How Do I Claim My 2016 Federal and South Carolina Investment Tax Credits for My Renewable Energy System?

If you have recently purchased a renewable energy system, such as a solar photovoltaic (PV), a solar thermal heating and cooling system, or if you are considering investing in a system, the following is a brief step by step guide to assist you in filing and claiming your tax credits related to your system on your Federal Income Tax Returns.

(Note: If you purchased a renewable energy system prior to calendar year 2016 and have claimed tax credits in prior income tax years, and you have unutilized or carry-forward for your Federal or state income tax returns such as North Carolina income tax returns, please contact us and ask for a copy of our 2016 Credit Carryforward Guide.)

2016 Federal Income Tax Return Credits

<u>Step 1</u> : Gather Your Renewable Energy System Invoices. You will need the total invested in your
renewable energy system (i.e. the cost you incurred during the tax year for the installation and
operation of your system). This includes all your invoices or cancelled checks documenting your
payments. Determine your total cost of all invoices as you will need to report that number later for the
credit calculations.
1. Total Cost Incurred to Acquire System:
Step 2: Prepare your 2016 Federal Income Taxes as routinely done in previous calendar years. You
will need to know your income tax liability (Gross Income—from employee wages or
businesses/partnerships/etc., Adjusted Gross Income, Itemized or Standard Deductions and any other
adjustments) as you would any routine tax year. Prepare your income taxes without the consideration
of the renewable energy system purchased during the year. This should produce two key tax numbers
from your Form 1040, Page 2 you will need for your Federal tax credit claim:
1. Form 1040, Line 43: Taxable Income:

2. Line 47: Total Tax Liability (Sum of Lines 44-47):

<u>Step 3</u>: Prepare your 2016 Federal Tax Credits. You will need the version of Form 5695, Residential Energy Credits that corresponds with the tax year of your investment. A partial picture of the 2016 form is shown below as an example:

Form 5695 Department of the Treasury		Residential Energy Credits Information about Form 5695 and its separate instructions is at www.irs.gov/form569 Attach to Form 1040 or Form 1040NR.					5695.	DME No. 1545-0074 2016 Attachment	
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2	Qualified solar wa	ater heating property o	oets				2	Ž	
37.				17 500	50000 T	2010102	- F8	Š	27
3	Qualified small w	ind energy property co	ods	33 333		+ + + +	3	8	- 2
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11	Enter the smaller	of line 9 or line 10 .		S - 888	1000		- 11		
12	Credit carryforws	rd from 2015. Enter th	e amount, if any, from	your 2015 l	orm 5695,	line 16	. 12	5	- 60
13		-440					13		
14	Limitation based	Add lines 6, 11, and 12					5		
15		Credit Limit Worksheet (see instructions)			14	8			
10	this amount on F	Residential energy efficient property credit. Enter the smaller of line 13 or line 14. Also include this amount on Form 1040, line 53; or Form 1040NR, line 50				- 15	2	- 1	
16	Credit carryforw	ard to 2017. If line 11	5 is less than line 13,	subtract				1	-

<u>Step 3A</u>: Please be sure to enter your Name, SSN as shown on the return at the top of Form 5695 if not automatically filled in by your preparation software program.

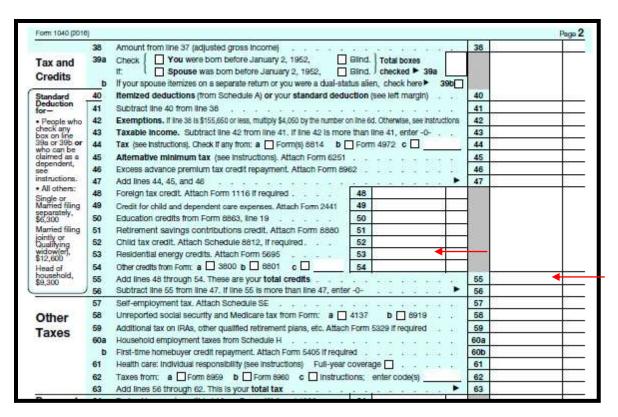
<u>Step 3B</u>: With your total investment costs (from Step 1 above), enter your total investment on Line 1 if you have a qualified solar PV system OR enter your amount Line 2 if you have a qualified solar thermal heating and cooling system on Form 5695.

<u>Step 3C</u>: Follow the form to add lines 1 through 4 on line 5, then multiply line 5 by 30% and enter the value on Line 6 and on Line 13. Proceed to Line 14.

<u>Step 3D</u>: Enter your Tax Liability on Line 14 (from Step 2 above—Line 47 from your Form 1040). Follow from through Line 15.

Step 3E: Enter the smaller of Line 13 or Line 14 on Line 15. Congratulations...This is your 2016 Federal Tax Credit. If Line 13 is larger than Line 15, enter the difference on Line 16. This is carryforward to your 2016 income tax return. (Note: If you use a tax software system such as Turbo Tax™, TaxAct™, or H&R Block™, your system will retain this carry forward information to include in your 2017 tax information. You will need to file this form again for 2017, and the carryforward amount for this year's (2016) difference will appear on line 12 of next year's 2017 form.)

<u>Step 4</u>: Transfer the tax credit amount on Line 15 back to your Form 1040 Line 53. Your Residential Energy Credits will reduce your Tax Liability on a dollar for dollar basis, as it is summed on Line 55. Subtract Line 55 from Line 46 on Line 56.



Your 'Other Taxes' which are included on Lines 57 through 63 and any Tax Payments (Lines 64 and 74) are then calculated based on your tax situation, estimated or quarterly tax payments, employee withholdings, etc.

Congratulations againyou have completed your Federal Tax Credit Claim. Please finalize and review your return and be sure to file your Federal Return as routinely done in previous years.						
<u>Important Note</u> : These same steps apply for taxpayers who file their returns electronically.						

2016 South Carolina Income Tax Return Credits

Step 1: Similar to Federal Step 1, know your total cost of the renewable energy system incurred.

Determine your total cost of all invoices as you will need to report that number on the forms below for the credit calculations. You will use the same cost amount for the South Carolina tax credit calculation. Do not reduce your total cost by the amount of your Federal tax credit.

1. Total Cost Incurred to Acquire System:	
Step 2: Prepare your 2016 South Carolina Income Taxes (SC1040) as routinely done in previous	ous
calendar income tax years. You will need to calculate your state income tax liability (including state adjustments) as you would routinely. Prepare your SC income taxes without the consider the renewable energy system purchased during the year.	•
2. South Carolina Tax Liability (Without Tax Credits):	

<u>Step 3</u>: Prepare your 2016 South Carolina Tax Credits. As an overview of the process, you will need to first report your claim on Form SC-SCH.TC-38 which is specifically for taxpayers who made investments in renewable energy property. You will then transfer the SC tax credit amount to SC1040TC for 2016 which summarizes all tax credits. After the SC1040TC, you will then finally transfer the SC tax credit to the SC1040 for the income tax return.

Let's get started.

First, you will need the 2016 version of Form SC-SCH.TC-38: Solar Energy or Small Hydropower System or Geothermal Machinery and Equipment Credit. This is a partial picture of the 2016 Form SC-SCH.TC-38 as an example:

1350



STATE OF SOUTH CAROLINA DEPARTMENT OF REVENUE SOLAR ENERGY OR SMALL HYDROPOWER SYSTEM OR GEOTHERMAL MACHINERY AND EQUIPMENT CREDIT

SC SCH.TC-38 (Rev. 9/7/16) 3430

Attach to your Income Tax Return

Attach to your income Tax Ro

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Type of System Installed (check one)	
 Solar energy system (must be certified for performance by the nonprofit Solar Rating and Certification comparable entity endorsed by the State Energy Office) 	Corporation (SRCC) or a
Small hydropower system (must be installed on or after July 1, 2009)	
 Certification Requirement for Solar Credit. I have the certification for performance by SRCC or a comply the State Energy Office. 	parable entity endorsed
Geothermal machinery and equipment (must be installed on or after January 1, 2016)	
Installation of Solar Energy Credit Computation	
Cost incurred in installing solar energy systems or geothermal machinery and equipment placed in service during the tax year in facilities in South Carolina owned by the taxpayer	1. \$
Maximum credit amount. Multiply line 1 by 25% (0.25).	2. \$
Enter the amount carried forward from previous tax years	3. \$
4. Add lines 2 and 3	4. \$
5. \$3,500 annual credit limit .	5. \$
Maximum single year credit amount. Multiply line 5 by the number of facilities	6. \$
7. Enter the lesser of lines 4 and 6	7. \$
8. Current year tax liability	8. \$
9. Current year credit limit. Multiply line 8 by 50% (0.50)	9. \$
Enter the smaller of lines 7 and 9. This is your current year credit. Enter this amount on the appropriate tax credit schedule.	10. \$
11. Line 4 minus line 10. Unused credits may be carried forward for up to 10 years	11. \$

General Information

Code Section 12-6-3587 provides a corporate or individual tax credit of 25% of the costs incurred by a taxpayer in the purchase and installation of a solar energy system or small hydropower system for heating water, space heating, air cooling, energy-efficient demand response, or the generation of electricity in or on a facility in South Carolina and owned by the taxpayer. The taxpayer may not claim the credit before installation is complete. The amount of the credit in any year may not exceed \$3,500 for each facility or 50% of the taxpayer's tax liability for that tax year, whichever is less. If the amount of the credit exceeds \$3,500 for each facility, the taxpayer may carry forward the excess for up to 10 years.

Beginning January 1, 2018 Code Section 12-6-3587 provides an Individual tax credit of 25% of the costs incurred by a taxpayer for use in the taxpayer's residence for purchase and installation of geothermal machinery and equipment. The taxpayer may not claim the credit before installation is complete. The amount of the credit in any year may not exceed \$3,500 or 50% of the taxpayer's tax liability for that year whichever is less. If the amount of the credit exceeds \$3,500, the taxpayer may carry forward the excess for up to 10 years.

Caution! The credit for a small hydropower system may be claimed only if the system was installed on or after July 1, 2009.

<u>Step 3A</u>: First, be sure to enter your Name, SSN, and select the Type of System Installed (Solar Energy System) in the first section of Form SC SCH.TC-38.

<u>Step 3B</u>: With your total investment costs (from Step 1 above), enter your total investment in the second section 2, Line 1.

Step 3C: Multiply line 1 by 25% and enter the value on Line 2 and Line 4.

<u>Step 3D</u>: Enter the Annual Credit Limit amount of \$3,500 on Line 5 and multiply the Line 5 amount by the amount of facilities (system installations) that you installed in 2016 on Line 6. Enter the lesser of Line 4 and Line 6 on Line 7.

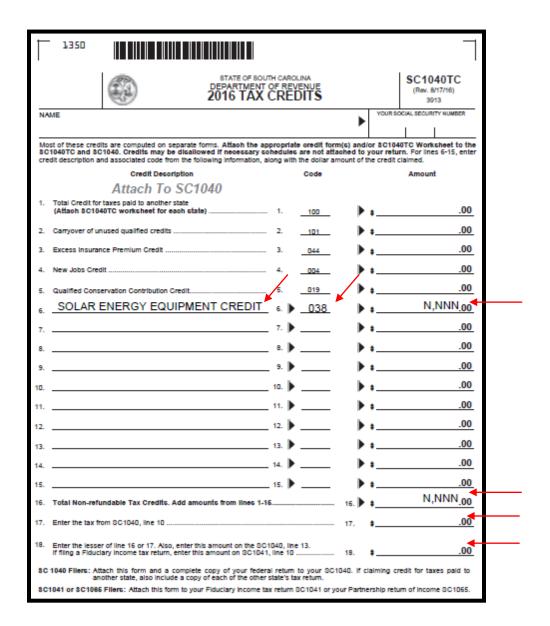
Congratulations! You have just calculated your available South Carolina Tax Credit for 2016.

<u>Step 3E</u>: Enter your South Carolina current year tax liability (as discussed in Step 2 above) as routinely calculated on Line 8 and then calculate the current year credit limit. Multiply Line 8 by 50% and enter on Line 9. Enter the smaller of Line 7 or Line 9 on Line 10. This is the amount of the South Carolina Tax Credit that you will transfer to Form SC1040TC.

<u>Step 3F</u>: Enter Line 4 minus Line 11 (if necessary). This is your unused South Carolina Tax Credit that you will carryforward to your 2017 South Carolina return (and future returns for up to the next 10 years). <u>Note</u>: If you use a tax software system such as Turbo Tax[™], TaxAct[™], or H&R Block[™], your system may retain this carry forward information to include in your 2017 tax information.

Form SC1040TC

For the second step in reporting your tax credits on your income tax return, you will need a copy of the Form SC1040TC, Summary of Tax Credits Limited to 50% of Tax that corresponds with the tax year of your investment. This is a partial picture of the 2016 Form SC1040TC as an example:



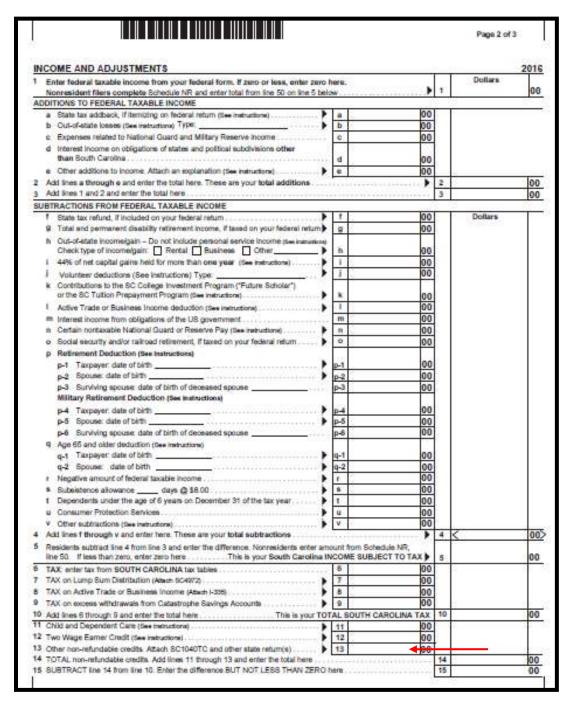
Step 4A: Please be sure to fill out the top of the form with your full Name, and SSN information.

<u>Step 4B</u>: Please fill in Line 6 with "Solar Energy Equipment Credit" for the Credit Description, and "038" for the Code as illustrated in the example above. Please enter the amount of your South Carolina Tax Credit in the Amount column for Line 6.

Step 4C: Total all South Carolina Tax Credits on Line 16.				

Form SC1040

For the third and final step in reporting your tax credits on your SC income tax return, you will need to transfer your tax credit amount from the SC1040TC to page 2 of your income tax return, the SC1040. This is a partial picture of Page 2 of the 2016 Form SC1040 as an example:



<u>Step 5</u>: Enter your South Carolina Tax Credit claimed for 2016 (from your SC1040TC Line 10) on Line 13 of your South Carolina Income Tax Return (Form SC1040) on Page 2, Line 13. This is a dollar for

dollar reduction of your SC income tax liability. Proceed to complete your tax return and sign as in any routine tax year.

Congratulations once again....you have calculated and claimed your available SC Tax Credit claim for 2016.

* * * *

Please consult your tax advisor for specific questions on the renewable energy investment tax credits and incentives. You may also consult the Database of State Incentives for Renewables & Efficiency (www.dsireusa.org) which provides comprehensive information on state, federal, local and local utility incentives and policies.

For further information or any additional questions, please contact:



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