

Residential Solar Energy Credit

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This publication is for general information only. It is designed to assist taxpayers in complying with current laws and rules. In case of inconsistency or omission, the Arizona Revised Statutes (A.R.S.) and/or the Arizona Administrative Code will prevail over the language in this publication.

NOTE: To claim this credit, complete Arizona Form 310, Credit for Solar Energy Devices.

For more information, see Form 310 and instructions at: www.azdor.gov/forms/tax-credits-forms.

Q1. Who is eligible to take the solar energy credit?

A1. An individual who is an Arizona resident who is not a dependent of another taxpayer is eligible to take the solar energy credit.

Q2. What is the amount of the solar energy credit?

A2. The solar energy credit is equal to 25 percent of the cost of the device. The maximum credit in a taxable year cannot exceed \$1,000, and the cumulative solar energy credits allowed for the same residence cannot exceed \$1,000. The maximum credit a taxpayer may take for all solar energy devices installed in the same residence cannot exceed \$1,000 in the aggregate.

Q3. If the solar energy credit is more than the taxpayer's Arizona income tax, can the taxpayer carry the unused amount of the credit forward?

A3. If the allowable credit exceeds the taxes otherwise due, the taxpayer may carry the credit forward for a period not exceeding five years.

Q4. What is a solar energy device?

A4. A solar energy device is a system or series of mechanisms which collect and transfer solar generated energy and which is designed primarily to:

- provide heating;
- provide cooling;
- produce electrical power;
- produce mechanical power;
- provide solar daylighting; or
- provide any combination of the above by means of collecting and transferring solar generated energy into such uses either by active or passive

means, including wind generator systems that produce electricity.

Solar energy systems may also have the capability of storing solar energy for future use. Passive systems must clearly be designed as a solar energy device, such as a trombe wall, and not merely as a part of a normal structure, such as a window.

Only a system or device which performs one or more of the above functions qualifies for the credit. An individual component of a system does not qualify for the credit by itself.

Q5. What types of devices qualify for the credit?

A5. For the purposes of the solar energy credit, the following devices, when used for residential purposes, qualify for the credit:

- Solar domestic water heating systems - collectors, storage tanks, heat exchangers, and piping, valves, wiring, etc., directly related to the solar system.
- Solar swimming pool and spa heating systems - collectors, heat exchangers, piping, valves, wiring, etc., directly related to the solar system.
- Solar photovoltaic (PV) systems - collectors, batteries, inverters, solar system related wiring, including solar PV for RVs used as a residence. End-use appliances (even if they are 12 vdc) are excluded unless they are manufactured specifically for PV applications.
- Solar PV phones, street lighting, etc. - collectors, batteries, inverters, solar system related wiring. Phone, lights, etc., are excluded unless they are manufactured specifically for PV applications.
- Passive solar building systems - trombe wall components, thermal mass, and components specifically designed for energy gains. Dual pane windows, low-e, and other window coatings, etc., are excluded.
- Solar daylighting systems - those devices and systems specifically designed to capture and redirect visible solar energy while controlling the infrared energy (conventional skylights are specifically excluded).
- Wind generators - windmill, structure,

generator, batteries, controls, wiring, and other components directly related to the wind generator. End-use appliances are excluded.

- Wind-powered pumps - windmill, structure, pump, pipes, and other components directly related to the wind pump.

Q6. What types of devices *do not* qualify for the credit?

A6. The following devices do not qualify for the credit.

- Conventional plumbing components - water softeners, drinking water systems, etc., even if they are provided (gratis or otherwise) as part of the system.
- Conventional controls - load controllers, programmable thermostats, etc., even if they are provided (gratis or otherwise) as part of the system.
- Conventional heating/cooling systems - air conditioners, heat pumps, evaporative coolers, furnaces, regardless of efficiency.
- Conventional windows and window treatments - dual-pane, low-e, shade screens, reflective and dark coatings, awnings, interior shades, drapes, and blinds.
- Conventional skylights.
- Appliances (all voltages) - refrigerators, lights, fans, TVs, etc., unless they are manufactured specifically for PV systems.
- Fans - ceiling, window, attic, interior, unless they are manufactured specifically for PV applications.
- Paint - ceramic, reflective roof coatings.
- Insulation (includes "outsulation") and radiant barrier.
- Weather stripping, caulking.
- Misting systems.
- Vegetation - shade trees, shrubs, grass.
- Solar energy cars.

Q7. If a taxpayer takes the solar energy credit, can the taxpayer take depreciation on the Arizona return for the solar energy device?

A7. The credit is in lieu of any allowance for Arizona purposes for wear and tear of the device under Internal Revenue Code § 167. Amounts of depreciation included in the taxpayer's federal adjusted gross income for the solar energy device for which the credit is taken must be added to the taxpayer's Arizona gross income when computing Arizona adjusted gross income. (Note: the depreciation must be added back for

each period in which it is deducted for federal purposes.)

Q8. How will a taxpayer know whether the solar energy device that he or she purchased and installed qualifies for the credit?

A8. The person who sells a solar energy device in Arizona must furnish a certificate to the buyer that the solar energy device complies with Arizona's solar energy device requirements.

Q9. What requirements must be met in order for a solar energy device to qualify for the credit?

A9. Requirements:

- The collectors, heat exchangers, and storage units of a solar energy device that is sold or installed in Arizona, and the installation, must be warranted for a period of at least two years.
- The remaining components of the solar energy device and their installation must be warranted for period of at least one year.
- A solar energy device that is sold or installed in Arizona must comply with any consumer protection, rating, certification, performance, marking, installation, and safety standards that are required by A.R.S. 44-1763.

The installation of a solar energy device must comply with:

- All applicable fire, safety, and building codes;
- Consumer protection standards, including freeze protection and temperature related damage standards; and
- All other applicable federal, state, and local laws

Q10. What is required of a person who sells or installs solar energy devices?

A10. Requirements:

- Any person who manufactures, furnishes for installation, or installs a solar energy device must provide with such device a written statement of warranty, responsibilities assumed or disclaimed, and performance data for the solar energy device and components of the solar energy device.
- A person who sells a solar energy device in Arizona must furnish the buyer with a certificate that the solar energy device complies with the requirements of the Arizona Revised Statutes regulating solar energy devices.
- An individual who installs a solar energy device in Arizona, in addition to being a licensed solar contractor under Arizona law,

must:

- Possess the general license that is appropriate to the type of solar energy device that is installed. Installers of a solar water heater must possess a plumber's license. Installers of a photovoltaic device must possess an electrician's license.
- Meet any education and training standards that have been adopted by the Registrar of Contractors.
- Pass an examination on the installation of the type of device to be installed, if the Registrar of Contractors has adopted such an exam.

Q11. Is an individual who designs and installs his or her own solar energy device entitled to take the solar energy credit?

A11. Yes. The solar energy device must meet the required criteria except for the warranty and professional licensing requirements.

Q12. What type of documentation should a taxpayer keep with his or her tax records when the solar energy credit is taken?

A12. The taxpayer should keep documentation to substantiate that the system meets the required criteria and to substantiate the cost of the system.

Q13. May a taxpayer claim a credit on a second residence if the taxpayer is also claiming a credit on his or her principal residence?

A13. Yes. The taxpayer may claim the credit of up to \$1,000 for a second residence, but the maximum credit which may be utilized in a taxable year is \$1,000.

Q14. If a taxpayer installs a solar energy device on his or her recreational vehicle, is the taxpayer eligible to take the solar energy credit for that device?

A14. If the recreational vehicle is considered to be the taxpayer's residence, a solar energy device installed on that vehicle would qualify for the credit.

Q15. Do repairs of existing solar energy systems qualify for the credit?

A15. No. The credit is allowed for the installation of a qualifying solar energy device. The addition of a new component part or ancillary equipment to an existing system would not qualify.

Q16. Can a taxpayer take the solar energy credit for solar energy devices installed on residential rental property owned by the taxpayer?

A16. No. A taxpayer is eligible for the credit only for

a solar energy device installed in the taxpayer's residence located in Arizona.

Q17. May a taxpayer who rents take the solar energy credit for a solar energy device installed on his or her rented residence?

A17. Yes. A taxpayer is eligible for the credit for a solar energy device which the taxpayer installs in his or her residence without regard to whether the taxpayer rents or owns that residence.

Q18. May a taxpayer who leases the solar energy device or enters into a power purchase agreement (PPA) claim the credit?

A18. No. If the taxpayer leases the solar energy device, the taxpayer would not qualify for the credit. The lessee does not own the solar property on the date the property was placed in service. Therefore, the lessee would not have incurred any costs of the device. In this case, the lessee would not be eligible to claim the credit since the person's cost would be zero.

If the taxpayer enters into a power purchase agreement (PPA), there would be no cost incurred by the taxpayer for the device because the taxpayer does not own the solar property. The third party PPA administrator is the party that owns the solar property and that is the party that has incurred all of the costs of the solar property. Therefore, the taxpayer upon whose property the solar equipment was installed would not be eligible to claim the credit since this taxpayer's cost of the device would be zero.

For more information, see the department's income tax ruling, ITR 13-4, *How do leases and power purchase agreements (PPA) impact the residential solar energy device credit?*

For Additional Information, call:

Phoenix(602) 255-3381
Toll free from area codes 520 & 928(800) 352-4090

Or Write to:

Arizona Department of Revenue
Taxpayer Information & Assistance
1600 W Monroe
Phoenix AZ 85007

For information on the Commercial/Industrial Solar Energy Credit from the Arizona Commerce Authority, go to:
www.azcommerce.com/incentives/commercialindustrial-solar.

This publication is available in an alternative format upon request.