



AFFORDABLE HOUSING SOLAR INVESTMENT TAX CREDIT

OVERVIEW

The federal government's Renewable Energy Tax Credit (RETC) program includes a variety of incentives to subsidize renewable energy technologies. The Investment Tax Credit (ITC) portions of this program provide a mechanism to help finance solar energy systems used to provide electricity or solar hot water. Depending on location, it's estimated that utilizing the ITC can help bring the payback for a photovoltaic array (PV) down from 12-15 years to 7-8 years.

ITC HISTORY

The ITC was originally implemented under the Energy Policy Act of 2005. The program was renewed for one year in 2006 under the Tax Relief and Healthcare Act, and again in 2008 for eight years under the Emergency Economic Stabilization Act. In 2015, Congress renewed the credit under the Omnibus Appropriations Act, but included a ramping down of the provision, meaning that the tax credit will be 30% of the full cost until 2019, decrease to 26% in 2020, 22% in 2021, and 10% in 2022, at which point only commercial construction will qualify.

UTILIZING ITC IN AFFORDABLE HOUSING

Unlike the Low-Income Housing Tax Credit (LIHTC), the ITC is not competitively awarded. The ITC also includes no maximum basis and no requirements regarding amount of energy production. Therefore, the ITC can effectively be applied to any project including solar energy, as long as the affordable housing developer retains ownership of the equipment. The developer cannot receive the credit if engaged in a PPA or solar lease.

As with LIHTC, non-profit housing developers cannot directly benefit from the ITC due to their lack of a tax burden. Therefore, it is necessary to find a third-party investor to purchase the credits. In order to receive the full monetary benefit of the subsidy, affordable housing developers can require the purchase of the ITC in the RFP soliciting LIHTC investors. Leveraging the desirability of LIHTC should allow developers to require a 100% pass-through of the solar investment tax credit.

ITC PERCENTAGE BASED ON YEAR OF CONSTRUCTION:

2017-2019

30%

2020

26%

2021

22%

2022 ONWARDS

10% - COMMERCIAL ONLY

ESTIMATED PAYBACK WITH ITC

7-8 YEARS

ESTIMATED PAYBACK W/O ITC

12-15 YEARS

ELIGIBLE ENERGY EXPENSES:

- Photovoltaic array
- Solar curtain wall
- Equipment sales tax
- Installation costs
- Step-up transformers
- Circuit breakers
- Surge arrestors
- Structural roofing (for PV only)

MORE INFORMATION ON ITC:

<https://www.energy.gov/savings/business-energy-investment-tax-credit-itc>

AFFORDABLE HOUSING + LBC:

<https://living-future.org/affordable-housing>



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HOPEWORKS STATION PHASE II

Hopeworks Station Phase II is a 67,000 square foot building located in Everett, Washington with three floors of residential space and one floor of commercial. The building includes a commercial kitchen with culinary training programs for formerly homeless youths and adults. The developer intends to purchase solar panels that are manufactured in-state in order to receive \$58,000 in operational benefits through a Washington State program. They intend to apply the 30% ITC to the cost of the panels, wiring, meters, depreciation, and canopy. The tax credit amount from the panels alone will be approximately \$100,000. This will enable the project to install a 200-kilowatt photovoltaic array that will fully offset the energy use of the residential portion of the project. They are targeting Energy Petal Certification under the Living Building Challenge.



LAKELINE LEARNING CENTER

Lakeline Learning Center is a 6,000 square foot community hub for a new affordable housing community in Austin, Texas. The center offers free afterschool programs, summer activities, and adult education. The project completed construction in May 2017 and is targeting Energy Petal Certification under the Living Building Challenge. Once certified, the project will be the first net-zero commercial building in Austin and will also be the first Living Building Challenge certified structure in Texas. To help achieve their target of net-positive energy, the project required their LIHTC investor to also purchase solar investment tax credits and pass them to the housing developer. The affordable housing developer was able to receive a total value of \$67,848 in tax credits (30% of eligible costs related to the photovoltaic system).

