



# Federal Tax Credits for Energy Efficiency

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## 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 a CAC), 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.

\*\*Please note, not all ENERGY STAR qualified homes and products qualify for a tax credit. These tax credits are available for a number of products at the highest efficiency levels, which typically cost much more than standard products. If, for whatever reason, you decide not to purchase a product covered by the tax credit, you may still consider purchasing an ENERGY STAR product. ENERGY STAR distinguishes energy efficient products which, although they may cost more to purchase than standard models, will pay you back in lower energy bills within a reasonable amount of time, without a tax credit.

## Tax Credits for Consumers:

### Home Improvements


Tax credits are now available for home improvements:


- must be "[placed in service](#)" from January 1, 2009 through December 31, 2010
- must be for taxpayers principal residence
- maximum amount is \$1,500 in 2009 & 2010 for most home improvements (geothermal heat pumps, solar water heaters, solar panels, fuel cells, and windmills are not subject to this cap)
- for record keeping, save your receipts and the [Manufacturer Certification Statement](#)<sup>3</sup>, OR for windows, you can save the ENERGY STAR label from your new windows
- improvements made in 2009 will be claimed on your 2009 taxes (filed by April 15, 2010) — use IRS Tax Form 5695 (2009



version) — it will be available late 2009 or early 2010






- If you are building a new home, you can qualify for the tax credit for photovoltaics, solar water heaters, small wind systems and fuel cells, **but not the tax credits for windows, doors, insulation, roofs, HVAC, or non-solar water heaters.** [More](#).

## SUMMARY OF TAX CREDITS FOR HOMEOWNERS

Product Category	Product Type	Tax Credit Specification	Tax Credit	Notes
Windows & Doors	<a href="#">Exterior Windows and Skylights</a>	U factor $\leq$ 0.30 SHGC $\leq$ 0.30	30% of cost, up to \$1,500 <sup>2</sup>	Not all ENERGY STAR labeled windows and skylights qualify for tax credit.
	Storm Windows	Meets IECC <sup>1</sup> in combination with the exterior window over which it is installed, for the applicable climate zone	30% of cost, up to \$1,500 <sup>2</sup>	<a href="#">Manufacturer Certification Statement</a> <sup>3</sup> will list classes of exterior window (single pane, clear glass, double pane, low-E coating, etc.) <sup>4</sup> that a product may be combined with to be eligible in specific climate zones.
	<a href="#">Exterior Doors</a>	U factor $\leq$ 0.30 SHGC $\leq$ 0.30	30% of cost, up to \$1,500 <sup>2</sup>	Not all ENERGY STAR doors will qualify.
	Storm Doors	In combination with a wood door assigned a default U-factor by the IECC <sup>1</sup> , and does not exceed the default U-factor requirement assigned to such combination by the IECC	30% of cost, up to \$1,500 <sup>2</sup>	
Roofing	Metal Roofs, Asphalt Roofs	ENERGY STAR qualified	30% of cost, up to \$1,500 <sup>2</sup>	All <a href="#">ENERGY STAR labeled metal and asphalt roofs</a> qualify for the tax credit.  Must be expected to last 5 years OR have a 2 year warranty.
Insulation	Insulation	Meets 2009 IECC & Amendments	30% of cost, up to \$1,500 <sup>2</sup>	For insulation to qualify, its primary purpose must be to insulate. (example: vapor retarders are covered, siding does not qualify).  Must be expected to last 5 years OR have a 2 year warranty
HVAC	Central A/C	<i>Split Systems:</i> EER $\geq$ 13 SEER $\geq$ 16  <i>Package systems:</i> EER $\geq$ 12 SEER $\geq$ 14	30% of cost, up to \$1,500 <sup>2</sup>	For a list of qualified products, go to the <a href="#">Consortium for Energy Efficiency product directory EXIT</a>  , click on the Air Conditioners and in the “CEE Tier” enter “Residential Advanced Tier 3.”  Note — not all ENERGY STAR products will qualify for the tax credit.  ENERGY STAR Spec:  <i>Split Systems:</i>

				EER >= 12 SEER >= 14.5  <i>Package systems:</i> EER >= 11 SEER >= 14
Air Source Heat Pumps	<p><i>Split Systems:</i> HSPF &gt;= 8.5 EER &gt;= 12.5 SEER &gt;= 15</p> <p><i>Package systems:</i> HSPF &gt;= 8 EER &gt;= 12 SEER &gt;= 14</p>	30% of cost, up to \$1,500 <sup>2</sup>	Note — not all ENERGY STAR products will qualify for the tax credit.  ENERGY STAR Spec:  <i>Split Systems:</i> HSPF >= 8.2 EER >= 12 SEER >= 14.5  <i>Package systems:</i> HSPF >= 8 EER >= 11 SEER >= 14	
Natural Gas or Propane Furnace	AFUE >= 95	30% of cost, up to \$1,500 <sup>2</sup>	For a list of qualifying products go to the <a href="#">Gas Appliance Manufacturing Association</a> <a href="#">EXIT</a> ⇄	
Oil Furnace	AFUE >= 90	30% of cost, up to \$1,500 <sup>2</sup>	Not all ENERGY STAR products will qualify for the tax credit.  ENERGY STAR Spec:	
Gas, Propane, or Oil Hot Water Boiler	AFUE >= 90	30% of cost, up to \$1,500 <sup>2</sup>	Gas Furnaces: AFUE >= 90  Oil Furnaces: AFUE >= 85  Boilers: AFUE >= 85	
Advanced Main Air Circulating Fan	No more than 2% of furnace total energy use	30% of cost, up to \$1,500 <sup>2</sup>	For a partial list of qualifying products go to the <a href="#">Gas Appliance Manufacturing Association</a> <a href="#">EXIT</a> ⇄	
Geo-Thermal Heat Pump	<p>Same criteria as ENERGY STAR:</p> <p>Closed Loop: EER &gt;= 14.1 COP &gt;= 3.3</p> <p>Open Loop: EER &gt;= 16.2 COP &gt;= 3.6</p> <p>Direct Expansion: EER &gt;= 15 COP &gt;= 3.5</p>	30% of the cost - NOT subject to \$1,500 cap	All <a href="#">ENERGY STAR labeled geo-thermal heat pumps</a> qualify for the tax credit.  Use <a href="#">IRS Form 5695</a>  <a href="#">EXIT</a> ⇄  Must be “ <a href="#">placed into service</a> ” between Jan. 1, 2008–Dec. 31, 2016.	
Water Heaters	Gas, Oil, Propane Water Heater	Energy Factor >= 0.82 or a thermal efficiency of at least 90%.	30% of cost, up to \$1,500 <sup>2</sup>	Not all ENERGY STAR gas storage and gas condensing water heaters will qualify for the tax credit. All ENERGY STAR gas tankless models will qualify.  ENERGY STAR criteria:

				<p>Gas Storage: Energy Factor <math>\geq</math> .62</p> <p>Gas Tankless: Energy Factor <math>\geq</math> 0.82</p> <p>Gas Condensing: Energy Factor <math>\geq</math> 0.8</p> <p>For a partial list of qualifying products go to the <a href="#">Gas Appliance Manufacturing Association</a> <a href="#">EXIT</a> ↕</p>
	Electric Heat Pump Water Heater	Same criteria as ENERGY STAR: Energy Factor $\geq$ 2.0	30% of cost, up to \$1,500 <sup>2</sup>	All ENERGY STAR qualified electric heat pump water heaters qualify for the tax credit.
Biomass Stove	Biomass Stove	<p>Stove which burns biomass fuel<sup>5</sup> to heat a home or heat water.</p> <p>Thermal efficiency rating of at least 75% as measured using a lower heating value.</p>	30% of cost, up to \$1,500 <sup>2</sup>	
Solar Energy Systems	Solar Water Heating	<p>At least half of the energy generated by the “qualifying property” must come from the sun. Homeowners may only claim spending on the solar water heating system property, not the entire water heating system of the household.</p> <p>The credit is not available for expenses for swimming pools or hot tubs.</p> <p>The water must be used in the dwelling.</p> <p>The system must be certified by the Solar Rating and Certification Corporation (SRCC).</p>	30% of cost, up to \$2,000	<p>Use <a href="#">IRS Form 5695</a>  <a href="#">EXIT</a> ↕</p> <p>Must be <a href="#">placed in service</a> before December 31, 2016.</p>
	Photovoltaic Systems	Photovoltaic systems must provide electricity for the residence, and must meet applicable fire and electrical code requirement.	30% of cost	<p>Use <a href="#">IRS Form 5695</a>  <a href="#">EXIT</a> ↕</p> <p>Must be <a href="#">placed in service</a> before December 31, 2016.</p>
Small Wind Energy Systems	Residential Small Wind Energy Systems		30% of the cost	<p>Must be <a href="#">placed in service</a> by December 31, 2016.</p> <p>Use IRS Tax Form 5695 (version 2009). This form should be available in late 2009 or early 2010.</p> <p>Not limited to \$1,500 cap.</p>
Fuel Cells	Residential Fuel Cell and	Efficiency of at least 30% and must have a capacity of at least	30% of the cost, up to \$1500 per .5 kW	Must be <a href="#">placed in service</a> by December 31, 2016.

	microturbine system	0.5 kW.	of power capacity	Use IRS Tax Form 5695 (version 2009). This form should be available in late 2009 or early 2010.  Not limited to \$1,500 cap.
Cars	Hybrid gasoline-electric, diesel, battery-electric, alternative fuel, and fuel cell vehicles		Based on a formula determined by vehicle weight, technology, and fuel economy compared to base year models	There is a 60,000 vehicle limit per manufacturer before a phase-out period begins. Toyota and Honda have already been phased out. Credit is still available for Ford, GM and Nissan.  For more information visit: <a href="http://Fueleconomy.gov">Fueleconomy.gov</a>   Use <a href="#">IRS Form 8910</a>   for hybrid vehicles purchased for personal use.  Use <a href="#">IRS Form 3800</a>   for hybrid vehicles purchased for business purposes.
	Plug-in hybrid electric vehicles		\$2,500–\$7,500	The first 250,000 vehicles sold get the full tax credit (then it phases out like the hybrid vehicle tax credits).  Effective January 1, 2009.

<sup>1</sup>Either the 2001 Supplement of the 2000 International Energy Conservation Code or the 2004 Supplement of the 2003 International Energy Conservation Code.

<sup>2</sup>Subject to a \$1,500 maximum per homeowner for all improvements combined.

<sup>3</sup>A Manufacturer's Certification is a signed statement from the manufacturer certifying that the product or component qualifies for the tax credit. The IRS encourages manufacturers to provide these Certifications on their website to facilitate identification of qualified products. Taxpayers must keep a copy of the certification statement for their records, but do not have to submit a copy with their tax return.

<sup>4</sup>Additional information on exterior window features may be viewed at [Anatomy of an Energy Efficient Window](#).

<sup>5</sup>Biomass Fuel means any plant-derived fuel available on a renewable or recurring basis, including agricultural crops and trees, wood and wood waste and residues (including wood pellets), plants (including aquatic plants), grasses, residues, and fibers.

The IRS defines "[placed in service](#)" as when the property is ready and available for use.

## Efficient Cars

Starting January 1, 2009, there is a new tax credit for Plug-in hybrid electric vehicles, starting at \$2,500 and capped at \$7,500 for cars and trucks (the credit is based on the capacity of the battery system). The first 250,000 vehicles sold get the full tax credit (then it phases out like the hybrid vehicle tax credits).

Tax credits are available to buyers of hybrid gasoline-electric, diesel, battery-electric, alternative fuel, and fuel cell vehicles. The tax credit amount is based on a formula determined by vehicle weight, technology, and fuel economy compared to base year models. These credits are available for vehicles [placed in service](#) starting January 1, 2006. For hybrid and diesel vehicles made by each manufacturer, the credit will be phased out over 15 months starting after that manufacturer has sold 60,000 eligible vehicles. For vehicles made by manufacturers that have not reached the end of the phase-out, the credits will end for vehicles [placed in](#)

[service](#) after December 31, 2010. [See the IRS Website for updated information](#) [EXIT ↗](#) .

## Tax Credits for Home Builders:

Eligible contractors need to fill out [IRS Form 8908](#) [EXIT ↗](#) to get the tax credit. The IRS has provided the following guidance regarding the tax credits for constructing energy efficient new homes available under the Energy Policy Act of 2005:

- [IRS Notice 2006-27](#) [EXIT ↗](#) provides guidance for the credit for building energy efficient homes other than manufactured homes.
- [IRS Notice 2006-28](#) [EXIT ↗](#) provides guidance for the credit for building energy efficient manufactured homes.

Home builders 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. This credit also applies to contractors of manufactured homes conforming to Federal Manufactured Home Construction and Safety Standards.

There is also a \$1,000 tax credit to the producer 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.

Please note that, with the exception of the tax credit for an ENERGY STAR qualified manufactured home, these tax credits are not directly linked to ENERGY STAR. Therefore, a builder of an ENERGY STAR qualified home may be eligible for a tax credit but it is not guaranteed.

These tax credits apply to new homes located in the United States whose construction is substantially completed after August 8, 2005 and that are acquired from the eligible contractor for use as a residence from January 1, 2006 through December 31, 2009.

## Tax Deductions for Commercial Buildings:

A tax deduction of up to \$1.80 per square foot is available to owners or designers of new or existing commercial buildings that save at least 50% of the heating and cooling energy of a building that meets ASHRAE Standard 90.1-2001. Partial deductions of up to \$.60 per square foot can be taken for measures affecting any one of three building systems: the building envelope, lighting, or heating and cooling systems. These tax deductions are available for systems “[placed in service](#)” from January 1, 2006 through December 31, 2013.

Take the [ENERGY STAR Challenge](#) to find the best opportunities for energy savings, set goals for improvement, and achieve superior energy efficiency.

- [IRS Notice 2006-52 \(6/2/2006\)](#) [EXIT ↗](#) provides guidance on deduction for energy efficient commercial buildings.
- [IRS Notice 2008-40 \(4/7/2008\) - Amplification of Notice 2006-52](#) [EXIT ↗](#)
- [Qualified Software for Calculating Energy Savings](#) [EXIT ↗](#)
- [Commercial Building Tax Deduction Coalition](#) [EXIT ↗](#)

## For More Information:

- [Tax Incentives Assistance Project \(TIAP\)](#) [EXIT ↗](#)
- [Energy Policy Act of 2005](#) [EXIT ↗](#)
- [Emergency Economic Stabilization Act of 2008](#) [EXIT ↗](#)
- [Department of Energy Web site on Tax Incentives](#) [EXIT ↗](#)

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