Office of the State Auditor

Kerri L. Hunter, CPA, CFE
State Auditor

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Residential Energy Storage Systems Tax Expenditures Evaluation Update

In December 2025, our office released its evaluation of the Residential Energy Storage Income Tax Credit [Section 39-22-546, C.R.S.] and the Residential Energy Storage System Sales Tax Exemption [Section 39-26-733, C.R.S.]. At that time, the Department of Revenue (Department) was not able to provide data on the revenue impact to the State or the number of claims of either tax expenditure. In January 2026, the Department released Residential Energy Storage Credit individual and corporate claims data for Tax Year 2023, which was the first year this credit was available. The Department did not publish, nor does it plan to publish in the future, data on claims or the revenue impact of the Residential Energy Storage Exemption because the exemption is reported by sellers on the "other exempt sales" line of the sales tax return, which aggregates several sales tax exemptions. On page 14 of the report, we estimated the revenue impact of the sales tax exemption to be about $690,000 in Tax Year 2023 and about $750,000 in Tax Year 2024. The purpose of this memo is to provide updated information on the revenue impact and claims of the Residential Energy Storage Credit that was published by the Department after the release of our report.

According to Department data, in Tax Year 2023, the Residential Energy Storage Credit was claimed on 396 individual income tax returns for a total revenue impact to the State of $832,400. The credit was not claimed by any corporations in Tax Year 2023. However, it is possible that the Department data does not capture the entire revenue impact of the credit. The Department data released in January 2026 only include credits claimed by individuals and C corporations. To the extent that the credit was claimed on an estate, trust, or composite nonresident partnership or S corporation return, those credits would not be captured in the Department's data but would still have a revenue impact to the State in Tax Year 2023.

The credit's total revenue impact to the State as reported in the Department data is less than the potential revenue impact we estimated in our report. A comparison of the data we used to generate our estimate to Department data on the number of claims made by taxpayers suggests that this credit may be underutilized. In Exhibit 2 on page 14 of our report, we estimated that the number of systems eligible for the credit in Tax Year 2023 was about 1,550 with a potential revenue impact to the State for Tax Year 2023 of about $2,393,000 based on information we received from utilities operating in Colorado and U.S. Energy Information Administration data on the number of residential energy storage systems installed in Colorado. If we assume that each claim reported in the

Department's data represents one system installed, only about 26 percent of the potentially eligible systems installed in Tax Year 2023 had a credit claimed for their installation. It is unclear why credit utilization may be low, but it is possible that some taxpayers are not aware of it or do not think they are eligible to claim it. It is also possible that some of the systems reported as being installed to the U.S. Energy Administration or to us by utilities were not eligible for the credit.

As discussed on pages 4 and 5 of our report, the credit can be claimed in two ways: (1) by the purchaser who had the system installed in a residential dwelling, in which case the credit is not refundable and cannot be carried forward to future years if the credit amount exceeds the taxpayer's tax liability, or (2) by the purchaser assigning the credit to the system seller (with the seller's permission), in which case the entire credit is refundable to the seller since the seller is required to compensate the purchaser for the full nominal value of the tax credit at the time of purchase through a discount on the purchase price of the system. The Department breaks down the individual credit claims of the Residential Energy Storage Credit by nonrefundable and refundable credits, which we present in Exhibit 1.

Exhibit 1
Number of Claims, Revenue Impact, and Average Credit for Individual Taxpayers Who Claimed the Residential Energy Storage Credit in Tax Year 2023, Broken Down by Nonrefundable and Refundable Credits

Credit	Claims	Revenue Impact	Average Credit
Residential Energy Storage Credit - Nonrefundable	365	$738,475	$2,023
Residential Energy Storage Credit - Refundable	31	$93,925	$3,030
Total Credits	**396**	**$832,400**	**$2,102**

Source: Office of the State Auditor analysis of Department of Revenue individual credit data for the Residential Energy Storage Credit.

The refundable credits represent credits that were assigned by the purchaser to the seller. On pages 9 and 10 of our report, we discussed that during our evaluation, we spoke with four energy storage system installers in Colorado and none of them accept assignments of the credit, and therefore, we thought it was not common for these credits to be assigned. On page 10 of our report, we also discussed that sellers do not have a financial incentive to accept assignment of the credit. Despite this, as shown in the Department data, some sellers have accepted assignments of the credit. However, as we expected, it is much more common for purchasers to claim the (nonrefundable) credit themselves rather than the seller taking assignment of the credit. Additionally, it is important to note that although the refundable/assigned credit was claimed on 31 income tax returns in Tax Year 2023, it is possible that this figure represents fewer than 31 businesses that sell and install residential energy storage systems. This is because the credits were claimed on individual returns that could represent several individuals that operate the same business (e.g., a partnership or S corporation that passed through credits to their owners to be claimed on the owners' individual tax returns).

On page 10 of our report, we discussed that some homeowners/purchasers, in particular those with lower incomes, may not have sufficient tax liability to be able to receive the full benefit of the credit, which would reduce its effectiveness when the credit is not assigned. In January 2026, the Department also released data on the claims of the nonrefundable Residential Energy Storage Credit by individuals by the size of their federal adjusted gross income (AGI), which we present below in Exhibit 2.

Exhibit 2
Number of Claims, Revenue Impact, and Average Credit for Individuals Who Claimed the Nonrefundable Residential Energy Storage Credit in Tax Year 2023 by Size of Federal Adjusted Gross Income

Size of Federal Adjusted Gross Income	Claims	Revenue Impact	Average Credit
Negative Income	0	$0	$0
$0 to Under $10,000	0	$0	$0
$10,000 to Under $30,000[1]	3	$543	$181
$30,000 to Under $40,000	8	$4,385	$548
$40,000 to Under $50,000	10	$6,085	$609
$50,000 to Under $60,000	9	$4,791	$532
$60,000 to Under $75,000	18	$20,039	$1,113
$75,000 to Under $100,000	32	$47,512	$1,485
$100,000 to Under $200,000	128	$251,519	$1,965
$200,000 to Under $500,000	115	$282,276	$2,455
$500,000 to Under $1,000,000	31	$87,105	$2,810
$1,000,000 or More	11	$34,220	$3,111
Total	**365**	**$738,475**	**$2,023**

Source: Office of the State Auditor analysis of Department of Revenue individual credit data for the Residential Energy Storage Credit.

[1] In its data, the Department of Revenue has separate categories for $10,000 to under $20,000 and $20,000 to under $30,000. For the nonrefundable Residential Energy Storage Credit, these categories, separately, are not releasable in order to preserve taxpayer confidentiality. The Department of Revenue will generally not release aggregated taxpayer data when there are fewer than three taxpayers or one taxpayer claimed 80 percent or more of the total amount. Since these were the only two nonreleasable categories in the data, we combined them into one group ($10,000 to under $30,000) in order to present a total for this combined AGI group.

As shown in Exhibit 2, taxpayers with less than $60,000 of AGI had average credits of less than $700. Although it is possible that some of these taxpayers installed smaller and less expensive residential energy storage systems (which would generate smaller credits), if they installed a more common system with one battery costing about $11,000, this data indicates that they might have lacked the tax liability to claim the full $1,100 credit (calculated as 10 percent of the $11,000 of eligible property) that they might have otherwise been able to claim. Therefore, because it appears that many sellers are not accepting assignments of credits, it is likely that many taxpayers with lower incomes are not able to fully utilize their credits since the nonrefundable credit claimed by purchasers cannot be carried forward to future tax years. This may also decrease the incentives for taxpayers with lower incomes to purchasing these systems since they will not get a significant amount back from the tax credit. In Tax Year 2023, most of the nonrefundable credits were claimed by taxpayers with at least $100,000 in AGI; these taxpayers claimed 78 percent of the total nonrefundable credits and accounted for 89 percent of the total revenue impact to the State.