Tax Credits for Residential Buildings

Encouraging Energy Savings and Renewable Energy Use

Signed by President Bush on August 8, 2005, the Energy Policy Act of 2005 (EPACT) lays the foundation for new Federal tax credits for consumers and businesses that pursue energy efficiency and use of renewable energy. On February 21, 2006, the Treasury Department and the IRS released "Guidance Notices" on claiming tax credits for energy efficiency improvements to existing homes, new energy-efficient home construction, and new energy-efficient manufactured housing. These notices provide specific information that taxpayers, home builders, and housing manufacturers can use to claim the tax credits.

For updated information about the tax incentives, see www.energy.gov. The website also describes other EPACT provisions of interest to consumers, including tax credits for purchasing fule-efficient vehicles.

Tax Credits for Home Energy Efficiency Improvement

Homeowners, rental property owners, and home builders who purchase and install specific products in the home–such as energy-efficient windows, insulation, doors, roofs, and heating and cooling equipment–can receive a tax credit of 10 percent of the cost up to $500 beginning in January 2006. See the table on the reverse side for the maximum allowable tax credit for each product.

EPACT also provides a credit equal to 30 percent of qualifying expenditures for purchase of photovoltaic property and for solar water heating property used exclusively for purposes other than heating swimming pools and hot tubs. The credit does not exceed $2,000 for each type of system, and applies to the cost after any state and utility incentives. Homeowners can also earn a tax credit for installing fuel cells.

EPACT also amends the Public Utilities Regulatory Policies Act to require every public utility to offer interconnection to the power grid and net metering upon request. Net metering allows consumers to offset their electricity use with any self-generated electricity fed into the power grid in a billing period.

These tax credits apply to improvements made between January 1, 2006 and December 31, 2007 that were installed in or on the taxpayer's principal residence in the United States.

Tax Credits for Energy-Efficient New Homes

EPACT provides tax credits up to $2000 to eligible contractors for the construction of qualified new energy-efficient manufactured homes and other new site-built homes saving 50 percent of the heating and cooling energy compared to the 2004 International Energy Conservation Code (IECC). A smaller tax credit of up to $1,000 is available for producers of HUD code manufactured homes that meet ENERGY STAR® criteria or save 30 percent of their annual heating and cooling energy consumption. These tax credits are effective January 1, 2006 through December 31, 2008. For more detailed information refer to the Tax Incentives Assistance Project (TIAP): www.energytaxincentives.org

Tax Credits for Energy-Efficient Appliances

EPACT provides a tax credit for manufacturers of energy-efficient dishwashers, clothes washers, and refrigerators. Credits vary depending on the efficiency of the unit, and are effective for appliances manufactured in 2006 and 2007. While this tax credit goes to manufacturers, DOE anticipates possible consumer savings as a result.

Energy-Efficiency Standards for Appliances

EPACT sets new minimum efficiency standards for a range of consumer products, including heaters, refrigerators, compact fluorescent lamps, torchiere lamps, and ceiling fans and ceiling fan light kits.

Taking the First Step

The EPACT tax credit provides homeowners with the equivalent of a money-saving coupon on energy-efficient home improvements. Like a coupon, the tax credit is an incentive, but it does not tell homeowners which improvements are best for their particular situation. The DOE recommends that homeowners take a "whole house" approach to home improvements, considering factors like climate zone and evaluating the entire house as a system to determine optimal energy-saving strategies. Homeowners may want to hire a certified energy auditor or home-improvement contractor to identify their best opportunities for energy savings. An energy auditor can help identify the best options for a particular home. For "do-it-yourself" home improvements, the Home Energy Saver website (www.homeenergysaver.lbl.gov) provides an online audit tool.

Maximum Allowable Tax and Energy Savings for Energy-Efficient Home Improvements

The maximum lifetime tax credit is $500.

Product Category	Product Type	Tax Credit Specification	Maximum Allowable Tax Credit
Windows*† & Doors	Exterior windows	ENERGY STAR qualified or meet 2000 IECC & Amendments	10% of cost up to $200
	Skylights	Meet 2000 IECC & Amendments	10% of cost up to $200
	Exterior doors	Meet 2000 IECC & Amendments	10% of cost up to $500
Roofing*†	Metal roofs	ENERGY STAR qualified	10% of cost up to $500
Insulation*†	Insulation	Meet 2000 IECC & Amendments	10% of cost up to $500
HVAC & Water Heaters	Central AC	EER 12.5/SEER 15 split systems EER 12/SEER 14 package systems	$300
	Air source heat pumps	HSPF 9 EER 13 SEER 15	$300
	Geothermal heat pump	EER 14.1 COP 3.3 closed loop EER 16.2 COP 3.6 open loop EER 15 COP 3.5 direct expansion	$300
	Gas, oil, propane furnace or hot water boiler	AFUE 95	$150
	Advanced main air circulating fan	No more than 2% of furnace total energy use	$50
	Gas, oil, or propane water heater	Energy Factor 0.80	$300
	Electric heat pump water heater	Energy Factor 2.0	$300
Energy Systems	Photovoltaic systems		30% of cost up to $2,000
	Solar water heaters	Must supply at least half of home's hot water and be SRCC certified (cannot be used to heat pools)	30% of cost up to $2,000
	Fuel Cells	Must have at least 30% efficiency	30% of cost up to $500 per 0.5 kW

** Materials only – does not include installation or labor costs.*

† Requirements vary by climate region. Certification information generally will be highlighted on the product packaging or literature, in a retail store display, or on the manufacturer's website.

A Strong Energy Portfolio for a Strong America

Energy efficiency and clean, renewable energy will mean a stronger economy, a cleaner environment, and greater energy independence for America. Working with a wide array of state, community, industry, and university partners, the U.S. Department of Energy's Office of Energy Efficiency and Renewable Energy invests in a diverse portfolio of energy technologies.

U.S. Department of Energy
Energy Efficiency and Renewable Energy
Bringing you a prosperous future where energy is clean, abundant, reliable, and affordable

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