



COLORADO
Department of Revenue
Taxation Division

Office of Tax Policy
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GIL 25-001

February 3, 2025

XXXXXXXXXX
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Re: Residential Energy Storage System Tax Credit

Dear XXXXXXXXXX:

You submitted a request for a general information letter regarding the credit allowed against income tax for the installation of an energy storage system in a residential dwelling in Colorado. The Colorado Department of Revenue (“Department”) issues general information letters and private letter rulings. A general information letter provides a general overview of the relevant tax issues but is not binding on the Department. A private letter ruling provides a specific determination for a specific set of facts, is binding on the Department, and requires payment of a fee. For more information about general information letters and private letter rulings, please see 1 CCR 201-1, Rule 24-35-103.5.

Issue

Whether, for the purpose of the income tax credit for residential energy storage systems, the purchase price of an installed energy storage system that includes batteries paired with on-site generation should be comprised of both the price of those batteries and the price of on-site generation.

Discussion

Any purchaser that purchases an energy storage system for a residential dwelling in Colorado is allowed a credit against income tax equal to ten percent of the purchase price paid by the purchaser for the installed energy storage system.¹ The purchase price is the amount actually paid by the purchaser for the installed energy storage system, including charges for sales tax and freight, but the price does not include any charges for assembly, installation or other construction services, or permit fees.² “Energy storage system” is defined as “any commercially available, customer-sited system, including batteries and the batteries paired with on-site generation, that is capable of retaining, storing, and delivering energy by chemical, thermal, mechanical, or other means.”³

¹ Section 39-22-546(3)(a), C.R.S.

² Section 39-22-546(2)(b), C.R.S.

³ Section 39-22-546(2)(a), C.R.S.

In interpreting statutory language, “[w]ords and phrases shall be read in context and construed according to the rules of grammar and common usage.”⁴ The phrase “any ... system, including batteries and the batteries paired with on-site generation...” must be read according to the rules of grammar. The clause that begins “including batteries...” modifies the word “system,” clarifying the scope of this term. The word “and” is a conjunction, demonstrating that both “batteries” and “the batteries paired with on-site generation” are included within the scope of “system.” The word “batteries” appearing immediately after “system” in this modifying clause indicates batteries that are part of the system that is being defined. The phrase “paired with on-site generation” functions as an adjective that modifies the antecedent noun phrase “the batteries.”

The clause modifying the scope of “system” therefore includes two categories of batteries: batteries that are part of the “customer-sited system” and “batteries paired with on-site generation.” Thus, the definition of “energy storage system” includes the storage system itself and these two categories of batteries. This definition does not include the on-site generation. Therefore, the purchase price of the “energy storage system” does not include the cost of the “on-site generation.”

Miscellaneous

This letter represents the good-faith opinion of Department personnel who are knowledgeable on state taxes issues. However, the Department does not make a specific determination on any of the issues raised, and the Department is not bound by this general information letter.

Thank you for your request.

Sincerely,

Office of Tax Policy
Colorado Department of Revenue

⁴ Section 2-4-101, C.R.S