



Energy Policy Act of 2005 Tax Credits

Signed by President Bush on August 8, 2005, the Energy Policy Act of 2005 (EPACT) offers consumers and businesses federal tax credits beginning in January 2006 for purchasing fuel-efficient hybrid-electric vehicles and energy-efficient appliances and products. Most of these tax credits remain in effect through 2007.

Buying and driving a fuel-efficient vehicle and purchasing and installing energy-efficient appliances and products provide many benefits such as better gas mileage – meaning lower gasoline costs, fewer emissions, lower energy bills, increased indoor comfort, and reduced air pollution.

Some consumers will also be eligible for utility or state rebates, as well as state tax incentives for energy-efficient homes, vehicles and equipment. Each state's energy office web site may have more information on specific state tax information.

About Tax Credits

A tax credit is generally more valuable than an equivalent tax deduction because a tax credit reduces tax dollar-for-dollar, while a deduction only removes a percentage of the tax that is owed. Beginning in tax year 2006, consumers will be able to itemize purchases on their federal income tax form, which will lower the total amount of tax they owe the government.

Automobile Tax Credits

Individuals and businesses who buy or lease a new hybrid gas-electric car or truck are eligible for, and can receive, an income tax credit of \$250-\$3,400 – depending on the fuel economy and the weight of the vehicle. Hybrid vehicles that use less gasoline than the average vehicle of similar weight *and* that meet an emissions standard qualify for the credit. "Lean-burn" diesel vehicles could also qualify, but currently available diesel vehicles do not meet the emissions standard. There is a similar credit for alternative-fuel vehicles and for fuel-cell vehicles.

If individuals and businesses buy more than one vehicle, they are eligible to receive a tax credit for each. If a tax-exempt organization buys such a vehicle, the retailer is also eligible to receive another credit. Companies that buy heavy-duty hybrid trucks are also eligible for a larger tax credit. Currently, there is a \$2,000 tax deduction for hybrid vehicles for the remainder of 2005.

This tax credit is for vehicles "placed in service" *beginning* January 1, 2006, but because there is a waiting list for many hybrids, consumers can receive the tax credit if they arrange to purchase the vehicle this year *as long as* they do not take possession of the vehicle until January 1, 2006. This tax credit will be phased out for each manufacturer once that company has sold 60,000 eligible vehicles. At that point, the tax credit for each company's vehicles will be gradually reduced over the course of another year.

Home Energy Efficiency Improvement Tax Credits

Consumers who purchase and install specific products, such as energy-efficient windows, insulation, doors, roofs, and heating and cooling equipment in the home can receive a tax credit of up to \$500 beginning in January 2006.

The EPACT also provides a credit equal to 30% of qualifying expenditures for purchase for qualified photovoltaic property and for solar water heating property used exclusively for purposes other than heating swimming pools and hot tubs. The credit shall not exceed \$2000.

Improvements must be installed in or on the taxpayer's principal residence in the United States. Home improvement tax credits apply for improvements made between January 1, 2006 and December 31, 2007.

Business Tax Credits

Businesses are eligible for tax credits for buying hybrid vehicles, for building energy-efficient buildings, and for improving the energy efficiency of commercial buildings (as outlined in the Energy Policy Act of 2005).

Biodiesel/Alternative Fuels

Small producer biodiesel and ethanol credit. This credit will benefit small agri-biodiesel producers by giving them a 10 cent per gallon tax credit for up to 15 million gallons of agri-biodiesel produced. In addition, the limit on production capacity for small ethanol producers increased from 30 million to 60 million gallons. This is effective until the end of 2008.

Credit for installing alternative fuel refueling property. Fueling stations are eligible to claim a 30% credit for the cost of installing clean-fuel vehicle refueling equipment, (e.g. E85 ethanol pumping stations). Under the provision, a clean fuel is any fuel that consists of at least 85% ethanol, natural gas, compressed natural gas, liquefied natural gas, liquefied petroleum gas, or hydrogen and any mixture of diesel fuel and biodiesel containing at least 20% biodiesel. This is effective through December 31, 2010.

Buildings

Credit for business installation of qualified fuel cells, stationary microturbine power plants, and solar equipment. This provides a 30% tax credit for the purchase price for installing qualified fuel cell power plants for businesses, a 10% credit for qualifying stationary microturbine power plants and a 30% credit for qualifying solar energy equipment. This is effective January 1, 2006 through December 31, 2007.

Business credit of energy-efficient new homes. This provides tax credits to eligible contractors for the construction of a qualified new energy-efficient home. Credit applies to manufactured homes meeting Energy Star criteria and other homes, saving 50% of the energy compared to the EPACT standard. This is effective January 1, 2006 through December 31, 2007.

Energy-efficient Commercial building deduction. This provision allows a tax deduction for energy-efficient commercial buildings that reduce annual energy and power consumption by 50% compared to the American Society of Heating, Refrigerating, and Air Conditioning Engineers (ASHRAE) 2001 standard. The deduction would equal the cost of energy-efficient property installed during construction, with a maximum deduction of \$1.80 per square foot of the building. Additionally, a partial deduction of 60 cents per square foot would be provided for building subsystems.

Energy-efficient appliances - This provides a tax credit for the manufacturer of energy-efficient dishwashers, clothes washers, and refrigerators. Credits vary depending on the efficiency of the unit. This is effective for appliances manufactured in 2006 and 2007.

Below is a table of anticipated tax savings and energy savings for energy-efficient home improvements (as of November 2005):

Product Category	Product Type	Tax Credit Specification	Tax Credit
Windows	Exterior Windows	Meet 2000 IECC & Amendments	10% of cost not to exceed \$200 total
	Skylights	Meet 2000 IECC & Amendments	10% of cost not to exceed \$200 total
	Exterior Doors	Meet 2000 IECC & Amendments	10% of cost not to exceed \$500 total
Roofing	Metal Roofs	Energy Star qualified	10% of cost not to exceed \$500 total
Insulation	Insulation	Meet 2000 IECC & Amendments	10% of cost not to exceed \$500 total
HVAC	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 water heater	Energy Factor 0.80	\$300
	Electric heat pump water heater	Energy Factor 2.0	\$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

*Source: www.EnergyStar.gov

**The IRS will determine final tax credit amounts. As more information becomes available, it can be found at: <http://www.energy.gov>.