

Tax Credit for Existing Homes

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During 2006, individuals can make energy-conscious purchases that will provide tax benefits when filling out their tax returns next year. The credit will also be available for purchases in 2007. Manufacturers offering energy efficient items such as insulation or storm windows can assure their customers that their energy efficient items will qualify for the tax credit if certain energy efficiency requirements are met.

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.

For more information, visit the IRS website at www.irs.gov and click on Notice 2006-26 for guidance to the existing homes credit.