# Goodbye ITC, Hello CEIC: Two Versions of the Solar Panel Credit

Helena Carmel (00:03)

Hello, I'm Helena Carmel. Welcome to another episode of Capstan Live. In the last year, we've featured a lot of guests in our amazing Beyond the Spreadsheet series. We did get some feedback from listeners who missed our more technical episodes. So Capstan Live is returning to scratch that itch. But don't worry, Beyond the Spreadsheet will be back.

Today we're pivoting to discussing an energy incentive that's undergone some recent changes. And we're lucky to have Bill Harbison, Capstan's Director of Energy Incentives, here today to shed some light on the subject. Welcome, Bill.

Bill Harbeson (00:47)

Thanks for having me.

Helena Carmel (00:49)

Thanks for coming on. I know you're busy during tax season. We appreciate your time.

Bill Harbeson (00:54)

No problem. We are very busy, certainly always willing to take the time to have these kinds of conversations. Thanks again for having me.

Helena Carmel (01:04)

We're here to talk about the Investment Tax Credit, also known as the Energy Investment Credit. Can you start by giving me a basic overview?

Bill Harbeson (01:08)

Sure. So the Investment Tax Credit, as we know it, is now over and has now transformed into the Clean Energy Investment Credit. For most taxpayers, especially probably the people that are going to be listening to this podcast, they will notice little difference between the two.

That said, the Investment Tax Credit was an incentive for businesses and individuals to invest in clean energy production storage in their residence or business. That included things like wind, solar, geothermal systems, microgrid technology. There's a prescriptive list of items that fall within that credit.

And what it is, is a 6 % credit of the costs incurred to place such equipment into service. That 6 % can go to 30 % if certain requirements are met:

- One, if you are putting into service less than one megawatt of equipment per year, you automatically qualify for that higher credit amount, 30%. If you don't, if you're putting in larger arrays, if you are a business and let's say you're putting in a solar array on your entire warehouse roof, it's gonna be a lot more than that.

- The other way to qualify for that 30% bump is that if the equipment was installed paying prevailing wage to all laborers, all mechanics, electricians, anybody having anything to do with the project. In addition to the contractors, subcontractors, et cetera, participating in a registered apprenticeship program or attempting what's called a good faith effort is also required to participate.

Helena Carmel (03:32)

Of course, just to clarify, so that good faith effort is like, *you tried to find qualified interns and you just simply were not able to, and that's not your fault, right?* Okay.

Bill Harbeson (03:40)

That's right. Yeah,

*I went on to apprenticeship.gov. I put my project on the website. I said we are inviting interns to come and do this installation with us.* If no one shows up or if not enough people show up, well, you have made that good faith effort and you automatically you then you have checked that box.

So that 30% can go up if there's some other requirements met. You get an extra 10% if the equipment was installed using domestic content. So if the equipment was produced in the United States, if the steel that is holding the equipment up was made in the United States, et cetera, you get a bump from 30% to 40%. That can go all the way up to 70% if you are in what's called like an energy area, or if you are in a -- I forget what the term is exactly because it's now expired -- but there's a few extra benefits of depending on the geography of the United States where your project is. And we can help you with that if you're considering different locations for such an installation.

Helena Carmel (04:57)

I saw it written as a "low income community bonus." Is that what you're referring to?

Bill Harbeson (05:01)

That's right, the low income community. And then there's also like the energy area. So if you are in a historically energy-producing part of the country, let's say you are in a community that used to thrive off of coal mining. Coal mining is not what it used to be. So they've incentivized you to put solar in that kind of area to kind of keep industry going, keep energy production in those areas, just different kind of energy production.

Helena Carmel (05:30)

When I was reading Bill, I saw the term brownfield site. Can you please explain?

Bill Harbeson (05:37)

So so brownfield and anybody that's in construction will understand the terminology. We have greenfield and then we brownfield. Brownfield sites in this instance or this case *are* those kind of energy areas. If that's where that's where you do energy production, but no longer, because again, like, let's say coal is phasing out, which it is. So that is all.

Helena Carmel (05:58)

*That* is a Brownfield site. Okay, got it.

Bill Harbeson (06:06)

That is all for the Investment Tax Credit, which is now evolving for any project starting after January 1st of 2025. They will apply to the rules for the Clean Energy Investment Credit. Again, for our listeners, for the most part, they're going to see a little difference.

But the sentiment behind this change is to move from a prescriptive list of items that will fall that will qualify for this credit and broaden it. It makes it what's like what people consider to be technology neutral or agnostic. It is not say, *that if you install this, you get a credit, install that, you get a credit*. If you produce energy and it is designed to be carbon neutral, zero emissions, then you can qualify.

So solar unchanged, right?  Between Investment Tax Credit, Clean Energy Investment Credit, because it is a zero emissions energy source. But now things like nuclear fall into that, which again, most listeners aren't probably installing or designing nuclear power plants, but that's our direction.

Helena Carmel (07:19)

But maybe some are. It opens the door...

Bill Harbeson (07:24)

Yes, so not only nuclear technology, but again, any it, the nice thing is it leaves it open ended. So if there's some, you know, carbon neutral zero emissions production method out there, you can qualify for that six to 30% credit for the amount spent.

Helena Carmel (07:48)

While it opens the door though to things like nuclear and other potential options, it does close the door to some things, right?

Bill Harbeson (07:58)

Yeah, a few things are going to go away. It is focused on clean energy *production*, so anything that has to do with like energy storage, that sort of thing, some of those things are going to fall off. Like microgrid technology is not going to be as strong as it used to be. One thing that's unchanged is geothermal. Geothermal is not an energy production technology. It is an energy saving technology.

Anybody that's installed HVAC in the past 10 or 15 years, I'm sure you've heard of geothermal systems. It is a very efficient HVAC system, and it is relatively unchanged between the Investment Credit and the Clean Energy Investment Credit. So if you're installing a geothermal system into your building, integrating that, there is a credit available to it.

And I think that's probably one of the least understood parts about these credits, because people think Investment Tax Credit, think the CEIC, they're thinking production, wind, solar, et cetera. But for the geothermal systems, you're gonna be able to claim a credit for that as well. The changes that we're seeing are, I think, good ones. I think it's incentivizing the behavior that Congress had in mind when they passed this legislation.

But the other good news here is that for most of our clients at Capstan, they're gonna see a little change. The way that we do these studies is the same. It's just the kind of technologies that we approach and that we work with are slightly different.

But again, the bread and butter, the fast ball for these programs is solar. And in that sense, it's unchanged. So if you were considering a solar array, installing some solar, there is a credit available to you. There has been for some time and it's going to be around for a while. So, you know, certainly worth reaching out to somebody like us to answer your questions there.

Helena Carmel (10:09)

And I'm glad you mentioned it's going to be around for a while, because it's not permanent, right?

Bill Harbeson (10:16)

Right. There is a sunset period. Whether it's one of two things happen. If the government, the United States reaches their carbon footprint reduction goals, the program will phase out. Or we get to the year 2032, whichever one happens first. My guess is that we're going to get to 2032 first.

Helena Carmel (10:52)

I was just going to say, what are you putting your money on? [Laughter]

Bill Harbeson (10:55)

Yeah, right. So I think we're gonna get to 2032 first. There is a lot of money set aside for these programs. And it's been quite a bit it's been claimed already, actually, a very large portion of it's been claimed already. So it's yeah, like I said, you've got you've got another almost 10 years to claim these and put these projects into motion.

But I'd recommend, especially with the recent administration change, if you're considering something like this, I would consider it quickly because laws do change. They don't change retroactively. So if it's a credit you're interested in pursuing, should probably at least start asking questions now.

Helena Carmel (11:48)

Bill, you're reading my mind because I also was going to say, *so in light of the new administration*... Okay, excellent. So, it's an important credit. It's a useful credit. It's a valuable credit. And it's a credit that if somebody is interested in, they should start considering it sooner than later.

So what if I'm considering it? The best way to claim the credit is...

Bill Harbeson (12:03)

So great question. There's a couple of steps that have to happen. First off, work with a trusted consultant, someone that knows these programs, not only at the national level, but at your local level. There are so many local and state rebates for these kinds of programs that even a company like Capstan can't keep track of every single one of them. So we'll help you with that. Like if you reach out to us, we'll certainly put you in contact with people at the local level. But somebody that knows what they're talking about at each levels of those governments.

You need to decide what your goals are as far as energy production. How much energy does your business consume? Do you want to take it completely off the grid? Do you want to take it partially off the grid and sell some energy back to the utility companies, for instance, which you can certainly do. And then set your budget, and then actually execute the projects. With all of that in mind, funding sources, how you can pay for the project, how are going to meet costs, that's where a company like Capstan comes in, help you connect you with funding, but also on the back end, the tax incentives, which is of course what we're talking about today.

Helena Carmel (13:28)

I see. And the credit itself helps pay for the installation of the system.

So we're a cost segregation firm. And I know that one popular way to claim the credit is to do it as an add-on to a cost segregation study. What's the benefit of doing it that way, as opposed to kind of doing things sort of piecemeal or DIY?

Bill Harbeson (13:32)

Well, I like to tell people that these studies, when we're calculating these credits, it is first and foremost a cost segregation exercise. The statute reads that the credit is claimed from the five-year class life of this energy equipment. So before you can do anything, you need to segregate those costs from the 39-year bucket into a five-year class life.

And that's where a competent cost segregation company is going to come in. That we are capturing every single eligible cent and not an extra cent after that. That we are capturing *only* what is an eligible cost, but capturing *all* of those eligible costs. So in addition to that, your equipment in that five-year class life is also subject to bonus depreciation. So if you get that right, with the help of a good cost partner, you've not only claimed the credit, but you'd also claim the bonus depreciation for the 5-year class life assets left over.

So there's a lot of solar companies out there. There's a lot of new solar companies out there that have hitched their wagon to the Inflation Reduction Act star. And a lot of them have done a decent job of kind of putting the numbers together, connecting the dots of *if you spend this much money, it'll turn into that this much of a tax credit*. But that's kind of where their expertise stops, right? After they do the arithmetic, you know, how does it get claimed? What steps have to be taken? And I wouldn't expect a solar installer to understand that. And that's where a tax expert, a cost expert like us will come in and really fill in the gaps, make sure that you're compliant, which is a big part of it.

And again, that we're maximizing the credit calculated.

Helena Carmel (15:58)

So claiming the credit via cost seg is not only defensible, but it's making sure you're fully leveraging the credit. And hopefully, that accelerated depreciation and other benefits.

Bill Harbeson (15:59)

Right. That's right. In addition to all that, there's some economy of scale. If you go to one provider, and they do the cost seg exercise for you and the calculations, the solar credit calculations for you, you should expect to get a break on the pricing, just because we're working hand in hand to get that work done.

There's not a whole lot of operations out there that do all of those things. There's a few, but I would encourage anybody who's interested in these credits to talk to somebody who's been in the game for a while. I know these are not new credits, but they're newly enhanced with the Inflation Reduction Act. And because of that, just like with solar, there's a lot of people coming out of the woodwork saying, *yeah, we can do these incentives too*. *We're an engineering company too*. *So we can, we can also calculate these things*. So I would ask the questions like, *how many of these have you done? You know, how many of these have you defended in audit? What's the dollar amount of credits that you've calculated for people?* And they should be able to give you some good answers there. And if not, I would consider reaching out to some other providers.

Helena Carmel (17:29)

Doing your homework, always good advice. One other question, Bill. So what if a taxpayer already did a cost tax study, you know, a year or two ago, and now they're like, hey, I'm considering a solar array. How do you advise that person?

Bill Harbeson (17:46)

Right so let's say I've got an existing business and everything's good to go. The building needs nothing except that I'm interested in adding solar to it. Solar is kind of the prime example here, but this includes wind and microgrid and energy storage, things like that, battery storage. But let's say the only thing I want to do is install a solar array. This is not part of a new construction or major renovation or anything like that. I'm just installing solar. The process stays the same. Just like when you reinvest in your business, you would update your cost seg study to include those new costs. This is no different.

And we could also do just a one-off cost segregation study for you. That study is going to be way more straightforward because every nickel that you spent was to put that equipment into service. And because of that, you should expect that to be reflected in the pricing of a provider like us, but the process is still identical because at the end of the day, we still need to make it a compliant product. We still need to make one that's defensible. And so you will get a cost seg report.

And what that's gonna do is, should the IRS ask questions -- and this is large dollar amounts so there's a good chance that they do ask questions -- we can point to a completed well-formatted cost segregation study that says this is where every single cost came from. These are the receipts to show for it. It makes the process way more smooth. We often see that the initial document request, that's where it is. They say, okay, you've answered a question, so, you no need to open the books. so, yeah.

Helena Carmel (19:33)

That's what you want. You're all buttoned up and here's all the docs and we're good. That's the best case scenario, right?

Bill Harbeson (19:36)

Absolutely.

Helena Carmel (19:47)

Bill, thank you so much. feel like you clarified a lot of questions I didn't even realize I had. Any other final thoughts, any takeaways for our listeners? Or did we hit the high points?

Bill Harbeson (19:51)

No, I think we captured the salient points. I certainly don't expect our listeners to walk away knowing exactly how to do this. Merely that if you're interested in a program like this, if you're interested in installing some solar, a company like us can point you in the right direction. We do our reviews, our upfront consulting totally gratis with the hope that you come to us for the compliance work down the road.

Helena Carmel (20:28)

And if someone's listening, they're like, *this guy knows what he's talking about. I want to reach out to him.* How do they call you?

Bill Harbeson (20:36)

Well, our website's actually really well laid out. It's got contact information. It's got my contact information on there, but really any phone number that you find on that website is going to point you in the right direction. Everybody at Capstan is active on LinkedIn. So if you want to get ahold of us, you will not have a hard time.

Helena Carmel (20:50)

Excellent. We'll put the details in the show notes too. Well, thank you so much for joining us again. We appreciate your time. It is a busy time and we thank you.

Bill Harbeson (21:04)

Thank you so much for having me. This is my favorite part of my job.

Helena Carmel (21:12)

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