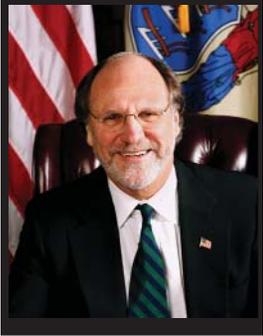




# Conserve Energy and Earn Tax Credits

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With energy prices on the rise, Rate Counsel always encourages conservation as a great tool to help lower your utility bills. But did you know that undertaking conservation efforts can also help lower your taxes? Yes, it is true!

Federal legislation went into effect on January 1, 2006 entitling consumers who purchase energy efficient products in 2006 and 2007 to receive tax credits. The new tax credits, included in the Energy Policy Act of 2005, are aimed at encouraging consumers to select products for the home and vehicles that not only reduce energy costs but are also environmentally friendly. The tax incentives are on products that save electricity, natural gas, propane, and heating oil. Among the tax incentives in the Energy Policy Act of 2005 are:

- Tax credits for residential solar photovoltaic and solar hot water heating systems
- Tax deductions for highly efficient commercial buildings
- Tax credits for highly efficient new homes

- Tax credits for improvements to existing homes, including high-efficiency air conditioners and heating equipment
- Tax credits for residential fuel cell systems
- Tax credits for fuel cell and micro-turbine electric generators used in a business

There is a distinction between a tax deduction and a tax credit. A tax deduction is subtracted from income before your total tax liability is computed. On the other hand, a tax credit is subtracted directly from the total tax liability. This means that a deduction and a credit have very different values. A credit is potentially three times more advantageous to a taxpayer than a deduction.



Homeowners are allowed to claim tax credits up to a maximum of \$500 for making energy efficient improvements to their existing homes, but beware, there are some conditions:

- You have to make the improvements to your primary residence and it must be located in the United States.
  - Your home cannot be a second (vacation) home or rental property.
  - You can select a number of improvements from various categories but credits for some items are limited and the total tax credit you can receive is \$500.
  - You must make the improvements between 2006 and 2007.
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Energy efficient property improvements that qualify for a credit of 10% of cost include:

- Energy efficient exterior doors, windows, and skylights
  - Insulation designed to reduce heat loss or gain
  - Metal roofs with "Energy Star" heat-reducing coatings
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Remember, there is an overall limit of \$500 for energy saving home improvements. In other words, you can not get a credit of \$600 for installing skylights (\$2000), exterior doors (\$2000) and windows (\$2000).

There are also specific credit limits for some equipment. For example:

- \$300 for some central air conditioning units, heat pumps and high-efficiency water heaters
  - \$150 for high-efficiency furnaces and boilers
  - \$50 for air-circulating fans and heating and cooling systems
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There are even larger credits available for major home improvement projects. For example, homeowners can qualify for a tax credit of 30 percent (up to \$2,000) for the cost of solar hot water systems. Consumers should be forewarned that tax credits can not be used for solar hot water systems that are being used for swimming pools and hot tubs, and there may be other exceptions so check with a tax expert before making a decision.

If you decide to make improvements to your home, make sure you know which equipment is eligible for tax breaks as the law is very specific. Even though there are complexities and limits to the amount of tax breaks you can receive, make sure you take advantage of every credit to which you are entitled.

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For more information on energy tax credits, consult with a tax expert. You can also find information at:

[www.irs.gov/newsroom/article/0,,id=154657,00.html](http://www.irs.gov/newsroom/article/0,,id=154657,00.html)

or

[www.ase.org/content/article/detail/2654#taxcredit\\_intro](http://www.ase.org/content/article/detail/2654#taxcredit_intro)