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# Investment Tax Credit for Energy Storage Technologies

Businesses that install qualifying energy storage systems may be eligible for a dollar-for-dollar federal credit that directly reduces tax liability by 30% or more. Recent legislation has eliminated the co-location requirement for an energy storage system, expanding the types of technologies that are now eligible.

## TWO TYPES OF INCENTIVES

There are currently two types of credit available, with the construction start date determining which incentive is in play:

| | Investment Tax Credit (ITC) | Clean Energy Investment Credit (CEIC) |
|---|---|---|
| Code Section | Sec. 48 | Sec. 48E |
| Construction Start Date | 1/30/2023 - 12/31/2024 | On/After 1/1/2025 |
| Carbon Emission Rates | Not Considered | Must be Zero or Net-Negative |
| Phase Out Begins | -- | 12/31/2032 (or when GHG emissions drop to 25% of 2022 levels) |
| FEOC Thresholds | Do Not Apply | Apply to Projects Beginning Construction On/After 1/1/2026 |

## CREDIT BENEFITS

ITC and CEIC rates are identical – and both are dependent on the satisfaction of Prevailing Wage and Apprenticeship Requirements*:

- PWA Satisfied: 30% Credit
- PWA Not Satisfied: 6% Credit

A taxpayer can recoup up to 30% of the cost of the system and its installation.

There are several add-ons that can stack atop the base Credit:

- 10% Add-on for Domestic Content (all steel, iron, manufactured components produced in US) [2-4% if PWA unmet]
- 10% Add-on for Energy Communities (brownfield site, census tract, etc.) [2-4% if PWA unmet]
- 10-20% Add-on for Low-Income Communities (by application only, only projects ≤ 5MWac may apply)

## EXAMPLE: BATTERY ENERGY STORAGE SYSTEM (BESS)

**Project Timeline:**

- Construction Began: November 2023
- Placed-in-Service: March 2026

**Tax Credit Calculation**

- Eligible Project Costs: $2,461,893
- Base ITC (30%): $738,568
- Energy Community Bonus (10%): $246,189
- **Total Credit (40%): $984,757**

*Small projects less than 1 MW do not have to meet PWA and automatically qualify for 30% Credit rate


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## ELIGIBLE TECHNOLOGIES

Battery Energy Storage Systems (BESS) – store electricity, release electricity

- Lithium-ion batteries (Li-ion)
- Lithium iron phosphate batteries (LFP)
- Solid state batteries
- Flow batteries

Thermal Energy Storage Systems (TES) – store heat, release heat or electricity as needed

- Sensitive heat storage (SHS)
- Latent heat storage (LHS)
- Thermo-chemical heat storage (TCHS)

Eligible systems must have capacity of at least 5 kWh.

Standalone energy storage systems are now eligible – systems no longer need to be tied to a grid, solar system, or energy generation facility.

## FOREIGN ENTITY OF CONCERN (FEOC) REQUIREMENTS

To qualify for the Credit, energy storage systems that begin construction on/after 1/1/2026 must meet a certain "material assistance cost ratio." This means that taxpayers must source the majority of project costs from companies with no ties to "Prohibited Foreign Entities (PFEs)."

If construction commences in 2026, at least 55% of your system costs must not be from a PFE. Each year the non-PFE percentage increases as follows:

| Year Construction Commenced | Minimum % of System Costs Not From an PFE |
|---|---|
| 2026 | 55% |
| 2027 | 60% |
| 2028 | 65% |
| 2029 | 70% |
| 2030 | 75% |

*If a project falls below these annually increasing thresholds, it will be ineligible for the CEIC Credit. Additionally, an immediate recapture penalty may apply.*

## ENERGY STORAGE & COST SEGREGATION

- An ITC/CEIC Study is an easy add-on to a Cost Segregation Study which is already quantifying and assigning costs to all building assets
- Additionally, components of the energy storage system may also be eligible for accelerated and bonus depreciation

## NEXT STEPS

If you're considering an energy storage project, it can become the centerpiece of a comprehensive – and lucrative – tax plan.

*Let's talk about possibilities.*

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Learn More: https://capstantax.com/investment-tax-credit-and-clean-energy-investment-credit/



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