2020 Solar Tax Guide

Congratulations on your completion of Solar Tax Document Preparation for the 2020 Tax Year.
Please read the following information in detail.
This guide will answer the most frequently asked questions and give you a step by step breakdown of what to expect and anticipate moving forward.

What Incentives Am I Eligible For?

Below is a detailed breakdown of the different incentives and how they work.
We have used a purchase price of $25,000 for easy figures in the example.
The percentages don't change, so you can adjust as needed to fit your situation.

The Federal Solar ITC

The first available incentive is the Federal Investment Tax Credit which in 2020 is a 26% credit on the full purchase price of your system.
Based on $25,000, this would be a $6,500 credit.

This is a Federal Tax Credit. It is not a rebate.
Meaning if you have no Federal Tax Liability, the credit will not benefit you.
You will only get a refund from the IRS for the amount that you have paid in.
If you were to owe the IRS, the credit will go against what you owe.
The good news is that if you are not able to use the full amount of the credit in a single year, the remainder carries forward to the next year.
Being a credit, it is a dollar for dollar exchange.
There is no expiration, and it can be carried forward as many years as necessary until it's used in full.

The date your eligibility to claim this credit is based on is when there was "physical work of a significant nature". This is open to interpretation, however many clients will use the date of the site survey as the initial date for tax purposes. Meaning if you list 12/31/2020 or earlier as when the process was started for installation, then you are eligible to take the credit for the 2020 tax year. However, if you list 01/01/21 or later as the start of installation, then you will not be eligible to claim the credit until the 2021 tax year.

MACRS Incentive

The second available incentive is the Modified Accelerated Cost Recovery System (MACRS). This is the largest available incentive besides the original Federal ITC.
The MACRS incentive will allow you to deduct 87% of the full purchase price of the system.

Based on a $25,000 system, this would take an additional $21,750 and claim it as 100% deductible.
Being a deduction, the amount this benefits you will depend upon your personal tax bracket.
The Federal Tax brackets range from approximately 12-37%.
State Tax brackets range from approximately 0-14%.
The deduction goes against both. Our average client is in a 25% tax bracket.
Using that average, that would be an additional $5,437 coming back to them, on top of the 26% Federal ITC.
This incentive is typically claimed over a 5 year schedule, however, it can be taken over a shorter or longer period depending upon your tax situation.
Just like the Federal Solar ITC, if you can not take full advantage of this in your first year it can be carried forward additional years until you have claimed it all.

The date your eligibility to claim this credit is based on is when your system went live and started to generate power. This is often referred to as your Net Meter or PTO date. Meaning if you list your Net Meter date as 12/31/2020 or earlier then you are eligible to take the credit for the 2020 tax year. However, if you list 01/01/21 or later as the Net Meter date then you will not be eligible to claim the credit until the 2021 tax year.

Do be aware that it is a fairly common issue for a solar panel system to begin installing in one year, and not be turned on until the following year. We refer to this as the "Straddle Effect".
This simply means you will break the incentives up over the two tax years.
In the event of that situation, we of course provide the paperwork for both years at no additional cost.

Interest and Finance Fees

The third available incentive is the ability to deduct the interest and finance fees if you have a loan for the panels. You can also include other expenses with this such as net metering fees, interconnection fees, maintenance fees, etc.
These will all be filed together on IRS form Schedule C.

You do have to charge the revenue that you may have received from the utility company in the form of cash or credit for energy production against these expenses. Of course, in most cases this payment in kind from the utility provider is much less than the expenses so fortunately you typically come out far ahead. We will complete the Schedule C for you, which will include calculating out the full amount you were compensated for all excess kWh produced as reported on your Solar Tax Worksheet and also include in the expenses you incurred.

Interest is typically the largest additional expense you will pay.
As an example, $25,000 financed at 3.99% is going to be nearly $1,000 a year that you are paying in interest which can be made up to 100% tax deductible.
This works the same as the MACRS incentive in that it is a deduction and will be based on your personal tax bracket.
Continuing to use the example of a 25% tax bracket, this would be $250 a year that you are now eligible for.
You can claim this incentive for as long as you are making payments and paying interest. Over a 10 year period that's another $2,500.

State Tax Benefit

To receive this benefit, there are no forms to be filed.
As a side effect of claiming the above Federal Incentives, you will be lowering your Adjusted Gross Income (AGI). This will automatically lower the AGI for your State Tax filing and depending on your tax bracket this can result in hundreds or even thousands of dollars in savings as well.

The Filing Fee

The filing fee itself is able to be claimed as 100% tax deductible.
This will be included automatically along with your other eligible expenses.
Because of this, many clients look at the filing fee as a “temporary” expense, as ideally once they file their forms and receive back the amounts they are entitled to, it will “reimburse” them for the out of pocket cost.

Why Am I Eligible To Claim These Incentives?

This is a very common question, as most homeowners and CPAs aren't familiar with how the IRS treats the production, distribution, and most importantly, the payment that a homeowner receives from their local utility company in the form of credit or cash for their Net Excess Generation their solar panels produce.

Simply put, the reason you are eligible is that your solar panel system is involved in an Income Producing Activity.

The compensation you are receiving from your signed Net Metering Agreement with your local utility company meets the definition of income by IRS guidelines.

By not reporting the NEG (Net Excess Generation), not only are you not following IRS guidelines, but you are also going to miss out on available incentives.

Please keep in mind these are Federal Tax Laws and Incentives, so the state you reside in has no bearing on your eligibility. We have reviewed the cases and prepared the documents for tens of thousands of clients just like yourself and in your state.

The Net Metering Agreements (NMAs) for nearly all utility companies nationwide refer to the exchange of power from your solar panel system into their grid as a "sale".

If you will read your net metering/interconnection agreement more closely, you will see that it contains all the elements of a sales contract:

1. The parties are clearly identified
2. The agreement is dated
3. The terms are identified
4. Includes a description of the goods/services being purchased
5. Payment and Rates are identified

6. Method of delivery and share of responsibility is identified
7. Miscellaneous provisions and requirements are outlined.

Many years ago we took this information to The Solar Energy Industries Association (SEIA.org) and had the foremost experts in solar finance and tax law review the information and the IRS has now issued a Private Letter Ruling confirming the position they do consider this to be income that must be reported.

You are not a business, but you are involved in an Income Producing Activity.

The reason your residential system meets the requirement of being used in an income producing activity is the following: The system is set up to sell SRECs (Solar Renewable Energy Credits) or power directly to the utility company (Net Metering) and you are being reimbursed in the form of credits on your utility bill.

Section 61 of the tax code broadly defines what qualifies as income. The code discusses virtually all compensation, including but not limited to financial considerations, defining payments in cash or payments in kind (such as a credit on a utility bill) as income.

In IRS section 126 it does state that subsidies from utilities are not income but it goes on to describe subsidies as money paid toward energy saving equipment. For example, a rebate for purchasing Energy Star compliant appliances. There is also a specific exemption made for discounts for being involved in an Energy Conservation Program.

There is no exception made for income on the sale of power to a utility in Net Metering or Feed in Tariffs or on the sale of SRECs.

Selling power to the utility is considered income even if the consideration comes in the form of a credit and therefore constitutes an Income Producing Activity. The IRS has also issued a Private Letter Ruling on the matter which we have in our possession.

The main requirements to claim the MACRS incentive are the following:

1. You must own the property where the panels are located.

2.You must own or be leasing the solar panel equipment. You must not be on a PPA (Power Purchase Agreement) or any other arrangement.

3. The equipment is being used in a trade, business, or income producing activity.
(This is what was outlined above.)

(See https://www.irs.gov/publications/p946/ch01.html for qualifications on MACRS/Depreciation.)

The 3rd item listed is where most homeowners and accountants will become confused. This is simply due to the lack of information readily available about how photovoltaic solar panels produce energy, how that energy is distributed, and how the homeowner is compensated. You are not a trade or business, but the equipment is being used in an income producing activity.

Simply put, the above referenced material and Private Letter Ruling make it very clear that you must report the payment in kind you are receiving from your utility company as income.

We are on retainer with many of the largest solar panel companies in the United States, and are constantly working to keep ourselves at the forefront of the solar tax industry. In addition to our own internal verifications through various tax attorneys, and CPA firms, we have also worked directly with The Solar Energy Industries Association to review our process. Our CPAs attend the finance and tax seminars held by SEIA.org throughout the year to stay up to date on all changes being made and tax reform that may effect solar tax incentives.

We have filed tens of thousands of these documents for clients over many years with no issues. We have also distributed thousands of the forms to homeowners who have filed themselves using something like TurboTax and to CPAs across the country who have also filed without issue.

If your tax preparer isn't familiar with the process, please have them contact us and we will gladly answer any questions they may have.

Lastly, if you prefer, we can have a CPA here file all of your personal taxes as well as the solar documents.
With our background and knowledge, when we file your taxes, we provide a 100% audit guarantee and protection. With thousands of returns filed over several years, the IRS precedent, and our Private Letter Ruling, we are confident our position is correct and if the IRS were to have any questions regarding your tax return, the firm will represent and support you in that event.

Please email us at docs@solaritc.org if you have any further questions and we can schedule an appointment to speak if necessary.

How Do I File These Forms?

You will continue to file your taxes just as you always have. The only difference being you will include in the additional forms we have supplied to you.

If you have a personal accountant, we will include a letter of explanation to give to your current tax preparer that will show them how to file these alongside your personal income taxes and they can also call us with any questions.
If you file your income taxes yourself using something like TurboTax, we will include a tutorial on including these forms.
If you or your CPA have any questions we will be available at any time for questions and guidance down the line.

We have specialized in Real Estate and Solar Tax Incentives for over a decade now. We've helped thousands of clients like yourself.
Please don't hesitate to contact us with any questions.

SOLAR TAX CENTER

For questions, please email us at:
customersupport@solaritc.org

Blaine Sapieha
14118 N County Rd 1400
Shallowater TX 79363

Dear Blaine Sapieha

Enclosed for your review and filing are the following:

Schedule C	Business Income/Loss from Solar Compensation
Form 3468	2020 Solar Tax Credit Form
Form 4562	Depreciation Form
Depreciation Wksht	Details of equipment depreciation
Note to Tax Preparer	

Each tax return or form listed above should be filed with your personal tax return in accordance with current tax rules and regulations.

Please be sure to call if you have any questions.

Sincerely,

Solar Tax Center

SCHEDULE C (Form 1040)

Department of the Treasury Internal Revenue Service (99)

Profit or Loss From Business
(Sole Proprietorship)

► Go to *www.irs.gov/ScheduleC* for instructions and the latest information.
► Attach to Form 1040, 1040-SR, 1040NR, or 1041; partnerships generally must file Form 1065.

OMB No. 1545-0074

2020

Attachment Sequence No. **09**

Name of proprietor: Blaine Sapieha

Social security number (SSN):

A Principal business or profession, including product or service (see instructions): SOLAR ENERGY SALES

B Enter code from instructions ► 221000

C Business name. If no separate business name, leave blank.

D Employer ID number (EIN), (see instr.)

E Business address (including suite or room no.) ►

City, town or post office, state, and ZIP code

F Accounting method: (1) [X] Cash (2) [ ] Accrual (3) [ ] Other (specify) ►

G Did you 'materially participate' in the operation of this business during 2019? If 'No,' see instructions for limit on losses. [X] Yes [ ] No

H If you started or acquired this business during 2020, check here ► [ ]

I Did you make any payments in 2020 that would require you to file Form(s) 1099? (see instructions) [ ] Yes [X] No

J If 'Yes,' did you or will you file required Forms 1099? [ ] Yes [ ] No

Part I Income

1	Gross receipts or sales. See instructions for line 1 and check the box if this income was reported to you on Form W-2 and the 'Statutory employee' box on that form was checked ► [ ]	1	2,330
2	Returns and allowances	2	
3	Subtract line 2 from line 1	3	
4	Cost of goods sold (from line 42)	4	
5	**Gross profit.** Subtract line 4 from line 3	5	
6	Other income, including federal and state gasoline or fuel tax credit or refund (see instructions)	6	
7	**Gross income.** Add lines 5 and 6 ►	7	2,330

Part II Expenses. Enter expenses for business use of your home only on line 30.

8	Advertising	8		18	Office expense (see instructions)	18	
9	Car and truck expenses (see instructions)	9		19	Pension and profit-sharing plans	19	
10	Commissions and fees	10		20	Rent or lease (see instructions):		
11	Contract labor (see instructions)	11		a	Vehicles, machinery, and equipment	20a	
12	Depletion	12		b	Other business property	20b	
13	Depreciation and section 179 expense deduction (not included in Part III) (see instructions)	13	11,554	21	Repairs and maintenance	21	
14	Employee benefit programs (other than on line 19)	14		22	Supplies (not included in Part III)	22	
15	Insurance (other than health)	15		23	Taxes and licenses	23	
16	Interest:			24	Travel, meals, and entertainment:		
a	Mortgage (paid to banks, etc.)	16a		a	Travel	24a	
b	Other	16b	534	b	Deductible meals and entertainment (see instructions)	24b	
17	Legal and professional services	17	590	25	Utilities	25	
				26	Wages (less employment credits)	26	
				27a	Other expenses (from line 48)	27a	
				b	**Reserved for future use**	27b	

28	**Total expenses** before expenses for business use of home. Add lines 8 through 27a ►	28	12,678
29	Tentative profit or (loss). Subtract line 28 from line 7	29	-10,348
30	Expenses for business use of your home. Do not report these expenses elsewhere. Attach Form 8829 unless using the simplified method (see instructions). **Simplified method filers only:** enter the total square footage of: (a) your home: ______ and (b) the part of your home used for business: ______. Use the Simplified Method Worksheet in the instructions to figure the amount to enter on line 30	30	
31	**Net profit or (loss).** Subtract line 30 from line 29. • If a profit, enter on both **Schedule 1 (Form 1040), line 3**, and on **Schedule SE, line 2.** (If you checked the box on line 1, see instructions). Estates and trusts, enter on **Form 1041, line 3.** • If a loss, you **must** go to line 32.	31	-10,348

32 If you have a loss, check the box that describes your investment in this activity (see instructions).

• If you checked 32a, enter the loss on both **Schedule 1 (Form 1040), line 3,** and on **Schedule SE, line 2.** (If you checked the box on line 1, see the line 31 instructions). Estates and trusts, enter on **Form 1041, line 3.**

• If you checked 32b, you **must** attach **Form 6198.** Your loss may be limited.

32a [ ] All investment is at risk.

32b [ ] Some investment is not at risk.

Form **3468**

Department of the Treasury
Internal Revenue Service (99)

Investment Credit

► Attach to your tax return.
► Go to *www.irs.gov/Form3468* for instructions and the latest information.

OMB No. 1545-0155

2020

Attachment Sequence No. **174**

Name(s) shown on return: Blaine Sapieha

Identifying number:

Part I Information Regarding the Election To Treat the Lessee as the Purchaser of Investment Credit Property

If you are claiming the investment credit as a lessee based on a section 48(d) (as in effect on November 4, 1990) election, provide the following information. If you acquired more than one property as a lessee, attach a statement showing the information below.

1 Name of lessor

2 Address of lessor

3 Description of property

4 Amount for which you were treated as having acquired the property ► $

Part II Qualifying Advanced Coal Project Credit, Qualifying Gasification Project Credit, and Qualifying Advanced Energy Project Credit

5 Qualifying advanced coal project credit (see instructions):		
a Qualified investment in integrated gasification combined cycle property placed in service during the tax year for projects described in section 48A(d)(3)(B)(i) $ ________ x 20% (0.20)	5a	
b Qualified investment in advanced coal-based generation technology property placed in service during the tax year for projects described in section 48A(d)(3)(B)(ii) $ ________ x 15% (0.15)	5b	
c Qualified investment in advanced coal-based generation technology property placed in service during the tax year for projects described in section 48A(d)(3)(B)(iii) $ ________ x 30% (0.30)	5c	
d Total. Add lines 5a, 5b, and 5c	5d	
6 Qualifying gasification project credit (see instructions):		
a Qualified investment in qualified gasification property placed in service during the tax year for which credits were allocated or reallocated after October 3, 2008, and that includes equipment that separates and sequesters at least 75% of the project's carbon dioxide emissions $ ________ x 30% (0.30)	6a	
b Qualified investment in property other than in **a** above placed in service during the tax year $ ________ x 20% (0.20)	6b	
c Total. Add lines 6a and 6b	6c	
7 Qualifying advanced energy project credit (see instructions): Qualified investment in advanced energy project property placed in service during the tax year $ ________ x 30% (0.30)	7	
8 Reserved for future use	8	
9 Enter the applicable unused investment credit from cooperatives (see instructions)	9	
10 Add lines 5d, 6c, 7, and 9. Report this amount on Form 3800, Part III, line 1a	10	

Part III Rehabilitation Credit and Energy Credit

11	Rehabilitation credit (see instructions for requirements that must be met):		
a	Check this box if you are electing under section 47(d)(5) to take your qualified rehabilitation expenditures into account for the tax year in which paid (or, for self-rehabilitated property, when capitalized). See instructions. **Note:** This election applies to the current tax year and to all later tax years. You may not revoke this election without IRS consent ► ☐		
b	Enter the dates on which the 24- or 60-month measuring period begins ________ and ends ________		
c	Enter the adjusted basis of the building as of the beginning date above (or the first day of your holding period, if later) $ ________		
d	Enter the amount of the qualified rehabilitation expenditures incurred, or treated as incurred, during the period on line 11b above $ ________		
	Enter the amount of qualified rehabilitation expenditures and multiply by the percentage shown:		
e	Pre-1936 buildings under the transition rule (see instructions) $ ________ x 10% (0.10)	11e	
f	Certified historic structures under the transition rule (see instructions) $ ________ x 20% (0.20)	11f	
g	Certified historic structures with expenditures paid or incurred after 2017 and not under the transition rule (see instructions) $ ________ x 4% (0.04)	11g	
	Note: This credit is allowed for a 5-year period beginning in the tax year that the qualified rehabilitated building is placed in service. For properties identified on line 11f or 11g, complete lines 11h and 11i.		
h	Enter the assigned NPS project number or the pass-through entity's employer identification number (see instructions) ________		
i	Enter the date that the NPS approved the Request for Certification of Completed Work (see instructions) ________		
12	Energy credit:		
a	Basis of property using geothermal energy placed in service during the tax year (see instructions) $ ________ x 10% (0.10)	12a	
b	Basis of property using solar illumination or solar energy placed in service during the tax year that is attributable to periods after December 31, 2005, and the construction of which began before 2020 (see instructions) $ ________ x 30% (0.30)	12b	
c	Basis of property using solar illumination or solar energy placed in service during the tax year and the construction of which began in 2020 (see instructions) $ 67,962 x 26% (0.26)	12c	17,670
d	Basis of property using solar illumination or solar energy placed in service during the tax year and the construction of which began in 2021 (see instructions) $ ________ x 22% (0.22)	12d	
	Qualified fuel cell property (see instructions):		
e	Basis of property placed in service during the tax year that was acquired after December 31, 2005, and before October 4, 2008, and the basis attributable to construction, reconstruction, or erection by the taxpayer after December 31, 2005, and before October 4, 2008 $ ________ x 30% (0.30)	12e	
f	Applicable kilowatt capacity of property on line 12e (see instructions) ► ________ x $1,000	12f	
g	Enter the lesser of line 12e or line 12f	12g	
h	Basis of property placed in service during the tax year that is attributable to periods after October 3, 2008, and the construction of which began before 2020 $ ________ x 30% (0.30)	12h	
i	Applicable kilowatt capacity of property on line 12h (see instructions) ► ________ x $3,000	12i	
j	Enter the lesser of line 12h or line 12i	12j	
k	Basis of property placed in service during the tax year and the construction of which began in 2020 $ ________ x 26% (0.26)	12k	
l	Applicable kilowatt capacity of property on line 12k (see instructions) ► ________ x $3,000	12l	
m	Enter the lesser of line 12k or line 12l	12m	
n	Basis of property placed in service during the tax year and the construction of which began in 2021 $ ________ x 22% (0.22)	12n	
o	Applicable kilowatt capacity of property on line 12n (see instructions) ► ________ x $3,000	12o	
p	Enter the lesser of line 12n or line 12o	12p	
	Qualified microturbine property (see instructions):		
q	Basis of property placed in service during the tax year that was acquired after December 31, 2005, and the basis attributable to construction, reconstruction, or erection by the taxpayer after December 31, 2005 $ ________ x 10% (0.10)	12q	
r	Kilowatt capacity of property on line 12q ► ________ x $200	12r	
s	Enter the lesser of line 12q or line 12r	12s	

Part III Rehabilitation Credit and Energy Credit *(continued)*

	Combined heat and power system property (see instructions): **Caution:** You can't claim this credit if the electrical capacity of the property is more than 50 megawatts or has a mechanical energy capacity of more than 67,000 horsepower or an equivalent combination of electrical and mechanical energy capabilities.		
t	Basis of property placed in service during the tax year that was acquired after October 3, 2008, and the basis attributable to construction, reconstruction, or erection by the taxpayer after October 3, 2008 . . . $ ____ x 10% (0.10) . . .	12t	
u	If the electrical capacity of the property is measured in: • Megawatts, divide 15 by the megawatt capacity. Enter 1.0 if the capacity is 15 megawatts or less. • Horsepower, divide 20,000 by the horsepower. Enter 1.0 if the capacity is 20,000 horsepower or less. . . .	12u	
v	Multiply line 12t by line 12u . . .	12v	
	Qualified small wind energy property (see instructions):		
w	Basis of property placed in service during the tax year that was acquired after October 3, 2008, and before January 1, 2009, and the basis attributable to the construction, reconstruction, or erection by the taxpayer after October 3, 2008, and before January 1, 2009 . . . $ ____ x 30% (0.30) . .	12w	
x	Enter the smaller of line 12w or $4,000 . . .	12x	
y	Basis of property placed in service during the tax year that is attributable to periods after December 31, 2008, and the construction of which began before 2020 . . . $ ____ x 30% (0.30) . .	12y	
z	Basis of property placed in service during the tax year and the construction of which began in 2020 . . . $ ____ x 26% (0.26) . . .	12z	
aa	Basis of property placed in service during the tax year and the construction of which began in 2021 . . . $ ____ x 22% (0.22) . . .	12aa	
	Geothermal heat pump systems (see instructions):		
bb	Basis of property placed in service during the tax year that was acquired after October 3, 2008, and the basis attributable to construction, reconstruction, or erection by the taxpayer after October 3, 2008 . . . $ ____ x 10% (0.10) . .	12bb	
	Qualified investment credit facility property (see instructions):		
cc	Basis of property the construction of which began before 2021 (other than wind facility property and the construction of which began after 2016) placed in service during the tax year . . . $ ____ x 30% (0.30) . .	12cc	
dd	Basis of wind facility property placed in service during the tax year and the construction of which began during 2017 . . . $ ____ x 24% (0.24) . .	12dd	
ee	Basis of wind facility property placed in service during the tax year and the construction of which began during 2018 . . . $ ____ x 18% (0.18) . .	12ee	
ff	Basis of wind facility property placed in service during the tax year and the construction of which began during 2019 . . . $ ____ x 12% (0.12) . .	12ff	
gg	Basis of wind facility property placed in service during the tax year and the construction of which began during 2020 . . . $ ____ x 18% (0.18) . .	12gg	
13	Enter the applicable unused investment credit from cooperatives (see instructions) . . .	13	
14	Add lines 11e, 11f, 11g, 12a, 12b, 12c, 12d, 12g, 12j, 12m, 12p, 12s, 12v, 12x, 12y, 12z, 12aa, 12bb, 12cc, 12dd, 12ee, 12ff, 12gg, and 13. Report this amount on Form 3800, Part III, line 4a . . .	14	

Form **4562**

Department of the Treasury Internal Revenue Service (99)

Depreciation and Amortization
(Including Information on Listed Property)

▶ Attach to your tax return.

▶ Go to *www.irs.gov/Form4562* for instructions and the latest information.

OMB No. 1545-0172

2020

Attachment Sequence No. 179

Name(s) shown on return: Blaine Sapieha

Identifying number:

Business or activity to which this form relates:

Part I Election To Expense Certain Property Under Section 179

Note: *If you have any listed property, complete Part V before you complete Part I.*

1	Maximum amount (see instructions)	1	
2	Total cost of section 179 property placed in service (see instructions)	2	
3	Threshold cost of section 179 property before reduction in limitation (see instructions)	3	
4	Reduction in limitation. Subtract line 3 from line 2. If zero or less, enter -0-	4	
5	Dollar limitation for tax year. Subtract line 4 from line 1. If zero or less, enter -0-. If married filing separately, see instructions	5	

6 (a) Description of property	(b) Cost (business use only)	(c) Elected cost

7	Listed property. Enter the amount from line 29	7	
8	Total elected cost of section 179 property. Add amounts in column (c), lines 6 and 7	8	
9	Tentative deduction. Enter the **smaller** of line 5 or line 8	9	
10	Carryover of disallowed deduction from line 13 of your 2019 Form 4562	10	
11	Business income limitation. Enter the smaller of business income (not less than zero) or line 5 (see instrs)	11	
12	Section 179 expense deduction. Add lines 9 and 10, but don't enter more than line 11	12	
13	Carryover of disallowed deduction to 2021. Add lines 9 and 10, less line 12 ▶	13	

Note: *Don't use Part II or Part III below for listed property. Instead, use Part V.*

Part II Special Depreciation Allowance and Other Depreciation (Don't include listed property.) (See instructions.)

14	Special depreciation allowance for qualified property (other than listed property) placed in service during the tax year (see instructions)	14	
15	Property subject to section 168(f)(1) election	15	
16	Other depreciation (including ACRS)	16	

Part III MACRS Depreciation (Don't include listed property.) (See instructions.)

Section A

17	MACRS deductions for assets placed in service in tax years beginning before 2020	17	
18	If you are electing to group any assets placed in service during the tax year into one or more general asset accounts, check here ▶ ☐		

Section B — Assets Placed in Service During 2020 Tax Year Using the General Depreciation System

(a) Classification of property	(b) Month and year placed in service	(c) Basis for depreciation (business/investment use only — see instructions)	(d) Recovery period	(e) Convention	(f) Method	(g) Depreciation deduction
19a 3-year property						
b 5-year property		57,768	5	HY	S/L	11,554
c 7-year property						
d 10-year property						
e 15-year property						
f 20-year property						
g 25-year property			25 yrs		S/L	
h Residential rental property			27.5 yrs	MM	S/L	
			27.5 yrs	MM	S/L	
i Nonresidential real property			39 yrs	MM	S/L	
				MM	S/L	

Section C — Assets Placed in Service During 2020 Tax Year Using the Alternative Depreciation System

(a) Classification of property	(b) Month and year placed in service	(c) Basis for depreciation	(d) Recovery period	(e) Convention	(f) Method	(g) Depreciation deduction
20a Class life					S/L	
b 12-year			12 yrs		S/L	
c 40-year			40 yrs	MM	S/L	

Part IV Summary (See instructions.)

21	Listed property. Enter amount from line 28	21	
22	**Total.** Add amounts from line 12, lines 14 through 17, lines 19 and 20 in column (g), and line 21. Enter here and on the appropriate lines of your return. Partnerships and S corporations — see instructions	22	11,554
23	For assets shown above and placed in service during the current year, enter the portion of the basis attributable to section 263A costs	23	

2020 FEDERAL DEPRECIATION SCHEDULE

Blaine Sapieha

NO.	DESCRIPTION	DATE ACQUIRED	DATE SOLD	COST/ BASIS	BUS. PCT.	CUR 179 BONUS	SPECIAL DEPR. ALLOW.	PRIOR 179/ BONUS/ SP. DEPR.	PRIOR DEC. BAL DEPR.	SALVAG /BASIS REDUCT	DEPR. BASIS	PRIOR DEPR.	METHOD	LIFE	RATE	CURRENT DEPR.
	SCHEDULE C															
	MACHINERY AND EQUIPMENT															
1	SOLAR EQUIPMENT	09/21/2020		67,962						10,194	57,768		S/L HY	5	.20000	11,554
	TOTAL MACHINERY AND EQUIPME					0	0	0	0			0				
	TOTAL DEPRECIATION			67,962		0	0	0	0	10,194	57,768	0				11,554
	GRAND TOTAL DEPRECIATION			67,962		0	0	0	0	10,194	57,768	0				11,554

NOTE TO TAX PREPARER

Basis for Treatment

The basis for treating the purchase of solar equipment as income-producing property, and reporting depreciation and related expenses on Schedule C, rests with the fact that the taxpayer enters into a formal agreement with a utility company to sell the power generated by that solar equipment back to the utility.

These formal agreements, referred to as Net Metering Agreements or Interconnection agreements, specify the rate and terms for the reimbursement of power generation. Produced power flows back into the grid and is sold to the utility company. The utility company reimburses the power production in the form of a financial credit to the customer account. As such, the sale of that power can potentially be considered a taxable event.

According to the IRS, a trade or business is generally an activity carried on for a livelihood or in good faith to make a profit. The regularity of activities and transactions, and the production of income are important elements. The production of solar power is an activity that happens regularly, continually in fact, and produces regular income in the form of financial credits.

Financial credits for solar production are offered in a variety of different ways, depending upon the state and the utility. Many states require that solar production be credited at the retail rate the consumer would have been charged. Some states will issue reimbursement checks for the excess generation of power (production over and above the consumers' personal use.)

Since the solar production sold back to the utility company is to be considered a business activity, the personal consumption of power by the taxpayer cannot be considered a tax deduction. As with all business activities, any personal use of goods or services is not eligible for deduction. For solar equipment to be depreciated as income producing property, all power produced and reported by the utility company must be reported as income, thereby creating a profit motive.

For our purposes, the full amount of the retail production rate for kwh produced, as reported by the utility, is listed as taxable income on the tax return, with no reduction for personal use. The property that produced this taxable income can then be deducted against the taxable income.

In this scenario, the solar equipment is a business asset and all related costs can be deducted as a business expense. The primary expenses are depreciation and interest expense on the loans that most taxpayers incur to purchase the solar equipment. The commercial use of qualified solar energy equipment is eligible for a cost recovery period of five (5) years, and is eligible for depreciation, including 50% bonus depreciation, but not Section 179 depreciation.

As business equipment, the solar equipment qualifies for the solar investment credit which is equal to 30% of the cost of the equipment. The depreciable basis of the equipment is reduced by 50% of the solar credit amount.

The final treatment of net income or loss generated on Schedule C then, depends upon material participation. We do not mark material participation (i.e. passive activity) on the Schedule C because it is the responsibility of the preparer to determine the level of participation. The preparer must review the ordering rules to determine if the taxpayer qualifies.

Generally speaking, taxpayers can qualify for material participation using one of the seven qualifying tests, the easiest of which is that the taxpayer does substantially all of the work in the activity, which is the sale of power to the utility company. Additionally, most solar companies request referral information for family and friends, which can be classified as additional material participation in the form of business promotion. It is left to the judgement of the tax preparer as to whether the above parameters should be changed.

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