

Energy Tax Credits Fact Sheet – Alternative Energy

Federal tax incentives for renewables stem from the 2009 American Recovery and Reinvestment Act and the Emergency Economic Stabilization legislation passed a year earlier. The Stimulus legislation uncapped investments that can be made to claim the credit. For individuals, the federal investment tax credit for most solar projects remains at 30 percent of the project, inclusive of design, engineering, and installation costs. The credit decreases to 26 percent for tax year 2020; drops to 22 percent for tax year 2021, then expires December 31, 2021.

Wind

The Montana state investment tax credit is for the entire investment, but tops out at \$500 per taxpayer. Property tax exemptions up to \$20,000 may also apply over 10 years, applying only to any tax increase resulting from the renewable energy installation.

As with any small electrical generation system, wind energy can be used directly or stored by a battery array. Some investors will negotiate an agreement with their electrical providers to tie into the grid and be credited for the energy generated. Note that a standard net-metering arrangement with NorthWestern Energy calls for wind systems to have a peak capacity of 50 kW or less. Montana electric co-op agreements typically are for 10 kW or less.

Solar

Photovoltaic panels (PV) generate electricity directly and are a popular choice for individuals and small-scale commercial applications. These installations may be stand-alone systems with battery storage, or may be net-metered systems.

Solar thermal applications are commonly installed for domestic or commercial space heating and to provide hot water. To capture the federal credit, a solar thermal system must provide at least half of the energy needed to heat the dwelling's water.

30 percent federal investment tax credit per project can be claimed by individuals for solar systems. The federal credit is 30 percent of the entire renewable investment, including engineering and installation costs through December 31, 2019. The credit decreases to 26 percent for tax year 2020, drops to 22 percent in tax year 2021, and expires December 31, 2021. The credit is available for existing and new home construction, including second homes. Rental homes do not qualify.

The Montana credit is the cost of the investment, but carries a limit of up to \$500 per taxpayer. For the Montana credit, the system must be installed for a primary residence. A qualifying thermal water heating system must be used for the primary residence, and not for a swimming pool or hot tub. State or federal credits for thermal systems cannot include expenses for standard plumbing fixtures ordinarily required of a dwelling.

Similarly, photovoltaic systems cannot include expenses for electrical wiring beyond that required of the solar application, inverters, batteries and/or meters.

Ground-Source Heat Pumps

Ground-source heat pumps can provide very efficient space heat to residential and commercial buildings. However, a great deal of pipe is typically laid in six to eight foot deep trenches around the structure, which often precludes retrofit applications. Wells are also sometimes used, even ponds and streams. Geology keeps these sources at an almost constant temperature year-round. Heat can be withdrawn from these geothermal sources and delivered to a living or work space. Many systems can be run in reverse, providing summertime space cooling. Access to the heat exchange aspect of this technology and the cost of compressors and motors make the up-front cost of ground-source heat pumps quite high. However, the low cost to heat building spaces over the years is almost unrivaled among competing systems.

The Montana credit is the cost of the investment, up to a \$1,500 credit for geothermal heat systems. To claim, use the ENRG-A tax credit form. For this credit, the system must be installed for a primary residence, either newly constructed or an established home. The \$500 renewable energy credit could be taken instead of the \$1,500 credit, but both credits cannot be claimed for the same project. Once again, state credits for these types of systems cannot include expenses for standard plumbing fixtures. Montana state tax credits do not have an expiration date, and will stay in effect until the legislature acts to change them.

Resources

For further information on renewable energy tax credits, visit the Database of State Incentives for Renewables & Efficiency at: <http://programs.dsireusa.org/system/program?fromSir=0&state=MT>

The federal Energy Star site may also be of some assistance: www.energystar.gov/index.cfm?c=tax_credits.tx_index

The Montana Department of Revenue website <http://revenue.mt.gov/home.aspx> offers details on state and federal tax credits as well.