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OUTLINE OF THE FEDERAL ENERGY TAX CREDIT UNDER THE 2/17/09 AMERICAN RECOVERY AND REINVESTMENT ACT

Residential Energy Efficiency Tax Credit

Incentive Type:	Personal Tax Credit
Eligible Efficiency Technologies:	Water Heaters, Furnaces, Boilers, Heat pumps, Air conditioners, Building Insulation, Windows, Doors, Roofs, Circulating fans used in a qualifying furnace
Eligible Renewable/Other Technologies:	Biomass, Stoves that use qualified biomass fuel
Applicable Sectors:	Residential
Amount:	30%
Maximum Incentive:	Aggregate amount of credit for all technologies placed in service in 2009 and 2010 combined is limited to \$1,500
Equipment/Installation Requirements:	Equipment must be new and in compliance with all applicable performance and safety standards as described in tax code
Authority 1:	26 USC § 25C
Date Enacted:	8/8/2005 (amended 2008, 2009)
Effective Date:	1/1/2006
Expiration Date:	12/31/2010
Authority 2:	H.R. 1424: Div. B, Sec. 302 (The Energy Improvement and Extension Act of 2008)
Date Enacted:	10/3/2008
Effective Date:	1/1/2009
Expiration Date:	12/31/2009
Authority 3:	H.R. 1: Div. B, Sec. 1121 (The American Recovery and Reinvestment Act of 2009)
Date Enacted:	2/17/2009
Effective Date:	1/1/2009

Summary:

The federal tax credit for energy-efficient home improvements was established by the *Energy Policy Act of 2005*. After expiring December 31, 2007, the credit was extended and expanded by *The Energy Improvement and Extension Act of 2008* (H.R. 1424) and *The American Recovery and Reinvestment Act of 2009* (H.R. 1). The credit now applies to eligible equipment purchased between January 1, 2009, and December 31, 2010. In addition to extending the credit, H.R. 1424 and H.R. 1 strengthened the efficiency requirements for most equipment, extended the credit to stoves that use biomass fuel and asphalt roofs with appropriate cooling granules; raised the cap for the credit; and redesigned the way the credit is calculated.

The credit applies to energy efficiency improvements in the building envelope of existing homes and for the purchase of high-efficiency heating, cooling and water-heating equipment. Efficiency improvements or equipment must serve a dwelling in the United States that is owned and used by the taxpayer as a primary residence. The maximum amount of homeowner credit for all improvements combined is \$1,500 for equipment purchased during the two-year period of 2009 and 2010.

Building Envelope Improvements

Owners of existing homes receive a tax credit worth 30% of the cost of upgrading the efficiency of the building's envelope. The following improvements are eligible for the tax credit:

- Insulation materials and systems designed to reduce a home's heat loss or gain
- Exterior doors and windows (including skylights) and
- Pigmented metal roofs designed to reduce heat gain, and asphalt roofs with appropriate cooling granules.

Heating, Cooling and Water-Heating Equipment

Taxpayers who purchase qualified residential energy-efficient property are eligible for a 30% tax credit. The credit may also be applied to labor costs for assembly and original installation of eligible property. The following types of equipment are eligible:

- Electric heat pump water heaters
- Electric heat pumps
- Central air conditioners
- Natural gas, propane or oil water heaters
- Natural gas, propane or oil furnace or hot water boilers
- Advanced main air circulating fans
- Biomass stoves that use "plant-derived fuel available on a renewable or recurring basis, including agricultural crops and trees, wood and wood waste and residues (including wood pellets), plants (including aquatic plants), grasses, residues, and fibers"

Performance and quality standards for tax credit eligibility vary by technology. (See 26 USC § 25C, H.R. 1424 of 2008 and H.R. 1 of 2009) for details. Additionally, the [Energy Star web site](#) offers detailed information on qualifying products.

Significantly, *The American Recovery and Reinvestment Act of 2009* repealed a previous limitation on the use of the credit for eligible projects also supported by "subsidized energy financing." For projects placed in service after December 31, 2008, this limitation no longer applies. Businesses that receive other incentives are advised to consult with a tax professional regarding how to calculate this federal tax credit.

Background

The [Energy Policy Act of 2005](#) established the tax credit for energy improvements to existing homes. The credit was originally limited to purchases made in 2006 and 2007, with an aggregate cap of \$500 for all qualifying purchases made in these two years combined. There were also separate individual caps for the different equipment types. H.R. 1424 of 2008 reinstated the credit for 2009 purchases and made other minor adjustments. H.R. 1 further extended the credit to include purchases made in 2010 and replaced the \$500 aggregate cap with a \$1,500 aggregate cap for installations made in 2009 and 2010. Tax credits for installations made in 2006 and 2007 are still limited to \$500. Any purchase made in 2008 is not eligible for this tax credit.

Geothermal heat pumps were originally eligible for this credit, with a \$300 cap. However, geothermal heat pumps are now eligible for the [residential renewable energy tax credit](#), with no cap.

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