

Energy Tax Breaks

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If you plan to renovate your home or business this year, you'll want to add an important tax law into your decision-making. The law, the Energy Tax Incentives Act of 2005, provides generous new tax breaks for 2007 that are designed to encourage energy conservation and develop alternative energy sources.

Homeowner Energy Upgrades

For 2006 and 2007, you can claim a 10 percent tax credit for a wide range of energy-efficient building components for your principal residence.

- Insulation materials or systems that cut heating and cooling costs
- Exterior windows (including skylights)
- Exterior doors
- Certain metal roofs with special coatings designed to deflect heat

To qualify, homeowners must be the initial users of the equipment, and the equipment must be expected to last at least five years. (This provision offers a tax credit - a dollar-for-dollar reduction off your income tax bill, which is much better than a simple deduction.)

In addition to the 10 percent tax credit, you can claim a credit equal to 100 percent of the cost of:

- Energy-efficient building components, such as electric heat-pump water heaters; electric heat pumps; geothermal heat pumps; central air conditioning; and natural gas, propane, or oil water heaters that meet certain energy efficiency standards. (Maximum credit: \$300)
- Natural gas, propane, or oil furnaces, or hot-water boilers. (Maximum credit: \$150)

- Advanced main air-circulating fans. (Maximum credit: \$50)

You can't deduct the entire costs for all these upgrades. The law says overall lifetime credit for these improvements is limited to \$500, and only \$200 of the credit can be claimed for buying and installing energy-saving windows.

Solar and fuel-cell equipment -- In 2006 and 2007, homeowners can annually claim a personal tax credit equal to 30 percent of the cost of:

- Equipment that uses solar energy to generate electricity (Maximum credit: \$2,000)
- Solar water-heating equipment (Maximum credit: \$2,000)
- Fuel-cell power plant technology that converts fuel into electricity (Maximum credit: \$500)

Commercial Buildings

The new energy law allows owners of commercial buildings to earn deductions for energy-efficient upgrades to existing systems (heating, cooling, ventilation, or lighting), or for constructing new energy-efficient buildings. The deduction is generally limited to \$1.80 per square foot of the building.

To earn the tax break, the upgrade or new equipment must be certified as part of an overall plan designed to reduce total energy costs by 50 percent or more in comparison to a building meeting certain minimum requirements.

If your building doesn't meet that 50 percent limit, it can still earn a partial deduction for each separate building system that meets the energy-efficient building standards and is certified. In that case, the maximum deduction is 60 cents per square foot (as opposed to the usual \$1.80 per square foot deduction).



Credits for New Clean-Air Vehicles

The new law effectively repeals the current tax deduction for clean-air vehicles, and replaces it with four new tax credits for vehicles bought in 2006.

1. **Hybrid vehicles.** These vehicles combine an internal combustion engine with another system relying on an onboard rechargeable energy source like electric batteries. The credit size is based on the car's fuel economy.
2. **Advanced lean-burn technology vehicles.** These are cars and trucks with an internal combustion engine that uses lean-burn technology (i.e., a direct injection of a fuel mix with a higher than normal percentage of air). The tax credits are the same as hybrid vehicles.
3. **Fuel-cell vehicles.** This credit also has two parts: one based on the vehicle's weight, and the other on fuel efficiency. For a vehicle with a gross vehicle weight rating of 8,500 pounds or less, the maximum combined credit is \$12,000.
4. **Alternative-fuel vehicles.** These vehicles can run solely on compressed or liquefied natural gas, liquefied petroleum gas, hydrogen, or any liquid that's a minimum of 85 percent methanol. For vehicles with gross vehicle weight ratings of 8,500 pounds or less, the maximum credit is \$4,000.

Massachusetts Energy Provisions

If you did not claim the energy-efficient heating credit on your Massachusetts return for 2005, you may be eligible to do so for 2006. Subject to certain limitations, taxpayers and entities that are owners

of residential properties located in Massachusetts may claim a credit in the amount of the net expenditures for the purchase and installation of energy-efficient heating items in such properties. Included are:

- Home insulation
- New window installation
- Advanced programmable thermostats
- Fuel-efficient furnaces
- Solar domestic hot water systems

Qualified purchases must have been made between November 1, 2005 and March 31, 2006.

Home Heating Fuel Deduction - Certain owners and renters of residential property located in Massachusetts may also claim a home heating fuel deduction up to a maximum of \$800 for the cost of home heating oil, natural gas, and propane purchased between November 1, 2005 and March 31, 2006. If you did not take full advantage of the \$800 deduction for the taxable year 2005, the remainder may be claimed for 2006.

The rules for all these energy-saving tax deductions and credits are fairly complex. To help you earn the most "tax bang" for your energy-saving bucks, obtain professional tax assistance before making any significant improvements or purchases for your home or business.

With careful planning, you can save both dollars and the environment!

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