

GREEN BUILDING: Time's running out on energy efficiency tax credits

By Matt Siegel
Green Building Council
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The tax credits available for energy upgrades to homes are about to expire. Homeowners can take a 10 percent tax credit up to \$500 for energy upgrades through Dec. 31.

Why not forget about the mall this Christmas and improve your home's energy instead? While your kids might not appreciate the new insulation you purchase, your bank account and the environment will.

The tax credit for builders for energy-efficient new homes and the renewable energy tax credits do not expire until the end of 2008, but that doesn't mean you should wait to take advantage of those.

Credits and deductions

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

A tax deduction is an amount you are able to deduct from your total income in order to decrease the amount of tax you will owe the government. For example, if you make \$30,000 per year and get a \$2,000 tax deduction for purchasing a hybrid vehicle, you will be taxed on only \$28,000 worth of income.

A tax credit is money subtracted from the amount of actual tax you owe after all of your deductions have been figured in. For example, if you owe \$2,000 in taxes to the state government and you qualify for a tax credit of \$500, you will have to send the state only \$1,500.

A tax credit, in other words, is more valuable than a tax deduction, and we're talking about tax credits here.

Renewable energy

The state of North Carolina offers a 35 percent tax credit up to \$1,400 for water heating, \$3,500 for active space heating and \$10,500 for photovoltaic, wind and hydroelectric systems. The same renewable energy system could take advantage of another 30 percent tax credit from the federal government, up to \$2,000.

For commercial business properties, there are virtually no limits on tax credits taken. For example, if you spent \$4,000 on a solar hot water heating system, you would receive a \$1,400 tax credit from the state and a \$1,200 tax credit from the federal government. You would have to pay some federal tax on the \$1,400 state credit — about \$392 if you are in the 28 percent tax bracket. That means purchasing a solar water heater would cost only \$1,792.

Energy efficiency

In 2006, the federal government began offering tax credits for builders and homeowners for increasing the

energy efficiency of their homes or buildings. These credits will be available for improvements made to existing homes through 2007 and for new homes through 2008.

For qualifying energy-efficient improvements made to a taxpayer's primary dwelling, the taxpayer is eligible to claim a lifetime credit up to a total of \$500, equaling 10 percent of the cost of the improvements.

For example, replace your central air conditioner or heat pump with a qualifying energy-efficient model and receive up to a \$300 tax credit. Replace your water heater and receive a credit of up to \$300. Upgrade your furnace or boiler for a credit of up to \$150. If you would like to improve the "envelope" of your home, tax credits will pay 10 percent up to \$500 for upgraded insulation, exterior doors, duct sealing and air infiltration reduction, and 10 percent up to \$200 for windows and skylights.

Contractors of new homes are eligible for a \$2,000 tax credit if a home is certified to be 50 percent more efficient than the 2004 International Energy Code. This credit is available per home and is a part of the general business credit.

This is a difficult credit to achieve, but the benefits of a 50 percent reduction of energy use are long lasting for homeowners and the environment.

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