

# Individual Solar Energy Federal Tax Credit

## Residential Energy Conservation Subsidy Exclusion (Personal)

Last DSIRE Review: 07/27/2009

[http://www.dsireusa.org/incentives/incentive.cfm?Incentive\\_Code=US03F&re=1&ee=0](http://www.dsireusa.org/incentives/incentive.cfm?Incentive_Code=US03F&re=1&ee=0)

<b>State:</b>	Federal
<b>Incentive Type:</b>	Personal Exemption
<b>Eligible Efficiency Technologies:</b>	Yes; specific technologies not identified
<b>Eligible Renewable/Other Technologies:</b>	Solar Water Heat, Solar Space Heat, Photovoltaics
<b>Applicable Sectors:</b>	Residential, Multi-Family Residential
<b>Amount:</b>	100% of subsidy
<b>Program Administrator:</b>	U.S. Internal Revenue Service
<b>Web Site:</b>	<a href="http://www.irs.gov/publications/p525/index.html">http://www.irs.gov/publications/p525/index.html</a>

**Authority 1:** 26 USC § 136

**Date Enacted:** 1992

### Summary

According to Section 136 of the U.S. Code, energy conservation subsidies provided by public utilities,\* either directly or indirectly, are nontaxable: "Gross income shall not include the value of any subsidy provided (directly or indirectly) by a public utility to a customer for the purchase or installation of any energy conservation measure." (This exclusion does *not* apply to electricity-generating systems registered as "qualifying facilities" under the Public Utility Regulatory Policy Act of 1978.)

The term "energy conservation measure" includes installations or modifications primarily designed to reduce consumption of electricity or natural gas, or improve the management of energy demand. Eligible dwelling units include houses, apartments, condominiums, mobile homes, boats and similar properties. If a building or structure contains both dwelling and other units, any subsidy must be properly allocated.

Given the definition of "energy conservation measure," there is strong evidence that utility rebates for residential solar-thermal projects and solar-electric systems may be nontaxable. However, the IRS has not ruled definitively on this issue. For taxpayers considering using this provision for renewable energy systems, consultation with a tax professional is advised.

Other types of utility subsidies that may come in the form of credits or reduced rates may also be nontaxable, according to IRS Publication 525:

"Utility rebates. If you are a customer of an electric utility company and you participate in the utility's energy conservation program, you may receive on your monthly electric bill either: a reduction in the purchase price of electricity furnished to you (rate reduction), or a nonrefundable credit against the purchase price of the electricity. The amount of the rate reduction or nonrefundable credit is not included in your income."

\* *The term "public utility" is defined as an entity "engaged in the sale of electricity or natural gas to residential, commercial, or industrial customers for use by such customers." The term includes federal, state and local government entities.*

### Contact:

#### Public Information - IRS

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