

FEDERAL INVESTMENT TAX CREDIT SUMMARY

The solar energy equipment that your company has purchased qualifies for a Federal Investment Tax Credit. This tax benefit is passed through to the owners of pass-through entities (S-corporations, partnerships, and limited liability companies).

FEDERAL INVESTMENT TAX CREDIT CALCULATION

For Federal tax purposes, solar energy equipment placed in service before December 31, 2032, qualifies for a 30% Federal Investment Tax Credit (ITC). The Tax Credit is equal to 30% of the purchase price. The owners of pass-through entities can use their share of the ITC to offset their Federal tax due instead of paying with cash.

Example: For a solar array with a purchase price of \$100,000, the ITC would be $\$100,000 \times 30\% = \$30,000$

After 2032, the ITC steps down according to the following schedule:



HOW TO CLAIM AND USE THE INVESTMENT TAX CREDIT*

Owners of pass-through entities will use the following IRS Tax forms to claim and use the ITC to reduce their federal tax bill.

Form K-1 – Share of Income Deductions, Credits, etc.

Purchase Price Information for the ITC is found on Shareholder's K1, Line 20, Code E.

Form 3468 – Investment Credit

Information from Form K-1, Line 20, Code E, will be reported on Form 3468, LINE 12b and included with the owner's personal tax return.

Form 3800 – General Business Credit

Information from Form 3468, line 12b, will be reported on Form 3800, LINE 4a, included with the owner's personal tax return, and used to calculate the tax credit available to reduce your tax on the current year's return.

Form 1040 – Individual Income Tax Return

The general business credit available from Form 3800 is reflected on Form 1040, LINE 54 as a direct reduction of the owner's individual tax liability. Tax credits can be carried back one year and forward 20 years.

* Intended as overview only and not professional tax advice. Contact your Tax Advisor for your specific situation.

FEDERAL & STATE TAX DEPRECIATION SUMMARY

The solar energy equipment qualifies for Depreciation Expense when it is placed in service. This tax benefit is passed through to the owners of pass-through entities (S-Corps, Partnerships, and LLCs) and can be used to reduce federal and state taxable income. By reducing taxable income, you can recognize cash benefits in the present proportional with your effective tax rate.

DEPRECIATION CALCULATION

Solar energy equipment is typically depreciated using 1 year bonus depreciation (Federal) and 5 year MACRS depreciation (State). * Example with assumptions below:

Solar Array Purchase Price = \$100,000

Customer Information = 30% Federal Tax Credit / 37% Federal rate / 9.85% State rate

Depreciable Basis = Solar Array Purchase Price * 85% = \$85,000

Year	% Depreciated Annually (Federal)	\$ Depreciated Annually (Federal)	Cash Value of Depreciation (Federal)	Cash Value of Depreciation (Federal Bonus)	\$ Depreciated Annually (MN)	Cash Value of Depreciation (MN)
1	20.00%	\$17,000	\$6,290	\$31,450	\$17,000	\$1,675
2	32.00%	\$27,200	\$10,064		\$27,200	\$2,679
3	19.20%	\$16,320	\$6,038		\$16,320	\$1,608
4	11.52%	\$9,792	\$3,623		\$9,792	\$965
5	11.52%	\$9,792	\$3,623		\$9,792	\$965
6	5.76%	\$4,896	\$1,812		\$4,896	\$482
Total	100%	\$ 85,000	\$ 31,450	\$ 31,450	\$ 85,000	\$ 8,373

HOW TO CLAIM THE DEPRECIATION EXPENSE DEDUCTION

Owners of pass-through entities will use the following IRS tax forms to claim:

Income Statement: The depreciation deduction for the solar array will be reflected as an expense on your income statement and can reduce your taxable federal and state income.

Form K-1 – Share of Income Deductions, Credits, etc: For ordinary income, the shareholder's portion of income and expense (includes the depreciation deduction) is found on Shareholder's Form K-1, Line 1 Ordinary business income (loss). For rental real estate, the shareholder's portion of income and expense (includes the depreciation deduction) is found on Shareholder's K-1, Line 2 Net rental real estate income (loss) and is subject to passive activity rules.

Schedule E – Supplemental Income and Loss: Information from Form K-1, line 1 and line 17, will be reported on Schedule E, Part II. The net total of all Schedule E activities will be reported on Schedule E, Part V, Line 41

Schedule 1040 - US Individual Tax Return: Schedule E, Part V, Line 41 is reported on line 17 of form 1040.

*Additional depreciation methods may also be available for your company.

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