

Unlike past efforts by Congress to use taxes to spur energy efficiency by homeowners, provisions in the recently enacted "American Recovery and Reinvestment Act of 2009" (the Act) are substantial. These include an increased credit of 30% of the cost of residential energy-efficient improvements such as more efficient furnaces, heat pumps and air conditioners, as well as energy-tight windows and more insulation, and a tripling of the maximum credit for a household to \$1,500. Here are the details.

Background.

Individual taxpayers are allowed a personal tax credit, known as the nonbusiness energy property credit, for energy efficient improvements to a dwelling unit in the U.S. owned and used by the taxpayer as the taxpayer's principal residence. Under pre-Act law, this credit was equal to the sum of:

- (1) 10% of the amount paid or incurred by the taxpayer for qualified energy efficiency improvements (i.e., building envelope components meeting certain requirements) installed during the tax year, and
- (2) the amount of residential energy property expenditures (i.e., \$50 for each advanced main air circulating fan, \$150 for each qualified natural gas, propane, or oil furnace or hot water boiler, and \$300 for qualified energy efficient property, including heat pumps, water heaters, and central air conditioners) paid or incurred by the taxpayer during the tax year.

Under pre-Act law, the credit was subject to a lifetime cap. The total credit for all tax years couldn't exceed \$500, no more than \$200 of which could be for expenditures on windows.

The credit was also set to expire at the end of this year.

New law.

The new legislation modifies and extends the nonbusiness energy property credit in the following ways:

- the 10% credit rate is increased to 30%;
- the dollar limitations on residential energy property expenditures have been eliminated; instead, all energy property that was previously eligible for the \$50, \$150, and \$300 credits is instead eligible for a 30% credit;
- the \$500 lifetime cap (\$200 for windows) is eliminated and replaced with an aggregate \$1,500 cap for 2009 and 2010; and
- the credit is extended for one year, through Dec. 31, 2010.