

Federal Tax Credit for Solar Energy

Updated for Tax Year: 2012

To encourage Americans to use solar power, the EPA and the Department of Energy offers tax credits for solar-powered appliances.

Tapping the sun for power just feels good -- solar power doesn't pollute, reduces our use of coal and other fossil fuels, and thereby helps reduce your individual carbon footprint. But it's also five times as expensive as electricity from coal and other sources.

To encourage Americans to use solar power, the Environmental Protection Agency and the Department of Energy run the Energy Star program, which, among other projects, offers tax credits for solar-powered systems.

Credits for approved solar installations

If you install Energy Star-approved solar-power systems before the end of 2016, you can claim 30 percent of the cost as a tax credit for the year you installed it.

As a credit, you take the amount directly off your tax payment, rather than as a deduction from your taxable income. You can claim the credit for your primary residence, a vacation home, and for either an existing structure or new construction. Other than the cost of the system, there's no limit to the dollar amount of the credit.

Claiming solar credits for rental property

You can't claim a credit for installing solar power at rental properties you own.

The exception is if you also live in the house for part of the year, and use it as a rental when you're away. You'll have to reduce the credit for a vacation home, rental or otherwise, to reflect the time you're not there. If you live there for three months a year, for instance, you can only claim 25 percent of the credit: If the system cost \$10,000, the 30 percent credit would be \$3,000, and you could claim a quarter of that, or \$750.

Filing requirements for solar credits

To claim the credit, you must file IRS Form 5695 as part of your tax return; you calculate the credit on the form, and then enter the result on your 1040.

If you end up with a bigger credit than you have income tax due -- a \$3,000 credit on a \$2,500 tax bill, for instance -- you can't use the credit to get money back from the IRS. Instead, you can carry the credit over to the following tax year. Energy Star states that you should be able to carry the credit over as far as 2016 if need be.