restrictions apply.

Hang in there y'all



What year can you claim the tax credit in?



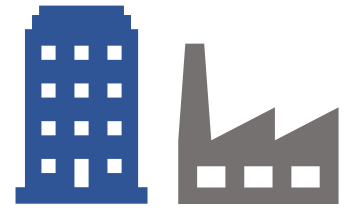
Business:

Work on the PV (and storage) project only has to **start** in the year the tax credit is claimed for.

There are two routes:

- 1) Physical work of a significant nature has started.
- 2) At least 5% of the system's cost has been paid or incurred (if < 1.5 MW AC).

Safe harbor

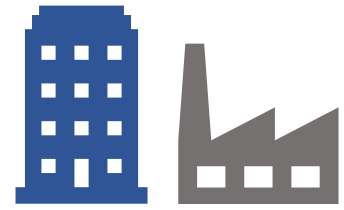


Business depreciation

Depreciation is a tax deduction spread over a number of years.

It's theoretically based on the number of years that the asset will be used, with a drop in the asset's value each year.

Asset-specific depreciation schedules are tedious, so standard schedules are used.



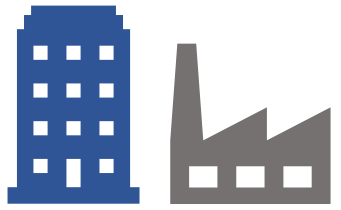
Federal depreciation

The standard federal depreciation schedule for DERs is “5-year” MACRS.

MACRS = Modified Accelerated Cost Recovery System

| Year | 5-year MACRS percentage | For a \$1,000 asset |
|------|-------------------------|---------------------|
| 1 | 20% | \$200 |
| 2 | 32% | \$320 |
| 3 | 19.2% | \$192 |
| 4 | 11.52% | \$115 |
| 5 | 11.52% | \$115 |
| 6 | 5.76% | \$ 58 |

100% bonus depreciation



The “One Big Beautiful Bill Act” made the 100% bonus permanent.

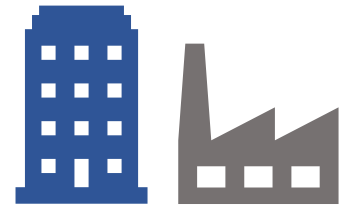


Carrying forward federal depreciation

No tax liability this year?...

Federal depreciation can be carried forward up to 20 years.

Reminder: Mike isn't a tax pro, and encourages tax-pro confirmation.



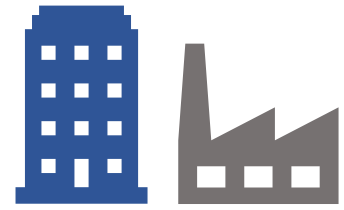
Depreciation value

The depreciation's basis is the ITC basis minus half the ITC.

Depreciation basis = ITC basis - 1/2 ITC

To get the depreciation *value*, multiply the basis by the tax rate.

Depreciation value = (ITC basis - 1/2 ITC) * tax rate



State depreciation

Schedules vary across states.

Some states match the federal bonus, and some don't.

Bloomberg Tax & Accounting has [a state-by-state lookup](#).

| Current Year | |
|--|--------------------|
| Computation of Taxable Income | |
| § 168(k). Bonus Depreciation (after 2007 and before 2020) | |
| State | Missouri |
| Conformity Status | Partial conformity |

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