

MONEY MYTHS SERIES

"Free Solar" and the Solar Tax Credit in 2026: What Ended and Who Gets Paid

Why the homeowner solar credit ended after 2025, who profits from free-solar pitches, PACE liens and your California rights.

By Eric Ridley, attorney, Ridley Law · Updated September 2026 · Read online with live links: ridleylawoffices.com/solar-tax-credit/

Part of our [money myths series](#), where we check what social media says about money against the statute, the IRS and the courts.

The claim: "free solar." The government pays for your panels through a tax credit, so the system costs you nothing. **The verdict:** for a homeowner who buys a system installed in 2026, the federal credit is gone. The 2025 budget law ended the residential clean energy credit for any system whose installation is completed after December 31, 2025. Even before that, the 30% credit was never free money: it only reduced tax you owed, and the loans used to sell it often carried hidden fees of 10% to 30% of the price, according to the CFPB.

0%

Federal residential solar credit for systems installed in 2026 (IRC § 25D(h), as amended 2025)

30%

The credit for systems installed 2022 through 2025, and only against tax you owed

10% to 30%

Typical hidden fees in solar loans, sometimes over 50% (CFPB, 2024)

\$2,700

Average yearly property tax bill increase from PACE loans (CFPB PACE report)

5 days

Time to cancel a California solar contract if you're 65 or older, 3 business days otherwise (CPUC)

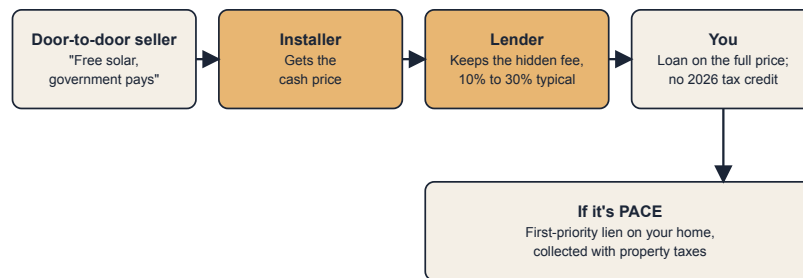
"Free solar" is one of the oldest door-to-door pitches in California, and it has moved online. The ads say a new government program covers your panels, or that the tax credit is a check you'll get back, or that you'll never pay another electric bill. The California Public Utilities Commission's consumer guide lists "You can get free solar energy at no cost to you" as a false claim and says plainly: "Solar energy is rarely free."

Who gets paid when you follow this advice

The salesperson and installer first. The CFPB found that solar salespeople "commonly make their first contact with potential customers via a door-to-door introduction." Minnesota's Attorney General sued four solar lenders in 2024, alleging that contractors priced financed systems higher in a way "that allowed them to collect a commission above the cash price." Those are allegations in a pending complaint.

The lender second. The CFPB's 2024 report describes "hidden fees" that "typically range from between 10 to 30 percent of the cash price but can exceed 50 percent." Its example: a \$30,000 system with a \$9,000 hidden fee becomes a \$39,000 loan, and "the lender would remit the \$30,000 cash price to the installer and keep the \$9,000 hidden fee." The Minnesota complaint alleges one lender's average fee was 19.32% of each loan and another's 21.4%.

If the deal uses PACE financing, a program administrator and the local government's lien come into it too. The CFPB found over half of California PACE transactions had fees above the federal high-cost threshold.

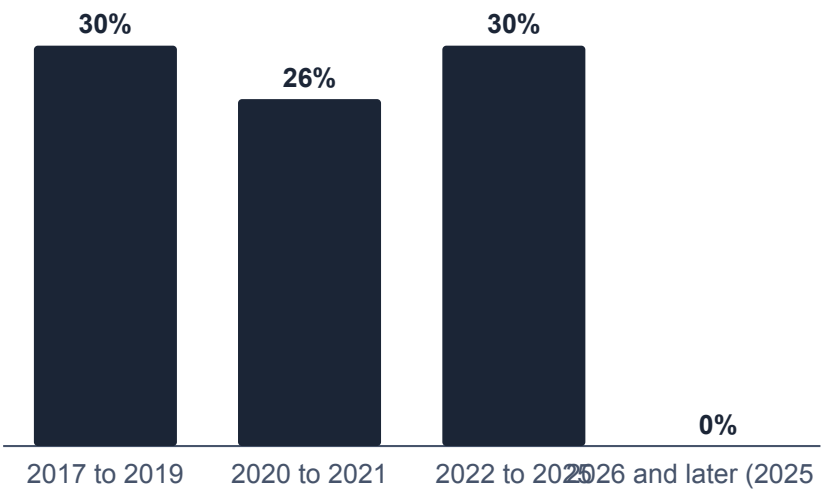


Is there still a federal solar tax credit for homeowners in 2026?

No: the 2025 budget law amended IRC § 25D so the credit "shall not apply with respect to any expenditures made after December 31, 2025," and an expenditure counts as made when installation is completed.

Section 70506 of Pub. L. 119-21, signed July 4, 2025, moved the end date for the residential clean energy credit from 2034 to the end of 2025. Under § 25D(e)(8)(A), an expenditure is "treated as made when the original installation of the item is completed." The IRS spelled out what that means in its August 2025 FAQs: "If installation is completed after December 31, 2025, the expenditure will be treated as made after December 31, 2025, which will prevent the taxpayer from claiming the section 25D credit." Paying a deposit in 2025 didn't lock anything in.

Some IRS web pages still describe the credit's old phase-out years. The statute controls, and the IRS's own Form 5695 instructions say: "You can't claim residential clean energy credits for expenditures made after December 31, 2025."



Before the 2025 law, the credit had been scheduled to run at 30% through 2032, then 26% for 2033 and 22% for 2034. Rates apply only against tax owed; the credit is nonrefundable.

Installed	Credit rate	Source
2017 to 2019	30%	IRC § 25D(g)(1)
2020 to 2021	26%	IRC § 25D(g)(2)
2022 to 2025	30%	IRC § 25D(g)(3); IRS
2026 and later	0%	IRC § 25D(h), as amended by Pub. L. 119-21, § 70506

Was the solar tax credit ever "free money"?

No: it was nonrefundable, so "the credit amount you receive can't exceed the amount you owe in tax," the IRS says, and it never paid anyone a check.

A household with little or no federal income tax got little or nothing from it that year. Unused credit carried forward to later years. The CFPB criticized sales pitches that "promote the 30 percent federal 'Investment Tax Credit' for residential solar installations with a presumption of universality," and loan marketing that "deduct[s] the presumed tax credit from the loan amount to present a so-called 'net cost.'" Many solar loans also re-amortized at a higher payment "at the 19th month of the loan term" unless the borrower made a big prepayment, usually expected to come from the tax credit. In one consumer complaint the CFPB quoted, a borrower wrote that the payment would go from \$180 to \$250 a month without that check.

Rhode Island's Attorney General alleged in 2023 that one solar company's salespeople "were trained to misdescribe federal tax credits as 'down payments.'" Texas's Attorney General sued another company in May 2026, alleging it "misrepresented tax-credit eligibility." Both are allegations in lawsuits.

What about "no money down" solar leases?

With a lease or a power purchase agreement, you don't own the system, so you can't claim a tax credit at all; the solar company takes any credit, the FTC says.

The FTC's consumer guidance says: "When you lease a system or have a PPA, you don't own the system. That means you can't claim RECs and aren't eligible for" the tax credits. The company that owns the panels may claim a separate business credit under IRC § 48E. The 2025 law ends that credit for solar facilities placed in service after 2027, but only for projects that begin construction after July 4, 2026, and IRS Notice 2025-42 sets the rules for when construction begins. The same law added a restriction on credits for leased residential property, and tax lawyers disagree about how far it reaches. None of that changes your side of the deal: you're signing a long-term contract to pay for power from equipment someone else owns, on your roof.

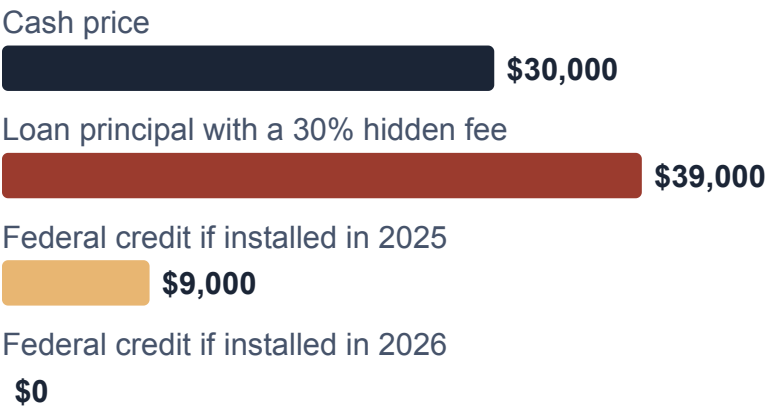
What is PACE financing, and why do regulators warn about it?

PACE puts the solar loan on your property tax bill as a first-priority lien, so missed payments can lead to foreclosure. The CPUC warns that "PACE is not a free government program."

Because the government collects PACE payments with property taxes, salespeople have described it as a government program. California regulators have acted against that pitch. In 2021, the Department of Financial Protection and Innovation barred a PACE solicitor after finding that he and his companies "misled consumers by marketing their product as a 'no-cost' government-funded program." The same year, DFPI moved to revoke the license of Renovate America, a PACE administrator, which it said was "the first time in the program's history" it had done so. Renovate America had already paid \$4 million in a 2019 settlement with seven California prosecutors' offices.

In 2022, the FTC and the State of California sued Ygrene Energy Fund, alleging that Ygrene and its contractors falsely told homeowners the financing wouldn't interfere with selling or refinancing their homes, "in many instances relying on high-pressure sales tactics or outright forgery." Ygrene agreed to dedicate \$3 million to relief. The FTC later mailed 960 refund checks totaling more than \$2.9 million. Its refund page notes: "The settlement did not remove Ygrene's liens."

The CFPB's study of PACE loans made from 2014 to 2019 found they raised property tax bills "by about \$2,700 per year on average, an average increase of about 88 percent," and raised the risk of mortgage delinquency by about 35%. Californians filed 313 PACE complaints with the state regulator from 2020 to 2022. A CFPB rule applying federal ability-to-repay requirements to PACE financing took effect March 1, 2026, and a federal court in Florida rejected an industry challenge to it in February 2026.



Cash price and fee from the CFPB's 2024 Issue Spotlight example. Credit is 30% of the \$30,000 system price, nonrefundable, usable only against tax owed.

Item	Amount
Cash price	\$30,000
Loan principal with a 30% hidden fee	\$39,000
Federal credit if installed in 2025	\$9,000
Federal credit if installed in 2026	\$0

Does California's net billing change the math?

Yes: for customers who applied to connect on or after April 15, 2023, the CPUC's Net Billing Tariff pays for exported power at lower "avoided cost" values instead of the retail rate, and targets a nine-year payback for a stand-alone system.

The CPUC adopted the change in Decision 22-12-056 on December 15, 2022. It "replaces retail rate compensation for exported energy with Avoided Cost Calculator values that vary according to grid needs." Savings estimates built on the old net metering rules, or on a neighbor's older system, don't apply to a new California system. Ask any seller which tariff their numbers assume.

What does the law require a California solar seller to give you?

A one-page disclosure document on the front of the contract, showing the total cost including financing, under Business and Professions Code § 7169, plus at least three business days to cancel, or five if you're 65 or older.

The Contractors State License Board requires the "solar energy system disclosure document" to be "printed on the front page or cover page of every" residential solar contract, and it must show "the total cost and payments for the system, including financing costs." Compare that total to the cash price. The difference is what the financing costs you, hidden fees included. If an older relative signed a solar or PACE contract after a high-pressure visit, see [when a parent starts slipping](#) and our page on [elder financial abuse in California](#).

Worked example: the same system, three ways

This example uses the CFPB's own illustration of a \$30,000 system and a \$9,000 hidden fee, plus a hypothetical homeowner.

- **Paid cash:** \$30,000.
- **Financed through the installer's lender:** a \$39,000 loan principal, plus interest. The lender keeps \$9,000.
- **Installed in 2025:** a 30% credit on the \$30,000 system, \$9,000, but only against tax owed. A homeowner who owed \$4,000 used \$4,000 that year and carried \$5,000 forward.
- **Installed in 2026:** no federal credit. The \$39,000 loan is still \$39,000.

Whether a lender's hidden fee counts toward the credit's cost basis wasn't something we could confirm, so the example applies the credit to the \$30,000 system price only.

Have "solar tax credit" schemes gone to court?

Yes, including federal cases where promoters sold solar equipment mainly as a way to "zero out" taxes; in *United States v. RaPower-3* (10th Cir. 2020), the court affirmed disgorgement of \$50,025,480.

RaPower-3's promoters sold solar lenses by telling buyers they could "zero out" federal income tax with depreciation and solar credits. The lenses cost the company \$52 to \$70, were worth no more than \$100, and sold for \$3,500 to \$30,000 each. The Tenth Circuit affirmed the judgment. Investors who claimed those credits lost them: in *Olsen v. Commissioner* (10th Cir. 2022), the court upheld the IRS's disallowance of a couple's solar credits and deductions for 2010 through 2014. Separately, the owner of DC Solar was sentenced to 30 years in prison in 2021 for a Ponzi scheme of about \$1 billion in which "a significant incentive for investors were generous federal tax credits." These were investment schemes, not rooftop systems, but they follow the same pattern: the tax credit is the sales tool.

When does solar make sense?

When you pay a fair price, own the system, understand the payback under California's current tariff, and treat any incentive as a bonus.

Solar can lower electric bills for many California homes. A fair deal has a written cash price, a loan you'd take anyway at a rate you've compared, a payback estimate based on net billing, and a seller who answers the question "who claims the tax credit?" in writing. Systems installed through 2025 still carry forward any unused federal credit. The CPUC's one exception to its "rarely free" warning is "a few government-funded solar programs" that offer free or low-cost solar to low-income households.

What the pitch says	What the law and regulators say
"The government pays for your panels."	For systems installed in 2026, there's no federal homeowner credit. Before that, it was a 30% nonrefundable credit against tax you owed.
"Your net cost is the price minus the credit."	The CFPB calls that "net cost" framing misleading. The loan principal is the full price, often plus hidden fees.
"No money down, no cost."	With a lease or PPA you don't own the system and get no credit. You pay for decades.
"PACE is a government program."	The CPUC says it isn't. It's a first-priority lien on your home.
"You'll never pay an electric bill again."	Net billing pays less for exported power. Ask what tariff the projection assumes.
"Sign today."	You have at least three business days to cancel in California, five if you're 65 or older.

What should you do instead?

Get the cash price first, compare financing second, and count incentives last.

1 Get the cash price in writing

Then compare it to the loan principal. The gap is the financing cost, including any dealer fee.

2 Read the disclosure document

California requires it on the cover of the contract. Check the total cost and the payment schedule, including any increase after 18 months.

3 Ask who claims the credit

In 2026, the homeowner credit is gone. If a seller says otherwise, ask for the claim in writing.

4 Check the license

Look up the contractor on the CSLB website. For PACE, confirm the administrator is licensed by DFPI.

5 Think about the lien before you sell or refinance

A PACE lien or solar lease affects a sale. If the home is in a trust or you're planning to leave it to family, see [protecting real estate for California families](#).

Tax credits as a sales tool show up in other pitches in this series. See [syndicated conservation easements](#) and [Employee Retention Credit mills](#).

Frequently asked questions

Is the 30% solar tax credit still available in 2026?

Not for homeowners. The residential clean energy credit under IRC § 25D doesn't apply to expenditures made after December 31, 2025, and an expenditure is made when installation is completed.

I paid in 2025 but the panels were installed in 2026. Do I get the credit?

No. The IRS says that if installation is completed after December 31, 2025, the expenditure is treated as made after that date, which prevents the credit.

What happens to credit I couldn't use on my 2025 return?

Unused residential clean energy credit carries forward to the next tax year, as the 2025 Form 5695 instructions explain.

Is there such a thing as free solar?

Rarely. The CPUC lists "free solar energy at no cost to you" as a false claim. Its one exception is a few government-funded programs for low-income households.

Is PACE a government program?

No. The CPUC says "PACE is not a free government program." Payments are collected through your property tax bill, and the financing creates a first-priority lien on your home.

Can I cancel a solar contract in California?

Yes, within at least three business days for any reason, or five if you're 65 or older, according to the CPUC.

Who regulates solar sellers in California?

The Contractors State License Board licenses installers, the Department of Financial Protection and Innovation licenses PACE administrators, and the CPUC sets net billing rules.

This page is general information, not legal, tax or investment advice for your situation. Solar contracts and liens are long-term obligations, so have someone you trust review the contract before you sign.

More in the [money myths](#) series.

SOURCES

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- IRS Criminal Investigation, [DC Solar owner sentenced to 30 years](#), November 9, 2021.
- BRIDGE v. CFPB, M.D. Fla., [order on cross-motions for summary judgment](#), February 12, 2026.

Questions about your own plan?

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