

Solar Credits and Pitfalls

Chances are, you've been inundated with offers to install solar panels on your house, where the advertisements, fliers and email messages tout generous tax benefits and zero-cost electricity. Whenever you see aggressive advertising, there is usually a catch somewhere. So what is the truth about solar tax credits?

The recently passed Inflation Reduction Act has authorized a 30% tax credit for any energy-saving equipment (including solar panels generating electricity and the battery that stores the electricity as long as it exceeds 3 kilowatt hours) that you install in tax years 2022 through 2032. The credit applies to all the costs of installation, including equipment and reasonable labor costs.

That is a credit, not a deduction; you file IRS Form 5695 as part of your tax return, and take 30% of the cost of the installation directly off of what you owe the federal government. To qualify, the installation must be on your home, houseboat, mobile home or condominium, but the credit cannot be claimed (for some reason) on rental property you own, and vacation homes qualify for the credit only for the time you spend there.

The tax credits are nice, but what about those offers? If the offer is for 'free' solar panels, then you're probably being offered a chance to enter into a solar lease or power purchasing agreement with the installer—usually for the next 25 years. You pay no up-front fee, but you lease the system on your property, paying a monthly fee to the installer at a flat rate or per kilowatt-hour. And here's the kicker: the installer gets to claim the Federal Tax Credit. You miss out on the largest financial incentive for supporting renewable energy.

Your best option is buying your solar system outright, but here again there are complications. Many installers will charge for their labor, and add a 50% to 100% markup on the equipment, over what they paid for it. Solar installers are entitled to make a profit, but some are taking advantage of an uninformed customer base to take all the financial benefits that you might otherwise gain from installation.

You can check retail prices on panels at a Lowe's or Home Depot store, and if you buy from them, they can set you up with an installer who will only charge labor costs. Some people can install them themselves. You can also buy solar panels

from a wholesale supplier, and ask the company if they know a subcontractor who can do the installation affordably.

Sources:

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