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HVAC Tax Credits in 2009 Stimulus

by *Charlie McCrudden*
ACCA

Here's a summary of important HVAC-related tax credits included in the 2009 stimulus package, along with answers to frequently asked questions.

On February 16, 2009, President Obama is expected to sign the American Recovery and Reinvestment Act of 2009 (ARRA) into law. The bill combines spending and tax incentives designed to get the American economy moving again by investing in our nation's road and energy infrastructure, and increasing the energy efficiency and performance of America's homes and commercial buildings.

Specifically for HVAC contractors, the new law makes important changes to existing tax incentives for homeowners who make qualified improvements of higher efficiency HVAC and water heating equipment to their primary residences.

For a list of equipment that qualifies for the tax credits, [download this spreadsheet](#).

Residential Tax Credit Details

Larger Tax Credit

For qualified improvements (see spreadsheet), homeowners may be able to claim tax credits equal to 30% of the installed costs (up to \$1,500).

Longer Term

The new tax credits are retroactive to January 1, 2009, and expire on December 31, 2010. The \$1,500 limit is for all improvements made during the two year term, not \$1500 each year.

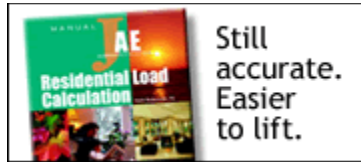
Per-Appliance Caps Removed

Homeowners may use the entire \$1,500 tax credit limit on a single qualifying improvement. The previous per-appliance caps that limited the homeowner to just \$150 for a high efficiency furnace or \$300 for a high efficiency central air conditioner or heat pump have been removed.

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Lifetime Limit Removed

Homeowners that previously claimed tax credits in 2006 or 2007 are eligible for the full \$1,500 limit.

Expanded Geothermal Tax Credits

Homeowners who install geothermal heat pump systems may be able to claim up to 30% of the installed costs in tax credits in the year the system is placed into service. The \$2,000 tax credit limit has been removed. The geothermal tax credit has a longer term, from January 1, 2009 and expires December 31, 2016.

HVAC contractors should be aware that the \$1,500 limit applies to many types of energy efficient home improvements, including windows and doors, roofing shingles, and insulation. All of these contractors will be competing for the work related to these tax credits.

If you are preparing marketing materials, make sure you include information about these tax credits.

Frequently Asked Questions about the new Tax Credits *Can the homeowner claim \$1500 in tax credits for improvements made in 2009 and again for improvements made in 2010?*

No. Taxpayers may only be eligible for a total of \$1500 in tax credits for improvements made in the combined two year period of 2009 and 2010.

Can a homeowner use the entire \$1500 limit as a credit toward the installation of one appliance?

Yes. A homeowner may use the entire \$1500 in tax credits for installing a single appliance, such as a qualified furnace, air conditioner, heat pump, or hot water heater.

What happens if the 30% of the installed costs is less than \$1500?

The homeowner can "bank" the the remaining available tax credit for other qualified improvements. Any single installation that costs more than \$5000 will instantly reach the \$1500 limit.

Does the tax credit apply to the cost of the equipment or equipment plus labor?

The tax credit applies to the installed costs of the qualified equipment, which includes labor.

How will a taxpayer claim the credit and receive their money?

In the past, the IRS has directed taxpayers to use Form 5695, Residential Energy Efficient Property Credit. Taxpayers are not required to file anything more than the form, but are instructed to keep records of their installation.

What's the difference between a tax credit and a tax deduction?

As a tax credit applies against the taxpayers' liability. A tax deduction applies against a taxpayer's income, lowering the adjusted gross income and possibly moving the taxpayer to a lower tax bracket. Tax credits have a greater benefit to a taxpayer.

With a tax credit, if the taxpayer owes \$2000, in taxes, their liability is reduced to \$500. If they owe nothing, they can expect a \$1500 refund.

What if the homeowners already claimed \$500 in tax credits in 2006 or 2007?

The "lifetime caps" that used to be in place have been removed. Any previous claims do not count against the current \$1500 tax credit limit.

Can a homeowner claim the credit for improvements to a second home?

No. The tax credit is only available for improvement to the taxpayer's primary residence.

Can a small business that operates out of a townhouse and installs residential equipment in a commercial setting claim the credit?

No. The tax credit may only be claimed by taxpayers on their personal income taxes for improvements to their primary residence.

What other types of energy efficiency improvements qualify for the tax credits?

Homeowners may be able to qualify for the tax credits if they make qualified improvements to: windows and doors including skylights, storm windows and storm doors; roofing including metal and asphalt roofs; and insulation. All of these improvements qualify, but homeowner may only claim \$1500 in total for any improvements.

Should I promise the homeowner that they will definitely qualify for the tax credit?

No. Each taxpayer's situation is different. You may not know if the taxpayer has already made other improvements that qualify, or if their tax situation will change by the end of the tax year. But to be safe, you can always say "by installing qualified equipment, the taxpayer may be qualified to claim of 30% of the installed costs (up to a \$1,500 limit) in tax credits."

Charlie McCrudden is ACCA director of government relations.

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Qualifying Equipment for Tax Credits

Credits Limited to 30% of Installed Costs (up to \$1,500) in the tax years 2009 and 2010.

| Equipment | Minimum Energy Efficiency Standard to Qualify for Tax Credit | | |
|-------------------------------------|--|--------------------|------------------|
| Electric Air Source Heat Pumps | Split Heat Pumps | Package Heat Pumps | |
| | 15 SEER | 14 SEER | |
| | 12.5 EER | 12 EER | |
| | 8.5 HSPF | 8 HSPF | |
| Central Air Conditioners | Split System | Package System | |
| | 16 SEER | 14 SEER | |
| | 13 EER | 12 EER | |
| Geothermal Heat Pump | Closed Loop | Open Loop | Direct Expansion |
| | 14.1 EER | 16.2 EER | 15 EER |
| | 3.3 COP | 3.6 COP | 3.5 COP |
| Natural Gas Furnace | 95% AFUE | | |
| Natural Gas Hot Water Boiler | 90% AFUE | | |
| Propane Furnace | 95% AFUE | | |
| Propane Hot Water Boiler | 90% AFUE | | |
| Oil Furnace | 90% AFUE | | |
| Oil Hot Water Boiler | 90% AFUE | | |
| Gas, Oil or Propane Water Heaters | .82 Energy Factor | | |
| | 90% Thermal Efficiency | | |
| Electric Heat Pump Hot Water Heater | 2.0 Energy Factor | | |

Wood Stoves

75% Thermal
Efficiency as
measured using a
lower heating value.

Advanced Main Air Circulating Fan (ECMs)

No more than 2% of furnace total energy use