

Tax Credits For Energy Efficient HVAC Installations

The Energy Policy Act of 2005 provides tax credits for certain energy-efficient investments you make in your home between January 1, 2006 and December 31, 2007. To qualify, the house must be your main home, in the U.S., you must be living in it when the improvements are made, and the energy-efficiency improvements must meet prescribed requirements. The maximum credit is \$500 per home, including the costs of insulation, windows, air and duct sealing. Improvements each qualifying for less than \$500 can be bundled together to equal this cap over the two-year period.

The categories and tax credits are:

- Central air conditioners (split systems and package units): \$300
- Heat pumps (air-to-air and ground source): \$300
- Furnaces (natural gas, propane, or oil; advanced main indoor circulating fan): \$150
- Variable-speed furnace fans: \$50
- Duct sealing: 10% of material price
- Other building improvements (windows, doors, insulation, hot water heaters)

FAQs

Deductions, credits, and rebates—*what's the difference?*

Tax deductions reduce your overall taxable income; the value of the deduction depends on your tax bracket. Tax credits reduce the amount of tax you owe dollar for dollar. Rebates reduce the cost of a purchase. Rebates on energy-efficiency investments are offered by some utilities and states (see www.energytaxincentives.org/tiap-state-utility-incentives.html).

How do credits or rebates from states or utilities affect the federal tax incentives?

Fixed federal credits (e.g., \$300 for an eligible air conditioner) are not affected by state credits or utility rebates. For federal credits that depend on cost (e.g., upgrades to existing homes and solar energy systems), the federal credit will generally be calculated after deducting the value of utility or state incentives. For more information please contact your state energy office or local utility.

How will the Alternative Minimum Tax affect me?

At this time, we believe that purchasers subject to AMT may not receive the full benefit of the credit; however, the IRS has yet to issue a final ruling. Speak with a tax professional.

Does equipment in a new home qualify?

Energy-efficient equipment installed in new homes is generally not eligible since the equipment is installed before occupancy. However, it may qualify the home for the new-home tax credit. Consult with your tax advisor.

Can I receive a tax credit for a programmable thermostat?

No.

What are the efficiency requirements to qualify for the credits?

Manufacturers and retailers should be able to advise whether a specific product qualifies. You can also go to www.acca.org and click on Consumer Information, then on "Tax Credits for High Efficiency Equipment" and download a chart of tax credits and requirements.

Here are some terms you should be familiar with:

- SEER—Seasonal energy efficiency ratio, a measurement of performance
- EER—Energy efficiency ratio, another measurement of performance
- COP—Coefficient of performance
- AFUE—Annual fuel use efficiency
- CEE—Consortium for Energy Efficiency
- HSPF—Heat seasonal performance factor
- DOE—U.S. Department of Energy

What paperwork or forms do I need to prove improvements were made, and where can I find them?

Use IRS Form 8909. More information will be available in the 2006 IRS instructions for the version of 1040 tax form you file.

What do I need to do to qualify for the incentives?

Under the IRS rules, manufacturers must certify the performance of equipment. Obtain a certificate of performance from the contractor. Certifications need not be submitted to the IRS, but keep them on file in case the IRS has questions. Homeowners should also make notes on when each eligible measure is installed—only equipment *placed in service* in 2006 and 2007 is eligible.

Who is eligible for the incentives?

The person or organization making the expenditures is generally the recipient of the allowed tax deductions.

I own an apartment building. Do improvements I make qualify for a credit?

If the building is not your primary residence, you cannot claim the consumer credits. Specific guidelines and the final ruling on this are to be determined by the IRS. Some rental property owners may qualify for tax deductions under the commercial buildings incentives.

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For more information, contact:

A & B Heating & Air Conditioning
(859) 525-0100
<http://www.abhvac.com>
djones@abhvac.com