

Death and Taxes — A monthly column on tax issues and estate planning

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Give Credit Where Credit is Due — to the Environment

With the volatility of energy prices these days, many taxpayers are looking for ways to cut costs and save money. The good news is that for 2006 and 2007, the Energy Policy Act of 2005 provides specific tax incentives to encourage homeowners to “buy green” by purchasing items that make their homes more energy efficient – and for car buyers to acquire fuel-saving vehicles. A “home” includes a house, a houseboat, a mobile home, or a condominium.

Specifically, homeowners can qualify for residential energy credits when they make energy-conscious purchases. Tax credits of 10 percent of the costs can reward certain energy efficiency improvements made during 2006 and 2007 to a taxpayer’s primary residence.

In non-tax jargon, this means that homeowners get tax credits when buying qualifying improvements such as skylights, exterior doors and windows (including storm windows), and metal roofs that have special coatings designed to reduce heat gain. Credits are also available for purchases of energy-saving insulation, designed to reduce the heat loss or gain of a home. Purchased items are expected to remain in use for at least five years.

Tax credits are also available for costs relating to advanced, main air circulating fans (\$50 maximum), qualified natural gas, propane, or oil furnace or hot water boilers (\$150 maximum), and items of qualified energy efficient property (\$300 maximum). Costs can include labor for onsite preparation, assembly, and installation. The maximum credit for all taxable years is \$500. No more than \$200 of the credit can be attributable to expenses for windows.

With regard to renewable energy systems, a separate credit is available for the installation of qualified solar panels, solar water heating equipment, or a fuel cell power plant. Taxpayers are allowed one credit equal to 30 percent of the qualified investment in a solar panel, up to a maximum credit of \$2,000 and another equivalent credit for investing in a solar water-heating system. Alas, no part of either system can be used to heat a pool or a hot tub.

Items must be placed in service after December 31, 2005, and before January 1, 2008 in order to take advantage of these credits. Manufacturers offering energy efficient items can assure their customers that their items will qualify for the tax credit – so, when in doubt, simply ask before you buy.

A homeowner uses IRS Form 5695, Residential Energy Credits, to calculate the total amount of credits he or she can take. The homeowner then enters the credit amount on line 52 of Form 1040 for 2006 returns. A Virgin Islands resident homeowner then files Form 1040 with the Bureau of Internal Revenue to take the credit.

Car buyers may also qualify for a tax credit by purchasing an alternative motor vehicle. An alternative motor vehicle is a new vehicle that falls into one of four categories: an advanced lean burn technology vehicle (internal combustion engine with direct injection), a qualified hybrid vehicle (draws propulsion energy from onboard sources of stored energy), a qualified alternative fuel vehicle (fueled by natural gas or methanol), or a qualified fuel cell vehicle (propelled by power derived from one or more cells that convert chemical energy



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into electricity). By way of example, credits of up to \$3,150 are available for a Toyota Prius, \$2,600 for a Toyota Camry Hybrid, \$2,600 for a Ford Escape 2WD Hybrid, and \$4,000 for a Honda Civic GZ. For a complete list of qualifying vehicles, log onto www.hybridcars.com.

To qualify for the credit, the vehicle must be placed in service after 2005 and the car buyer must be the first owner. The car buyer must also use the vehicle for his or her personal use or for lease – but not for resale. The credit is calculated on Form 8910, Alternative Motor Vehicle Credit, and entered on line 55 of Form 1040 (for 2006 returns).

Unlike a tax deduction, which reduces the amount of income that is subject to tax, a tax credit directly reduces the amount of income tax that a taxpayer owes.

Of course, the most important benefit of acquiring energy efficient improvements isn’t the immediate tax credit. It’s the long-term, financial benefit of reduced energy costs and the knowledge that you are being environmentally responsible.

Suggestions for future columns should be sent to: AskJorie@TradewindsHouseandHome.com.

“In this world nothing can be said to be certain, except death and taxes.” Benjamin Franklin, 1789.