

# ENERGY POLICY

## ACT of 2005

### TAX CREDIT SUMMARY

#### Existing Homes

#### Home Heating & Cooling Equipment and Water Heating Equipment

##### Who is eligible for the tax credit?

The homeowner is eligible for the tax credit.

##### What is the tax credit for heating and cooling equipment?

Homeowners who install highly efficient heating, cooling, and water heating equipment can take a tax credit of 10% of the cost of materials and labor (up to \$300) for purchasing qualifying equipment, as detailed below. This credit is available for systems placed in service from January 1, 2006 through December 31, 2007. There is a \$500 cap on the credit, including the amount taken for heating and cooling equipment, water heaters, and weatherization materials. The \$500 cap applies to each home over this two year period. So, if you take a \$350 credit for the first year, the maximum credit in the second year is \$150.

##### What is eligible for the tax credit?

- High-efficiency gas, oil, and propane furnaces and boilers: \$150 cap
- High-efficiency central air conditioning units, including air-source and ground-source heat pumps: \$300 cap
- High-efficiency fans for heating and cooling systems: \$50 cap
- High-efficiency water heaters, including heat pump water heaters: \$300 cap

##### Is this credit available to homes under construction?

Under guidance issued by the Internal Revenue Service (IRS), equipment is eligible if installed in a home occupied by a taxpayer as their principal residence at the time the equipment is installed. This implies that equipment in new homes is generally not eligible since in new homes equipment is generally installed prior to occupancy. However, efficient equipment in new homes may help that home qualify for the new homes tax credit.

### **What do I need to know to qualify for the tax credit?**

Manufacturers and retailers should be able to help you determine whether a specific product qualifies. The qualification specifications are as follows:

#### **Furnaces and boilers:**

- Annual Fuel Use Efficiency (AFUE) 95 or higher

#### **Central air conditioning units:**

- Must meet the highest tier standards set by the Consortium for Energy Efficiency (CEE). Seasonal Energy Efficiency Ratio (SEER) measures performance throughout the cooling season; Energy Efficiency Ratio (EER) measures performance on a very hot day.
  - Split system (those with separate indoor and outdoor units)—SEER 15 and EER 12.5
  - Single-package systems—SEER 14 and EER 12

#### **Air-source heat pumps:**

- Must have a Heating Seasonal Performance Factor (HSPF) 9 or greater, SEER 15 or higher, and EER 13 or higher for both split systems and single-package systems.

#### **Ground-source heat pumps:**

- Must meet the following criteria (the same criteria as for ENERGY STAR®) and must include a desuperheater (which preheats water for a water heater) or an integrated water heating system.
  - Closed-loop systems—14.1 cooling EER and 3.3 heating Coefficient of Performance (COP)
  - Open-loop systems—16.2 EER and 3.6 COP
  - Direct-expansion systems—15 EER and 3.5 COP

#### **Fans for heating and cooling systems:**

- Fan uses no more than 2% of total heating system energy use, as defined by Department of Energy test procedure.

#### **Water heaters:**

- Gas or propane water heaters—Energy Factor (EF) of at least 0.8. The only models that meet this standard currently are tankless water heaters and some systems that combine both space and water heating.
- Heat pump water heaters—EF of at least 2.0

### **What do I need to do to qualify for the tax credit?**

Under the IRS rules, manufacturers must certify that specific measures are eligible. Homeowners should obtain a copy of this certification when buying these products from the manufacturer, contractor, or retailer. Certifications may also be obtained from manufacturer Web sites. Certifications need not be submitted to the IRS, but should be kept on file with other tax records. Homeowners should also make notes on when each eligible measure is installed. Only measures placed in service in 2006 and 2007 are eligible.

### Where can I learn more about qualifying products?

- [www.energytaxincentives.org](http://www.energytaxincentives.org)

### **Central Air Conditioning Units and Heat Pumps**

- [www.energystar.gov](http://www.energystar.gov)
- [www.aceee.org/consumerguide/topcac.htm](http://www.aceee.org/consumerguide/topcac.htm)
- [www.geoexchange.org](http://www.geoexchange.org) (ground-source heat pumps)
- [www.cee1.org](http://www.cee1.org) (Click on Residential link)

### **Fans for Heating and Cooling Systems**

- [www.gamanet.org](http://www.gamanet.org) (Click on Product Certification link)

### **Water Heaters**

- [www.gamanet.org](http://www.gamanet.org)
- [www.aceee.org/consumerguide/topwater.htm](http://www.aceee.org/consumerguide/topwater.htm)

*The information provided is our summary of the Energy Policy Act of 2005 and is not to be viewed as tax advice, nor should it be used as the sole source of information for tax purposes. Consult your tax professional for official guidance concerning your specific circumstances. You may also refer to Internal Revenue Service guidance on [www.irs.gov](http://www.irs.gov).*

