PKF PERSPECTIVES

ENERGY TAX CREDITS FOR HOMEOWNERS, INCLUDING CO-OPS AND CONDOS

The American Recovery and Reinvestment Act of 2009 ("the 2009 Recovery Act") was signed into law on February 17, 2009. The 2009 Recovery Act improved and expanded energy tax credits for homeowners (including cooperative housing corporations and condominiums) over the previous tax act enacted in 2006.

There are two energy related tax credits available to homeowners:

1. The **Nonbusiness Energy Property Credit** ("NEPC"), and

2. The **Residential Energy Efficient Property Credit** ("REEPC").

These credits are also available to tenant-stockholders/owners in cooperative housing corporations and condominiums.

> **For purposes of NEPC and REEPC, an individual who is a tenant-stockholder (owner) in a cooperative housing corporation/condominium is treated as having made his/her proportionate share of any of the corporation's/association's expenditures.**

NEPC is for energy-efficient improvements and may be easily obtainable by many homeowners. The credit may not exceed the aggregate amount of $1,500 for tax years 2009 and 2010 combined.

REEPC may be potentially more valuable, but it deals with more exotic and expensive expenditures, such as solar electric, solar hot water, fuel cell, small wind energy, and geothermal heat pump property.

The 2009 Recovery Act eliminates the maximum credit cap for tax years 2009 through 2016. A taxpayer who qualifies for both credits can claim both. These are nonrefundable credits, but unused credits can be carried over to the next year.

Nonbusiness Energy Property Credit (NEPC)

NEPC equals the sum of 30% of the amount paid or incurred by the taxpayer for:

- qualified energy efficiency improvements, i.e., building envelope components meeting certain requirements installed during the tax year, and

- residential energy property expenditures.

NEPC cannot exceed aggregate amount of $1,500 for 2009 and 2010.

The manufacturer of a building envelope component may certify to a taxpayer that the component is a "qualifying building envelope component", by providing the taxpayer with a certification statement. (A ***building envelope*** is the separation between the interior and the exterior environments of a building. It serves as the outer shell to protect the indoor environment as well as to facilitate its climate control.)

The certification statement may be provided by including a written copy of the statement with the packaging of the component, in printable form on the manufacturer's website, or in any other manner that will permit the taxpayer to retain the certification statement for tax recordkeeping purposes.

A taxpayer may rely on a manufacturer's certification described above:

1. for an exterior window, skylight, or door (other than a storm window or storm door), only if the component is installed in a climate zone identified in the certification statement; and

2. for a storm window, only if the component is installed over an exterior window of a class identified in the certification statement and in a climate zone identified for that class of exterior window.

A "qualified energy efficiency improvement" is: ***any energy efficient building envelope component that meets the prescriptive criteria for that component established by the 2009 International Energy Conservation Code.*** The detailed specification requirements can be found at www.energystar.gov.

A "building envelope component" means:

- any insulation material or system that is specifically and primarily designed to reduce the dwelling unit's heat loss or gain when installed in or on the dwelling unit;

- exterior windows (including skylights);

- exterior doors; and

- any metal roof installed on a dwelling unit, but only if the roof has appropriate pigmented coatings that are specifically and primarily designed to reduce the dwelling unit's heat gain.

A "qualified energy property" means:

1. energy-efficient building property, including

   (a) electric heat pump water heaters,
   (b) electric heat pumps,
   (c) central air conditioners,
   (d) natural gas, propane, or oil water heaters, and
   (e) biomass fuel stoves;

2. qualified natural gas, propane, or oil furnaces or hot water boilers; and

3. advanced main air circulating fans.

Efficiency Tier Standards

The credit is available for those that achieve the highest efficiency tier established by the Consortium for Energy Efficiency, as in effect on January 1, 2009. These standards are:

Electric heat pumps

- a seasonal energy efficiency ratio (SEER) greater than or equal to 15, energy efficiency ratio (EER) greater than or equal to 12.5, and heating seasonal performance factor (HSPF) greater than or equal to 8.5 for split heat pumps, and

- a SEER greater than or equal to 14, EER greater than or equal to 12, and HSPF greater than or equal to 8.0 for packaged heat pumps.

Central air conditioners

- a SEER greater than or equal to 16 and EER greater than or equal to 13 for split systems, and

- a SEER greater than or equal to 14 and EER greater than or equal to 12 for packaged systems.

Natural gas, propane, or oil water heaters

- an energy factor of at least .82, or

- a thermal efficiency rating of at least 90%.

Biomass fuel stoves

- that burn biomass fuel to heat a dwelling unit that the taxpayer uses as a residence, or to heat water for use in the residence, and

- that have a thermal efficiency rating of at least 75%, as measured using a lower heating value.

Furnaces and boilers

The 2009 Recovery Act establishes six separate categories for **qualified**:

1. natural gas furnaces: means any natural gas furnace that achieves an annual fuel utilization efficiency rate of not less than 95

2. propane furnaces: means any propane furnace that achieves an annual fuel utilization efficiency rate of not less than 95.

3. oil furnaces: means any oil furnace that achieves an annual fuel utilization efficiency rate of not less than 90.

4. natural gas hot water boilers: means any natural gas hot water boiler that achieves an annual fuel utilization efficiency rate of not less than 90.

5. propane hot water boilers: means any propane hot water boiler that achieves an annual fuel utilization efficiency rate of not less than 90.

and

6. oil hot water boilers: means any oil hot water boiler that achieves an annual fuel utilization efficiency rate of not less than 90.

The annual fuel utilization efficiency rate is the rate at which a furnace or boiler converts fuel into heat. A rate of 90 means that the item converts 90% of the fuel into heat, while the other 10% is lost.

Residential Energy Efficient Property Credit (REEPC)

For property placed in service before 2017, an individual is allowed an annual credit for the purchase of residential energy efficient property equal to the sum of:

1. 30% of the amount paid for qualified solar energy property (i.e., property that uses solar power to generate electricity in a home), with no maximum dollar limit beginning 2009 (there was maximum credit capped at $2,000 before 2009);

2. 30% of the amount paid for qualified solar water heating property, with no maximum dollar limit beginning 2009 (there was maximum credit capped at $2,000 before 2009);

3. 30% of the amount paid for qualified fuel cell property, up to a maximum credit of $500 for each 0.5 kilowatt of capacity;

4. 30% of the amount paid for qualified small wind energy property after 2007, with no maximum dollar limit beginning 2009 (there was maximum credit capped at $2,000 before 2009); and

5. 30% of the amount paid for qualified geothermal heat pump property after 2007, with no maximum dollar limit beginning 2009 (there was maximum credit capped at $2,000 before 2009).

Qualified Solar Electric Property Expenditures

A "qualified solar electric property expenditure" is an expenditure for property that uses solar energy to generate electricity for use in a dwelling unit.

Qualified Solar Water Heating Property Expenditures

A "qualified solar water heating property expenditure" is an expenditure for property to heat water for use in a dwelling unit, if at least half of the energy used by the property for that purpose is derived from the sun.

The solar water heating property must be certified for performance by the non-profit Solar Rating Certification Corporation or a comparable entity endorsed by the government of the state in which the property is installed.

Qualified Fuel Cell Property Expenditures

Qualified fuel cell property is an integrated system comprised of a fuel cell stack assembly and associated balance of plant components that:

- converts a fuel into electricity using electrochemical means,
- has an electricity-only generation efficiency of greater than 30%, and
- generates at least 0.5 kw of electricity.

Only in the case of qualified fuel cell property does the law specify that the dwelling unit must be the taxpayer's principal residence.

For qualified solar electric, solar water heating, small wind energy, and geothermal heat pump property, it is sufficient that the dwelling unit is the taxpayer's residence. It thus appears those four types of property installed in a second home qualify for the credit.

Qualified small wind energy property expenditures

A "qualified small wind energy property expenditure" is an expenditure for property that uses a wind turbine to generate electricity for use in connection with a dwelling unit.

Qualified geothermal heat pump property expenditures

A "qualified geothermal heat pump property expenditure" is an expenditure for qualified geothermal heat pump property installed on or in connection with a dwelling unit.

Qualified geothermal heat pump property

Is any equipment that:

- uses the ground or ground water as a thermal energy source to heat the dwelling unit or as a thermal energy sink to cool the dwelling unit, and
- meets the Energy Star program requirements in effect when the expenditure is made.

How to Claim the Credits

Taxpayers can claim the credits on IRS Form 5695. Contractors need not provide you with product sales receipts to verify your claim, but you should retain the following for your records as backup:

- Name and address of the manufacturer
- Identification of the component
- Make, model and other appropriate identifiers
- Statement that the product meets the tax-credit standards

Historically speaking ...

During the various reins of the Egyptian Pharoahs, tax collectors were known as "scribes". At one time, the scribes imposed a tax on cooking oil. To ensure that citizens were not avoiding the cooking oil tax, scribes would audit households to ascertain that appropriate amounts of cooking oil were consumed.

In ancient Greece, Athenians imposed a monthly poll tax on foreigners - people who did not have both an Athenian mother and father. The tax was one drachma for men and a half drachma for women.

Caesar Augustus was considered by many to be a brilliant tax strategist. He instituted an inheritance tax to provide retirement funds for the military. The tax was 5 percent on all inheritances except gifts to children and spouses.

Lady Godiva was an Anglo-Saxon woman who lived in England during the 11th century. According to legend, Lady Godiva's husband Leofric, Earl of Mercia, promised to reduce the high taxes he levied on the residents of Coventry when she agreed to ride naked through streets of the town.

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