

Credit for Residential Energy Property Extended and Modified

The American Recovery and Reinvestment Act of 2009, enacted on February 17, 2009, extended and modified the individual income tax credit for residential energy property. As an incentive to make your home more energy efficient, the new law extends the residential energy property tax credit through 2010 and also makes the credit more attractive. Under the old law, the credit was limited to 10% of certain costs and to a fixed amount of other costs. Now, however, you can claim a credit for 30% of the cost of installing energy efficient improvements and energy efficient property, such as certain insulating materials, windows, exterior doors, metal roofs, circulating fans, boilers, heat pumps, air conditioners, and heaters. The amount of the tax credit that can now be claimed by any taxpayer is limited to a total of \$1,500 for 2009 and 2010. A credit reduces your income tax dollar for dollar. An income tax deduction reduces your taxable income, subject to your tax rate. If you are in the 15% tax bracket, a \$1,500 deduction saves you only \$225, whereas a \$1,500 tax credit saves you \$1,500 tax!

The new law also modifies the energy efficiency standards for many types of property effective February 17, 2009. The new law requires:

- Heat pumps, central air conditioners, and insulation meet certain energy standards in effect for 2009;
- Water heaters have an energy factor of at least 0.82 or a thermal efficiency of at least 90%;
- The 0.75 thermal rating of wood stoves be measured using a lower heating value;
- Natural gas furnaces and propane furnaces have an annual fuel utilization efficiency rate of not less than 95;
- Gas hot water boilers, propane hot water boilers, oil furnaces, and oil hot water boilers have an annual fuel utilization rate of not less than 90; and
- Exterior windows and doors have a U-factor at or below 0.30 and a seasonal heat gain coefficient (SHGC) at or below 0.30.

Comment: If you hit the previous \$500 lifetime maximum in 2006 and/or 2007, you can now incur additional qualifying property costs in 2009 and/or 2010 and be eligible for a tax credit of up to \$1,500 over both years. That tax credit was not available in 2008.

Credit for Residential Energy Efficient Property Increased

From 2006 through 2016, you can claim a tax credit for 30% of the cost of installing solar electric property or a fuel cell power plant to generate electricity for your home, or for installing solar water heating property to heat water in your home. In addition, from 2008 through 2016, you can claim the credit for 30% of the cost of installing a small wind turbine to generate electricity for your home or for installing a geothermal heat pump system to heat or cool your home. The amount you can claim had been capped depending on the type of property you are installing, but the new law largely removes these caps, effective for 2009. The only cap remaining in place is for fuel cells, which remains limited to \$500 with respect to each 0.5 kilowatt of

capacity (\$1,667 with respect to each 0.5 kilowatt in the case of a house that is jointly occupied and used by multiple people).

Example: Walter bought a qualified heat pump for his family home in January of 2009 at a cost of \$10,000. In May of 2009, he spent \$21,000 on an 8 kilowatt fuel cell power plant for his home. In 2009, Walter is entitled to an income tax credit of \$11,000 ($\$10,000 \times 0.30 = \$3,000$) + ($\$500 \times 16 = \$8,000$)

Comment: The caps were \$2,000 per year with respect to solar water heating property or geothermal heat pump property (\$6,667 in the case of a house that is jointly occupied and used by multiple people); and \$500 per year with respect to each 0.5 kilowatt of capacity of wind turbines (\$1,667 with respect to each 0.5 kilowatt of capacity in the case of a house that is jointly occupied and used by multiple people). For wind turbines, the tax credit could not exceed \$4,000 a year.

Energy Portion of Investment Credit

The investment tax credit is comprised of several credits including the energy credit. The Act provides taxpayers with a new election, and makes two other changes to the energy tax credit.

Energy credit election: Taxpayers may now make an irrevocable election to have certain qualified facilities placed in service in 2009 through 2013 (through 2012 for wind facilities) be treated as energy property eligible for a 30% investment tax credit. Qualified facilities are facilities otherwise eligible for the renewable electricity production credit (other than refined coal, Indian coal, and solar facilities), but for which no credit was allowed. Property eligible for the credit is tangible personal or other tangible property (not including a building or its structural components) and with respect to which depreciation or amortization is allowable, but only if the property is used as an integral part of the qualified facility.

Energy cap for small wind energy property: The \$4,000 credit cap applicable to qualified small wind energy property is eliminated for any qualified property if the construction, reconstruction, or erection is completed by the taxpayer after 2008, or is placed in service by the taxpayer after 2008.

Basis reduction for subsidized financing: No basis reduction is required for periods after December 31, 2008, if the property is financed in whole or in part by subsidized energy financing or with proceeds from private activity bonds.

Renewable Electricity Production Credit

In general, the placed-in-service date for qualified facilities that produce electricity from renewable resources is extended to 2013 (2012 for a qualified wind facility).

If you would like more advice about these very complex tax benefits, please call Goodman & Company, CPAs, **610-253-2745**.

Bill

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