

Vermont Department of Taxes  
**TECHNICAL BULLETIN**

**TAX:** Income Tax

**TB-45**

**SUBJECT:** Solar Energy Investment Tax Credit

**ISSUED:** March 23, 2009  
**REVISED:** July 14, 2009;  
July 25, 2010; July 27, 2018

**STATUTORY REFERENCES:** 32 V.S.A. §§ 5822, 5930z

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The purpose of this bulletin is to describe the application of the solar energy investment tax credit. Individual Vermont taxpayers may claim 24 percent of the federal investment tax credits for which they are eligible against their Vermont income tax. 32 V.S.A. § 5822(d); I.R.C. § 48. Like the other investment tax credits, the Vermont solar energy investment tax credit is only available for the Vermont-property portion of the investment.<sup>1</sup> 32 V.S.A. § 5822(d)(1). However, the solar energy investment tax credit is the only component of the investment credit that may be carried forward for up to five years. 32 V.S.A. § 5822(d)(2). This credit is not available to C corporations, and Vermont no longer provides a business solar energy tax credit for 100 percent of the Vermont-property portion of the federal credit.

The actual amount of credit available to taxpayers is limited by their tax liability. This limitation applies to both the federal and the Vermont credits.

#### **Internal Revenue Code Section 48**

The solar energy investment tax credit is one of several federal investment tax credits established in the Internal Revenue Code (I.R.C.). I.R.C. §§ 46, 48. The solar energy credit applies to property that uses solar energy either (1) to illuminate the inside of a structure using fiber-optic distributed sunlight; or (2) to generate electricity, to heat or to cool (or to provide hot water for use in) a structure, or to provide solar process heat (but not to heat a swimming pool). I.R.C. § 48(a)(3)(A).

The federal credit for all solar energy property investments starts at 30 percent of the investment, and is phased out over time with a tiered reduction in the percentage of the investment, depending on the type of solar energy investment, and the year in which it is placed in service.<sup>2</sup> As the Vermont credit is 24 percent of the Vermont-property portion of the federal credit, the phase-out and reduction of the federal credit will proportionately reduce the amount of the Vermont credit.

#### **Claiming and Applying the Credit on Tax Forms**

This credit is not available to C corporations. Taxpayers must first be eligible for and claim the federal solar energy investment tax credit on IRS Forms 3468, 3800, and the relevant federal income tax return. Copies of all relevant forms filed at the federal level must be provided at the time of claiming the Vermont credit, including IRS Form 8582 regarding passive activity

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<sup>1</sup> Vermont does not offer a state tax credit for residential solar installations. Homeowners may be eligible for a federal residential energy tax credit. See IRS Form 5695.

<sup>2</sup> I.R.C. § 48(a)(3), (a)(6). The federal credit for fiber-optic solar energy property phases out earlier than the credit for other solar energy property. I.R.C. § 48(a)(3)(A).

limitations and IRS Form 4255 regarding recapture of the credit. Taxpayers are then eligible to claim 24 percent of the Vermont-property portion of the federal credit allowed against the taxpayers' federal income tax for the taxable year. 32 V.S.A. § 5822(d)(1).

Businesses other than C corporations can claim the credit on the Schedule BA-404. In order to apply or carry forward the credit at the business level, a business must also file a composite return using the Schedule BI-473. Pass-through businesses, such as partnerships, may allocate the credit to other businesses or individuals via the Schedule BA-406. Individuals, including members of pass-through businesses and sole proprietorships, can claim, apply, or carry the credit forward on Schedule IN-112, Part II, and apply the credit on Schedule IN-111. In the case of a pass-through business that is filing a composite return in Vermont, but whose individual members filed the IRS Form 3468 to claim the credit at the federal level, the business must provide copies of its members' 3468 forms.

### **Carryforward**

Any unused Vermont solar energy investment tax credit may be carried forward for up to five years after the first year in which the credit is claimed. 32 V.S.A. § 5822(d)(2). The amount eligible for carryforward is the portion claimed on the appropriate Vermont form, but not taken in that year. If the credit is not applied in the year that it is claimed, or within the following five years, it expires.

### **Expired Carryforward of Section 5930z Business Solar Energy Tax Credit**

Section 5930z of title 32 of the Vermont Statutes Annotated created the business solar energy tax credit for 100 percent of the Vermont-property portion of the federal investment tax credit. Any unused business solar energy tax credit could be carried forward for up to five years. 32 V.S.A. § 5930z(e). As 2011 was the last year in which a Section 5930z credit could be claimed, tax year 2016 was the final year to which a credit carried forward could be applied.

### **Credit Recapture**

If a credit is recaptured in whole or in part at the federal level, there is also a proportionate recapture of the Vermont credit. 32 V.S.A. § 5822(c)(1)(B). Due to differences between Vermont and federal rules for calculating the credit and carryforward, taxpayers are responsible for maintaining records that clearly track the value of both the federal credit and the Vermont credit. Taxpayers must enter the recaptured amounts from IRS Form 4255 on Schedule IN-112, Part II.

Approved:

  
Kaj Samsom, Commissioner

July 27, 2018