

Residential Energy Credits

You may be eligible for two new credits, the nonbusiness energy property credit and the residential energy efficient property credit, for making energy saving improvements to your home in 2006. For credit purposes, costs are treated as being paid when the original installation of the item is completed, or in the case of costs connected with the construction or reconstruction of a building, when your original use of the constructed or reconstructed building begins. If less than 80% of the use of an item is for nonbusiness purposes, only that portion of the costs that are allocable to the nonbusiness use can be used to determine the credit.

A home includes a house, houseboat, mobile home, cooperative apartment, condominium, and certain manufactured homes. You must reduce the basis of your home by the amount of credit allowed.

TIP: *If you are a member of a qualified condominium management association for a condominium which you own or a tenant-stockholder in a cooperative housing corporation, you are treated as having paid your proportionate share of any costs of such association or corporation. Credits must be allocated based on the ratio of individual qualified costs to total qualified costs in the case of joint occupancy.*

Nonbusiness energy property credit. You may be able to take a credit equal to the sum of:

- 10% of the amount paid in 2006 for qualified energy efficiency improvements installed during 2006, and
- Any residential energy property costs paid in 2006.

However, this credit is limited as follows.

- A total accumulated credit limit of \$500 for all tax years.
- An accumulated credit limit of \$200 for windows for all tax years.
- A credit limit for residential energy property costs for all tax years of \$50 for any advanced main air circulating fan; \$150 for any qualified natural gas, propane, or oil furnace or hot water boiler; and \$300 for any item of energy efficient building property.

Qualified energy efficiency improvements.

Qualified energy efficiency improvements are the following items installed on or in your main home located in the United States if these items are new and can be expected to remain in use for at least 5 years.

- Any insulation material or system which is specifically or primarily designed to reduce the heat loss or gain of a home when installed in or on such home.
- Exterior windows (including skylights).
- Exterior doors.
- Any metal roof installed on a home, but only if this roof has appropriate pigmented coatings which are specifically and primarily designed to reduce the heat gain of the home.

For information on determining if a home is your main home, see Publication 523, *Selling Your Home*.

Caution: *To qualify for the credit, qualified energy efficiency improvements must meet certain energy efficiency requirements.*

Residential energy property costs.

Residential energy property costs are costs of new qualified energy property that is installed on or in connection with your main home located in the United States. This includes labor costs properly allocable to the onsite preparation, assembly, or original installation of the property. Qualified energy property is any of the following.

- Certain electric heat pump water heaters, electric heat pumps, geothermal heat pumps, central air conditioners, and natural gas, propane, or oil water heaters.
- Qualified natural gas, propane, or oil furnaces or hot water boilers.
- Certain advanced main air circulating fans used in natural gas, propane, or oil furnaces.

Caution: *To qualify for the credit, qualified energy property must meet certain performance and quality standards.*

Residential energy efficient property credit. You may be able to take a credit of 30% of your costs of qualified photovoltaic property, solar water heating property, and fuel cell property. This includes labor costs properly allocable the onsite preparation, assembly, or original installation of the property and for piping or wiring to interconnect such property to the home. This credit is limited to:

- \$2,000 for qualified photovoltaic property costs,
- \$2,000 for qualified solar water heating property costs, and

- \$500 for each half kilowatt of capacity of qualified fuel cell property for which qualified fuel cell property costs are paid.

Qualified photovoltaic property costs.

Qualified photovoltaic property costs are costs for property that uses solar energy to generate electricity for use in a home located in the United States and used as a home. This includes costs relating to a solar panel or other property installed as a roof or a portion of a roof.

Qualified solar water heating property costs.

Qualified solar water heating property costs are costs for property to heat water for use in a home located in the United States and used as a home if at least half of the energy used by the property for such purpose is derived from the sun. This includes costs relating to a solar panel or other property installed as a roof or a portion of a roof. To qualify for the credit, the property must be certified for performance by the nonprofit Solar Rating Certification Corporation or a comparable entity endorsed by the government of the state in which the property is installed.

Qualified fuel cell property costs. Qualified fuel cell property costs are costs for qualified fuel cell property installed on or in connection with your main home located the United States. Qualified fuel cell property is an integrated system comprised of a fuel cell stack assembly and associated balance of plant components that converts a fuel into electricity using electrochemical means. To qualify for the credit, the fuel cell property must have a nameplate capacity of at least one-half kilowatt of electricity using an electrochemical process and an electricity-only generation efficiency greater than 30%.

Caution: *Costs allocable to a swimming pool, hot tub, or any other energy storage medium that has a function other than the function of such storage do not qualify for the residential energy efficiency credit.*

Electric and Clean-Fuel Vehicles

The clean-fuel vehicle and refueling property deduction expired for vehicles placed in service in 2006. The qualified electric vehicle credit is reduced by 75% for vehicles placed in service in 2006, and no credit will be allowed after 2006. For more information about electric and clean-fuel vehicles, see chapter 12 in Publication 535, Business Expenses.

Alternative Motor Vehicle Credit

You may be able to claim this credit if you place an alternative motor vehicle in service for business or personal use after 2005. An alternative motor vehicle must meet certain requirements and be a new:

- Advanced lean burn technology vehicle,
- Qualified alternative fuel vehicle,
- Qualified fuel cell vehicle, or
- Qualified hybrid vehicle.

For more information, see Form 8910, Alternative Motor Vehicle Credit.

Alternative Fuel Vehicle Refueling Property Credit

You can claim this credit if you place qualified alternative fuel vehicle refueling property in service for business or personal use after 2005. This includes certain property used to store or dispense a clean-burning fuel or recharge motor vehicles propelled by electricity. For more information, see Form 8911, Alternative Fuel Vehicle Refueling Property Credit.

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- Advanced lean burn technology vehicle,
- Qualified alternative fuel vehicle,
- Qualified fuel cell vehicle, or
- Qualified hybrid vehicle

For more information, see Form 8910.

Alternative Fuel Vehicle Refueling Property Credit

You can claim this credit if you place qualified alternative fuel vehicle refueling property in service for business or personal use after 2005. This includes certain property used to store or dispense a clean-burning fuel or recharge motor vehicles propelled by electricity. For more information, see Form 8911.

Energy Efficient Home Credit

An eligible contractor may claim a credit of up to \$2,000 for each energy efficient home constructed and substantially completed by the contractor after August 8, 2005. The home must also be acquired in 2006 or 2007 from the contractor by a person for use as a residence in the United States. The credit is allowed in the tax year the home was acquired from the contractor. Construction includes substantial reconstruction and rehabilitation. For a manufactured home, the manufactured home producer is treated as an eligible contractor. The home must be certified as having a level of annual heating and cooling at least 50% below the annual level of a comparable dwelling unit with the building envelope components accounting for at least a 10% reduction. For certain manufactured homes, the 50% requirement is reduced to 30%, or it does not apply if the home meets the requirements of the Energy Star Labeled Homes program. For more information, see Form 8908, Energy Efficient Home Credit.

Energy Efficient Appliance Credit

For tax years beginning in 2006 and 2007, qualified producers and manufacturers of certain energy efficient appliances may be able to claim a tax credit for dishwashers, clothes washers, and refrigerators that meet certain energy efficient standards and are produced or manufactured during the calendar year ending with or within the tax year. For more information, see Internal Revenue Code section 45M.

The complete, 27 page document can be downloaded at the following address:

<http://www.irs.gov/pub/irs-pdf/p553.pdf>