

2009 AMERICAN RECOVERY & REINVESTMENT ACT TAX CREDITS



FREQUENTLY ASKED QUESTIONS *(Source: U.S. EPA/ENERGY STAR®)*

How has the new Stimulus bill affected the tax credits for energy efficient home improvements?


On February 17, 2009, President Obama signed a stimulus bill (The American Recovery and Reinvestment Act of 2009) that made some significant changes to the energy efficiency tax credits. The highlights are:

- The tax credits that were previously effective for 2009, have been extended to 2010 as well.
- The tax credit has been raised from 10% to 30%.
- The tax credits that were for a specific dollar amount (ex: \$300 for an AC) have been converted to 30% of the cost.
- The maximum credit has been raised from \$500 to \$1500 for the two years (2009-2010). However, some improvements such as geothermal heat pumps, solar water heaters, and solar panels are not subject to the \$1,500 maximum.
- The \$200 cap on windows has been removed, but the requirements for windows have been increased significantly. Not all ENERGY STAR qualified windows will qualify.
- The products that are covered by the tax credit in 2009 & 2010 include:
 - Insulation
 - Windows (including storm windows)
 - Skylights
 - Doors (including patio & sliding glass)
 - Roofs (metal & asphalt)
 - Central air conditioners
 - Air source heat pumps
 - Geo-thermal heat pumps
 - Gas, Oil, or Propane Furnace or Hot Water Boiler
 - Advanced Main Air Circulating Fans
 - Biomass stoves
 - Water Heaters (Gas, Oil or Propane, Electric Heat Pump, and Solar Water Heaters)
 - Photovoltaic Systems (solar panels)
 - Fuel Cells
 - Wind Mills

Products **not** covered by the tax credit included:

- Refrigerators
- Dishwashers
- Clothes washers
- Room air conditioners
- Ceiling fans
- Programmable thermostats
- Electric storage tank water heaters
- Electric Tankless water heaters

What are the minimum efficiencies necessary for HVAC product to qualify for the tax credit?

Central A/C MUST MEET ALL CRITERIA – both SEER and EER	<i>Split Systems:</i> EER >= 13 SEER >= 16 <i>Package systems:</i> EER >= 12 SEER >= 14	30% of cost, up to \$1,500 ²	For a list of qualified products, go to the Consortium for Energy Efficiency product directory , click on Air Conditioners, then in the "CEE Tier" enter "Residential Advanced Tier 3" for CAC Split Systems, and "Residential Tier 2" for CAC Package Systems and ASHPs.
Air Source Heat Pumps MUST MEET ALL 3 CRITERIA – SEER, EER and HSPF	<i>Split Systems:</i> HSPF >= 8.5 EER >= 12.5 SEER >= 15 <i>Package systems:</i> HSPF >= 8 EER >= 12 SEER >= 14	30% of cost, up to \$1,500 ²	
Natural Gas or Propane Furnace	AFUE >= 95	30% of cost, up to \$1,500 ²	
Oil Furnace	AFUE >= 90	30% of cost, up to \$1,500 ²	
Gas, Propane, or Oil Hot Water Boiler	AFUE >= 90	30% of cost, up to \$1,500 ²	
Photovoltaic Systems Including: Lennox  (Solar Panel & Installation)	Photovoltaic systems must provide electricity for the residence, and must meet applicable fire and electrical code requirement	30% of cost (no cap)	Must be placed in service before December 31, 2016.

Is the \$1,500 tax credit available for each improvement? Can I get \$1,500 for windows and another \$1,500 for a new HVAC system?

No, the \$1,500* tax credit is a total combined credit for all tax years (2009 & 2010) for each tax return filed. So, basically you can spend up to \$5,000 during this 2 year period on a single or multiple improvements, and get 30% or \$1,500* back as a tax credit.

* - The \$1,500 maximum does not apply to geothermal heat pumps, solar water heaters, solar panels, fuel cells, and windmills.

What products are eligible for a tax credits for energy efficient home improvements? Are they available for new construction also? What about rental units and vacation homes?

Tax credits are available at 30% of the cost, **up to \$1,500** total, in 2009 & 2010 (for existing homes & your primary residence only) for:

- Windows and Doors
- Insulation
- Roofs (Metal and Asphalt)
- HVAC
- Water Heaters (non-solar)
- Biomass Stoves

Tax credits are available at 30% of the cost, with **no upper limit** through 2016 (for existing homes, including vacation homes and rentals, & new construction) for:

- Geothermal Heat Pumps
- Solar Panels
- Solar Water Heater
- Small Wind Energy Systems
- Fuel Cells

I am building my own home; can I qualify for any of the tax credits?

A 30% tax credit (including labor and installation), with no upper limit, is available for consumers building new homes (through 2016) for:

- Photovoltaics
- Solar Water Heaters
- Geothermal Heat Pumps
- Small Wind Energy Systems
- Fuel Cells

To qualify for the fuel cell credit, the new home you are building must be planned as your principle residence. The credit for photovoltaic, solar water heaters, geothermal heat pumps, and small wind energy systems does not have to be for your principal residence; so, rental units, second homes, etc. are all eligible.

The tax credit for these products is **ONLY available for existing homes**:

- Windows/Skylights
- Doors
- Insulation
- Roofs (metal and asphalt)
- **HVAC**
- Water Heaters (non-solar)
- Bio-mass Stoves

Are installation costs covered by the tax credits?

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
- 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:

- Insulation
- Windows
- Doors
- Roofs

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

Is there a tax credit for ENERGY STAR new homes?

There are no consumer tax credits for ENERGY STAR new homes.

However, homebuilders are eligible for a \$2,000 tax credit for a new energy efficient home that achieves 50% energy savings for heating and cooling over the 2004 International Energy Conservation Code (IECC) and supplements. At least 1/5 of the energy savings must come from building envelope improvements. There is also a \$1,000 tax credit to the builder of a new manufactured home achieving 30% energy savings for heating and cooling over the 2004 IECC and supplements (at least 1/3 of the savings must come from building envelope improvements), or a manufactured home meeting the requirements established by EPA under the ENERGY STAR program.

Most of the consumer tax credits for energy efficiency (windows, doors, insulation, roofs, HVAC, and non-solar water heaters) are **only available for existing homes - and they only available for improvements "placed in service" in 2009 and 2010**. Through 2016, consumers building new homes are eligible for tax credits for photovoltaics, solar water heating, geothermal heat pumps, small wind energy systems, and fuel cells ("residential energy efficiency property" in Section 25D). To qualify for the fuel cell credit, the new home you are building must be planned as your principle residence. The credit for photovoltaic, solar water heaters, geothermal heat pumps, and small wind energy systems does not have to be for your principal residence; so, rental units, second homes, etc... are all eligible. See the Instructions attached to 2008 IRS Form 5695 to help you further with this provision.

How do I calculate the tax credit on a furnace/AC combination when both parts don't qualify?

You are only eligible for a tax credit on the qualified component of this system. Ask your HVAC contractor to separate out the cost of the qualified component (vs. the non-qualified component), and to provide a Manufacturer's Certification Statement for the qualified component. (Source: IRS)

How do you calculate the 30% tax credit for furnace fans/motors?

Generally when you buy a furnace it comes with a fan/motor -you don't buy it separately. If I buy a furnace that qualifies for the tax credit, does it also have to have a qualified "advanced main circulating fan" to get the full 30% credit? What if the furnace itself does not meet the criteria, but the fan does, can I take the full 30% credit? If not, how is credit to be claimed on the fan alone?

The IRS is currently reviewing this issue for clarification. The only scenario that is currently clear is that if the furnace and the fan are both covered on their own, then you can get the full 30% off the cost of the furnace. If the fan is qualified, but the furnace is not, you will most likely NOT be able to take 30% off the cost of the entire furnace.

This FAQ will be updated as soon as the IRS issues guidance on this issue.

What happens to the products that were purchased between January 1, 2009 and February 16, 2009 that were eligible at that time they were purchased, but are no longer eligible because of the increased qualifications passed on February 17 in the Stimulus Act? Are these products still eligible for the tax credit?

The qualifications in the Stimulus Act were effective on February 17, 2009. The amount of tax credit you can receive was retroactively effective as of January 1, 2009 (for example, windows were increased from "10%, up to \$200" to "30% up to \$1,500") .

So, if a product was installed prior to February 17, 2009, and it met the previous criteria (in effect at the time of installation), you are eligible for the new tax credit amount (in this example for windows, you'd get the full 30%, up to \$1,500 tax credit).

If I am getting a refund on my taxes, can I still get the tax credit for energy efficiency home improvements?

Most likely you can, as long as the total amount of income taxes that you have paid throughout the year (check your W2 for this amount) is more than the total amount of tax credits that you are claiming. You can't get more money back from the government than you paid in income taxes.

If you don't pay any taxes, then you can't get the credit.

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

A tax credit reduces the amount of income tax you have to pay. For example, if you owe \$800 in taxes and have a \$300 tax credit, then you will only owe \$500. Or if you owe nothing, you'll get a \$300 refund.

A tax deduction reduces the amount of income subject to tax. For example, if your taxable income is \$25,000 and you have a \$500 tax deduction, your taxable income would be reduced to \$24,500.

I don't have to file income taxes; can I still get the energy efficiency tax credit?

According to the IRS, if a person does not owe federal income taxes, they cannot claim a tax credit. The energy efficiency tax credit is technically "non-refundable" which means at the end of the year, you can't get back more in credits than you paid to the government in taxes throughout the year. So, if you don't pay any taxes, you can't get the credit.

Does the \$1,500 tax credit double for married people filing a joint tax return?

No, the \$1,500 tax credit does not double for married people filing jointly. However, if you were to both file separately, you could both claim the \$1,500, as long as you are both claiming separate expenses. For example, you could spend \$5,000 on windows and get the \$1,500 tax credit (30% of \$5,000 = \$1,500), and you partner could spend \$5,000 on a new HVAC system and get \$1,500 back for that.

For more information, or to learn when answers to these questions are updated, please visit <http://www.energystar.gov/taxcredits>.

