

Residential Energy Storage Credit Memo

Statute allows an income tax credit for the purchase of a system for retaining, storing, and delivering energy that will be installed in a Colorado residence [Section 39-22-546, C.R.S.]. The residential energy storage system must be commercially available and consist of batteries or batteries paired with on-site generation, such as solar panels or a fuel-powered generator. The credit's purpose is to incentivize “the purchase and installation of residential energy storage systems” and “contribute to the state’s effort to achieve its climate goals.” The credit is only available for Tax Years 2023 and 2024, and will expire unless the General Assembly takes action to extend it during the 2024 legislative session. Statute requires us to issue an evaluation prior to the legislative session before a tax expenditure expires [Section 39-21-305(1)(d), C.R.S.]. However, because Tax Year 2023 is the first year the credit has been available—and taxpayers who claim the credit on their 2023 individual returns will generally file during Calendar Year 2024—we lacked sufficient data to perform a complete evaluation of the credit prior to the 2024 legislative session. Therefore, we are issuing this memo to provide a summary of the credit.

The credit is available to homeowners or lessees who have the landlord’s permission who install an energy storage system in 2023 or 2024. The credit must be taken in the same year the storage system is purchased. The credit is for 10 percent of the cost to purchase the system, which includes charges for sales tax and freight, but not assembly, installation, or permit fees. Homeowners and lessees can claim the income tax credit by submitting a credit form (Form DR 1307) to the Department of Revenue (Department) when they file their income tax return. The credits claimed by the homeowner or lessee are not refundable and cannot be carried forward, so they will only receive their credit’s full value if they have sufficient income tax liability in the year they purchase the energy storage system. As discussed, the Department will not start to receive credit forms from homeowners and lessees until they file their Tax Year 2023 income tax returns in 2024, so no data is available on the number of homeowners or lessees who might claim the credit for 2023.

Alternatively, homeowners or lessees can assign the credit to the seller of the system. If a homeowner or lessee assigns the credit, the seller must discount the cost to purchase the system by the credit amount and submit the credit form to the Department within 30 days of the purchase. Therefore, homeowners and lessees can get the credit’s full value even if they would not otherwise have the tax liability to claim it. Credits assigned to sellers are fully refundable, so sellers who have more in credits than their income tax liability for the tax year will still receive the full value of their credit(s). The fiscal note for Senate Bill 22-051, which created the credit, estimated 110 systems at a cost of \$11,500 per system would be installed in 2023, which would result in about \$126,500 in credits. The Department was not able to provide any preliminary data on the use of the credit, so we are unable to provide an updated estimate of the cost for this memo.

Senate Bill 22-051 also created a sales and use tax exemption for energy storage systems. The sales tax exemption is also available starting in 2023, but will be available through 2032 [Section 39-26-733, C.R.S.]. We will publish an evaluation of the sales tax exemption—but not the income tax credit, unless it is extended—in 2027.