



FLETT EXCHANGE, LLC

Homeowner's Guide

# Investment Tax Credits for Renewable Energy Facilities

11/2024

- [Intro: A Brief Case Study](#)
- [Federal ITC Overview](#)
- [Your Section 25 Credit](#)
- [Flett Ex. ITC Manager](#)

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# Table of Contents

Introduction: A Case Study	1
Explanation of Tax Credit Services in context	
Federal ITC Overview	2
The Investment Tax Credit Explained	
Section 25: Clean Energy Credit	3
Claiming the Credit	
Source Credit Forms & Tax Documents	
Flett ITC Manager - Intermediate Tax Service	4
Flett Exchange as an Intermediate Service Provider	
How we can help: <b>Step-by-Step Guide for receiving your Tax Credit</b>	

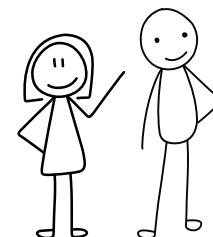
***The one and only source used to produce the Flett Exchange homeowner's guide to the Investment Tax Credit is the Inflation Reduction Act (2022).***

*IRA link: <https://www.congress.gov/bill/117th-congress/house-bill/5376/text>*

*For more information regarding the Investment Tax Credit, and the Flett Exchange ITC Manager Service, email us at [info@flettexchange.com](mailto:info@flettexchange.com) or call the office at 201-209-0234*

## Case Study: A couple installs a solar array on their home

Martin and Gina Installed a PV solar array on their primary residence. In addition to selling their SRECS through Flett Exchange, they were interested in claiming their Investment Tax Credit to offset the installation costs.



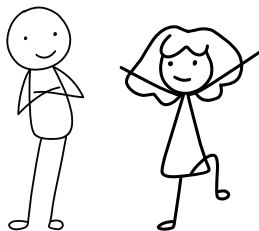
Martin and Gina used Flett Exchange as their **Intermediate Service Provider** for help with claiming their Investment Tax Credit. They were aware of their eligibility to claim the credit, but they wanted to make sure it was done right. Gina submitted the Flett 'ITC Manager' form and received the following:

- 1 A statement listing the qualified costs eligible for ITC calculation.

Labor & Hardware	\$ 22,000.00
Interconnection Costs	\$ 5,200.00
Permits	\$ 100.00
Solar Battery Equipment	\$ 2,000.00
Net Qualified Costs	\$ 29,300.00
Investment Tax Credit	\$ 8,790.00

- 2 Completed **Form 5695, Schedule 3**, and partially filled **Form 1040** (tax return). Martin forwarded this information to their accountant, who completed the rest of their Form 1040 and filed their tax return before April 15th.
- 3 A physical and digital copy of the **ITC Manager Audit Folder** which is a collection of supporting documentation for each individual tax credit claim intended for use in the event of an IRS audit.

Bottom Line: Martin and Gina saved **\$8,790** by using Flett ITC Manager to claim their ITC!



# The Investment Tax Credit Explained

*Eligible Taxpayers can use, buy, or transfer Investment Tax Credits from a qualifying Renewable Energy Facility*

## The Inflation Reduction Act

The Biden Administration passed the Inflation Reduction Act (IRA) in 2022. The IRA significantly expands incentives for investment in renewables projects by expanding on tax credits benefits for residential and commercial solar arrays, as well as wind and geothermal projects. The new tiered credit system offers a 30% base credit of the sum of qualifying project costs. Businesses, corporations, and tax exempt organizations are eligible to receive additional bonus credits in 10-20% tranches, however homeowners are capped at claiming 30% of total project cost.

## Residential Investors Note

Homeowners cannot trade their credits, but the majority of people can obtain their tax credit by claiming it on their Form 1040: Individual Tax Return. Ability to claim the credit is contingent on personal tax liability profile.

## ITCs & PTCs

The Investment Tax Credit is a one-time credit valued relative to the initial project cost and profile while the Production Tax Credit, for investment grade projects, is generated annually with the quantity of credits received depending on electricity generated in kWh. While the PTC rewards higher capacity projects and are claimed on a recurring basis for 10 years, the ITC is awarded upfront in the first year and is a more preferable option for investors with high cost of capital and bonus credit eligibility.

		ITC Unclaimed	ITC Claimed
Breakeven	yrs	12.99	<b>9.4</b>
Rate of Return	pct	5.72%	<b>10.75%</b>

*Figures above are based on a recent case study conducted by Flett Exchange LLC for a hypothetical 10 kW solar roof array installed in MD, 06/24. The figure below shows the economic impact of the ITC using a 20 year investment horizon.*

**Flett Exchange is recognized by the IRS as an Intermediate Service Provider.**<sup>1</sup>

# Section 25: Clean Energy Credit

## Claiming and Valuing the ITC

The Renewable Energy Investment Tax Credit is governed by IRC § 25. This credit is claimed against Federal Income Taxes and has a base value of 30% of the project's initial cost, which includes expenses like labor, raw materials, and many other expenses that may be incurred in the construction of the renewable energy facility. Section 25 credits are also exempt from prevailing wage requirements for projects with a system capacity of < 1MW. Eligible taxpayers can claim this credit on their respective source credit form, which is then attached to the taxpayers individual tax return, Form 1040.

## Source Credit Form: Form 5695

For residential renewable energy facilities, the Investment Tax Credit is claimed on Form 5695. This two part form records the qualified costs for construction of the renewable energy facility as well as any residential energy property expenditures made. Refer to the chart below for a list of qualified costs that can be listed on Part I and common energy property expenditures listed for Part II.

### § 25 Residential Energy Credit ("Qualified Costs", Part I)

1	solar panels & PV cells
2	inverters
3	electric wiring
4	racking and mounting equipment
5	labor costs for construction/installation
6	fees & inspection costs
7	battery storage (> 3 kW capacity)

### § 25 Energy Property & Energy Efficiency Expenditures ("Qualified Costs", Part II)

*A 30% credit, with a limit of \$1,200, may be allowed for*

1	exterior doors, windows and skylights
2	central air conditioners
3	natural gas, propane and oil heaters/boilers

# ITC Manager by Flett Exchange, LLC



## Processes and Service Timeline

A - Visit the **Tax Credits** tab on [FlettExchange.com](https://FlettExchange.com). Fill out the onboarding form to the best of your ability. A member of our team will follow up with you regarding any fields that are left unanswered.

B- Read and sign the Flett Exchange, LLC Tax Credit Management Service Agreement emailed to you via DocuSign

C- Read the Flett Exchange “Homeowners Guide to the Investment Tax Credit” to familiarize yourself with the process

D- Allow our team **1-2 weeks** to collect source documentation from counterparties involved in the construction of your renewable energy facility.

### E- **Receipt of Consideration**

**(1) ITC Manager Tax Package:** includes all necessary tax forms needed to claim your credit, including directions on how to file. You have the option to have our team forward this information to your accountant/tax preparer

**(2) ITC Manager Audit Package:** includes 4-12 source documents and credit forms for your personal records for use in the event of an audit from the IRS.

*Customers can choose between a physical packet mailed to their address on file and/or a digital copy. The base service charge for this service is \$150.00 (additional charges may apply) payable to Flett Exchange on the date of receipt of the Flett ITC Manager Tax & Audit Packages*