

Energy Tax Credits: The Debate



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The Energy Act of 2005 included new energy tax credits for improvements. The credits have left many homeowners wondering how long they are effective, what home items are covered and whether these credits save enough to make it worthwhile to make improvements.

In my opinion, the credits are not large enough to provide a real incentive for someone to make energy-saving improvements, unless they were already planned. Several contractors and manufacturers told me they have not seen a significant increase in sales of efficiency items as a result of the credits.

One problem is people may not realize these are tax credits and not tax deductions. A tax credit actually reduces your tax bill by the total amount of the credit. A tax deduction reduces just the taxable base, so the actual savings depends upon your specific tax bracket. The tax credit amount is listed on line 52 of federal tax form 1040 and you must also complete tax form 5695 to calculate the tax credit.

The Energy Policy Act of 2005 covers most typical energy conservation improvements to your home. These include insulation, replacement windows and improvements, doors, metal roofing, heating and cooling systems, water heaters and solar systems. In most cases, the improvements must meet the 2000 IECC (International Energy Conservation Code) specifications. Most contractors can advise you as to which products and improvements meet these specifications.

There are limits on the amount of the tax credit depending upon the specific efficiency improvement. Many of the energy tax credits are for approximately 10 percent of the installed cost, but some are substantially less. The maximum total tax credit allowed for the two-year period is \$500, regardless of how many efficiency improvements you make.

Using alternative fuels and heating provides the largest tax credit of 30 percent, up to a maximum of \$2,000. These include solar water heating and photovoltaics (solar cells), as well as fuel cells for producing your own electricity at home. For many homes, even with a \$2,000 tax credit, the economic payback for these alternative fuel improvements is a relatively long period. Solar water heating is the one exception where it is economically feasible for most homes.

Tax credits for the alternative fuels improvements mentioned above were extended into the 2008 tax year. Most other residential efficiency improvements must be installed before the end of 2007 unless Congress acts to extend them.

Door improvements provide a higher maximum tax credit than replacement windows. In general, replacing windows will save more energy, but is a more expensive improvement project. Installing efficient exterior doors and/or storm doors receives a credit of 10 percent of the costs, up to a \$500 maximum credit. Installing efficient windows, skylights and storm windows receives a \$200 maximum credit.

If you need a new roof, consider installing one of the many types of new residential metal roofing materials. This is economically and environmentally a good decision because metal roofs last a lifetime and you will receive a \$500 tax credit. Metal roofs get a tax credit because they block heat from the sun during the summer, so air-conditioning energy usage is lower. The tax credit for adding insulation is 10 percent of its cost.

Installing a new heat pump (air-to-air or geothermal) provides up to a \$300 credit compared to a new gas or oil furnace (efficiency of 95 percent) for only a \$150 credit. Make sure the efficiencies (HSPF and SEER) of the heat pump you install are high enough to qualify for the tax credit.

The Energy Policy Act of 2005 covers most typical energy conservation improvements to your home

Adding an efficient blower motor to the new furnace or heat pump qualifies for a tax credit of \$50. The blower motor must not use more than 2 percent of the heating system's total energy use. This usually means only a variable-speed blower motor qualifies. These motors are efficient and improve comfort, but they cost several hundred dollars more than a standard blower motor.

Installing an efficient gas, oil or propane water heater provides a \$300 credit. Standard tank-type electric water heaters are not included because they all are reasonably efficient. If you have an electric water heater, you can get a \$300 tax credit by installing a heat pump water heater.

For more information on energy tax credits, visit the Alliance to Save Energy Web site: <http://www.ase.org/content/article/detail/2654>

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Teams Advance to National Science Bowl

High school students from St. Paul, Minn., and Sioux Falls, S.D., will represent their states in April at the National Science Bowl®.

The National Science Bowl is an educational event and academic competition among teams of high school students who compete in a verbal forum to solve technical problems and answer questions in all branches of science and math. The regional and national events encourage student involvement in math and science activities, improve awareness of career options in science and technology and provide an avenue of enrichment and reward for academic science achievement.

The national competition will take place April 26-29 in Washington, D.C.

The Greater Sioux Falls Home School Association captured first place at the South Dakota Regional Science Bowl Feb. 17 in Huron, S.D. Nick Truelson, Zack Truelson, Michael McLaughlin and Sam Jakos will represent South Dakota at the national competition. They are coached by Nels Truelson.

The team beat two-time defending champions Rapid City Central High School while Aberdeen Central and Brandon Valley came in third and fourth, respectively. A total of 19 teams from 14 high schools competed in the event.

Minnesota held its 14th annual regional science bowl on Jan. 19 at the Minnesota Academy of Sciences in St. Paul.

A team from St. Paul Academy and Summit School emerged from a field of 32 teams to capture the state title and advance to the national competition. A St. Paul Central School team and a St. Anthony Village School team placed second and third, respectively, while the Sportsmanship Award was captured by a Mankato High School team.

South Dakota Ranks High in Sales of Energy-saving Bulbs

A new Web site shows South Dakota is among the leading states for sales of energy-saving compact fluorescent light bulbs (CFLs). The site, 18seconds.org, ranks South Dakota sixth in the nation with 88,479 CFLs sold in the state in the first two months of the year.

In Minnesota, 415,884 CFL light-bulbs were purchased in the first two months of 2007, ranking that state 22nd on the 18seconds.org list.

During the same time period, nearly 18.5 million CFLs have been purchased in the United States.

"This ranking is very encouraging," said Public Utilities Commission Chairman Dusty Johnson. "It indicates South Dakotans are realizing the full benefits of CFLs. It takes a small commitment – just 18 seconds of a person's time – to swap a regular incandescent light bulb with an energy-saving CFL, but the energy and cost savings are enormous," he concluded.

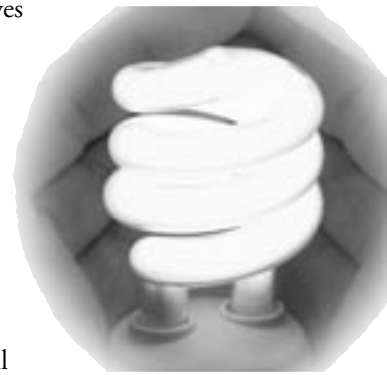
On average, an incandescent bulb costs \$0.40 and has a lifetime of about eight months. A CFL costs \$2.60 and will last around seven years. CFLs use at least two-thirds less energy than a regular incandescent bulb.

"One CFL saves \$40 in electricity over its lifetime and keeps 223 pounds of carbon dioxide from being released into our atmosphere. The 88,500 South Dakota CFLs will keep more than 19.9

million pounds of carbon dioxide out of the atmosphere," explained PUC Vice Chairman Gary Hanson. "CFLs make tremendous sense both economically and environmentally," he said.

"The PUC has been an active proponent of the use of CFLs for some time," said Commissioner Steve Kolbeck. "We joined the national Change-a-Light campaign last year and have been gathering support from South Dakotans who have pledged to install CFLs in their homes. So far, we have exceeded our pledge goal by 24 percent," he said.

Go to www.puc.sd.gov and click on the "South Dakota Change-a-Light Pledge" link to register a pledge.



Kids Voting Hosts Liberty Game

Kids Voting South Dakota held its 10th annual Kids Voting Liberty Ballgame Feb. 28 in Pierre.

The game, which loosely resembles basketball, is a fund-raiser which pits the South Dakota House of Representatives against the South Dakota Senate.

This is the second consecutive year the House came out on top, defeating the Senate 73-57. Captains for the teams were Sen. Sandy Jerstad and Sen. Cooper Garnos for the Senate and Rep. Tim Rounds for the House of Representative. Sponsors for the event included Touchstone Energy® Cooperatives of South Dakota, State Farm Insurance, Citibank, Taco Johns, Coca Cola Bottling of Pierre and Sen. John Thune. The total funds raised via corporate sponsors, the taco feed, at the door, the auctions and legislator donations during the game were \$16,995.

