

Federal Tax Credits for Energy-Efficient Home Improvements in 2006-2008



Cutting Taxes and Energy Costs – A Win-Win

Your Opportunity

Uncle Sam is encouraging taxpayers to invest in energy-efficient home improvements and systems that use renewable sources of energy (like the sun). For tax years 2006 through 2008, the federal Energy Act is allowing tax credits (dollar-for-dollar reductions in the amount owed) of up to \$500 to reward certain energy-efficient improvements made over those three years. A separate credit is available for up to \$4,000 for the installation of various renewable-energy systems. These one-time tax credits apply to improvements to the taxpayer's primary residence (not rental property).

If you're building a new home, ask your builder to seek the \$2,000 tax credit for making it a high-performance home. Tax credits are also available for improvements to commercial buildings, for manufactured homes and condos and for hybrid (gasoline-electric) vehicles. Details for all these programs are on line at www.energytaxcredits.org.

THE PROCESS IS EASY

You just save the receipt or invoice for your records in case you're audited, use IRS Form 5695 and subtract the appropriate amount from what you owe. (There are no refunds if your credit is greater than your tax amount, but for the solar incentives, the credit can carry over to the next year.) Be sure to check for separate state tax credits for some of the same home improvements (see www.dsireusa.org).

CHOOSING YOUR CREDITS

Your local Cooperative Extension Service office has information to help guide your decision making on these energy efficiency purchases. Lots of helpful information and product lists are available on line at www.energystar.gov and www.eere.energy.gov/consumer or by calling 1-888-STAR-YES.

Always look for the Energy Star label as you shop.

Although the initial price of an energy-efficient product may be a little higher, such investments can pay back quickly in utility bill savings (especially as energy costs rise) while improving the comfort and durability of your home and ultimately help our nation reduce its reliance on foreign energy sources.

Make sure the products you buy are right for your situation. One way of assuring that you're making wise choices is to consult an energy rater who can use a computer program to show how much you can save on your home utility bills each month if you invest in various improvements. You'll find a list of certified raters at www.resnet.us. If you don't find professional help nearby, try a Web-based home energy audit program or call 1-800-836-9589, Louisiana Department of Natural Resources.



Your Energy Improvement Options

For the following upgrades, the tax credit amount is a percentage of the materials cost (see below) up to a maximum total credit of \$500.

AIR SEALING

10% of materials cost up to \$500.

The correction of leakage points in the exterior shell of air-conditioned homes is first priority, even before insulation. Weatherstrip, caulk and otherwise stop airflow through attic access doors, pipe and electrical penetrations, fireplaces, recessed lights, windows, doors and other vulnerable areas.

INSULATION

10% of materials cost up to \$500.

Insulate to the R-values listed in the Energy Code for your location. Properly installed insulation on the roofline (for unvented attics) or on attic floors (for vented attics) can be a first line of defense to protect homes from heat gain and loss. Insulation for attic kneewalls, floors and uninsulated walls is also important.

Many material options (batts, blown, spray-on, rigid, qualified radiant barriers, etc.) are available, so be sure you get the R-value needed and good coverage without gaps or compression. Different materials may be needed for various parts of your home. The manufacturer's installation instructions must be followed to ensure the performance of the product. Other considerations include fire and insect retardants (such as borates) and to what degree the insulation reduces air infiltration. Some materials are recycled or recyclable.

Seek more information to help you avoid moisture problems, especially in air-conditioned homes (visit www.LouisianaHouse.org and www.buildingscience.com). Wherever there is a risk of flooding, fibrous materials should be avoided, and rigid foam-board or sprayed-in closed-cell foam should be considered, to 1 or 2 feet above the level of flood risk.

PAINTED METAL ROOFS

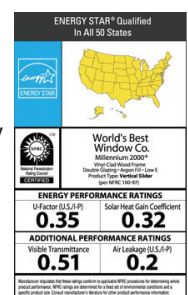
10% of materials cost up to \$500.

For the tax credit, find the Energy Star label on painted metal roofing materials. White and new high-tech "cool color" pigments help reduce solar heat gain.

WINDOWS AND DOORS

Maximum \$200 credit (of the total \$500).

Energy Star-labeled windows and doors (including skylights and storm windows) qualify. Including them in new homes is highly cost-effective, but the question of whether to replace windows in existing homes is harder, because the "payback" can be long in comparison to other energy-efficiency investments. Weigh your options carefully.



HEATING, VENTILATION & AIR-CONDITIONING (HVAC)

Up to \$300 credit.

Be sure to work with a contractor who performs a detailed Manual J load calculation to size your new system properly, especially when you make energy efficiency upgrades. Moisture concerns are crucial in warm, humid climates, and oversized systems make humidity problems worse. Get an energy rater or your contractor to test your duct system for air tightness and correct any leaks.

This \$300 tax credit applies to:

- Split systems (those with separate indoor and outdoor units) rated Seasonal Energy Efficiency Ratio (SEER) 15 and EER 12.5 and single-package systems rated SEER 14 and EER 12.
- Air-source heat pumps rated EER 13 or SEER 15 and HSPF of 9.
- Ground-source heat pumps that meet Energy Star criteria; closed-loop systems are preferred to conserve water. The underground pipes (or earth exchangers) for these systems make them more expensive initially, but their very high efficiency, long life and low maintenance make them highly cost-effective over the life of the system.
- Gas, oil, propane furnaces or hot water boilers rated AFUE 95 — **\$150 credit.**
- Advanced air handlers (maximum 2% of furnace's total energy usage) — **\$50 credit.**

HOT WATER SYSTEMS

\$300 credit for the following Energy Star-rated systems:

1. Natural gas, propane or oil-fueled water heaters with an Energy Factor (EF) of at least 0.80. Most qualified units are "on-demand" or tankless systems, which save the energy used to keep a tank heated all the time and save the space normally used for a tank.
2. Electric heat pump water heaters rated EF 2.0.

It's a "win-win" investment to maximize your tax savings as well as your energy savings with the right home improvement options! And you get better comfort and durability as great dividends.

RENEWABLE ENERGY SYSTEMS

Installation and material costs are included in the calculation for these credits. If you don't owe as much tax as the credit, the remainder of the credit can be carried forward through at least 2008. You can claim credits for both solar hot water and photovoltaics (PV), for a possible combined \$4,000 credit.

Solar Hot Water

30% of expense up to \$2,000 credit.

This is the most cost-effective first step toward active solar energy use in a home. To receive the credit, the system must be certified by the Solar Rating and Certification Corporation (SRCC), produce at least half of the home's hot water usage and not be connected to swimming pools or hot tubs.

Solar Electric (Photovoltaics or PV)

30% of expense up to \$2,000 credit.

To minimize the size and cost of PV panels or other renewable energy systems to produce electricity for your home, it is wise to first maximize the overall energy efficiency of the home. Check on net-metering in your area, which allows you to benefit when your PVs produce more energy than needed. PV systems can include batteries if desired and can be a good solution for remote areas and backup power in emergencies. Rooftop panels and pole-mounted systems are increasingly available, affordable and wind-resistant.

Other Renewable Energy Systems

Wind systems (**30% of expense**), fuel cells and microturbines (**30% of expense, up to \$500 for each 500 watts of installed capacity**) can provide energy free of the electric grid.

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