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## A Tax Credit Extension to Brighten Up Solar Future?

A few days ago, a bipartisan group of representatives and senators introduced the “**Renewable Energy Extension Act**” in both the US House of Representative<sup>1</sup> and the Senate<sup>2</sup>. This new legislation intends to provide a 5-year extension to the Solar Investment Tax Credit (ITC), a tax incentive offering 30% discount on the price of solar systems for residential, commercial, and utility-scale applications.

This Investment Tax Credit did launch in 2006 (at that time solar systems were about 3x more expensive than today<sup>3</sup>) as a policy mechanism intended to support the growth of solar energy in the United States. This measure has proven to be pretty useful: creating hundreds of thousands of jobs, gathering more than \$140 billion of private investments, and helping the US solar industry to grow by an average **52% annual solar growth** for the past decade alone<sup>4</sup>.

This tax incentive, which was already extended for the first time in 2015, is now set to step-down from 30% to 26% in 2020, 22% in 2021 and then expire for residential installations after 2022 and continue at 10% for commercial & utility projects.

The solar industry has been gearing up for this step-down and solar company’s guidance, industry forecasts, and stock market prices have all already fully anticipated this 4% tax credit reduction. US solar developers have thought about different strategies to mitigate the step-down losses, the most popular one being safe-harboring solar modules.

In other words, developers can “safe-harbor” projects by investing at least 5% of the project’s total cost. With 5% of the total costs invested, projects are considered to have “commenced construction” and can, therefore, qualify for the ITC percentage valid in that year.

The logical strategy would, therefore, be to “safe-harbor” as many projects as possible by financing 5% (or 7% taking a 2% safety buffer) or their total expected cost before the first 4% step-down begins in 2020, the most common practice is to invest the 5% into solar modules. This approach is however not always chosen as it exposes the company to several drawbacks such as extra storage costs, administrative expenses, potential modules’ price decrease, and module technology evolution. Nevertheless, one can safely expect a rush in solar modules purchase at the end of 2019 in case the ITC is not extended.

The new ITC extension proposal might reshuffle the cards in the US solar industry. If approved, Solar systems will still be eligible for the 30% tax credit until 2025, and this is far from negligible. Note that even without an extension, the SEIA (Solar Energy Industry Association) already expects Solar PV to represent **12% of all power generation by 2030** (from 2.3% today). If the extension is approved, this number **jumps to 16% (a +33% increase!)** according to Dan Whitten, vice-president of public affairs at the SEIA<sup>5</sup>. To put it into perspective, when the ITC obtained its first extension in 2015, **Solar City Corp.** (the leading rooftop

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<sup>1</sup> <https://www.congress.gov/bill/116th-congress/house-bill/3961>

<sup>2</sup> <https://www.congress.gov/bill/116th-congress/senate-bill/2289>

<sup>3</sup> Source: U.S. Solar Photovoltaic System Cost Benchmark, NREL

<sup>4</sup> <https://www.seia.org/initiatives/solar-investment-tax-credit-itc>

<sup>5</sup> <https://www.pv-tech.org/news/An-extension-of-the-ITC-will-boost-solars-marketshare-by-a-third-by-2030>

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solar installer at the time) **surged 34% the day following the approval**. No one can precisely predict the effect of such extensions; what is certain is that it will boost even further the already fast-growing US solar market.

Political experts still see low chances in having such “Renewable Energy Extension Act” approved during a presidential election cycle and assume the most likely tax legislation to pass would be a bill to extend tax provisions that are about to expire. Nevertheless, climate change will be a key topic in upcoming US elections, and all candidates will be debating and divulging proposals on this matter. As shown in a recent Yale-George Manson survey <sup>6</sup>, 62% of Americans are worried about “the way Trump is handling climate change”. Promoting renewable energy by extending the solar tax credit might be an excellent way to gather elector’s support.

US solar companies are revising their forecasts, with **SunPower’s** CEO putting the likelihood of an ITC extension at about 30% and **Sunrun’s** CEO at 25% (both from 0%). If we take 2015 as a basis, we won’t probably have an answer on this extension until the end of 2019.

The US solar industry is right now a hot topic:

1. Solar cells and panels imported from China are taxed at 30% while inverters at 25%;
2. The ITC credits at 30% are to step-down to 26% next year;
3. California’s new solar mandate will make solar mandatory for newly constructed homes from 2020.

In this overwhelming environment, the solar industry keeps outperforming all forecasts and many companies reaching all-time sales records. We expect solar PV market to keep growing in the US and possibly boom thanks to a new tax credit extension or a US-China deal. As Leonardo Da Vinci once said: “The sun has never seen a shadow”.

We continue to believe that the outlook into our Sustainable Future certificate has never been so bright and would continue to add to current exposure into this formidable investment opportunity. We remind our investors that solar accounts for roughly 20% of our direct investments into this theme while renewable energies production (solar + wind + other sources) account for 35% of our exposure.

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<sup>6</sup> Source: Climate Change In The American Mind, April 2019, Yale Program On & George Manson University