

U.S. Department of Energy - Energy Efficiency and Renewable Energy

EERE State Partnerships and Activities: State Energy Alternatives

Tax Incentives

Some states have created tax incentives to encourage the development of markets for energy efficiency and renewable energy.

Tax Incentives for Renewable Energy

Tax incentive programs to encourage renewable energy are designed to facilitate the purchase, installation, or manufacture of renewable energy systems, equipment, and facilities. The goal of these programs is to reduce the investment costs of acquiring and installing renewable energy systems and equipment. They reward investors with tax credits, deductions, and allowances for their support of renewable energy sources. Instruments include income, corporate, property, and sales tax incentives. Eligible technologies may include solar and photovoltaic energy systems, geothermal energy, wind energy, biomass, hydroelectric, and alternative fuel technologies.

Tax incentives are varied. Most are implemented through tax credits, allowances, and deductions. A few states have expiration dates, and some limit the time the incentive is available after the installation or purchase date.

Income Tax

Some states offer taxpaying residents a tax deduction from adjusted gross income, to cover the expense of conversion equipment that switches their main energy source from gas or electricity to renewable energy sources. Some states offer personal income tax credits up to a certain percentage or predetermined dollar amount for the cost or installation of renewable energy equipment. Allowable tax credit

percentage rates vary between 5% and 40%. Available credit may be limited to a certain number of years following the purchase or installation of renewable energy equipment.

Corporate

Much like income tax incentives, corporate incentives allow corporations to receive credits ranging from 10% to 35% for the costs of equipment and related expenditures for renewable energy systems. Tax incentives also may be awarded to industrial and commercial corporations that provide energy savings or recycle waste. Some states allow the tax credit only if a corporation has invested a certain dollar amount in a given project. Examples of incentives include tax deductions for solar or wind space and water heating equipment, and deductions for any income received from royalties related to patents that encourage energy savings or alternative energy development.

Property

State property tax incentives are more frequently available than any other type of tax incentives for renewable energy. Tax incentives range from straightforward local property exemptions for renewable energy systems, to special assessment of property with value-added by a renewable energy source.

Sales

Sales tax incentives typically exempt purchases of renewable energy equipment from the sales tax.

Tax Incentives for Energy Efficiency

For many reasons — up-front costs, the perceived risk of using new technologies, inertia — the private sector has not extensively embraced energy efficiency from a bottom line perspective. Tax incentives can help stimulate additional investment and help correct market imperfections.

Tax incentives are widely used to help purchasers overcome

the relatively high front-end costs of energy efficiency equipment. These programs serve to reduce the investment costs of acquiring and installing energy efficiency products and reward investors with tax credits, deductions, and allowances for their support of these products. The most common energy efficiency tax credits are green buildings tax credits and efficient appliances credits. These programs offer significant opportunities to encourage energy efficiency while minimizing lost revenue to the state.

State tax incentive programs to encourage energy efficiency are usually designed that facilitate the purchase, installation, or manufacture of energy-efficient products.

A properly designed tax incentive for buildings has short- and long-term benefits. Short term, the incentive can dramatically increase market share of the product or practice. By creating a tax incentive, the state increases the visibility of the product or practice and validates it with the state's own credibility. As market share increases, more installers, consumers, and salespeople become vested in the product or practice because it can be more profitable than the status quo. As more firms enter the market, the price is driven down. Eventually, the product is clearly cost effective and available in the market, the tax incentive is no longer needed, and building codes or other regulatory mechanisms can be revised to account for the new building product or practice. You can find more information on this in ACEEE's report, *Tax Credits For Energy Efficiency and Green Buildings: Opportunities for State Action*.

Tax incentives to encourage energy efficiency include [income](#), [corporate](#), [property](#), and [sales](#) incentives. Most are implemented through tax credits, allowances, and deductions. States often have expiration dates for their incentive plans. Most incentives last 5-10 years with an option to renew. In addition, some states limit the length of time the incentive is available after the installation or

equipment purchase date.

Income

Many states offer taxpaying state residents an income tax deduction from their adjusted gross income to cover a portion of the expense of energy efficient equipment. Current policies allow a credit or deduction of 5%-40% of expenses. Available credit may be limited to a certain number of years following the purchase or installation.

Corporate

Much like income tax incentives, many corporate tax incentives allow corporations to receive credits of 10%-35% against the cost of energy efficient equipment or installation of that equipment.

Property

Property tax incentives range from straightforward local property exemptions to special assessment of property with value added by energy efficiency equipment.

Sales

Sales tax incentives typically exempt state sales tax from the cost or installation of energy efficiency equipment.

As with other policy programs, the way the tax incentives are designed and implemented is critical to program success. In addition to providing a tax incentive, funds should also be set aside for implementing and evaluating these incentives as appropriate.

Arguments for Tax Incentives

Tax incentives encourage the use of energy efficiency and renewable energy equipment, systems and facilities, which helps develop markets and spurs industry to greater production. This results in jobs and economic development.

Markets do not encourage private investment for public

benefits — tax incentives can correct that issue.

Providing tax incentives for energy efficiency is one of the most cost effective ways to reduce pollution and lower health care costs for the general public.

Tax incentive programs diversify states' energy and economic tax structure.

Tax incentive programs are proven to stimulate consumer demand.

Arguments against Tax Incentives

Tax programs require up-front investment by the consumer. Those who cannot afford energy efficient products cannot participate in the program.

Some corporate tax incentives allow corporations to receive only partial credit ranging from 10% to 35%.

Since energy efficiency products are typically cost effective over the life of the product, tax incentives should not be necessary.

Some may feel that these incentives unduly favor renewables over other ways to serve states' energy needs.

Tax incentives may unduly favor a mature industry over less mature industries, such as the solar and wind industries.

For details about Tax Incentives in individual states, visit the [Database of State Incentives for Renewable Energy](#).