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Department of the Treasury Releases Rules for Federal Residential Energy Efficiency Tax Credits

The IRS has issued the rules for the new federal tax credits for residential energy efficiency available under the Energy Policy Act of 2005.

Energy Efficient Homes

Under the provision for energy efficient homes, an eligible contractor who constructs a qualified new energy efficient home may qualify for a credit of up to \$2,000. The credit is available for all new homes, including manufactured homes constructed in accordance with the Federal Manufactured Homes Construction and Safety Standards.

The home qualifies for the credit if:

- It is located in the United States;
- Its construction is substantially completed after August 8, 2005;
- It meets the statutory energy saving requirements, and
- It is acquired from the eligible contractor after December 31, 2005, and before January 1, 2008, for use as a residence.

In general, to meet the energy saving requirements, a home must be certified to provide a level of heating and cooling energy consumption that is at least 30 to 50 percent in the case of manufactured homes, and 50 percent for other homes below that of a comparable home constructed in accordance with the standards of the 2004 Supplement to the 2003 International Energy Conservation Code. It must also have building envelope component improvements providing a level of heating and cooling energy consumption that is at least 10 percent below that of a comparable home.

Manufactured homes can also qualify for the credit by meeting Energy Star standards.

- Site-built homes qualify for a \$2,000 credit if they reduce energy consumption by 50 percent relative to the International Energy Conservation Code standard.
- Manufactured homes qualify for a \$1,000 or \$2,000 credit depending on the level of energy savings achieved. The guidance provides information about the certification process that a builder must complete to qualify for the credit. The guidance also provides for a public list of software programs that may be used in calculating energy consumption for purposes of obtaining a certification.

Click on [Notice 2006-27](#) for the IRS guidances for the tax credit for building energy efficient homes other than manufactured homes. The IRS rules that the homes must be calculated to exceed the performance through a calculation procedure adopted by RESNET and inspected by a person certified by a RESNET accredited provider. To download the RESNET procedures click on [Procedures for Certifying Residential Energy Efficiency Tax Credits for New Homes](#). For a listing of RESNET accredited providers click on [National Directory of Accredited Rating Providers](#).

Click on [Notice 2006-28](#) for guidance for the credit for building energy efficient manufactured homes.

Click on [Energy Efficient Home](#) for the IRS tax form (Form 8908) to download the form to calculate the tax credit for energy efficient homes.

Existing Homes

During 2006, individuals can make energy-conscious purchases that will provide tax benefits when filling out their tax returns next year. The credit will also be available for purchases in 2007. Manufacturers offering energy efficient items such as insulation or storm windows can assure their customers that their energy efficient items will qualify for the tax credit if certain energy efficiency requirements are met.

A recent tax law change provides a tax credit to improve the energy efficiency of existing homes. The law provides a 10 percent credit for buying qualified energy efficiency improvements. To qualify, a component must meet or exceed the criteria established by the 2000 International Energy Conservation Code (including supplements) and must be installed in the taxpayer's main home in the United States.

The following items are eligible:

- Insulation systems that reduce heat loss/gain
- Exterior windows (including skylights)
- Exterior doors
- Metal roofs (meeting applicable Energy Star requirements).

In addition, the law provides a credit for costs relating to residential energy property expenses. To qualify as residential energy property, the property must meet certification requirements prescribed by the Secretary of the Treasury and must be installed in the taxpayer's main home in the United States.

The following items are eligible:

- \$50 for each advanced main air circulating fan
- \$150 for each qualified natural gas, propane, or oil furnace or hot water heater
- \$300 for each item of qualified energy efficient property.

The maximum credit for all taxable years is \$500 – no more than \$200 of the credit can be attributable to expenses for windows.

Additionally, the new law makes a credit available to those who add qualified solar panels, solar water heating equipment, or a fuel cell power plant to their homes in the United States. In general, a qualified fuel cell power plant converts a fuel into electricity using electrochemical means, has an electricity-only generation efficiency of more than 30 percent and generates at least 0.5 kilowatts of electricity.

Taxpayers are allowed one credit equal to 30 percent of the qualified investment in a solar panel up to a maximum credit of \$2,000, and another equivalent credit for investing in a solar water heating system. No part of either system can be used to heat a pool or hot tub.

Additionally, taxpayers are also allowed a 30 percent tax credit for the purchase of qualified fuel cell power plants. The credit may not exceed \$500 for each .5 kilowatt of capacity.

These items must be placed in service after Dec. 31, 2005 and before Jan. 1, 2008.

Click on [Notice 2006-26](#) for guidance to the existing homes credit

Other Tax Credit Resources

- [Tax Incentives Assistance Project](#)
- [Florida Solar Energy Center's EP Act 2005: Opportunities for Conservation and Energy Efficiency](#)

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