

{ Flagstaff's Green Builder }

Tax Incentives: Good for the Environment and Your Pocket

By David Carpenter

There are several tax laws on the books today specifically designed to encourage energy efficient improvements made to residential property. They may allow you to reduce your tax liability as follows:

Federal tax credit for new construction: Builders of new homes can take a \$2,000 tax credit for homes that achieve a 50 percent energy savings in heating and cooling over the 2004 International Energy Conservation Code (IECC) as determined by a third party rating system.

State income tax subtraction for energy efficient residences: Arizona provides an individual income tax subtraction to taxpayers who sell one or more energy efficient homes. The credit is equal to five percent of the sales price up to a maximum of \$5,000. Energy efficient residences include new single-family residences, condominiums or town homes that exceed the 1995 Model Energy Code threshold by at least 50 percent as determined by an approved rating program. This subtraction can be transferred to the purchaser of the residence or the

financial institution that secures the mortgage.

The American Recovery and Reinvestment Act of 2009 created federal tax credits for upgrading existing residences: The energy efficient products must be put into service from Jan. 1, 2009 through Dec. 31, 2010 and must be in the taxpayer's principal residence. The maximum for all improvements is up to 30 percent of the installed cost and cannot exceed a \$1,500 total. Some of the products that qualify are:

- **Windows and Exterior Doors:** To qualify for this tax credit, the window or door must have a U-factor and solar heat gain coefficient (SHGC) less than or equal to 0.30.
- **Water heaters:** The water heater must have a thermal efficiency of at least 90 percent.
- **Insulation:** The primary purpose must be to insulate the home.
- **Roofing:** Must be Energy Star qualified metal or reflective asphalt.
- **HVAC:** Furnaces must be 95 percent AFUE or greater. Boilers must be 90 percent AFUE or greater. Central A/C systems must have

a SEER rating of 16 or greater.

- **Geo-Thermal Heat Pump:** Must meet Energy Star requirements and is not subject to the \$1,500 cap.
- **Solar Water Heating:** At least half of the energy produced by the qualifying property must come from the sun and is not subject to the \$1,500 cap.
- **Solar Electric:** Must provide electricity for the residence and is not subject to the \$1,500 cap.
- **State Solar Credit:** In addition to Federal tax credits the State of Arizona offers the Solar Energy Credit and provides an individual taxpayer with a credit for installing a solar device at the taxpayer's Arizona residence. The credit is allowed against the taxpayer's personal income tax in the amount of 25 percent of the cost of a solar energy device, with a maximum of \$1,000. In addition, sales taxes are not levied in the state on any solar or wind equipment, and solar devices cannot be included in a property tax evaluation.

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Please consult your tax professional before applying any of these strategies to your tax plan. **FBN**

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