



# Wolf Briefing



## Consumer Energy Tax Incentives – Part II

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In the last issue of *Wolf Briefing* I wrote about the tax credits available for the purchase of energy-efficient vehicles. This article discusses other consumer energy tax incentives enacted as part of the Energy Tax Incentives Act of 2005. The incentives come in the form of tax credits and are not phased out at higher-income levels as are many tax incentives.

These energy credits are available for various different types of home additions and improvements beginning in 2006 as discussed below. Keep in mind that you probably will not have to determine for yourself whether a home improvement creates or saves enough energy to qualify for a tax credit under the new law's complex and technical rules. In all likelihood manufacturers will certify, in the materials that come with their

products, whether equipment and materials create or save enough energy to qualify for a tax credit. You will, of course, have to shop around for the best deal and the best product. You will also have to determine whether your use of the equipment qualifies you for tax breaks, and how to make the best use of them.

**New tax credits for solar and fuel-cell equipment.** You will be able to claim a tax credit each year for:

- (1) 30% of the cost of equipment that uses solar energy to generate electricity (photovoltaic property), up to a \$2,000 maximum tax credit.
- (2) 30% of the cost of solar water heating equipment, up to a \$2,000 maximum tax credit.
- (3) 30% of the cost



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of a fuel cell power plant (new technology that converts fuel into electricity using electromechanical methods, and meets other detailed requirements), up to a \$500 maximum tax credit.

“Cost” includes installation as well as hardware costs. The equipment in the first two categories may be installed in your main home or second home (e.g., vacation home); the equipment in the

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third category must be installed in your main home. "Home" includes co-ops or condos as well as single family residences. All three types of equipment must be installed in a home located in the U.S., and can not be used to heat a swimming pool or hot tub. Tax credits for solar and fuel-cell property will only be available for equipment placed in service in 2006 or 2007.

**New tax credits for energy efficient improvements.** You will be able to claim a tax credit for buying an assortment of energy saving improvements and installing them in your main home. The credit depends on the type of improvement and there is an overall lifetime dollar limit for all improvements. The credit per improvement is:

10% of the cost of energy efficient building envelope components. These consist of: insulation materials or systems that reduce heat loss/gain; exterior windows (including skylights); exterior doors; and certain metal roofs with special coatings designed to reduce heat gain. You must be the first user of the equipment,

which must be expected to last for at least five years.

Up to \$300 tax credit for the cost of energy-efficient building property (electric heat pump water heater, electric heat pump; geothermal heat pump, central air conditioner, and natural gas, propane, or oil water heater meeting specific energy efficiency standards).

Up to \$150 credit for a natural gas, propane, or oil furnace or hot water boiler.

Up to \$50 credit for an advanced main air circulating fan.

Your overall lifetime tax credit for all of the above improvements is \$500, but only \$200 of this credit amount may be for buying and installing energy-saving windows. Tax credits for energy efficient improvements will only be available for equipment placed in service in 2006 or 2007.

As you can see, the Energy Tax Incentives Act has created substantial tax incentives for homeowners to upgrade and add equipment that generates electricity or uses less electricity or other energy. This is a very general discussion of these new provisions.

If you are contemplating making purchases and/or improvements as described above, you should consult with your tax advisor.



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