

HVAC Tax Credits in 2009 Stimulus

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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.

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 *The Department of Energy's website has different information from the information ACCA released earlier this week. Which is correct? We informed DOE of the errors on their website and they have been corrected. 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 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. It may be necessary for contractors to itemize information on a final bill so that taxpayers can properly claim the deduction.

How does the tax credit work for the installation of an advanced main air circulating fan? Does any furnace with an advanced main air circulating fan qualify?
No. The tax credit for the installation of an advanced main air circulating fan only applies in retrofit situations. The taxpayer claims 30% of the installed costs of the fan.

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.

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.

What about the \$2,000 tax credit for homebuilders?
The Emergency Economic Stabilization Act of 2008 extended the Section 45L New Homes Tax Credit until December 31, 2009. This is a different tax credit available to homebuilders that install qualified higher efficiency appliances in new homes.

Does the homeowners who lives in a modular home or mobile home qualify?
Yes. As long as the improvements meet the qualifying criteria and the homeowners primary residence they may claim the tax credit.

Does the geothermal tax credit apply to new construction?

Yes. The geothermal tax credit is for new and retrofit construction.

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 if they meet certain minimum standard, 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."

Does a heat pump need to meet the minimum each of the minimums to qualify or just one?

Heat pumps must meet each of the minimum standards listed above to qualify for the tax credits.

Does this apply to equipment installed in new homes?

No. The tax credit can only be claimed by taxpayers for improvements to existing homes.

Does this replace the Department of Energy or Energy Star program?

These tax credits are from the same program, but it has been modified and expanded. It is the same program that allowed taxpayers to claim up to \$500 in tax credit in 2006 and 2007, and part of 2009. The differences are the tax credit limit is higher and the per-appliance caps have been removed.

Do ductless mini-splits meeting the HSPF criteria qualify for the tax credit?

Yes, as long as they meet or exceed the minimum qualifications for split air-conditioners (16 SEER and 13 EER) or split heat pumps (8.5 HSPF, 15 SEER, 12.5 EER).

What if the homeowner installs a furnace that meets the 95% AFUE standard but an central air conditioner below the standard? Can they still claim the full \$1500?

The homeowners can claim 30% of the final installation costs up to \$1,500 associated specifically with the 95% AFUE furnace will qualify for the credit. Should the installation costs associated with the furnace not reach \$5,000, 30% of the installation cost can still be claimed and the difference between that amount and the \$1,500 cap can be applied to any other qualifying improvements.

As we get more questions we'll keep you updated you with answers.

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