

Going Green May Save You Money on Both Your Energy Bills and Your Tax Return

The American Recovery and Reinvestment Act provides tax incentives for individuals to invest in energy-efficient products. Taxpayers who take energy saving steps may get a bigger tax savings.

The following are some key points about the **Nonbusiness Energy Property Credit**:

The Nonbusiness Energy Property Credit is aimed at homeowners installing energy efficient improvements such as insulation, new windows and furnaces. The credit is more limited than in the past years, but can still provide substantial tax savings.

- The 2011 credit rate is 10 percent of the cost of qualified energy efficiency improvements. Energy efficiency improvements include adding insulation, energy-efficient exterior windows and doors and certain roofs. The cost of installing these items does not count.
- The credit can also be claimed for the cost of residential energy property, including labor costs for installation. Residential energy property includes certain high-efficiency heating and air conditioning systems, water heaters and stoves that burn biomass fuel.
- The credit has a lifetime limit of \$500, of which only \$200 may be used for windows. If the total of nonbusiness energy property credits taken in prior years since 2005 is more than \$500, the credit may not be claimed in 2011.
- Qualifying improvements must be placed into service to the taxpayer's principal residence located in the United States before January 1, 2012.

The following are some key points about the **Residential Energy Efficient Property Credit**:

- The credit equals 30 percent of what a homeowner spends on qualifying property such as solar electric systems, solar hot water heaters, geothermal heat pumps, wind turbines, and fuel cell property.
- No cap exists on the amount of credit available except for fuel cell property.
- Generally, labor costs are included when figuring this credit.
Not all energy-efficient improvements qualify for these tax credits, so homeowners should check the manufacturer's tax credit certification statement before they purchase. Taxpayers can normally rely on this certification statement which can usually be found on the manufacturer's website or with the product packaging. Eligible homeowners can claim both of these credits on Form 5695, Residential Energy Credits when they file their 2011 federal income tax return. Because these are credits and not deductions, they reduce the amount of tax owed dollar for dollar. An eligible taxpayer can claim these credits regardless of whether he or she itemizes deductions on Schedule A.

Homeowners who have been considering some energy efficient home improvements may find these tax credits will result in bigger tax savings.

YouTube Video available:

- Cut Your Energy Costs and Taxes English

Form 5695, *Residential Energy Credits*, is used to claim the credits. Use Part I of Form 5695 to claim the **Nonbusiness Energy Property Credit** and Part II of Form 5695 to claim the **Residential Energy Efficient Property Credit**. Taxpayers must claim the credit on the tax return for the year that the improvements are made.

- Manufacturers must certify that their products meet new standards and they must provide a written statement to the taxpayer such as with the product packaging or in a printable format on the manufacturers' Web site.
- Taxpayers should keep a copy of the manufacturer's certification statement and receipts with their other important tax records.

Please note, not all ENERGY STAR products qualify for a tax credit. For detailed information about qualifying improvements, visit the U.S. Department of Energy's [EnergyStar Web site](#) and the [EnergyStar Frequently Asked Questions site](#).

For more information on the **Nonbusiness Energy Property Credit**, the **Residential Energy Efficient Property Credit**, and other key tax provisions of the Recovery Act, visit the official IRS Website at www.irs.gov/recovery. **Form 5695** and Instructions are available for download on IRS.gov and include more details on these energy credits.

Internal Revenue Service



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