

Federal Tax Credits for Energy Efficiency

The Energy Policy Act of 2005 includes:

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A tax credit can provide significant savings. It reduces the amount of income tax you have to pay. Unlike a deduction, which reduces the amount of income subject to tax, a tax credit directly reduces the tax itself. The final rules and forms to clarify which products and services qualify for the tax credits will be developed by The Internal Revenue Service (IRS). You must refer to the final IRS rules to determine what qualifies for the tax credit. We will link to this information as soon as it is available.

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 available for many types of home improvements including adding insulation, replacement windows, and certain high efficiency heating and cooling equipment. [See chart](#). The maximum amount of homeowner credit for all improvements combined is \$500 during the two year period of the tax credit. This tax credit applies to improvements made from January 1, 2006 through December 31, 2007.

Efficient Cars

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.

Solar Energy Systems

Tax credits are available for qualified solar water heating and photovoltaic systems. The credits are available for systems "placed in service" in 2006 and 2007. The tax credit is for 30 percent of the cost of the system, up to \$2,000. This credit is not limited to the \$500 home improvement cap.

Fuel Cells

There is a consumer tax credit of up to 30% of the cost (up to \$500 per 0.5 kW of capacity maximum) for installing a "qualified" fuel cell and microturbine systems. The credits are available for systems "placed in service" in 2006 and 2007. This credit is not limited to the \$500 home improvement cap.

ENERGY POLICY ACT OF 2005
DRAFT SUMMARY OF TAX CREDITS FOR HOMEOWNERS¹
(US Treasury has not yet provided final interpretation for IRS use)

Product Category	Product Type	Tax Credit Specification	Tax Credit	ENERGY STAR Specification
Windows	Exterior Windows	Meet 2000 IECC & Amendments	10% of cost not to exceed \$200 total	Climate dependant – 4 Zones
	Skylights	Meet 2000 IECC & Amendments	10% of cost not to exceed \$200	Climate dependant – 4 Zones
	Exterior Doors	Meet 2000 IECC & Amendments	10% of cost not to exceed \$500	Climate dependant – 4 Zones
Roofing	Metal Roofs	ENERGY STAR qualified	10% of cost not to exceed \$500	Minimum Solar Reflectance
Insulation	Insulation	Meet 2000 IECC & Amendments	10% of cost not to exceed \$500	Meets FTCs “home insulation” definition
HVAC	Central A/C	EER 12.5/SEER 15 Split Systems EER 12/SEER 14 Package systems	\$300	EER 11.5/SEER 14 Split systems EER 11/SEER 14 Package systems
	Air Source Heat Pumps	HSPF 9 EER 13 SEER 15	\$300	HSPF 8.2 EER 11.5 SEER 14 Split HSPF 8 EER 11 SEER 14 Package
	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	EER 14.1 COP 3.3 Closed Loop EER 16.2 COP 3.6 Open Loop EER 15 COP 3.5 Direct Expansion
	Gas, Oil, Propane Water Heater	Energy Factor 0.80	\$300	N/A
	Electric Heat Pump Water	Energy Factor 2.0	\$300	N/A

	Heater			
	Gas, Oil, Propane Furnace or Hot Water Boiler	AFUE 95	\$150	AFUE 90 for furnaces AFUE 85 for boilers
	Advanced Main Air Circulating Fan	No more than 2% of furnace total energy use	\$50	N/A
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	
Solar Energy Systems	Solar Water Heating	The system must use solar power to provide at least half of a home's hot water. The credit is not available for expenses for swimming pools or hot tubs. The water must be used in the dwelling and the system must be certified by the Solar Rating and Certification Corporation (SRCC).	30 % of cost, up to \$2,000	
	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	

Tax Credits for Home Builders:

Home builders are eligible for a \$2,000 tax credit for a new energy efficient home that achieves 50 percent 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 percent 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 qualified new homes built or produced 12/31/05 through 12/31/07.

Tax Credits for Manufacturers:

While not directly affecting consumers, manufacturers of energy efficient clothes washers, dishwashers and refrigerators are eligible for tax breaks themselves, which may lead to increased availability and a reduction in prices for these energy-saving appliances:

- | [ENERGY STAR qualified dishwashers](#) that meet ENERGY STAR's 2007 specification.
- + [ENERGY STAR qualified clothes washers](#) that meet ENERGY STAR's 2007 specifications.
- + Refrigerators that are more efficient than 2001 federal energy conservation standards

Tax Credits 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 deductions are available for buildings or systems placed in service from January 1, 2006, through December 31, 2007.

For More Information:

[Tax Incentives Assistance Project \(TIAP\)](#) [EXIT](#) ↗

[Commercial Building Tax Deduction Coalition](#) [EXIT](#) ↗

[Energy Bill](#)  [EXIT](#) ↗