

*Disclaimer: The information provided in this FAQ is for informational purposes only and does not constitute tax advice. You should consult with a qualified tax professional to determine your eligibility for these tax credits and how they apply to your specific situation.*

## **1. Is the deadline for the commercial PV credit (Section 48) the same as the residential credit?**

No, the deadlines are different. The Investment Tax Credit (ITC) for commercial PV installations (Section 48) has different requirements and a later expiration timeline than the residential credit:

- Projects that are fully installed and placed in service by December 31, 2027, are eligible for the full credit, regardless of their construction start date.
- Projects that begin construction by July 4, 2026, may also be eligible for the full credit, provided they are placed in service within a four-year window (by December 31, 2030).<sup>1</sup>

## **2. What does it mean to “begin construction” for the commercial PV credit?**

Recent guidance from the Internal Revenue Service (IRS) has significantly changed how "begin construction" is defined, especially for larger projects. For solar projects with a nameplate capacity of 1.5 megawatts (MW) (alternating current or AC) or greater, **the 5% Safe Harbor has been eliminated as a method for establishing the beginning of construction**. These projects must now rely on the Physical Work Test and must meet the Continuity Requirements.<sup>2</sup>

### The Physical Work Test:

This test is based on a "facts and circumstances" analysis. Construction is considered to have begun when "physical work of a significant nature" starts on the project. This can include both on-site and off-site work. For a solar facility, on-site work could consist of activities such as:

- Excavation for foundations.
- Pouring concrete pads.
- Installing racks or other support structures for the solar panels.

Off-site work, such as the manufacturing of specialized components for the project, can also be considered if it is done under a binding written contract. The key is that the work must be of a "significant nature" and not just preliminary activities like planning, design, or land surveying.

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<sup>1</sup> [Sections 45Y and 48E Beginning of Construction Notice](#)

<sup>2</sup> [Sections 45Y and 48E Beginning of Construction Notice](#)

For smaller solar projects – 1.5 MW (AC) or less – the 5% Safe Harbor may still be available.

### Continuity Requirement:

Simply "beginning construction" is not enough to secure the tax credit. The IRS also requires a "continuous program of construction." To satisfy this requirement, a taxpayer must demonstrate "continuous efforts" toward completing the project after construction has begun.

There is a "Continuity Safe Harbor" which provides a straightforward way to meet this requirement. If the project is placed in service by the end of the fourth calendar year after the calendar year in which construction began, the continuity requirement is automatically satisfied. If a project takes longer than four years, the taxpayer must be able to prove that a continuous program of construction was maintained.<sup>3</sup>

In summary, for most commercial PV projects, "begin construction" in tax terms means starting a continuous program of "physical work of a significant nature," such as on-site civil and electrical work, or the off-site manufacturing of custom components, with the goal of completing the project within a reasonable timeframe, typically a four-year window.

### **3. What costs are considered "qualified expenditures"?**

Qualified expenditures for the residential credit include more than just the equipment. They are defined as the costs of the new, qualified clean energy property and also include:

- Equipment Costs: The cost of the solar panels and other necessary hardware.
- Labor Costs: All labor for the on-site preparation, assembly, and original installation of the system.
- Installation Materials: Costs for wiring, piping, or other materials required to connect the system to your home.
- Ancillary Costs: This means that costs for design and permitting that are directly related to the on-site installation can be included.<sup>4</sup>

### **4. What are the "Prohibited Foreign Entity" rules for commercial projects?**

As of January 1, 2026, all projects under Section 48 will be subject to the Prohibited Foreign Entity (PFE) rules. These rules disqualify a project from receiving the tax credit if it is owned by a PFE or if it receives "material assistance" from a PFE. To avoid these

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<sup>3</sup> [Sections 45Y and 48E Beginning of Construction Notice](#)

<sup>4</sup> [Home energy tax credits | Internal Revenue Service](#)

new restrictions, projects must either begin construction by July 4, 2026, or be placed in service by December 31, 2027. To be safe and avoid the PFE rules entirely, projects should commence construction before the end of 2025.<sup>5</sup> Additional IRS guidance is forthcoming.

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<sup>5</sup> [Navigating OBBBA: phaseouts, prohibited foreign entity rules, and other new rules – The Tax Law Center](#)