



NATHAN WECHSLER & COMPANY
PROFESSIONAL ASSOCIATION

CERTIFIED PUBLIC ACCOUNTANTS & BUSINESS ADVISORS

Dear Clients & Friends:

You've no doubt read media reports that the **Energy Tax Incentives Act of 2005** was recently signed into law. This legislation provides more than \$14 billion in tax breaks, primarily for businesses in the energy sector. However, the Act also provides some incentives for individuals and businesses to make certain energy conservation or alternative energy expenditures. While these credits and deductions may not net you a significant tax break, you should consider them if you, or your business, are planning energy-efficient improvements or purchases, and want to save money while doing your part for the environment. The majority of these incentives come in the form of tax credits which reduce your federal tax bill on a dollar-for-dollar basis. What's more, the credits for individuals are not phased out at higher-income levels.

Here's an overview of the new tax breaks you can look forward to in 2006, when the new tax incentives will begin. Keep in mind that you probably won't have to determine for yourself whether a home improvement creates or saves enough energy to qualify for a tax credit under the new law's complex and technical rules. In all likelihood manufacturers will certify, in the materials that come with their products, whether equipment and materials create or save enough energy to qualify for a tax credit. You will, of course, have to shop around for the best deal and the best product. You will also have to determine whether your use of the equipment qualifies you for tax breaks, and how to make the best use of them (we'll help you with this, of course).

Individuals

Credit for energy-efficient purchases for existing homes. You will be able to claim a 10% tax credit for buying and installing an assortment of energy saving improvements in your primary residence in 2006 or 2007. The credit depends on the type of improvement. There is an overall lifetime dollar limit of \$500 for all improvements.

The credit per improvement is a maximum of:

- \$200 for windows, skylights and doors
- \$50 for advanced main air circulating fans
- \$150 for furnaces and boilers
- \$300 for heat pumps, water heaters and central air conditioners meeting specific energy standards

Example: In 2006, you spend \$3,000 for certified energy efficient insulation for your main home, and install certified energy efficient windows costing \$2,000. In 2007, you spend \$2,000 on a new certified energy efficient natural gas boiler for your main home. For 2006, you may claim a \$500 tax credit (10% of the \$3,000 insulation, plus 10% of the \$2,000 windows). You've attained your lifetime maximum, so there's no tax credit for the boiler you install in 2007.

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Credit for energy-generating or storage property. You will be able to claim a tax credit each year for:

- 30% of the cost of equipment that uses solar energy to generate electricity (photovoltaic property), up to a \$2,000 maximum tax credit.
- 30% of the cost of solar water heating equipment, up to a \$2,000 maximum tax credit.
- 30% of the cost of a fuel cell power plant (new technology that converts fuel into electricity using electromechanical methods, and meets other detailed requirements), up to a \$500 maximum tax credit for each 0.5 kilowatt of capacity.

“Cost” includes installation as well as hardware costs. The equipment in the first two categories may be installed in your main home or second home (e.g., vacation home); the equipment in the third category must be installed in your main home. “Home” includes a co-op or condo as well as a regular home. All three types of equipment must be installed in a home located in the U.S., and can't be used to heat a swimming pool or hot tub. Tax credits for solar and fuel-cell property will only be available for equipment placed in service in 2006 or 2007.

Example: In 2006, you buy \$8,000 of solar energy equipment and install it in your main home; you buy another \$4,000 of solar water heating equipment and install it in your vacation home. Your total tax credit for 2006 is \$3,200, consisting of:

\$2,000 for the solar energy equipment (30% of \$8,000 is \$2,400, but the credit limit is \$2,000);
plus
\$1,200 for the solar water heating equipment (30% of \$4,000).

In 2007, you buy \$6,000 of solar energy equipment for your second home. When you file your return for the 2007 tax year, you'll be able to claim another \$1,800 tax credit (30% of \$6,000).

Businesses

Credits for energy-generating or storage of property. Businesses are eligible for several credits ranging from 10% to 30% for purchase of qualifying solar energy property and for fuel cell and micro-turbine power plants placed in service in 2006 and 2007.

Credits for energy-efficient new homes. Contractors are eligible for a credit of \$2,000 per home for new construction that meets a 50% energy efficiency standard, is located in the U.S. and is sold in 2006 or 2007. The Act also provides a \$1,000 credit for manufactured homes that meet a 30% energy-efficiency standard.

Energy-efficient commercial building deduction. A deduction, based on a square footage calculation, is available for the cost of major energy-saving improvements to commercial buildings in 2006 or 2007.

Individuals and businesses

Alternative-fuel or clean-fuel vehicles. Credits for various amounts are available to both individuals and businesses for purchasing alternative fuel, hybrid, fuel-cell-powered and advanced lean-burn technology vehicles. In some instances, by replacing deductions allowed under prior law, these credits provide greater incentives for qualifying purchases. These credits, which go into effect on various dates, may also apply to leased vehicles. Purchase or lease must be after 2005.

Energy-efficient appliances. Manufacturers will get a credit for producing energy-efficient appliances such as dishwashers, washing machines and refrigerators.