

# HOME IMPROVEMENT TAX CREDITS

they are REAL and they are SIGNIFICANT

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**Y**ou have doubtless heard of, and maybe even taken advantage of, some of the tax credits made available by the federal government this year, namely *Cash for Clunkers* or the *First-Time Home Buyer Tax Credit*.

The precursor to these was the group of federal tax credits for energy-efficient home improvements.

The energy-efficient tax credits have been around for a number of years and return in 2009 after a one-year hiatus. Although calendar year 2009 is winding down, there is still plenty of opportunity to take advantage of this credit, which runs through the end of 2010.

Credits for energy-efficient home improvements are available for many products. Homeowners can save on taxes when installing insulation, windows and doors, roofing, HVAC, water heaters or biomass stoves. Within each of these broad categories are specific areas where taxpayers may benefit. For instance, exterior skylights and storm windows and doors are subsets of the windows and doors category.

There are specific requirements that the improvements must meet in order to be eligible for the tax credit. Typically, the manufacturer of the products will provide notification, either to the contractor or to the retailer, that the particular product meets the qualifications for the tax credit. In fact, you may have even seen the credit being advertised at various home improvement companies. Although the above examples will probably be the most common energy-efficient improvements put in place, there are also credits available for geothermal heat pumps, solar energy systems, wind energy systems and fuel cells. These particular types of improvements are also subject to the credit in new homes.

Armed with the knowledge of what can qualify for a tax credit, most taxpayers then want to know how much they can save. Assuming that the improvements meet the required specifications, a tax credit of 30% of the qualifying cost of the improvement is available as a credit. There is a cap

on the total amount of the credit, at \$1,500. In other words, the credit will apply to the first \$5,000 of costs incurred on making a home more energy-efficient. Because this specific credit is for items placed in service from January 1, 2009 through December 31, 2010, the credit is limited to a cumulative total of \$1,500 over that two-year timeframe.

The qualifying cost of the improvements varies among the types of products. For example, only the material cost qualifies for the credit with insulation, exterior windows, doors and skylights; however, material and labor cost qualify with water heaters, biomass stoves, and HVAC systems. The geothermal, solar and wind improvements also provide a credit of 30% of the cost, but there is no upper limit of \$1,500 like there is in the more common improvements. Additionally, credits for these types of improvements are available for items placed in service before December 31, 2016.

The term “tax credit” is often used rather liberally, so a brief explanation of how a credit works is warranted. A tax credit, as opposed to a tax deduction, reduces—dollar for dollar—the tax that a taxpayer owes. A deduction simply reduces the taxable income. As an incentive to encourage homeowners to go green, the federal government has opted to employ a tax credit instead of a tax deduction, which is good news for taxpayers.

In order to benefit from this tax credit, a homeowner must have a signed certification from the manufacturer that acknowledges that the product or component meets the requirements for the credit. This certification does not need to be included with the homeowner’s tax return.

Although manufacturers and contractors are often very willing to mention the tax credits, homeowners should ask them plenty of questions to make sure that the improvements they will be making are subject to the credit. Homeowners may also want to consult their tax professional for additional information.

R&A



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