

Highlights of the Energy Policy Act of 2005 for Individual

FS-2006-14, Jan. 2006

During 2006, individuals can make energy-conscious purchases that will provide tax benefits when filling out their tax returns next year. The new law provides tax credits for making your principal residence, which must be in the United States, more energy efficient and for buying certain energy efficient items. At the same time the law provides credits for various types of alternative motor vehicles, including hybrids.

Credits for Individuals Who Make Their Homes More Energy Efficient

A recent tax law change provides a tax credit to improve the energy efficiency of existing homes. The law provides a 10 percent credit for buying qualified energy efficiency improvements. To qualify, a component must meet or exceed the criteria established by the 2000 International Energy Conservation Code (including supplements) and must be installed in the taxpayer's main home in the United States.

The following items are eligible:

- Insulation systems that reduce heat loss/gain
- Exterior windows (including skylights)
- Exterior doors Metal roofs (meeting applicable Energy Star requirements).

In addition, the law provides a credit for costs relating to residential energy property expenses. To qualify as residential energy property, the property must meet certification requirements prescribed by the Secretary of the Treasury and must be installed in the taxpayer's main home in the United States.

The following items are eligible:

- \$50 for each advanced main air circulating fan
- \$150 for each qualified natural gas, propane, or oil furnace or hot water heater
- \$300 for each item of qualified energy efficient property.

The maximum credit for all taxable years is \$500 – no more than \$200 of the credit can be attributable to expenses for windows.

Additionally, the new law makes a credit available to those who add qualified solar panels, solar water heating equipment, or a fuel cell power plant to their homes in the United States. In general, a qualified fuel cell power plant converts a fuel into electricity using electrochemical means, has an electricity –only generation efficiency of more than 30 percent and generates at least 0.5 kilowatts of electricity. Taxpayers are allowed one credit equal to 30 percent of the qualified investment in a solar panel up to a maximum credit of \$2,000, and another equivalent credit for investing in a solar water heating system. No part of either system can be used to heat a pool or hot tub.

Additionally, taxpayers are also allowed a 30 percent tax credit for the purchase of qualified fuel cell power plants. The credit may not exceed \$500 for each .5 kilowatt of capacity.

These items must be placed in service after Dec. 31, 2005 and before Jan. 1, 2008.

**ENERGY POLICY ACT OF 2005
SUMMARY OF TAX CREDITS FOR HOMEOWNERS**

Product Category	Product Type	Tax Credit Specification	Tax Credit	Notes
Windows & Doors	Exterior Windows and Skylights	ENERGY STAR qualified OR meets IECC ¹	10% of cost, up to \$200 ² for all windows, skylights and storm windows	All ENERGY STAR labeled windows and skylights qualify for tax credit. Installation costs are not included. Learn more about ENERGY STAR qualified windows and skylights .
	Storm Windows	Meets IECC ¹ in combination with the exterior window over which it is installed, for the applicable climate zone	10% of cost, up to \$200 ² for all windows, skylights and storm windows	More clarification will be available soon. Check back. <ul style="list-style-type: none"> Manufacturer's Certification Statement³ required.
	Exterior Doors	Meets IECC ¹	10% of cost, up to \$500 ²	ENERGY STAR doors will almost always qualify, except for certain parts of California ⁴ . Installation costs are not included. Learn more about ENERGY STAR qualified doors . <ul style="list-style-type: none"> Manufacturer's Certification Statement³ required.
	Storm Doors	In combination with a wood door assigned a default U-factor by the IECC ¹ , and does not exceed the default U-factor requirement assigned to such combination by the IECC	10% of cost, up to \$500 ²	More clarification will be available soon. Check back. <ul style="list-style-type: none"> Manufacturer's Certification Statement³ required.
Roofing	Metal Roofs	ENERGY STAR qualified	10% of cost, up to \$500 ²	All ENERGY STAR labeled metal roofs qualify for the tax credit. <ul style="list-style-type: none"> Must be expected to last 5 years OR have a 2 year warranty. Installation costs are not included. Manufacturer's Certification Statement³ required.
Insulation	Insulation	Meets 2000 IECC & Amendments	10% of cost, up to \$500 ²	<ul style="list-style-type: none"> 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 Installation costs are not included. Manufacturer's Certification Statement³ required.

HVAC	Central A/C	EER 12.5/SEER 15 Split Systems EER 12/SEER 14 Package systems	\$300 ²	For a list of qualified products, go to the Consortium for Energy Efficiency product directory EXIT ↗ , click on the Air Conditioners and in the "CEE Tier" enter "Residential Tier 2."
	Air Source Heat Pumps	HSPF 9 EER 13 SEER 15	\$300 ²	<p>Note - not all ENERGY STAR products will qualify for the tax credit. The ENERGY STAR specification is: EER 11.5/ SEER 14 Split systems EER 11/SEER 14 Package systems</p> <ul style="list-style-type: none"> • Manufacturer's Certification Statement³ required. <p>Note - not all ENERGY STAR products will qualify for the tax credit. The ENERGY STAR specification is: HSPF 8.2 EER 11.5 SEER 14 Split systems HSPF 8 EER 11 SEER 14 Package systems</p> <ul style="list-style-type: none"> • Manufacturer's Certification Statement³ required.
	Geo-Thermal Heat Pump	Same criteria as ENERGY STAR: EER 14.1 COP 3.3 Closed Loop EER 16.2 COP 3.6 Open Loop EER 15 COP 3.5 Direct Expansion	\$300 ²	<p>All ENERGY STAR labeled geo-thermal heat pumps qualify for the tax credit.</p> <ul style="list-style-type: none"> • Manufacturer's Certification Statement³ required.
	Gas, Oil, Propane Furnace or Hot Water Boiler	AFUE 95 for both furnaces and boilers	\$150 ²	<p>For a list of qualifying products go to the Gas Appliance Manufacturing Association EXIT ↗</p> <p>Note - not all ENERGY STAR products will qualify for the tax credit. The ENERGY STAR specification is: AFUE 90 for furnaces AFUE 85 for boilers</p> <ul style="list-style-type: none"> • Manufacturer's Certification Statement³ required.
	Advanced Main Air Circulating Fan	No more than 2% of furnace total energy use	\$50 ²	<p>For a list of qualifying products go to the Gas Appliance Manufacturing Association EXIT ↗</p> <ul style="list-style-type: none"> • Manufacturer's Certification Statement³ required.

Water Heaters	Gas, Oil, Propane Water Heater	Energy Factor 0.80	\$300 ²	Only some tankless water heaters currently qualify. This is about 20 percent more efficient than the current federal standard.
				For a list of qualifying products go to the Gas Appliance Manufacturing Association EXIT ↗ .
	Electric Heat Pump Water Heater	Energy Factor 2.0	\$300 ²	<ul style="list-style-type: none"> › Manufacturer's Certification Statement³ required. <p>This is more than twice as efficient as the current federal standard.</p> <ul style="list-style-type: none"> › Manufacturer's Certification Statement³ required.
Cars	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	<p>Guidance for auto manufacturers EXIT ↗ is available from IRS.</p> <p>There is a 60,000 vehicle limit per manufacturer before a phase-out period begins. Consumers who buy from companies that already sell large numbers of qualifying vehicles will experience a relatively short "window of opportunity" for the credits.</p>
Solar Energy Systems	Solar Water Heating	<ul style="list-style-type: none"> › 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. 	30% of cost, up to \$2,000	<ul style="list-style-type: none"> › The credit is not available for expenses for swimming pools or hot tubs. › The water must be used in the dwelling. › The system must be certified by the Solar Rating and Certification Corporation (SRCC).

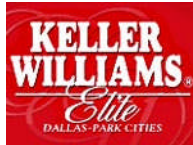
Photovoltaic Systems	Photovoltaic systems must provide electricity for the residence, and must meet applicable fire and electrical code requirement.	30% of cost, up to \$2,000
Fuel Cells	Fuel Cells Efficiency of at least 30% and must have a capacity of at least 0.5 kW.	30% of the cost, up to \$1000 per kW of power that can be produced

¹Either the 2001 Supplement of the 2000 International Energy Conservation Code or the 2004 Supplement of the 2003 International Energy Conservation Code.

²Subject to a \$500 maximum per homeowner for all improvements combined.

³A 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.

⁴The California counties where ENERGY STAR qualified doors may not qualify are: Alpine, Lassen, Modoc, Mono and Pluma



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