

Stimulating Energy Improvements



Residential Tax Credit Details

► **Larger tax credit:** For qualified improvements, homeowners may be able to claim tax credits equal to 30 percent of the installed costs (up to \$1,500). The \$1,500 limit applies to many types of energy-efficient home improvements, including windows, doors, roofing shingles and insulation.

► **Longer term:** The new tax credits are retroactive to January 1, 2009, and expire on December 31, 2010. The \$1,500 limit is for all improvements made during the two-year term, not to exceed \$1,500 each year.

► **Per-appliance caps removed:** Homeowners may use the entire \$1,500 tax credit limit on a single qualifying improvement. The previous per-appliance caps limited the homeowner to just \$150 for a high-efficiency furnace or \$300 for a high-efficiency central air conditioner or heat pump.

► **Lifetime limit removed:** Homeowners who claimed tax credits in 2006 or 2007 are eligible for the full \$1,500 limit.

► **Expanded geothermal tax credits:** Homeowners who install geothermal heat pump systems may be able to claim up to 30 percent of the installed costs in tax credits in the year the system is placed into service. The \$2,000 tax credit limit has been removed. The geothermal tax credit has a longer term, from January 1, 2009, through December 31, 2016. ■

In February, President Obama signed the American Recovery and Reinvestment Act of 2009.

The “stimulus bill” combines spending and tax incentives designed to get the American economy moving by investing in our nation’s road and energy infrastructure, and increasing the energy efficiency and performance of America’s homes and commercial buildings.

The new law changes tax incentives for homeowners who make qualified improvements of heating, ventilation and air conditioning (HVAC) and water heating equipment to their primary residences. Also eligible are qualified improvements to windows, skylights, doors, roofs and insulation.

Refrigerators, dishwashers, clothes washers, room air conditioners, ceiling fans, programmable thermostats, electric storage tank water heaters and electric tankless water heaters are not eligible for the tax credits.

The maximum credit for most property is now capped at \$1,500 in total for improvements. It used to vary between \$50 and \$300, depending on the improvement. This means improvements made up to \$5,000 qualify for the energy tax credit.

A \$200 cap on windows has been removed, but requirements have increased significantly. Not all Energy Star windows qualify.

There is no cap for investments in solar water heaters and geothermal heat pumps, as long as they meet specific standards. (See the chart at right). The homeowner can take a tax credit of 30 percent of the investment made in the solar water heater or geothermal heat pump system.

Geothermal heat pumps, solar water heaters, solar panels and small wind energy systems installed in a home that is not your personal residence may qualify for the deduction.

The energy tax credit is available for installations made between January 1, 2009, and December 31, 2010, for new gas, propane or oil water heaters (electric units do not qualify);

central air conditioners, gas, propane or oil furnaces; electric heat pumps; and gas, propane or oil boilers. Solar water heating and electric systems and geothermal heat pump installations made from January 1, 2009, through December 31, 2016, are eligible.

The credit goes with the taxpayer, not the residence. You cannot take the credit on your current residence, move and take another energy credit.

If you are building a new home, you can qualify for the tax credit for geothermal heat pumps, solar water heaters, photovoltaics, small energy systems and fuel cells, but not windows, doors, insulation, roofs, HVAC or nonsolar water heating.

A \$2,000 tax credit is available for eligible contractors—but not owner/builders—for construction of a new energy-efficient home, and a \$1,000 tax credit is available for producers of efficient manufactured homes.

If the credit exceeds your tax liability for the year, the excess will be carried forward to the next tax year. You will not receive a refund.

Here are answers to tax credit questions. For more information, go to www.energystar.gov/taxcredits.

Can a homeowner claim \$1,500 in tax credits for improvements made in 2009 and again for improvements made in 2010?

No. Taxpayers are eligible for a total of \$1,500 in tax credits for improvements made in the combined two-year period of 2009 and 2010.

What if the homeowner claimed \$500 in tax credits in 2006 or 2007?

Previous claims do not count, so the \$1,500 tax credit is available.

Does the credit apply to labor costs?

It applies to the installed costs for HVAC systems, biomass stoves, water heaters, solar panels, fuel cells, geothermal heat pumps and wind energy systems. Recovery of labor costs is not available for windows, doors, insulation or roofs.

Summary of Tax Credits for Homeowners

PRODUCT	TAX CREDIT SPECIFICATIONS	TAX CREDIT
Windows and Doors		
Exterior windows/skylights	U factor and SHGC \leq 0.30	30% of cost, up to \$1,500 for total of all improvements
Storm windows	Meets International Energy Conservation Code	
Exterior doors	U factor and SHGC \leq 0.30	
Storm doors	Meets International Energy Conservation Code	
Roofing (metal, asphalt)	Energy Star-qualified	same as above
Insulation	Meets International Energy Conservation Code	same as above
HVAC		
Central air conditioning	Split systems: EER \geq 13; SEER \geq 16 Package systems: EER \geq 12; SEER \geq 14	30% of cost, up to \$1,500 for total of all improvements, including labor
Air-source heat pumps	Split systems: HSPF \geq 8.5; EER \geq 12.5; SEER \geq 15 Package systems: HSPF \geq 8; EER \geq 12; SEER \geq 14	
Gas or propane furnace	AFUE \geq 95	
Oil furnace	AFUE \geq 90	
Water Heaters		
Electric heat pump	Energy Factor \geq 0.82 or thermal efficiency of at least 90%	same as above
Gas, oil, propane	Energy Factor \geq 2.0 (same as Energy Star)	
Biomass Stoves	Thermal efficiency rating of at least 75%	same as above
Geothermal Heat Pumps	Closed loop: EER \geq 14.1; COP \geq 3.3 Open loop: EER \geq 16.2; COP \geq 3.6 Direct expansion: EER \geq 15; COP \geq 3.5	30% of the cost, including labor
Solar Energy Systems		
Water heaters	Half of the energy generated by the unit must come from the sun	30% of the cost
Photovoltaic systems	Must provide electricity for the home	30% of the cost
Residential Wind Systems	Must be placed in service before December 31, 2016	30% of the cost
Residential Fuel Cells and Microturbine System	Efficiency of at least 30% and capacity of 0.5 kilowatts; must be placed in service before December 31, 2016	30% of cost up to \$500 per 0.5kWh power capacity

Can a homeowner use the entire \$1,500 tax credit toward one item?

Yes. It may be used for installing a single qualified furnace, air conditioner, heat pump or water heater.

What happens if 30 percent of the installed costs is less than \$1,500?

The homeowner can "bank" the remaining available tax credit for other qualified improvements. Any single installation that costs more than \$5,000 will reach the \$1,500 limit.

Can a homeowner claim the credit for improvements to a second home?

Generally, no. The tax credit is only

available for improvements to the taxpayer's primary residence. Exceptions may be made for solar water heaters, geothermal heat pumps, solar panels and small wind energy systems.

Can a small business that installs residential equipment in a commercial setting claim the credit?

No. It may be claimed only on personal income taxes for improvements to the primary residence.

How will taxpayers claim the credit and receive their money?

In the past, the IRS has directed taxpayers to use Form 5695, Residen-

Low-Income Energy Assistance Increases

The economic stimulus bill provides \$5 billion for home weatherization services to low-income families and increases the eligibility level from 150 percent of federal poverty guidelines to 200 percent.

It also increases the funding assistance level per home from \$2,500 to \$6,500, and allows new weatherization assistance for homes weatherized as recently as 1994.

Up to 20 percent of funds may be used for training and technical assistance.

During the past 30 years, the U.S. Department of Energy has helped weatherize about 5.6 million homes. Funding has swung from a low of \$27.5 million in 1977 to a peak of \$243 million in 1983. The new level of funding is expected to weatherize 1 million homes.

The amount of funding each state receives depends on a formula that accounts for population and the number of heating and cooling days per year. The government determines which homes qualify through a calculation based on the home's income compared to federal poverty levels. ■

tial Energy-Efficient Property Credit. Taxpayers are not required to file anything more than the form, but they should keep records of the installation.

What's the difference between a tax credit and a tax deduction?

A tax credit applies against the taxpayer's liability. A tax deduction applies against a taxpayer's income, lowering the adjusted gross income and possibly moving the taxpayer to a lower tax bracket. Tax credits have a greater benefit to a taxpayer. With a tax credit, if the taxpayer owes \$2,000 in taxes, the liability is reduced to \$500. ■