

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

Step 1: 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):** _____

Step 3: 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		Residential Energy Credits		OMB No. 1545-0074	
Department of the Treasury Internal Revenue Service		▶ Information about Form 5695 and its separate instructions is at www.irs.gov/form5695 .		2016	
Name(s) shown on return		▶ Attach to Form 1040 or Form 1040NRL		Attachment Sequence No. 158	
				Your social security number	
Part I Residential Energy Efficient Property Credit (See instructions before completing this part.)					
Note: Skip lines 1 through 11 if you only have a credit carryforward from 2015.					
1	Qualified solar electric property costs			1	
2	Qualified solar water heating property costs			2	
3	Qualified small wind energy property costs			3	
4	Qualified geothermal heat pump property costs			4	
5	Add lines 1 through 4			5	
6	Multiply line 5 by 30% (0.30)			6	
7a	Qualified fuel cell property. Was qualified fuel cell property installed on or in connection with your main home located in the United States? (See instructions) ▶			7a	<input type="checkbox"/> Yes <input type="checkbox"/> No
Caution: If you checked the "No" box, you cannot take a credit for qualified fuel cell property. Skip lines 7b through 11.					
b	Print the complete address of the main home where you installed the fuel cell property.				
		Number and street		Unit No.	
		City, State, and ZIP code			
8	Qualified fuel cell property costs	8			
9	Multiply line 8 by 30% (0.30)	9			
10	Kilowatt capacity of property on line 8 above ▶	10			
				x \$1,000	
11	Enter the smaller of line 9 or line 10			11	
12	Credit carryforward from 2015. Enter the amount, if any, from your 2015 Form 5695, line 16			12	
13	Add lines 6, 11, and 12			13	
14	Limitation based on tax liability. Enter the amount from the Residential Energy Efficient Property Credit Limit Worksheet (see instructions)			14	
15	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	
16	Credit carryforward to 2017. If line 15 is less than line 13, subtract line 15 from line 13	16			
For Paperwork Reduction Act Notice, see your tax return instructions.				Cat. No. 13540P	
				Form 5695 (2016)	

Step 3A: 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.

Step 3B: 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.

Step 3C: 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.

Step 3D: 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.)

Step 4: 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.

The image shows a portion of Form 1040 (2016) Page 2, specifically the 'Tax and Credits' section. The form is divided into several rows, each with a line number and a description. Red arrows point to line 53 and line 55. Line 53 is 'Residential energy credits. Attach Form 5695'. Line 55 is 'Add lines 48 through 54. These are your total credits'. The form also includes a 'Standard Deduction for' section with instructions for various filing statuses and a 'Taxable Income' section with instructions for calculating taxable income.

Line	Description	Amount
38	Amount from line 37 (adjusted gross income)	
39a	Check <input type="checkbox"/> You were born before January 2, 1952, <input type="checkbox"/> Blind. Total boxes checked <input type="checkbox"/> 39a	
	If: <input type="checkbox"/> Spouse was born before January 2, 1952, <input type="checkbox"/> Blind.	
b	If your spouse itemizes on a separate return or you were a dual-status alien, check here <input type="checkbox"/> 39b	
40	Itemized deductions (from Schedule A) or your standard deduction (see left margin)	
41	Subtract line 40 from line 38	
42	Exemptions. If line 38 is \$155,850 or less, multiply \$4,050 by the number on line 6d. Otherwise, see instructions	
43	Taxable income. Subtract line 42 from line 41. If line 42 is more than line 41, enter -0-	
44	Tax (see instructions). Check if any from: a <input type="checkbox"/> Form(s) 8814 b <input type="checkbox"/> Form 4972 c <input type="checkbox"/>	
45	Alternative minimum tax (see instructions). Attach Form 6251	
46	Excess advance premium tax credit repayment. Attach Form 8962	
47	Add lines 44, 45, and 46	
48	Foreign tax credit. Attach Form 1116 if required	
49	Credit for child and dependent care expenses. Attach Form 2441	
50	Education credits from Form 8863, line 19	
51	Retirement savings contributions credit. Attach Form 8880	
52	Child tax credit. Attach Schedule 8812, if required	
53	Residential energy credits. Attach Form 5695	
54	Other credits from Form: a <input type="checkbox"/> 3800 b <input type="checkbox"/> 8801 c <input type="checkbox"/>	
55	Add lines 48 through 54. These are your total credits	
56	Subtract line 55 from line 47. If line 55 is more than line 47, enter -0-	
57	Self-employment tax. Attach Schedule SE	
58	Unreported social security and Medicare tax from Form: a <input type="checkbox"/> 4137 b <input type="checkbox"/> 8919	
59	Additional tax on IRAs, other qualified retirement plans, etc. Attach Form 5329 if required	
60a	Household employment taxes from Schedule H	
60b	First-time homebuyer credit repayment. Attach Form 5405 if required	
61	Health care: Individual responsibility (see instructions) Full-year coverage <input type="checkbox"/>	
62	Taxes from: a <input type="checkbox"/> Form 8959 b <input type="checkbox"/> Form 8960 c <input type="checkbox"/> Instructions; enter code(s)	
63	Add lines 56 through 62. This is your total tax	

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 again....you 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.

Important Note: 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 calendar income tax years. You will need to calculate your state income tax liability (including any other state adjustments) as you would routinely. Prepare your SC income taxes without the consideration of the renewable energy system purchased during the year.

2. South Carolina Tax Liability (Without Tax Credits) : _____

Step 3: 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	 <p style="margin: 0;">STATE OF SOUTH CAROLINA DEPARTMENT OF REVENUE SOLAR ENERGY OR SMALL HYDROPOWER SYSTEM OR GEOTHERMAL MACHINERY AND EQUIPMENT CREDIT Attach to your Income Tax Return</p>	<p>SC SCH.TC-38 (Rev. 9/7/16) 3430 20 SSN or FEIN</p>
Names As Shown On Tax Return		
Type of System Installed (check one)		
<input type="checkbox"/> Solar energy system (must be certified for performance by the nonprofit Solar Rating and Certification Corporation (SRCC) or a comparable entity endorsed by the State Energy Office)		
<input type="checkbox"/> Small hydropower system (must be installed on or after July 1, 2008)		
<input type="checkbox"/> Certification Requirement for Solar Credit. I have the certification for performance by SRCC or a comparable entity endorsed by the State Energy Office.		
<input type="checkbox"/> Geothermal machinery and equipment (must be installed on or after January 1, 2018)		
Installation of Solar Energy Credit Computation		
1. 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.	\$ _____
2. Maximum credit amount. Multiply line 1 by 25% (0.25)	2.	\$ _____
3. Enter the amount carried forward from previous tax years	3.	\$ _____
4. Add lines 2 and 3	4.	\$ _____
5. \$3,500 annual credit limit	5.	\$ _____
6. 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.	\$ _____
10. 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		
<p>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 daylighting, heat reclamation, 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.</p>		
<p>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.</p>		
<p>Caution! The credit for a small hydropower system may be claimed only if the system was installed on or after July 1, 2009.</p>		

Step 3A: 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.

Step 3B: 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.

Step 3D: 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.

Step 3E: 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.

Step 3F: 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). **Note:** 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:

1350

STATE OF SOUTH CAROLINA
DEPARTMENT OF REVENUE
2016 TAX CREDITS

SC1040TC
(Rev. 8/17/16)
3013

NAME _____ YOUR SOCIAL SECURITY NUMBER _____

Most of these credits are computed on separate forms. Attach the appropriate credit form(s) and/or SC1040TC Worksheet to the SC1040TC and SC1040. Credits may be disallowed if necessary schedules are not attached to your return. For lines 6-15, enter credit description and associated code from the following information, along with the dollar amount of the credit claimed.

Credit Description	Code	Amount
Attach To SC1040		
1. Total Credit for taxes paid to another state (Attach SC1040TC worksheet for each state)	1. 100	\$.00
2. Carryover of unused qualified credits	2. 101	\$.00
3. Excess Insurance Premium Credit	3. 044	\$.00
4. New Jobs Credit	4. 004	\$.00
5. Qualified Conservation Contribution Credit	5. 019	\$.00
6. SOLAR ENERGY EQUIPMENT CREDIT	6. 038	\$ N,NNN.00
7.	7.	\$.00
8.	8.	\$.00
9.	9.	\$.00
10.	10.	\$.00
11.	11.	\$.00
12.	12.	\$.00
13.	13.	\$.00
14.	14.	\$.00
15.	15.	\$.00
16. Total Non-refundable Tax Credits. Add amounts from lines 1-15	16.	\$ N,NNN.00
17. Enter the tax from SC1040, line 10	17.	\$.00
18. Enter the lesser of line 16 or 17. Also, enter this amount on the SC1040, line 13. If filing a Fiduciary Income tax return, enter this amount on SC1041, line 10	18.	\$.00

SC 1040 Filers: Attach this form and a complete copy of your federal return to your SC1040. If claiming credit for taxes paid to another state, also include a copy of each of the other state's tax return.

SC1041 or SC1086 Filers: Attach this form to your Fiduciary Income tax return SC1041 or your Partnership return of Income SC1065.

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

Step 4B: 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:

INCOME AND ADJUSTMENTS		2016	
1 Enter federal taxable income from your federal form. If zero or less, enter zero here. Nonresident filers complete Schedule NR and enter total from line 50 on line 5 below		1	00
ADDITIONS TO FEDERAL TAXABLE INCOME			
a State tax addback, if itemizing on federal return (See instructions)	a	00	
b Out-of-state losses (See instructions) Type: _____	b	00	
c Expenses related to National Guard and Military Reserve income	c	00	
d Interest income on obligations of states and political subdivisions other than South Carolina	d	00	
e Other additions to income. Attach an explanation (See instructions)	e	00	
2 Add lines a through e and enter the total here. These are your total additions	2	00	
3 Add lines 1 and 2 and enter the total here	3	00	
SUBTRACTIONS FROM FEDERAL TAXABLE INCOME			
f State tax refund, if included on your federal return	f	00	Dollars
g Total and permanent disability retirement income, if taxed on your federal return	g	00	
h Out-of-state income gain - Do not include personal service income (See instructions). Check type of income/gain: <input type="checkbox"/> Rental <input type="checkbox"/> Business <input type="checkbox"/> Other _____	h	00	
i 44% of net capital gains held for more than one year (See instructions)	i	00	
j Volunteer deductions (See instructions) Type: _____	j	00	
k Contributions to the SC College Investment Program ("Future Scholar") or the SC Tuition Prepayment Program (See instructions)	k	00	
l Active Trade or Business Income deduction (See instructions)	l	00	
m Interest income from obligations of the US government	m	00	
n Certain nontaxable National Guard or Reserve Pay (See instructions)	n	00	
o Social security and/or railroad retirement, if taxed on your federal return	o	00	
p Retirement Deduction (See instructions)			
p-1 Taxpayer: date of birth _____	p-1	00	
p-2 Spouse: date of birth _____	p-2	00	
p-3 Surviving spouse: date of birth of deceased spouse _____	p-3	00	
Military Retirement Deduction (See instructions)			
p-4 Taxpayer: date of birth _____	p-4	00	
p-5 Spouse: date of birth _____	p-5	00	
p-6 Surviving spouse: date of birth of deceased spouse _____	p-6	00	
q Age 65 and older deduction (See instructions)			
q-1 Taxpayer: date of birth _____	q-1	00	
q-2 Spouse: date of birth _____	q-2	00	
r Negative amount of federal taxable income	r	00	
s Subsistence allowance _____ days @ \$8.00	s	00	
t Dependents under the age of 5 years on December 31 of the tax year	t	00	
u Consumer Protection Services	u	00	
v Other subtractions (See instructions)	v	00	
4 Add lines f through v and enter here. These are your total subtractions	4	<	00
5 Residents subtract line 4 from line 3 and enter the difference. Nonresidents enter amount from Schedule NR, line 50. If less than zero, enter zero here. This is your South Carolina INCOME SUBJECT TO TAX	5		00
6 TAX: enter tax from SOUTH CAROLINA tax tables	6	00	
7 TAX on Lump Sum Distribution (Attach SC4972)	7	00	
8 TAX on Active Trade or Business Income (Attach I-335)	8	00	
9 TAX on excess withdrawals from Catastrophe Savings Accounts	9	00	
10 Add lines 6 through 9 and enter the total here. This is your TOTAL SOUTH CAROLINA TAX	10		00
11 Child and Dependent Care (See instructions)	11	00	
12 Two Wage Earner Credit (See instructions)	12	00	
13 Other non-refundable credits. Attach SC1040TC and other state return(s)	13	00	
14 TOTAL non-refundable credits. Add lines 11 through 13 and enter the total here	14		00
15 SUBTRACT line 14 from line 10. Enter the difference BUT NOT LESS THAN ZERO here	15		00

Step 5: 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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