

HOUSING SCENE | LEW SICHELMAN

Remodel, retrofit tax credit expanded

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WASHINGTON – Lost in the news of an expanded tax credit for home buyers is perhaps an even better deal for people who already own homes and want to make them more energy efficient.

Both are part of the latest economic-stimulus package signed by President Obama on Feb. 17. But while lawmakers saw fit to boost the buyer tax credit by a mere \$500, they tripled the benefit available for the remodeling tax credit.

Under the old remodeling credit, which was part of the economic-rescue package enacted last fall, homeowners could claim a credit equal to 10 percent of the cost of energy-efficient windows, doors, roofing, insulation, furnaces, air-conditioning systems and heat pumps.

You could claim 10 percent of the cost of each product, up to a lifetime cap of \$500.

But like builders, who argued that the original \$7,500 credit for first-time buyers wasn't enough to bring people back into the housing market, especially since it had to be paid back, remodelers maintained that the energy credit wasn't sufficient to persuade owners to pull the trigger, either.

So Congress upped the ante, raising the per-item credit to 30 percent of the cost and boosting the lifetime ceiling to \$1,500. It also extended the deadline for making the improvements through the end of 2010.

What's more, the act is retroactive to Jan. 1, so if a product that met the previous criteria – the rules in effect between Jan. 1 and Feb. 17 – was purchased and installed during that period, it still qualifies for the larger bonus.

(A tax credit differs from a tax deduction in that it reduces the amount of tax you have to pay. For example, if you owe \$800 in taxes and earn a \$300 credit, you will owe only \$500. Or if you owe nothing, you will get a \$300 refund. A deduction, on the other hand, reduces the amount of income subject to tax. So if your taxable income is \$35,000 and you have a \$500 deduction, your taxable income is reduced to \$34,500. If you owe no federal income taxes, however, you cannot claim the credit. Since the home-improvement credit is nonrefundable, as is now the home-buyer tax credit, you can't get back more than you paid in taxes throughout the year.)

The stimulus package also expanded the list of permissible improvements by including solar-energy panels and water heaters, geothermal heat pumps, small wind-energy systems and fuel cells. Moreover, while the 30 percent credit applies to the added products, there is no cap on their cost, and the credit is available through 2016.

According to the Congressional Budget Office, the new provisions should generate an estimated \$6 billion in remodeling work by the end of next year. And remodelers are waiting for their phones to ring.

"We are more than ready to help our clients make their homes more energy efficient," says Greg Miedema, a Tucson, Ariz., contractor who is chairman of the National Association of Home Builders' Remodelers Council.

Better yet, industry research suggests that remodeling and retrofitting the nation's older homes will have a more significant impact in reducing residential energy consumption than meeting even the most aggressive efficiency goals for new homes.

A study last year in California found that homes built before 1983 were responsible for 70 percent of the greenhouse emissions related to single-family envelope energy consumption. The same study also said that retrofitting existing homes with energy-efficient features is four to eight times more carbon- and cost-efficient than adding further energy-efficient requirements on new construction.

Here are some other things you should know about the federal tax credit for energy-efficient home improvements:

Labor: Installation costs are covered for some – but not all – improvements. For windows, doors, insulation and new roofs, only the cost of materials is eligible for the credit.

Installation costs are covered for HVAC (heating, ventilation and cooling) systems, as well as solar water heaters, solar panels, geothermal heat pumps, wind-energy systems and fuel cells.

The credit for HVAC systems and nonsolar water heaters is 30 percent of the cost of the product plus installation costs, up to \$1,500. It is the same for solar water heaters, solar panels, wind-energy systems and fuel cells, except that there is no maximum.

Not covered: A number of the simplest steps homeowners can take to improve efficiency are not eligible for the rebate. They include changing or adding refrigerators, dishwashers, clothes washers, room air conditioners, insulated siding, ceiling fans, programmable thermostats, electric storage-tank water heaters and electric tankless water heaters.

Windows and doors: Window components such as sashes do not qualify. You must purchase an entire window unit.

Sliding glass patio doors and French doors are eligible as long as they meet certain criteria. Insulated garage doors are eligible, too, as long as they meet the same criteria. In all cases, receipts and the manufacturer's certification statement for your taxes should be saved.

Ratings: Under Energy Star, a joint program of the Environmental Protection Agency and the Department of Energy, more than 50 product categories of appliances are labeled as to their efficiency. Generally, a household that spends \$2,000 annually on energy can save more than \$700 by choosing Energy Star-labeled products over those that don't carry the familiar yellow label.

However, not all products – doors and windows, for example – that earn an Energy Star rating qualify for a credit. So be sure to check carefully before you choose one over another. See energystar.gov for a complete breakdown of product-eligibility requirements. (*Low E3 w/Argon gas meets the Rebate Criteria, Low E2 does not.*)

In some instances, moreover, the credit is available only for most efficient models, which typically cost more than standard products. But this is a good thing, according to Miedema of the Remodelers Council, who believes the credit tends to make the efficient choice the most cost-effective choice in the long run.

“When you have a choice between an HVAC unit that is super-efficient but costs a lot more than a standard unit, most homeowners are going to choose the standard unit unless they can see themselves saving money within a few years,” he says.

Financing: Energy Star does not provide financing, but many of its partners do. These include state energy offices, manufacturers themselves and local utility companies, which may also offer rebates.

Homeowners can claim the credits on IRS Form 5695. Contractors need not provide you with product sales receipts to verify your claim, but you should retain the following for your records as backup:

- Name and address of the manufacturer.
- Identification of the component.
- Make, model and other appropriate identifiers.
- Statement that the product meets the tax-credit standards.
- Climate zone for which the criteria are satisfied.
- A declaration that the certification statement is true.

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