



Pros and cons of solar panels

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Federal and (depending on where you live) state incentives make installing solar panels on the roof of your house a fairly affordable, money-saving home improvement project. Not only will you reduce your monthly energy bills--perhaps even to zilch--but you may also recoup the up-front solar panel installation costs when the time comes to sell your home.

Does it make sense for you to shell out thousands of dollars to tap into solar energy? It depends on several factors. As with any major home improvement, it pays to sketch out a budget and research what's involved.

Installing solar panels can be a win-win. Solar panels use the sun's rays to produce free energy while reducing the amount of carbon and other pollutants emitted by producing energy derived from fossil fuels. Federal tax incentives of up to 30% can defray the up-front installation costs, and many states offer incentives to sweeten the pot.

The up-front cost to install solar panels has fallen significantly over the years, but it isn't cheap. The average U.S. homeowner requires an 11-kilowatt solar panel system to cover their electricity usage. For a system that size, you can expect to spend just over \$22,000 in 2024, after federal tax credits. Homeowners who borrow money to cover the costs will pay more because of the interest paid on the loan.

The average cost per watt in the U.S. to install solar systems is \$2.86 before any incentives are applied. That figure matters, as solar installers often charge per watt for systems. The bigger the system, the less installers charge per watt. How much a system costs you depends on the quality and brand you select, the type of panel, and labor costs. High-quality, highly efficient systems and panels will likely cost more.

Homeowners are eligible for a 30% federal solar tax credit for photovoltaic systems they install in their primary residences and/or vacation homes through 2032. If you own a rental property and install solar panels, you may be eligible for a business tax credit.

Although both can be used to lower your tax bill, tax deductions reduce your amount of taxable income, while credits decrease the amount of tax due. Learn more about tax credits, deductions, and refunds.

A tax credit reduces the amount of income tax you otherwise would pay, dollar for dollar. It is sometimes referred to as an investment tax credit (ITC). The credit applies only to new solar panel systems that are purchased; leased systems don't qualify.

To claim the tax credit, homeowners can fill out IRS Form 5695 on their federal tax returns and add the credit value to Schedule C and IRS Form 1040. The credit is nonrefundable--so the credit you receive can't be more than what you owe in tax--but you can carry forward any excess unused credit and apply it to your future tax



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liability.

It's worth looking for savings to defray the costs. States provide a variety of tax incentives; some utilities, installers, and solar equipment manufacturers may also offer rebates.

State power agencies or governmental departments post information about solar incentives on their websites. Some states are more generous than others, but all states offer incentives. North Carolina State University's NC Clean Energy Technology Center website also maintains a nationwide list of state incentives.

As with any major home improvement project, taking the time to explore the pros and cons--and to understand the options available to you--can help you save money and ensure you get the best deal. Get bids from vetted solar installers so you can compare multiple quotes.

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