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Letter on Energy Efficient Tax Credits

Dear Client:

If widely fluctuating energy costs and environmental concerns have you looking for ways to go green, here are some tips on how going green can cut energy costs and reap tax saving energy credits. Better yet—all of these tax credits are available against Alternative Minimum Tax (AMT) this year and none of them are subject to any annoying phase out limits designed to prevent higher income taxpayers from benefiting from them. So, just about everyone should be eligible to take advantage of these tax saving credits.

Making Energy Efficient Improvements to Your Home

A great way to cut energy costs and save up to \$1,500 in federal income taxes is to make certain energy efficiency improvements to your home. You just need to be sure to pick the right product.

The credit (which is called the nonbusiness energy property credit) you're entitled to equals 30% of what you pay for (a) qualified energy efficiency improvements (such as, certain energy efficient insulation, windows, doors and roofs), and (b) qualified residential energy property (such as, certain energy efficient heat pumps, hot water heaters or boilers, and advanced main air circulating fans) on your principal residence (no vacation homes). Expenditures made from subsidized energy financing can qualify for the credit if they otherwise meet the requirements for those credits. However, there is a \$1,500 cap on aggregate credits claimed in 2009 and 2010 for all types of eligible expenditures. In other words, the \$1,500 cap applies to the aggregate amount of credits claimed in both years combined.

If there is any possibility you'll be subject to AMT next year, you may want to make these improvements before the year-end. Why? This credit can be used to offset AMT in 2009, but absent Congressional extension, it won't be in 2010.

Note: Basically the same credit existed in 2006 and 2007, but back then it had a \$500 lifetime cap. This lifetime cap does not apply (and has no impact on) the credit available in 2009 and 2010. This means you are eligible for the up to \$1,500 of nonbusiness energy property credits in 2009–2010, even if you previously claimed \$500 of credits on your 2006 and/or 2007 return.

A good place to start your search for products that qualify for this credit is at www.energystar.gov/taxcredits where you'll find a table listing requirements for various products. Then, to ensure the product satisfies the required energy saving conditions for the nonbusiness energy credit, be sure to check the product package materials or manufacturer website before making the purchase. According to the IRS, you can rely on the manufacturer's written certification statement, which is typically included with the product package materials or on the manufacturer's website. You just need to keep a copy of this certification as part of your tax records.

Purchasing a Hybrid Vehicle

If you are considering a hybrid vehicle purchase in 2009, the hybrid vehicle credit of up to \$3,400 may be enough to get you going. Thanks to the Stimulus Act, the really good news for 2009 purchases is that the credit is now allowed against AMT. Top this with the fact that the credit has no AGI phase-out limit and you've got a whole new ballgame. But, you need to be careful—the amount of credit available depends on the hybrid you buy and some of the most popular models are no longer eligible for the credit. Also, only purchases of new (not used) vehicles qualify.

The actual credit allowed varies by vehicle. Furthermore, the credit is phased out once a manufacturer sells 60,000 hybrid vehicles. Lexus, Toyota, and Honda all hit this mark in previous years, so no 2009 purchase of their hybrids qualifies for a credit. Ford and Mercury hit this mark in the last quarter of 2008. This means the full credit will be allowed for purchases of their hybrids through 3/31/09, 50% of the credit will be allowed for purchases made from 4/1/09–9/30/09, and 25% of the credit will be available for purchases made from 10/1/09–3/31/10. So, if you're interested in a Ford or Mercury hybrid, you'll want to make the purchase before 10/1/09 to get 50% (rather than 25%) of the credit.

Note: There's also a credit for advanced lean burn technology vehicles, but no one had produced vehicles to which this credit applied until the last half of 2008 when Mercedes and Volkswagen debuted their versions. Since then, BMW and Audi have added vehicles to this list.

Please give us a call if you want to know the available credit amount for a specific vehicle.

Using the Solar, Wind, Geothermal or Fuel Cell Energy to Power Your Home

Although the costs of qualifying expenditures tend to be pretty steep, if you install solar, wind, geothermal, or fuel cell energy saving equipment in 2009, you may be able to take advantage of the residential energy efficient property (REEP) credit. The REEP credit equals 30% of expenditures to install: (1) qualified solar water heating equipment, (2) qualified small wind energy equipment, (3) qualified geothermal heat pumps, (4) qualified solar electricity generation equipment, and (5) qualified fuel cell equipment (up to \$1,000 per kilowatt hour). Expenditures made from subsidized energy financing can qualify for the REEP credit if they otherwise meet the requirements for those credits.

The credit only applies to equipment you place in service in your U.S. residence, and it cannot be claimed for equipment used to heat a swimming pool or hot tub. The credit for fuel cell equipment is only available for your principal residence; however, the two solar credits apply to any residence (including vacation homes).

As with the nonbusiness energy property credit, a good place to start your search is at www.energystar.gov/taxcredits. Then, be sure the product satisfies the required energy saving conditions for the REEP credit, be sure to check the product package materials or manufacturer website before making the purchase. According to the IRS, you can rely on the manufacturer's written certification statement, which is typically included with the product package materials or on the manufacturer's website. You just need to keep a copy of this certification as part of your tax records.

Conclusion

As you can see, there are some pretty nice tax savings to be had from making certain energy saving and environmentally friendly expenditures in 2009.

If you have any questions or need any assistance, please give us a call.

Best regards,