



## Federal Energy Related Tax Incentives

The purpose of this article is to provide information about certain newly enacted eco-friendly tax incentives.

The Energy Tax Incentives Act of 2005 contains a series of federal tax benefits to encourage conservation and fuel efficiency by individuals and manufacturers. Generally, the Act provides tax incentives for consumers to buy energy efficient assets and for manufacturers and builders to provide them. The following provides a brief summary.

There are new tax credits for the purchase of **hybrid and alternative powered vehicles**. The size of the credit varies depending on the weight class of the vehicle and the rated fuel economy. The credit applies to vehicles placed in service after 2005, with termination dates varying with the type of vehicle.

There is a new 30% tax credit for the purchase of qualifying **residential solar water heating, photovoltaic<sup>1</sup> equipment, and fuel cell property**. The maximum credit is \$2,000 (for solar equipment) and \$500 for each kilowatt of capacity (for fuel cells). The credit applies for property placed in service after 2005 and before 2008.

The Act creates a new 30% business tax credit for the purchase of **fuel cell power plants** and a 10% credit for the purchase of **stationary microturbine power plants**, effective for periods after Dec. 31, 2005 and before Jan. 1, 2008.

There is a new 10% personal tax credit for **energy efficient improvements to existing homes**. The lifetime maximum credit per taxpayer is \$500 and applies for property placed in service after Dec. 31, 2005 and before Jan. 1, 2008.

The Act creates a new business tax credit for the **construction of new energy efficient homes for contractors**. The credit is either \$2,000 or \$1,000 per home, depending on the type of home and the energy reduction standard it meets. The credit applies to homes whose construction is substantially completed after Dec. 31, 2005, and which are purchased after Dec. 31, 2005 and before Jan. 1, 2008.

With regard to **energy efficient commercial buildings**, the Act creates a new deduction for buildings meeting a 50% energy reduction standard. The deduction (generally \$1.80 per square foot, but only \$0.60 per square foot for certain separate building systems) is effective for property placed in service after Dec. 31, 2005 and before Jan. 1, 2008.

We have only touched upon this important and complicated piece of tax legislation. For additional information please contact Vincent Ruocco, LLC, CPA at 203.932.2931 or by email at [vruocco@artcpas.com](mailto:vruocco@artcpas.com).

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<sup>1</sup> In general a solar cell that includes both solar and non-solar sources of light (such as photons from incandescent bulbs) is termed a photovoltaic cell.

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