

## Unlocking the Remarkable Value of Solar Incentives

*How businesses are maximizing the financial benefits of solar in 2020*

For companies considering solar, deciding to move forward in 2020 will provide the optimal return on investment. In addition to locking in long-term energy cost savings and competitive installation costs, the stars have aligned to take advantage of federal, state and local financial incentives. In particular, a short window of time currently exists to maximize the federal tax credits, which are scheduled to be reduced at the end of this year.

### Economic Shifts Created Affordable Solar

The financial landscape for solar has changed drastically in recent years. In the late 1990s and early 2000s, businesses evaluating solar often had difficulty justifying the financial investment due to insufficient payback periods, oftentimes between ten and twenty years. The sustainability benefits were a powerful motivation, but financial ROI requirements put PV technology out of reach for many commercial and industrial markets.



Fast forward twenty years to today, and the financial returns for businesses going solar are now quite attractive. Costs have come down significantly while legacy incentive programs still exist, leading to simple paybacks that are often less than seven years, and in some cases less than five years. This fact, coupled with system lifespans of over thirty years that produce cheap, reliable and green energy make now the best time to invest in solar.

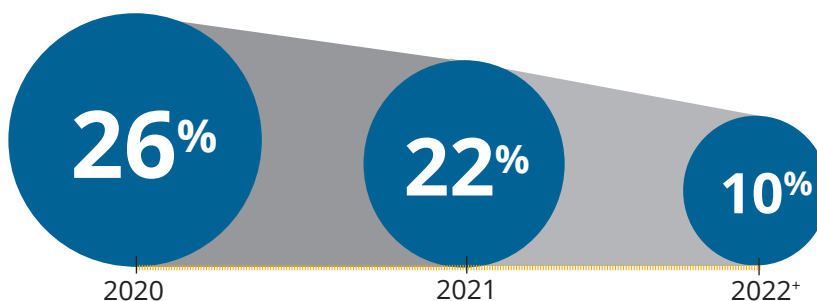
The transition to affordable solar resulted from a perfect storm of events. Initially stimulated by significant government incentives in countries like Germany, the adoption of solar skyrocketed in foreign markets. In turn, this new international market demand led to huge investments in manufacturing economies of scale, lowering system component costs for everyone. Now in the United States, legacy incentives are paired with low system costs to offer the best return on investment scenario in history.

Businesses thinking about solar today need to understand these financial incentives, how they are changing, and why it is important to act now to reap the largest financial gains.

### Federal Tax Credits Maximized in 2020

The federal Investment Tax Credit (ITC) is a universal and important incentive for solar customers. Unlike a tax *deduction*, which only reduces a company's taxable income, the ITC gives any business with tax liability a federal tax *credit* on its solar investment. In 2020, the ITC rate is twenty-six (26%) percent. This means that a business making an investment of \$100,000 in solar would offset its federal tax bill by \$26,000 in the first year alone.

Immediacy is key, as an aggressive step-down schedule has begun that will decrease the ITC over the next few years:



*As the solar industry expands, available dollar-for-dollar federal tax credits are ramping down. Businesses must act in the near term to secure this funding tool.*

The ITC rate applies in the tax year that the solar project is contracted. However, a provision in the ITC policy known as the "safe harbor" allows businesses to lock in the maximum ITC credit and delay construction, so long as at least 5% of the total project cost is invested by year's end.

### Accelerated Depreciation Increases ROI

In addition to the ITC, another tax policy aiding commercial solar owners is the favorable depreciation treatment afforded solar systems at the federal level. The entire investment can be depreciated in the same year as project completion, sometimes referred to as "bonus depreciation." This level of tax shelter is in addition to the tax credit mentioned above.

The IRS reduces the basis for depreciation by half of the applicable tax credit amount. By way of example, if the tax credit is 26% (as it is in 2020), and the ITC is claimed, then the depreciable basis would be 87% of the total cost ( $100\% - (26\% \times \frac{1}{2}) = 87\%$ ).

Revisiting the previous example of a solar system constructed in 2020 with a pre-ITC project cost of \$100,000, the depreciable basis would equal \$87,000. Assuming an average federal tax rate of 21% and an average state tax rate of 7%, total depreciation between federal and state tax returns would equal \$24,360. Combined with the ITC savings of \$26,000, *the total cost for the solar system is often reduced by more than half due to total tax shelter from ITC and federal and state savings from bonus depreciation.*

*"The ITC has proven to be one of the most important federal policy mechanisms to incentivize clean energy in the United States. Corporate solar adoption has surged over the past several years, with more than half of all capacity installed since 2016. Companies turn to solar for many reasons: to power their operations, to meet environmental goals or simply to save money. No matter the reason, going solar is simply a smart business decision."*

Solar Energy Industries Association  
(SEIA)

### Local Incentives Can Further Drive Savings

Many commercial solar customers can also offset a portion of their solar project costs with locally-available financial incentives. These monetary awards are often made available by states, utilities and utility-funded groups to encourage clean energy adoption. Some programs provide incentives as soon as the solar PV system is commissioned. Others are production based and awarded over time as energy is produced from the system. Incentives vary widely by location, but some SunPeak customers have received local incentives exceeding 25% of their overall project costs.

SunPeak helps customers identify grant opportunities available in their area and apply for available incentives at no additional charge. Our team researches programs offered, drafts grant proposals, completes all necessary applications, and coordinates all paperwork and submission requirements on the customer's behalf.

### Going Solar Results in Significant and Lasting Cost Savings

Arguably the greatest financial motivation for businesses to invest in solar is the long-term cost savings realized over the life of the system. Once a solar PV system is paid off, the electricity generated is nearly free\*. The significant federal, state and local financial incentives available in 2020 results in systems being paid off sooner than ever. The time to go solar truly is now.

#### KEY TAKEAWAYS:

- The greatest benefits of the federal Investment Tax Credit are diminishing soon. Businesses considering an investment in solar need to take action to reap the largest financial benefit.
- Partnering with an experienced solar provider is essential to gain locally-provided grants and other sources of state-specific funding.

\* A modest budget is typically included for expected operations and maintenance.

