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## Tax Credits For Your Remodeling Projects

One purpose of our complex tax laws is to encourage certain types of behavior for taxpayers. Allowing deductions from your taxable income for items such as charitable contributions or mortgage interest are examples of this. A stronger incentive is to provide a credit against your tax, as is the case for a couple of tax credits available for making your home more energy efficient. If you are remodeling your house you should consider achieving some energy efficiency in order to lower your tax bill at the same time. Congress has increased and made these credits easier for people to take advantage of. There are currently two separate credits that you can take advantage of, the Nonbusiness energy property credit and the Residential energy efficient property credit.

These credits cover different types of expenses that you may incur in improving the energy efficiency of your home. This credit helps the financial aspect of recovering the cost of these items. A typical analysis would look at the future energy cost savings but would also have to include the lower tax bill that you will have due to this credit. The highlights of these credits are:

### **Nonbusiness Energy Property Credit**

If you make energy efficient improvements to your home during 2010 you can claim up to a \$1,500 credit. This limit is a lifetime cap so any credit claimed in 2009 reduces the amount you can claim in 2010. The credit is calculated by multiplying the cost of your improvements by 30%. This lifetime limitation essentially allows you to get a tax credit for the first \$5,000 of energy improvements that you perform on your house.

Examples of improvements that qualify:

- Insulation
- Exterior windows and doors
- Furnace
- Air Conditioning unit
- Metal or Asphalt roof
- Hot water heater



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These items need to meet certain energy efficient levels and you may rely on the manufacturers statements regarding the energy efficiency rating.

### **Residential Energy Efficient Property Credit**

This credit is for solar power equipment, small wind power equipment, fuel cell property or geothermal heat pump equipment purchased before 2017. This credit does not have a cap except for fuel cell property that is limited to \$500 for each half kilowatt of capacity. To determine your tax credit you multiply the cost of the equipment by 30%. This credit has the potential for creating large benefits. For example, if you purchase a geothermal heat pump for \$100,000 you would receive a credit on your tax return for \$30,000 ( $100,000 \times .30$ ).

These credits can provide great value and help influence your decisions on what items to use in your remodeling project. To make sure that you will get the benefit that you expect you should verify with your tax professional to make sure that your items will qualify for the credits.

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