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# Tax Credits for Energy Improvements

*Steve Landis*
*Certified Mortgage Planner*
*503-452-0001*


## Energy Provisions of the American Recovery and Reinvestment Act of 2009

**Residential Energy Property Credit** (Section 1121): The new law increases the energy tax credit for homeowners who make energy efficient improvements to their existing homes. The new law increases the credit rate to 30 percent of the cost of all qualifying improvements and raises the maximum credit limit to $1,500 for improvements placed in service in 2009 and 2010. The credit applies to improvements such as adding insulation, energy efficient exterior windows and energy-efficient heating and air conditioning systems.

A similar credit was available for 2007, but was not available in 2008. Homeowners should be aware that the standards in the new law are higher than the standards for the credit that was available in 2007 for products that qualify as "energy efficient" for purposes of this tax credit. The IRS will issue guidance that will allow manufacturers to certify that their products meet these new standards.

Until the guidance is released, homeowners generally may continue to rely on manufacturers' certifications that were provided under the old guidance. For exterior windows and skylights, homeowners may continue to rely on Energy Star labels in determining whether property purchased before June 1, 2009, qualifies for the credit. Manufacturers should not continue to provide certifications for property that fails to meet the new standards.

**Residential Energy Efficient Property Credit** (Section 1122): This nonrefundable energy tax credit will help individual taxpayers pay for qualified residential alternative energy equipment, such as solar hot water heaters, geothermal heat pumps and wind turbines. The new law removes some of the previously imposed maximum amounts and allows for a credit equal to 30 percent of the cost of qualified property. See Notice 09-41.

**Plug-in Electric Drive Vehicle Credit** (Section 1141): The new law modifies the credit for qualified plug-in electric drive vehicles purchased after Dec. 31, 2009. To qualify, vehicles must be newly purchased, have four or more wheels, have a gross vehicle weight rating of less than 14,000 pounds, and draw propulsion using a battery with at least four kilowatt hours that can be recharged from an external source of electricity. The minimum amount of the credit for qualified plug-in electric drive vehicles is $2,500 and the credit tops out at $7,500, depending on the battery capacity. The full amount of the credit will be reduced with respect to a manufacturer's vehicles after the manufacturer has sold at least 200,000 vehicles.

**Plug-In Electric Vehicle Credit** (Section 1142): The new law also creates a special tax credit for two types of plug-in vehicles — certain low-speed electric vehicles and two- or three-wheeled vehicles. The amount of the credit is 10 percent of the cost of the vehicle, up to a maximum credit of $2,500 for purchases made after Feb. 17, 2009, and before Jan. 1, 2012. To qualify, a vehicle must be either a low speed vehicle propelled by an electric motor that draws electricity from a battery with a capacity of 4 kilowatt hours or more or be a two- or three-wheeled vehicle propelled by an electric motor that draws electricity from a battery with the capacity of 2.5 kilowatt hours. A taxpayer may not claim this credit if the plug-in electric drive vehicle credit is allowable.

**Conversion Kits** (Section 1143): The new law also provided a tax credit for plug-in electric drive conversion kits. The credit is equal to 10 percent of the cost of converting a vehicle to a qualified plug-in electric drive motor vehicle and placed in service after Feb. 17, 2009. The maximum amount of the credit is $4,000. The credit does not apply to conversions made after Dec. 31, 2011. A taxpayer may claim this credit even if the taxpayer claimed a hybrid vehicle credit for the same vehicle in an earlier year.

**Treatment of Alternative Motor Vehicle Credit as a Personal Credit Allowed Against AMT** (Section 1144): Starting in 2009, the new law allows the Alternative Motor Vehicle Credit, including the tax credit for purchasing hybrid vehicles, to be applied against the Alternative Minimum Tax. Prior to the new law, the Alternative Motor Vehicle Credit could not be used to offset the AMT. This means the credit could not be taken if a taxpayer owed AMT or was reduced for some taxpayers who did not owe AMT.

**New Clean Renewable Energy Bonds** (Section 1111): The new law increases the amount of funds available to issue new clean renewable energy bonds from the one-time national limit of $800 million to $2.4 billion. These qualified tax credit bonds can be issued to finance certain types of facilities that generate electricity from renewable sources (for example, wind and solar).

**Qualified Energy Conservation Bonds** (Section 1112): The new law increases the amount of funds available to issue qualified energy conservation bonds from the one-time national limit of $800 million to $3.2 billion. These qualified tax credit bonds can be issued to finance governmental programs to reduce greenhouse gas emissions and other conservation purposes.

**Extension of Renewable Energy Production Tax Credit** (Section 1101): The new law generally extends the “eligibility dates” of a tax credit for facilities producing electricity from wind, closed-loop biomass, open-loop biomass, geothermal energy, municipal solid waste, qualified hydropower and marine and hydrokinetic renewable energy. The new law extends the "placed in service date" for wind facilities to Dec. 31, 2012. For the other facilities, the placed-in-service date was extended from December 31, 2010 (December 31, 2011 in the case of marine and hydrokinetic renewable energy facilities) to Dec. 31, 2013.

**Election of Investment Credit in Lieu of Production Credit** (Section 1102): Businesses who place in service facilities that produce electricity from wind and some other renewable resources after Dec 31, 2008 can choose either the energy investment tax credit, which generally provides a 30 percent tax credit for investments in energy projects or the production tax credit, which can provide a credit of up to 2.1 cents per kilowatt-hour for electricity produced from renewable sources. A business may not claim both credits for the same facility.

**Repeal of Certain Limits on Business Credits for Renewable Energy Property** (Section 1103): The new law repeals the $4,000 limit on the 30 percent tax credit for small wind energy property and the limitation on property financed by subsidized energy financing. The repeal applies to property placed in service after Dec. 31, 2008.

**Coordination With Renewable Energy Grants** (Section 1104): Business taxpayers also can apply for a grant instead of claiming either the energy investment tax credit or the renewable energy production tax credit for property placed in service in 2009 or 2010. In some cases, if construction begins in 2009 or 2010, the grant can be claimed for energy investment credit property placed in service through 2016, and for qualified renewable energy facilities, the grant is 30 percent of the investment in the facility and the property must be placed in service before 2014.
(*2013 for wind facilities)*

**Temporary Increase in Credit for Alternative Fuel Vehicle Refueling Property** (Section 1123): The new law modifies the credit rate and limit amounts for property placed in service in 2009 and 2010. Qualified property (other than property relating to hydrogen) is now eligible for a 50 percent credit, and the per-location limit increases to $50,000 for business property (increases to $2,000 for other/residential locations). Property relating to hydrogen keeps the 30 percent rate as before, but the per-business location limit rises to $200,000.