



STATE OF SOUTH CAROLINA  
DEPARTMENT OF REVENUE

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P.O. Box 125, Columbia, South Carolina 29214-0575

SC REVENUE RULING #24-2

SUBJECT: Solar Energy Credit  
(Income Tax)

EFFECTIVE DATE: Applies to all periods open under the statute.

REFERENCES: S.C. Code Ann. § 12-6-3587

AUTHORITY: S.C. Code Ann. § 12-4-320  
S.C. Code Ann. § 1-23-10(4)  
SC Revenue Procedure #09-3

SCOPE: The purpose of a Revenue Ruling is to provide guidance to the public. It is an advisory opinion issued to apply principles of tax law to a set of facts or general category of taxpayers. It is the Department's position until superseded or modified by a change in statute, regulation, court decision, or another Department advisory opinion.

S.C. Code Ann. § 12-6-3587 provides a credit against a taxpayer's income tax liability for the purchase and installation of a qualifying solar energy system, small hydropower system, or geothermal machinery and equipment. This credit is generally known as the "Solar Energy Credit." The purpose of this advisory opinion is to answer frequently asked questions about this credit.

**1. Which purchases qualify for the Solar Energy Credit?**

The Solar Energy Credit is available for the purchase and installation of a solar energy system, small hydropower system, or geothermal machinery and equipment for heating water, space heating, air cooling, energy-efficient daylighting, heat reclamation, energy-efficient demand response, or the generation of energy in or on a facility in South Carolina and owned by the taxpayer. The solar energy system includes all controls, tanks, pumps, heat exchangers, and other equipment used directly and exclusively for the solar energy system.

The following chart provides examples of purchases that do and do not qualify for the credit. Because there is continual development of new products and technology in this area, this is not a comprehensive list of all products that give rise to the credit. This Revenue Ruling is meant to provide guidance on the most common types of systems and products available as of the date of publication. Systems and equipment must meet

certification requirements and licensing standards in order to qualify for the credit<sup>1</sup>. Taxpayers should check the specifications of the products they are purchasing and, if necessary, ask a trusted contractor, plumber, or electrician for product specifications to help determine if the products being installed will qualify for South Carolina credits. Visit [solar.sc.gov](https://solar.sc.gov), a resource provided by the South Carolina Energy Office, to find more information about solar energy systems and consumer protection resources.

| <b>System use</b>                | <b>Examples of purchases that qualify for the credit</b>   | <b>Examples of purchases that do not qualify</b>  |
|----------------------------------|--|---|
| Heating water                    | Solar water heater; electric water heater installed as part of solar energy system   | Heat pump water heater; tankless gas water heater; gas storage water heater   |
| Space heating                    | Geothermal heat pumps; electric heating system installed as part of solar energy system; active solar heating systems                      | Gas furnaces; wood and pellet heating; air source heat pump; electric or natural gas heat pumps; programmable thermostats                           |
| Air cooling                      | Geothermal heat pumps; solar powered fans; electric air conditioning system installed as part of solar energy system                       | High efficiency air conditioning systems; air source heat pump; programmable thermostats  |
| Energy-efficient daylighting     | Windows or skylights used for natural lighting and temperature regulation <sup>2</sup>   | Storm windows and doors; insulation and weatherstripping  |
| Heat reclamation                 | Drain water heat recovery system connected with solar water heaters; geothermal heat pump  | Insulation materials  |
| Energy-efficient demand response | Meters, sensors, and controls installed as part of home solar energy system; 100% solar battery storage connected with solar energy system | Non-solar battery storage technology; meters, sensors, and controls to monitor energy usage but not connected with solar energy system installation |
| Generation of electricity        | Residential rooftop solar panels; small hydropower system  | Wind energy property; biomass fuel property; fuel cell property; electric panel upgrades  |

<sup>1</sup> See Question 3 for certification and licensing requirements.

<sup>2</sup> *Daylighting*, Office of Energy Saver, Office of Energy Efficiency and Renewable Energy, U.S. Department of Energy (February 1, 2024), <https://www.energy.gov/energysaver/daylighting>.

## 2. Which expenses qualify for the Solar Energy Credit?

The credit is based on the costs incurred by the taxpayer in the purchase and installation of the eligible system. This includes:

1. Total cost of equipment, machinery, panels, pumps, tanks, controls, heat exchangers, etc.;
2. Labor costs for preparation, assembly, and installation;
3. Permitting fees, inspection costs, and developer fees;
4. Balance-of-system equipment such as wiring, inverters, and mounting equipment; and
5. Sales tax on eligible expenses

The taxpayer should not include any costs incurred for land or structural elements of the building, such as walls, roofs, or other equipment ordinarily contained in the structure. Taxpayers should not include the costs of extended warranties or any financing costs such as interest or loan origination fees.

## 3. What requirements does a system have to meet to qualify for the Solar Energy Credit?

Solar energy systems, small hydropower systems, or geothermal machinery and equipment must meet the following requirements:

Solar Energy System: The Solar Rating and Certification Corporation certifies solar hot water systems. For solar photovoltaic (PV) systems, the State Energy Office recognizes any solar interconnection agreement between a utility and an applicant as certification that an appropriate entity has reviewed the system. Taxpayers with systems not connected to the grid must certify that the system complies with the most recent safety standards, that it has received all applicable permits, and that the appropriate building code enforcement authority approved the final inspection. The Certification for PV Systems form is available at [energy.sc.gov](http://energy.sc.gov).

Small Hydropower System: A small hydropower system must be new generation capacity on a non-impoundment or on an existing impoundment that:

1. meets the FERC's licensing requirements;
2. is a run-of-the-river facility with a capacity up to 5MW; or
3. consists of a turbine in a pipeline or an irrigation canal.

Geothermal Machinery and Equipment: Geothermal machinery and equipment must be installed at the taxpayer's residence to qualify for the credit, and must meet or exceed federal Energy Star requirements on the date of installation. Qualifying geothermal machinery and equipment either:

1. is a heat pump that uses the ground or groundwater as a thermal energy source to heat a structure or a thermal energy sink to cool a structure; or
2. uses the internal heat of the earth as a substitute for traditional energy for water heating or active space heating or cooling.

**4. Do taxpayers who qualify for federal solar credits always qualify for the South Carolina Solar Energy Credit?**

No. The federal credit requirements are different from the South Carolina Solar Energy Credit requirements. Taxpayers making purchases that qualify for federal credits should review the South Carolina credit requirements carefully to confirm the purchases will also qualify for the South Carolina Solar Energy Credit. Energy-efficient appliances, light fixtures, weatherization, roofing products, and home energy audits are examples of purchases that may qualify for federal credits but will not qualify for the South Carolina credit.

**5. Which facilities in South Carolina will qualify for the credit?**

A solar energy system or small hydropower system must be installed in or on a facility in South Carolina owned by the taxpayer to qualify for the credit. A facility is any building, structure, or property located in the state and owned by the taxpayer, including residences, properties rented out to third parties, or business properties.

Geothermal machinery and equipment must be installed for use at the taxpayer's primary residence to qualify for the credit. The taxpayer's primary residence must be located in South Carolina and owned by the taxpayer to qualify as a facility for the credit for geothermal machinery. Geothermal machinery and equipment installed at a business property, or at a residence other than the primary residence, will not qualify for the credit.

**6. Can taxpayers claim a Solar Energy Credit for a system installed at a rental property?**

The Solar Energy Credit is for the purchase and installation of a system in South Carolina at a facility owned by the taxpayer. Renters are typically not able to claim the Solar

Energy Credit because the building where the system is installed is not owned by the renter. Taxpayers may be able to claim the credit for a solar energy system or small hydropower system installed at a rental property they own but rent out to third parties.

Taxpayers are not typically able to claim the credit for geothermal machinery and equipment installed at a property exclusively rented out to a third party, since geothermal machinery and equipment must be installed at the taxpayer's primary residence in order to qualify for the credit.

**7. Can taxpayers claim a Solar Energy Credit for a leased solar energy system?**

No. The Solar Energy Credit is only available for the purchase and installation of a system at a facility in South Carolina owned by the taxpayer. A taxpayer leasing a solar energy system would not qualify for the credit because the taxpayer did not purchase the system. Generally, the company leasing the solar system to the taxpayer would not qualify for the credit because the lessor does not own the facility where the system is installed.

**8. Does community solar qualify for the South Carolina credit?**

Community solar includes solar projects in which the benefits flow to multiple customers, such as energy generated by solar panels at an off-site array.<sup>3</sup> Community solar programs may be structured in various ways, but typically, taxpayers do not own the facility in South Carolina where the community solar energy system is installed, and so will not qualify for the credit.

**9. Should taxpayers adjust their South Carolina basis in solar energy property for the Solar Energy Credit amount?**

No. There is no requirement in S.C. Code Ann. § 12-6-3587 for taxpayers to adjust their basis in South Carolina property for the amount of Solar Energy Credit claimed.

**10. Is the credit reduced by any rebates or other incentives the taxpayer receives?**

Rebates provided by the utility that directly subsidize the cost of the purchase and installation of the system, machinery, and equipment are usually excluded from federal taxable income under I.R.C. § 136. Rebates from manufacturers are typically treated as discounts on the price and are not included in federal taxable income. Except as otherwise specifically provided, South Carolina adopts the Internal Revenue Code, so these rebates are also excluded from South Carolina taxable income. Rebates excluded from taxable income will reduce the amount of system costs that qualify for the credit. For example, if the solar energy system cost \$15,000, but the utility gave a one-time rebate of \$1,000 for installing the system, the South Carolina credit would be \$3,500 (25% x 14,000)<sup>4</sup>.

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<sup>3</sup> *Community Solar Basics*, Solar Energy Technologies Office, Office of Energy Efficiency and Renewable Energy, U.S. Department of Energy (February 1, 2024), <https://www.energy.gov/eere/solar/community-solar-basics>.

<sup>4</sup> See Question 14 for more information on the credit amount and limits.

Taxpayers are not required to adjust their credit amount for any incentives provided by the utility to compensate for excess power produced by the solar energy system, small hydropower system, or geothermal machinery and equipment and delivered to the utility's electrical grid.

Taxpayers who receive cash or an incentive payment that is included in taxable income will not reduce the credit by any taxable payments received.

Taxpayers who qualify for the federal tax credit will not reduce the South Carolina credit by any federal credits received.

### **11. When do taxpayers claim the Solar Energy Credit?**

Taxpayers are able to claim the credit after the installation of the system is completed. Use all expenses incurred for the purchase and installation of the system to calculate the credit<sup>5</sup>, including qualifying expenses from a prior year. For example, if a taxpayer begins the process of purchasing and installing a solar energy system in November, Year 1, but the installation is not completed until February, Year 2, the taxpayer would claim the credit with the Year 2 tax return. The taxpayer would include all expenses for the purchase and installation of the system, including those incurred in Year 1.

### **12. Can nonresidents take the Solar Energy Credit?**

Yes. The Solar Energy Credit is for qualifying systems installed in South Carolina, but it is not limited to South Carolina residents. Nonresidents who own property in South Carolina and install a qualifying solar energy or small hydropower system on that property may be able to use the credit if they have South Carolina taxable income and a South Carolina income tax liability.

Geothermal machinery and equipment must be installed at the taxpayer's primary residence in order to qualify. A nonresident taxpayer whose primary residence is not in South Carolina will not be able to take the credit for geothermal machinery and equipment.

### **13. Can taxpayers claim a Solar Energy Credit for a system purchased using financing?**

Yes. A taxpayer who finances the purchase of the system and is contractually obligated to pay the full cost of the system can claim the credit using the purchase and installation costs of the system when the installation is completed. Any financing expenses, such as interest, insurance, origination fees, and extended warranties are not included in the eligible expenses used to calculate the credit amount.

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<sup>5</sup> See Question 2 for qualifying expenses to use in calculating the credit.

#### **14. What is the Solar Energy Credit amount?**

The Solar Energy Credit is equal to 25% of the costs incurred by the taxpayer for the purchase and installation of the solar energy system, small hydropower system, or geothermal machinery and equipment. The credit allowed in a tax year is limited to the lesser of:

1. \$3,500 for each facility; or
2. 50% of the tax liability.

The Solar Energy Credit is a nonrefundable credit. Nonrefundable credits reduce the South Carolina tax liability, but not below zero. Only taxpayers with a South Carolina income tax liability are able to take advantage of a nonrefundable credit. Taxpayers without South Carolina taxable income, such as retirees who only have Social Security income or individuals with zero federal taxable income, typically do not have a South Carolina tax liability so would not be able to use a nonrefundable income tax credit.

Taxpayers may carry any unused Solar Energy Credit forward for up to 10 years. Credits claimed in carryforward years are still limited each year to the lesser of \$3,500 per facility or 50% of the tax liability.

#### **15. Can taxpayers claim the Solar Energy Credit for systems installed in multiple locations?**

Yes. Taxpayers may claim a credit for systems installed in multiple locations or facilities owned by the taxpayer. For example, a taxpayer may claim credit for a solar energy system installed at the taxpayer's primary residence and for a solar energy system installed at a second residence. The credit for a taxpayer installing systems at two different locations would be limited to the lesser of \$7,000 (\$3,500 per facility) or 50% of the total tax liability for the tax year.

#### **16. Can taxpayers claim multiple Solar Energy Credits for the installation of separately qualifying equipment at the same facility?**

Yes. Taxpayers who complete an installation that qualifies for the Solar Energy Credit can claim the credit again if they install additional equipment that qualifies for the credit. The second installation must qualify for the credit on its own as a solar energy system, small hydropower system, or geothermal machinery and equipment. For example, a taxpayer who installs a solar energy system at their home that qualifies for the credit, and later adds additional solar capacity would be able to qualify for an additional credit. Conversely, a taxpayer who installs a solar energy system at their home that qualifies for the credit and later adds an electric water heater to the solar energy system would not be able to qualify for additional credit. The water heater purchased separately is not a solar energy system, small hydropower system, or geothermal machinery and equipment eligible for the credit.

Taxpayers calculating an additional credit for a later installation can only include the costs incurred for the purchase and installation of the addition, not for the original system cost that has already been included in the credit calculation in a prior year. Credits earned from the later installation are added to any remaining credit carryovers from the original system installation to arrive at the total credit available for the tax year.

S.C. Code Ann. § 12-6-3587 limits the Solar Energy Credit that can be taken in a year to \$3,500 per facility. Multiple installations at a single facility would still be subject to the \$3,500 limit.

**17. Can a taxpayer continue to claim credit carryforwards of the Solar Energy Credit if the property is sold?**

Yes. The Solar Energy Credit is earned in the year the installation of the solar energy system, small hydropower system, or geothermal machinery and equipment is completed. The credit is limited in a tax year to the lesser of \$3,500 per facility or 50% of the tax liability for the year, but any unused credit can be carried forward for up to 10 years. There are no provisions in S.C. Code Ann. § 12-6-3587 requiring a credit to be recaptured or the carryforward period ended if the property is sold or transferred. The amount of credit available in future years would still be limited to either \$3,500 per facility each year or 50% of the taxpayer's income tax liability, whichever is less.

**18. Can the Solar Energy Credit be transferred to another taxpayer?**

No. South Carolina income tax credits cannot be transferred unless the Code Section allowing the credit includes transfer provisions. There are no provisions in S.C. Code Ann. § 12-6-3587 allowing for the credit to be transferred. Taxpayers who sell a system or equipment that qualified for the credit, or who sell the facility where the system was installed, do not sell or transfer the South Carolina credit along with the property, system, or equipment.

**19. How does a taxpayer with multiple different types of credits calculate the Solar Energy Credit limits?**

Unless otherwise provided in the particular credit statute, a taxpayer may apply tax credits in any order. Credit limits are calculated one at a time. S.C. Code Ann. § 12-6-3587.

For example, a taxpayer with a \$5,000 tax liability who earns both a \$3,500 Solar Energy Credit and a \$3,000 Apprenticeship Credit<sup>6</sup> during a tax year can choose between the following two options:

1. Take the Solar Energy Credit first, limited to 50% of the tax liability. Take the Apprenticeship Credit second.

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<sup>6</sup> S.C. Code Ann. § 12-6-3477



|                             |           |                        |
|-----------------------------|-----------|------------------------|
| Tax Liability               | \$5,000   |                        |
| Solar Energy Credit         | (\$2,500) | (50% of tax liability) |
| Apprenticeship Credit       | (\$2,500) |                        |
| Tax Liability After Credits | \$0       |                        |

In this scenario, the taxpayer is able to reduce his tax liability to \$0 and has \$1,000 of Solar Energy Credit to carry forward to the next year. The Apprenticeship Credit does not have a carryforward provision, so the taxpayer is unable to use the remaining \$500 of Apprenticeship Credit.

2. Take the Apprenticeship Credit first. Take the Solar Energy Credit second, limited to 50% of the remaining tax liability after the Apprenticeship Credit is applied.

|                             |           |                                  |
|-----------------------------|-----------|----------------------------------|
| Tax Liability               | \$5,000   |                                  |
| Apprenticeship Credit       | (\$3,000) |                                  |
| Solar Energy Credit         | (\$1,000) | (50% of remaining tax liability) |
| Tax Liability After Credits | \$1,000   |                                  |

In this scenario, the taxpayer has a remaining tax liability of \$1,000, but is able to use the entire Apprenticeship Credit and has \$2,500 of Solar Energy Credit to carry forward to the next year.

## 20. How does a taxpayer claim the Solar Energy Credit on a South Carolina income tax return?

A taxpayer who has purchased and completed installation of a qualifying system in the tax year should first use the Schedule TC-38 to calculate the credit amount. Taxpayers will need to know the full cost of the system and their tax liability for the year, before credits, in order to complete the Sch. TC-38. The Sch. TC-38 is available at [dor.sc.gov/forms](http://dor.sc.gov/forms) or may be included with electronic filing software.

The taxpayer will then enter the total Solar Energy Credit amount for the tax year onto the SC1040TC (for individuals, fiduciaries, or partnerships) or the SC1120TC (for corporate taxpayers) using the code 038. For taxpayers who file electronically, this is typically incorporated into the electronic filing process.

The taxpayer carries the total nonrefundable credits from the SC1040TC or SC1120TC to the Nonrefundable Credits line on the income tax return, and then subtracts the credits from the tax liability.

Taxpayers claiming the Solar Energy Credit must include the Sch. TC-38 with their return, either through the electronic filing software provider or by filing a paper return.

**21. When does the Solar Energy Credit expire?**

S.C. Code Ann. § 12-6-3587 does not provide a repeal date for the credit for a solar energy system or a small hydropower system. The credit provisions for geothermal machinery and equipment are scheduled to be repealed on January 1, 2032.

**22. What is the difference between the Solar Energy Credit and the Solar Energy Property Credit?**

The Solar Energy Property Credit is found in S.C. Code Ann. § 12-6-3775 and claimed using Schedule TC-58. It is only available for qualifying solar energy property located in South Carolina and on:

1. The Environmental Protection Agency’s (EPA) National Priority List;
2. The EPA’s National Priority List Equivalent Sites;
3. A list of related removal actions certified by the South Carolina Department of Health and Environmental Control (DHEC);
4. Land subject to a Voluntary Cleanup Contract with DHEC as of December 31, 2017;
5. Land subject to corrective action under the Federal Resource Conservation and Recovery Act of 1976; or
6. Land owned by the Pinewood Site Custodial Trust.

The Solar Energy Property Credit is not available for individual taxpayers installing solar panels, or other solar energy systems, at their residence.

SOUTH CAROLINA DEPARTMENT OF REVENUE

s/W. Hartley Powell  
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W. Hartley Powell, Director

March 26, 2024  
Columbia, South Carolina