

## New and Improved Energy Tax Credits 2009 - 2010

### Energy credits have significantly increased from 2007 - are you eligible?

Unlike past efforts by Congress to use taxes to spur energy efficiency by homeowners, provisions in the recently enacted "American Recovery and Reinvestment Act of 2009" (the Act) are substantial. These include an increased credit of 30% of the cost of residential energy-efficient improvements such as more efficient furnaces, heat pumps and air conditioners; as well as energy-tight windows and more insulation, and a tripling of the maximum credit for a household to \$1,500.

#### *New law*

The American Recovery and Reinvestment Act of 2009 reinstated and improved the energy efficiency tax credits for the next two years beginning on January 1, 2009 as follows:

- (1) Tripled the rate of the credit - from 10% to 30% for 2009 and 2010;
- (2) Tripled the maximum credit - up to \$1,500 per dwelling for qualified expenditures made during 2009 and 2010;
- (3) Eliminated the cap of \$50 to \$300 on items such as circulating fans, furnaces, hot water boilers, heat pumps, water heaters, and central air conditioning; and
- (4) Eliminated the \$200 cap on the portion of the tax credit applicable to the installation of energy efficient windows.

	2006-2007	2009-2010
	Rules	Rules
Rate of Credit	10%	30%
Maximum Credit Per Dwelling	\$500	\$1,500
Maximum Credit for Windows	\$200	\$1,500
Maximum Credit for Certain Other Items	\$50 - \$300	\$1,500

Tax credits are available at 30% of the cost, up to \$1,500, in 2009 and 2010 (for existing homes only) for: Windows and Doors, Insulation, Roofs (Metal and Asphalt), HVAC, Water Heaters (non-solar) and Biomass Stoves.

Tax credits are available at 30% of the cost, with no upper limit through 2016 (for existing homes and new construction) for: Geothermal Heat Pumps, Solar Panels, Solar Water Heaters, Small Wind Energy Systems and Fuel Cells.

### **Two-Year Replacement Window**

The new rules give you through December 31, 2010 to purchase energy efficient improvements for your home and qualify for this tax break. The maximum credit is now equal to 30% of the first \$5,000 spent on high-efficiency heat pumps, air conditioners, and water heaters, or energy-efficient windows, doors, insulation materials, and certain roofs. Starting in 2009, you can also claim the credit for certain types of asphalt roofs and stoves that burn biomass fuel.

Looking for more good news? Even if you claimed the \$500 tax credit a few years back for energy efficient improvements made to your home, you can still claim the full \$1,500 tax credit for 2009 and 2010 as long as you make \$5,000 worth of qualified energy efficient expenditures during that two year period.

Please note that the new rules did increase the standards for an energy efficient purchase to qualify for this tax credit. Expect the IRS to issue guidance for manufacturers to certify that their products meet these new standards.

According to our friends at the IRS in [IR-2009-44](#), "IRS guidance issued before the enactment of ARRA will be modified in the near future to reflect the new energy efficiency standards. In the meantime, homeowners may continue to rely on manufacturers' certifications that were provided under the old guidance and on Energy Star labels for exterior windows and skylights in determining whether property purchased before June 1, 2009, qualifies for the credit. Manufacturers should not continue to provide certifications for property that fails to meet the new standards.

## **Renewable Options**

Thinking about adding solar, wind, or geothermal capabilities to your home? If so, you should be aware that the 2009 Tax Act also improved the tax credit for purchases of solar electric property, solar water heating property, wind energy property and geothermal heat pump property. Under the prior rules, the tax credit you could claim for most of these items was capped at \$2,000 per dwelling.

As of January 1, 2009, these limits no longer apply. Through 2016, you can take a tax credit equal to 30% of your expenditures for qualified solar, wind, or geothermal property. Plus, you can claim the credit even if you add this energy producing property to a home that is not your primary residence. According to [IRS Notice 2009-41](#), "a qualifying dwelling unit is a dwelling unit that is located in the United States and is used as a residence by the taxpayer".

## **Frequently Asked Questions**

### Are installation costs covered by the tax credit?

Installation costs ARE COVERED for: HVAC (Heating, Ventilation and Air Conditioning) systems, Biomass Stoves, Water Heaters (including solar), Solar Panels, Geothermal Heat Pumps, Wind Energy Systems and Fuel Cells.

The tax credit for HVAC, biomass stoves, and non-solar water heaters is 30% of the total cost (product + installation) up to \$1,500. The law specifies installation costs include: "expenditures for labor costs properly allocable to the onsite preparation, assembly, or original installation of the property".

The tax credit for solar water heaters, solar panels, geothermal heat pumps, wind energy systems, and fuel cells\* is 30% of the total cost (product + installation), with no upper limit. The law specifies installation costs include: "labor costs properly allocable to the onsite preparation,

assembly, or original installation of the property and for piping or wiring to interconnect such property to the home."

Installation costs are NOT covered by the tax credit for: Windows, Doors, Insulation and Roofs.

The tax credit for windows, doors, insulation and roofs is for 30% of the cost of materials only, up to \$1,500

Is there an income limit on the tax credit?

There is no upper or lower limit on income for the energy efficient tax credits. However, these energy efficiency tax credits are technically "non-refundable" which means you can't get more money back in tax credits than you pay in federal income taxes (check your W2 or last year's tax return to get a sense for how much federal income tax you pay). You can claim the entire credit as long as the total amount of federal income tax that you owe, minus your deductions, is more than the total amount of tax credits that you are claiming.

Please keep in mind that this is only a summary of these new provisions. If you have specific questions relative to your tax situation and potential credits, please feel free to contact us.