

Homeowner Energy Tax Credits Get New Life

- Home Energy-Saving Improvements
- Solar and Other Types of Energy Generation Systems
- Things to Consider Before Signing Up

Recently passed legislation has given new life to two homeowner energy credits that had expired or were about to expire, providing renewed opportunities to homeowners wanting to take advantage of these credits and reduce their energy costs.

Residential Energy Property Credit - The first of the two credits is what the tax code refers to as the Residential Energy Property Credit. A more descriptive title would be an energy saving credit since it applies to improvements to the taxpayer's existing primary home to make it more energy efficient. This credit was extended for two more years, allowing homeowners to claim the credit for qualifying energy improvements made in 2015 and 2016.

The credit generally applies to insulation, storm windows and doors, and certain types of energy-efficient roofing materials, air-conditioning and hot water systems.

The credit is 10% of the cost of the energy-saving items but does not apply to the cost of installation and is limited to a lifetime maximum of \$500. So if you have taken advantage of this credit in the past and received \$500 or more in credit in a prior year, you cannot claim any additional credit.

In addition to the \$500 overall limitation, there are also per-item limitations on the credit; for example, qualified windows and skylights - \$200, qualified hot water boiler - \$150 and qualified energy-efficient equipment - \$300.

The credit is nonrefundable and can only be used to offset income taxes (including the alternative minimum tax).

Residential Energy Property Credit - The second credit to be extended is called the Residential Energy Property Credit. Better known as the home solar credit, it also provides credit for wind energy systems, geothermal systems and fuel cell systems. The credit is generally 30% of the qualified property and installation costs, subject to some limitations for fuel cell and geothermal systems.

The credit, which was scheduled to expire after 2016, has been extended through 2021, but only for solar electric and solar hot water systems (excluding swimming pools). In addition, the credit percentage is phased out beginning after 2019. The following are the credit percentages allowed through 2021:

- 2009 through 2021: No annual limit
- 2009-2019: 30%
- 2020: rate reduced to 26% and only on solar-related systems
- 2021: rate reduced to 22% and only on solar-related systems

There is no limit on the actual credit other than the credit percentage. It is a nonrefundable credit and can be used to offset income tax liability (including the AMT). However, if the credit is unused because it exceeds the income tax amount, it can be carried over to another year as long as the credit has not expired.

Things to Consider - When considering whether or not to go to the expense of installing a solar system, you need to consider a number of issues:

1. Is it cost effective considering your electric usage?
2. How will you pay for it?

3. If you finance it are the terms and interest rate reasonable for your financial situation?
4. How will it affect your property's value?
5. Will you be able to benefit from the tax credits?

Installing solar is a big financial commitment and should be considered carefully. Don't let a solar system salesperson rush you into a decision. If you need assistance analyzing the financial and tax aspects of installing a solar system, please give this office a call before you sign on the dotted line.