**Federal Support for Solar Arrays – Energy Incentive Tax Credit**

**Inflation Reduction Act: Clean Energy Project Eligibility for Local Governments**

Local governments can show leadership by integrating solar into government facilities and properties, including schools. Solar on government buildings can directly benefit the community by adding renewable energy to publicly available communal spaces, reduce government energy costs, and provide educational opportunities. Leading by example can educate area residents and businesses and encourage them to adopt solar. Local governments often own land and facilities near electricity load centers, making them good hosts for renewable energy generation.

The Inflation Reduction Act is the largest federal investment in climate and clean energy. With a mix of federal funding and tax credits, the law includes a new mechanism for tax-exempt entities, such as cities, towns, and villages, to take advantage of many of the new clean energy tax incentives included in the law. This legislation levels the playing field between taxpaying and non-taxpaying entities and opens the door for local governments to access these incentives.

Effectively, the tax credit is “refundable”. Under the IRA, the amount of the credit will be paid to the tax-exempt entity when they make an election to receive the credit on a tax filing for the tax return in the year in which the project is placed in service.

**More info from the VLCT’s Federal Funding Assistance Program**

ARPA funds can be along with a federal tax credit. To use the tax credit, the Town would need to install and pay the full cost of the project. After the calendar year end of the year the array begins service, the Town would apply to the IRS for the tax credit. The tax refund payment becomes cash the Town can use for other projects and can be used as local match.

To use the Energy Investment Tax Credit (IRC § 48), construction must begin prior to 01/01/25. Projects under 1 MW can receive a 30% tax credit without meeting new labor standards if constructed before 2025. Beginning 2026, this tax credit ends, and there is a new tax credit with more stringent rules.

Note: The VLCT also gave us some misleading info by advising us to make the array’s capability no larger than the amount energy we would use. They encouraged us to consult with a tax advisor, to see if there are any issues no one is aware of that we should consider. They did not take into account that we would be setting up a net metering group and that we anticipate the need for additional electricity in the near future.

Furthermore, according to the US Department of Energy’s 2022 Homeowner’s Guide to the Federal Tax Credit for Solar Photovoltaics, if we generate any excess energy that is not used, “…payment from a public utility to compensate for excess generated electricity not consumed by the taxpayer but delivered to the grid (for example, net metering credits) are not subsidies…and do not affect the taxpayer’s credit qualification or amounts.”