Federal Tax Credit for Solar Panels in Puerto Rico? Not So Fast.

Warm breezes, white sand, stunning sunsets. These are the images most people conjure when thinking of Puerto Rico. They often overlook the unwelcome and frequent power outages that seem to accompany every major storm and sometimes happen without explanation. The electric grid has one major power line which, if compromised, can bring down the entire power system.

Power outages are not unique to Puerto Rico. Many residents moved from areas where solar power is popular, and generators were common, especially during a storm or natural disaster. Understandably, many residents, especially Act 60 recipients, want a backup source of power in light of these inconvenient and often extensive occurrences in their otherwise idyllic island paradise. The federal tax credit available to offset the cost of these back up power sources is often an attractive incentive to make the investment.

Example

Katie and Michael moved to Puerto Rico to take advantage of the Act 60 program and need a reliable power source because they work from their home. They want to utilize the federal tax credit to offset the cost of installing solar panels with a solar battery storage system at their home to ensure they have an alternative source of power in case of a power outage.

Federal Tax Credit

Internal Revenue Code Section 25D allows a tax credit for qualified expenditures made by a taxpayer for residential energy efficient property. The term "qualified solar electric property expenditure" means an expenditure for property "which uses solar energy to generate electricity for use in a dwelling unit ***located in the United States*** and used as a residence by the taxpayer."

Internal Revenue Code section 7701(a)(9) provides that when used in the Internal Revenue Code, "the [t]erm 'United States' when used in a geographical sense includes only the States and the District of Columbia." Code section 7701(a)(9) does not include U.S. territories in the definition of "United States." The Code and regulations generally referred to Puerto Rico and other unincorporated territories as "possessions." Code section 25D does not modify the definition of "United States".

Because Michael and Katie's property is located in Puerto Rico, it is treated as not being in the United States. Consequently, no credit is available for the solar panels installed in Puerto Rico.

Tom Duffy CPA, P.A. & P.C.
225 N. Arlington Heights Rd., Suite 109, Elk Grove Village, IL 60007
tduffy@tomduffycpa.com

Even though federal tax credit is not available for the cost of the solar panels installed in a home in Puerto Rico, it can nevertheless be a helpful investment to make life that much sweeter on the island.

About Tom Duffy, C.P.A., P.A. & P.C.

Tom Duffy C.P.A., P.A. & P.C. is a Greater Chicago-based firm that specializes in international taxation with a particular focus on U.S. possessions. In addition, the firm is one of the few CPA firms in the country that specializes in representing residents of Puerto Rico during IRS examinations, specifically those taxpayers granted tax incentives under Puerto Rico's Act 60 (formerly Act 20/22).

Our foreign clients rely on our knowledge and expertise in complying with their U.S. tax obligations. Tom Duffy has over twenty years of experience in international tax planning and associated U.S. tax return preparation. The firm services clients in the United States, its possessions, and throughout the world. Tom Duffy is a member in good standing with the American Institute of CPAs and the Puerto Rico Society of CPAs. He is licensed to practice in Florida, Illinois, and Puerto Rico.

For more information and tax-related articles on Puerto Rico's Act 60 program, please visit us at www.tomduffycpa.com

Tom Duffy CPA, P.A. & P.C.
225 N. Arlington Heights Rd., Suite 109, Elk Grove Village, IL 60007
tduffy@tomduffycpa.com