

TAX INCENTIVES FOR ENERGY SAVERS

Get some green by going green

IT'S BEEN SAID THAT doing a good deed—say, pitching in to protect the environment—is its own reward. And while that may be true, Uncle Sam is actually offering some tangible goodies, in the form of tax credits, to homeowners who are willing to go green.

Been thinking about installing double-paned windows? Or some nifty solar panels? Now is a great time to switch to energy-efficient products and appliances, as both the Energy Policy Act of 2005 and the State of California offer taxpayers incentives for such laudable behavior.

“Prices are rising across the board for all kinds of fuels and energy that we use, and frankly, the government recognizes that it’s important to keep prices as low as possible,” said Brian Castelli, executive vice president and chief operating officer of the Alliance to Save Energy, a Washington, D.C.–based research and advocacy organization. “If demand exceeds supply, then you have a problem. It costs a lot more to build the infrastructure to meet increasing demand than it does to take some energy-saving measures. Energy efficiency is the cheapest, easiest, and cleanest way to solve a lot of our problems.”

Some critics of the federal legislation argue that the incentives don’t go nearly far enough in helping to defray homeowners’ expenses. But if you intend to make some eco-friendly upgrades, it’s worthwhile to snap up the credits being offered. The federal policy, signed into law in August of last year, offers tax credits for the purchase of a hybrid car and for home renovations that increase energy efficiency. The California Solar Initiative, which took effect in mid-January, provides incentives in the form of rebates for utilities and consumers in installing and operating solar panels.

“These credits are good for the consumer because not only do you get money off of your taxes at the end of the year, you also get the savings on your energy bill every month for the remainder of the time you’re living there,” Cas-

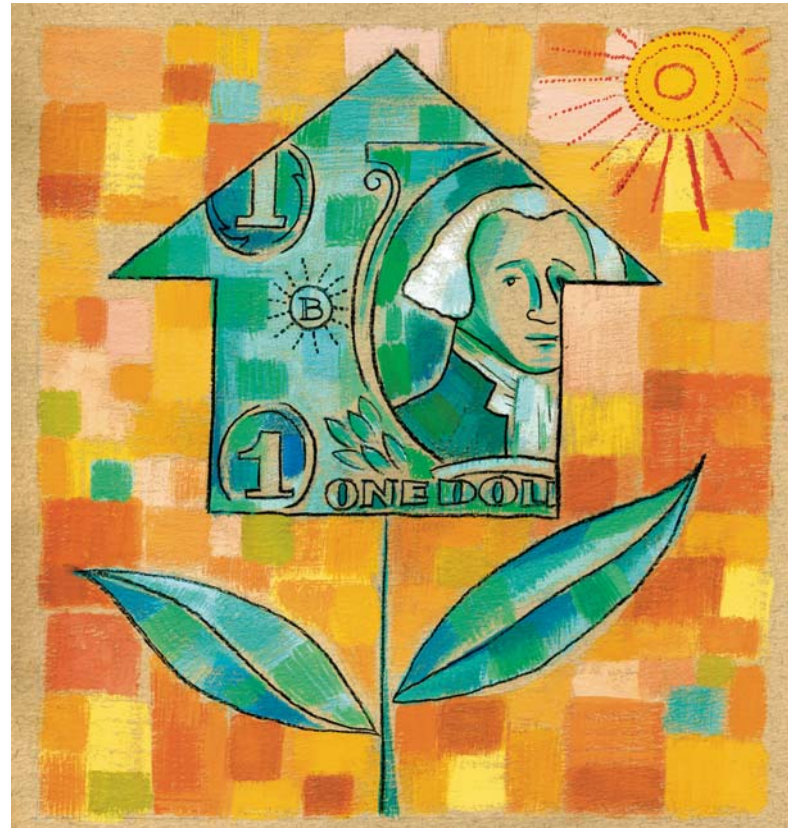


Illustration by Thorina Rose

telli said. “I tell people it’s a good idea to make this investment now, and if you get the tax credit, it’s an even better investment.”

What’s more, when you’re ready to sell, you can tout your home’s spiffy green features to prospective buyers. “We believe that making these investments does make your home more valuable to the next buyer,” Castelli said. “You need to be able to document that these changes were made and what level of efficiency your home is at. But that’s simple to do if you just keep a record as you make the improvements.” The Alliance to Save Energy also suggests keeping before-and-after energy bills to show to would-be buyers.

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Beyond cutting your energy bill, of course, you'll also be helping Mother Earth. And protecting the environment for future generations is a benefit that's difficult to put a price on. "Making your home more energy-efficient helps reduce pollution, lessening everything from particulate matter to the greenhouse gasses that cause climate change," Castelli said, "so by making some changes, you can really contribute to a healthier community."

Here's a rundown of the energy-saving upgrades that qualify for tax incentives. The IRS loves records, so save all of your labels and receipts, and make sure the receipts (including those from your installer) have dates on them.

AROUND THE HOME

Homeowners can earn tax credits for the following eco-upgrades. Keep in mind that total credits are capped at \$500 for federal taxes and an additional \$500 for California state taxes, with the exception of the credit for solar equipment, which stands alone.

"The state and federal credits are dealt with on a separate basis, so the federal credits do not impact California credits and vice versa," said David Tolkan, president of the Society of California Accountants.

Windows

Drafty windows may be romantic in mystery novels, but in the real world, they're just plain uncomfortable. Besides, they can really ratchet up your energy bill. Happily, windows have undergone a technological revolution in recent years, employing high-performance glazes and frames, as well as nontoxic gas fills between the panes, to prevent temperature leaks. In fact, installing the new, energy-efficient variety can cut heating costs up to 36 percent in cold climates and reduce cooling costs by as much as 32 percent in warmer climes. And now, homeowners who buy energy-efficient windows can get a tax credit of 10 percent of the purchase price, up to \$200, from both California and the Feds.

Exterior doors

Older, ill-fitting doors can also leak both heat and cold air, so replacing them is a great investment. The IRS will credit you 10 percent of your cost, up to \$500.

Solar equipment

When it comes to clean energy, it's hard to beat sun power. Solar electric systems—also called photovoltaic systems—are reliable, pollution-free, and use energy from a renewable source, our favorite flaming orb. And, thanks to the Energy Tax Incentives Act, you can get a credit of 30 percent of your costs for solar equipment, up to \$2,000 every year.

Insulation

It should be no surprise that improving your home's insulation is one of the most cost-effective ways to cut your energy costs. In fact, combining insulation with leak-reducing construction techniques can reduce a home's heating and cooling needs by up to 30 percent. And in the cold of winter, you'll be much cozier. "You can make a home a lot more comfortable by eliminating the drafts," Castelli said. "People don't realize that until someone comes in and eliminates them. And then they say, 'I've never been so comfortable. My hands and feet aren't cold anymore.'"

Under the new federal legislation, homeowners can get a 10 percent credit, up to \$500, for installing insulation that reduces heat loss or gain.

Roofs

A pigmented "cool" metal roof has no shortage of charms. It's more durable and lasts longer than a non-metal roof, often includes recycled material, and can reflect the sun's rays to help reduce energy wasted on air conditioning during the hot summer months. And now, homeowners who install a qualifying metal roof can get a federal credit for 10 percent of the total cost, up to \$500. When re-roofing, metal roofing can often be applied on top of the original roof to save the expense of removing and disposing of the old roof.

Heating and cooling equipment

If you have a dinosaur heating or cooling system, replacing it with a more energy-efficient one is a smart move. “I put the most efficient air conditioning system I could find back in the 1970s in the house that I live in,” Castelli said. “It had a SEER (seasonal energy efficiency ratio) of 6.7. Then, about five years ago, I put in a SEER 13.5 air conditioner. I basically doubled the efficiency of my air conditioner by making that change, and my air conditioning bill in the first month that summer was about half what it was the prior year. It was truly remarkable.” What’s more, homeowners can get a \$300 credit from both the IRS and the state for qualifying heating and cooling equipment, including water heaters.

Keep in mind that you’re entitled to a total of \$500 in credits for all of the above products combined from the IRS and \$500 from the State of California, regardless of your total expenses. If you earn a \$300 credit for your insulation, for example, you can receive only a \$200 credit for your windows, even if your windows cost \$3,000 and 10 percent of that would have been \$300.

In the garage

For many, stratospheric gas prices and smog-filled skies are incentive enough to buy a fuel-efficient vehicle. But the government, through the Energy Policy Act, is offering an additional nudge to make your next car a hybrid—a tax credit that ranges from \$250 to \$3,400, depending on the vehicle’s fuel economy and weight. “Energy security is one reason the government is offering these incentives,” Castelli said. “Hybrid vehicles get much higher gas mileage, which helps reduce our reliance on foreign oil.”

If you have your eye on a hybrid, though, avoid procrastinating. The full tax credit is only good for the first 60,000 vehicles that are sold of any particular model. (Partial credits are allowed for vehicles sold thereafter.) Castelli says the manufacturer will be able to tell you what credit a particular vehicle is worth. And remember, in California, many (though not all) hybrid vehicles can qualify for a Clean Air Vehicle Sticker, which allows even a lone driver to use the carpool lane. Getting wherever you’re going faster, and cleaner, has never been easier.

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TAX CREDITS FOR ENERGY SAVERS

Ready to make some eco-friendly home improvements? Following is a summary of expected tax savings for various products. The IRS is finalizing guidelines for the federal credits, so visit the Department of Energy’s Web site at www.energy.gov or check with your accountant for any updates.

PRODUCT	TAX CREDIT (FEDERAL)*	TAX CREDIT (CALIFORNIA)
Exterior windows	10 percent of cost (up to \$200)	10 percent of cost (up to \$200)
Skylights	10 percent of cost (up to \$200)	n/a
Exterior doors	10 percent of cost (up to \$500)	n/a
Insulation	10% of cost (up to \$500)	n/a
Solar water heaters, solar electricity equipment, and fuel cell plants	30 percent of cost (up to \$2,000) per tax year and \$500 for each ½ kilowatt of capacity for fuel cell plants	n/a
Metal roofs	10% of cost (up to \$500)	n/a
Central air conditioning	10% of cost (up to \$300)	10% of cost (up to \$300)
Air source heat pumps	10% of cost (up to \$300)	10% of cost (up to \$300)
Geothermal heat pump	10% of cost (up to \$300)	10% of cost (up to \$300)
Gas, oil, propane water heater	10% of cost (up to \$300)	10% of cost (up to \$300)
Electric heat pump water heater	10% of cost (up to \$300)	10% of cost (up to \$300)
Qualified furnace or hot water boiler	\$150	\$150
Advanced main air circulating fan	\$50	\$50
Hybrid vehicle	\$250 to \$3,400, depending on vehicle	n/a

* All products must be purchased during 2006 or 2007 and must be installed on your primary residence in the United States to qualify.

NOTE: Taxpayers are entitled to a total of \$500 of federal tax credits for windows, doors, insulation, roofs, and heating and cooling equipment, excepting solar equipment, and a total of \$500 in California tax credits for all products the state credits. All credits are lifetime credits, except for the solar equipment credit, which can be taken each year.