

Federal Storage ITC

Incentives & Programs



Frequently Asked Questions

1. What are the chances a standalone storage ITC is enacted this year?

Standalone storage has been included in all clean energy tax bills this year and was just included in the U.S. House Ways & Means Committee's Reconciliation draft. It is expected to be included in the final assembled Reconciliation bill - but so goes Reconciliation, so goes the standalone storage ITC. While there are alternative legislative options if Reconciliation does not end up passing, this is the preferred approach at the current time.

2. If Reconciliation fails for whatever reason, what is Plan B? Plan C?

The standalone storage ITC could be included in other must pass bills, such as annual spending bills, a year end omnibus, a year end tax extenders package, among others. However, the best route to enactment is inclusion in the Reconciliation package which needs only a simple majority in the Senate for final passage.

3. If I am retrofitting an existing solar asset, can I claim ITC for the new storage asset?

The IRS has previously ruled that retrofits of existing solar assets - even if operational and the ITC has already been taken - can, under existing law, be eligible for the ITC for the storage asset. But, it's best to consult your own tax attorney on this specific question.

4. When do domestic requirements kick in? Is it applicable to ITC as well as direct pay?

Under the recently released House Ways & Means Committee's Reconciliation draft, domestic content requirements are directly tied to the direct pay option and begin on January 1, 2024. However, in 2024, you can still receive 90% of the ITC value even if you fail to comply with domestic content requirements; 85% in 2025 under the same scenario; and, then 0% thereafter for failure to meet the domestic content requirements.

5. What happens if there is not enough domestic content or manufacturing to meet demand?

The domestic requirements, as currently drafted in the House Ways & Means Committee's bill, are aggressive. However, there are certain waivers contained in the bill that would allow projects to be exempted from this requirement. For example, a waiver is allowed if domestic content raises project costs 25% or if U.S. production is not sufficient in volume or quality to meet the requirement.

6. How long does current legislation envision for respective clean energy tax credits?

As currently drafted in the House Ways & Means Committee's bill, the standalone storage ITC - along with the ITC for solar as well as the production tax credit (PTC) for wind and other clean energy technologies - are extended until at least December 31, 2031. Some are phased down and phased out by 2033.

7. Can you take federal tax credits in addition to any state incentives?

Yes, currently you can essentially double dip and make your project cash flow by combining state and local incentives with Federal incentives.

8. If an entity is tax exempt or does not have a tax appetite, can it take direct pay?

Yes, tax exempt entities (e.g. electric cooperatives, municipally-owned utilities, etc.) are now able to take better advantage of federal tax credits by electing to capitalize on the direct pay option, rather than having to only source tax equity to develop their clean energy projects. Direct pay is essentially cash right back to the developer, even though they don't file a tax return.

9. Why is direct pay so important? Who is meant to benefit the most?

Direct pay really opens up the clean energy market to a whole new group of project developers, especially tax exempt entities like electric cooperatives, municipally-owned utilities, etc.

10. What happens if I am developing a project in 2021? Can I still be eligible for the ITC and/or direct pay?

This is a little bit of a gray area, but the language contained in the House Ways & Means Committee's draft basically says that you can "Commence construction" in 2021, And as long as your project is not placed in service before December 31, 2021, then you could still be eligible for the standalone storage ITC and/or direct pay option if they are enacted into law this year. However, it's always best to consult with your tax attorney on questions like this.

11. Which new markets do you expect to open up on Day 1 with a standalone storage ITC?

The most active markets for energy storage today - such as CAISO, Hawaii, MA, and NYISO - will see even further acceleration in storage deployments under a standalone ITC. Other markets where energy storage is nascent - such as ERCOT, PJM, and ISO-NE - will experience strong growth as many projects that are on the economic cusp today will have strong investment returns with a storage ITC. We also expect to see a large increase in electric cooperatives and municipally-owned utilities, deploying energy storage across the US, especially if the direct pay option is enacted. In addition, the combination of new state incentives and federal ITC will open entirely new markets for behind the meter (BTM) energy storage projects in states like IL, MI, and CT.

12. Is the solar ITC extended as well?

Yes, the current House Ways & Means Committee's draft extends the solar ITC at 30% until December 31, 2021.

13. Do regulated utilities get treated differently in the bill?

In years past, there has been a debate regarding an accounting approach called "normalization." Essentially, when it comes to tax credits in general, regulated utilities are required to spread out the tax benefit from a particular investment over the life of the project and not realize its benefit immediately. This accounting treatment is not specific to the storage, however. Regulated utilities have requested they be allowed to "opt out" of normalization in previous years. The House Ways & Means Committee's bill excludes the normalization opt out and maintains the status quo, while earlier Senate versions included a normalization opt out. This will be a negotiating point between the House and the Senate in the coming weeks.

For more information, visit www.stem.com/resources/incentives-programs/storage-itc

