

## Be Careful of Solar Promoters on Tax Credit Calculations

There is a 30% tax credit for solar, however, it is only on your net cost



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Many farmers are looking at putting in solar on their farms. USDA will provide 25/50% cost grant under the REAP program in many cases substantially reducing the net cost of the project. On top of it, there is a 30% federal tax credit that is available to the farmer. If the farmer does not have a enough tax liability to soak up the credit, they can sell the excess credit for cash. There are certain paperwork processes that are needed, but there is a ready exchange to buy these credits.

However, in some of the written material that I see from companies doing these solar projects, they may overestimate the amount of federal tax credits that can be achieved. In most cases,

they assume the 30% credit on the cost of the project, but the credit is only on the net cost incurred by the farmer after any non-taxable grants or rebates.

Some grants such as a REAP grant is considered taxable income and will be included in the basis of the solar project. Other grants such as a utility offering a direct rebate to the farmer will reduce the cost basis of the solar project, thus reducing the credit amount. Care is needed to make sure you have the correct basis.

Here is an example:

*Susan is putting in a 100-kw solar project that will cost \$400,000 and it will be in service in 2024. She receives a REAP grant for \$200,000 and a rebate from the utility company of \$50,000. Her basis in the project for income tax purchases will be \$350,000 (cost less the utility rebate). Her tax credit is \$105,000 and she must reduce the depreciable basis by half of the credit of \$52,500. Her final cost basis for depreciation will be \$297,500. If installed in 2024, she can deduct \$178,500 using 60% bonus depreciation and depreciate the remainder over 5 years.*

*For 2024, Susan will report \$200,000 of income from the REAP grant but will have a depreciation deduction of \$202,300 which will offset the income. On top of it, she will have a \$105,000 tax credit that she can either use to offset her income taxes or sell on the exchange, likely at slightly less than face amount. The remaining cost basis of about \$95,000 will be deducted over the next five years (five-year depreciation actually takes six years).*

Doing a solar project can still help with taxes, but make sure you understand that the credit projections shown may be overstated in some cases. You need to make sure you review this with your tax advisor before pulling the trigger.