

Energy-Saving Steps This Year May Result in Tax Savings Next Year

Energy-Saving Steps This Year May Result in Tax Savings Next Year IR-2009-44, April 22, 2009 WASHINGTON — The Internal Revenue Service today reminded individual and business taxpayers that many energy-saving steps taken this year may result in bigger tax savings next year. The recently enacted American Recovery and Reinvestment (ARRA) of 2009 contained a number of either new or expanded tax benefits on expenditures to reduce energy use or create new energy sources. The IRS encouraged individuals and businesses to explore whether they are eligible for any of the new energy tax provisions. More information on the wide range of energy items is available on the special Recovery section of IRS.gov. For a larger listing of ARRA's energy-related tax benefits, see Tax Credits for Home Energy Efficiency Improvements Increase Fact Sheet 2009-10. Homeowners can get bigger tax credits for making energy efficiency improvements or installing alternative energy equipment. The IRS also announced homeowners seeking these tax credits can temporarily rely on existing manufacturer certifications or appropriate Energy Star labels for purchasing qualifying products until updated certification guidelines are announced later this spring. "These new, expanded credits encourage homeowners to make improvements that will make their homes more energy efficient," said IRS Commissioner Doug Shulman. "People can improve their homes and save money over the long run." ARRA provides for a uniform credit of 30 percent of the cost of qualifying improvements up to \$1,500, such as adding insulation, energy-efficient exterior windows, and energy-efficient heating and air conditioning systems. The new law replaces the old law combination available in 2007 of a 10-percent credit for certain property and a credit equal to cost up to a specified amount for other property. The new law also raised the limit on the amount that can be claimed for improvements placed in service during 2009 and 2010 to \$1,500, instead of the \$500 lifetime limit under the old law. In addition, the new law has increased the energy efficiency standards for building insulation, exterior windows, doors, and skylights, certain central air conditioners, and natural gas, propane or oil water heaters placed in service after Feb. 17, 2009. IRS guidance issued before the enactment of ARRA will be modified in the near future to reflect the new energy efficiency standards. In the meantime, homeowners may continue to rely on manufacturers' certifications that were provided under the old guidance and on Energy Star labels for exterior windows and skylights in determining whether property purchased before June 1, 2009, qualifies for the credit. Manufacturers should not continue to provide certifications for property that fails to meet the new standards. The new law also eliminates the cap on the 30 percent tax credit for alternative energy equipment, such as solar water heaters, geothermal heat pumps and small wind turbines, installed in a home. The cap generally has been eliminated for these improvements beginning in the 2009 tax year. The IRS today issued Notice 2009-41, which explains the effects of this change.

Funding Options for Renewable Energy Power Plants The flexibility to choose among these options was enacted as part of ARRA. Taxpayers may opt to claim the energy investment tax credit, which generally provides a 30 percent tax credit for investments in energy projects, instead of the production tax credit, which can provide a credit of up to 2.1 cents per kilowatt-hour for electricity produced from renewable sources. Taxpayers making qualified investments that are placed in service after 2008 and before 2014 (or 2013 for wind facilities) can make an irrevocable election to claim the energy investment tax credit instead of the renewable electricity production tax credit. IRS will issue guidance explaining how to make the election. Taxpayers also can claim a grant once the property is placed in service instead of claiming either the energy investment tax credit or the renewable energy production tax credit. For qualified renewable energy facilities, the grant is 30 percent of the investment in the facility as long as construction begins in 2009 or 2010 and the property is placed in service before 2014 (2013 for wind facilities). The Treasury Department will issue guidance explaining how the grant works and how to apply. Taxpayers electing to receive the grant, created by the ARRA, will not be eligible for either of the tax credits. Proceeds from the grants are not includible in the taxpayer's gross income, but the grant amount is subject to recapture if the property is disposed of or otherwise ceases to qualify. For more information on the renewable electricity production tax credit under Section 45 see investment tax credit under Section 48 see

— 30 — Business taxpayers who place in service facilities that produce electricity from wind and some other renewable resources can choose one of three options to fund the project: a tax credit based on the amount invested, a tax credit based on the energy produced or a grant. Notice 2008-60 and Notice 2008-48, and for more information on the energy Notice 2008-68.