



HVAC Tax Credits in The American Recovery and Reinvestment Act of 2009 [The Economic Stimulus Bill]

This memo contains a summary of important HVAC-related tax credits included in the 2009 stimulus package and answers to frequently asked questions about the new legislation. **These are general guidelines only and may not be applicable in all circumstances. Taxpayers are encouraged to consult with a tax professional.**

On February 17, 2009, President Obama signed the American Recovery and Reinvestment Act of 2009 (ARRA) into law. The legislation combines spending and tax incentives designed to get the American economy moving again by investing in our nation's road and energy infrastructure, and providing incentives for 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 to HVAC, water heating equipment, and other energy related improvements to their primary residences.

Residential Tax Credit Details

Greater Tax Credit

For qualified improvements (see the table below), 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 1/1/2009 and expire on 12/31/2010. The \$1,500 limit is for all improvements made during the two year term, not \$1500 each year.

Per-Appliance Caps Removed

Subject to the 30% of installed cost limitation, 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. Also, HVAC contractors should be aware that the \$1,500 limit applies to many types of energy efficient home improvements, including windows, doors, shingles, and insulation. All of these various contractors will be competing with HVAC contractors for the work related to these tax credits.



Frequently Asked Questions about the New Tax Credits

Q1. Can the homeowner claim \$1500 in tax credits for improvements made in 2009 and again for improvements made in 2010?

Answer: No. Taxpayers will be eligible only for a total of \$1500 in tax credits for qualifying improvements made in the combined two year period of 2009 and 2010.

Q2. Can a homeowner use the entire \$1500 limit as a credit toward the installation of one appliance?

Answer: Yes. A homeowner may use the entire \$1500 in tax credits for installing a single appliance, such as a qualified furnace, air conditioner, or heat pump system as long as the total cost of the appliance is \$5000 or more. The legislation limits the tax credit to 30% of total cost with a \$1500 cap.

Q3. What happens if the 30% of the installed costs is less than \$1500?

Answer: The homeowner can use the remaining available tax credit for other qualified improvements in 2009 or 2010. Any single installation of a qualifying appliance that costs less than \$5000 will allow the homeowner to invest in additional energy saving appliances or upgrades and still receive a tax credit (up to a \$1500 combined maximum).

Q4. Does the tax credit apply to the cost of the equipment or equipment plus labor?

Answer: The tax credit applies to the installed costs of the qualified equipment, which includes labor.

Q5. Do any manufacturers offer a full line of air conditioners and coils that meet the tax credit guidelines?

Answer: According to the AHRI directory, no HVAC manufacturer has a full line of split system air conditioners + coils + variable speed furnaces that meet the tax credit guidelines of 16 SEER and 13 EER. However, several manufacturers have full product lines that meet the tax credit guidelines with 3rd party coils.

Q6. Do I have to have a Trane matched system to qualify?

Answer: No, both matched Trane systems as well as Trane air conditioners and heat pumps mix-matched with coils from independent coil manufacturers may qualify. Please consult the AHRI directory for complete information about qualifying systems. The AHRI directory can be found at www.ahrinet.org.

Q7. Does a 95% AFUE furnace plus a 13 SEER split outdoor system qualify for a tax credit?

Answer: Yes, but only the portion of the installed cost associated with the 95% furnace (both the equipment and labor). So if the installed cost of the 95% furnace is over \$5000, then the homeowner will qualify for the full tax credit. If the installed cost of the 95% furnace is less

than \$5000, then the homeowner will qualify for a tax credit that is equal to 30% of the installed cost.

Q8. *Does a system that otherwise doesn't meet the efficiency requirements, but has a furnace with an "advanced circulating fan" qualify for the tax credit?*

Answer: The advanced circulating fan should qualify for a tax credit, but how the cost of the fan is broken down is not certain at this time. The chart of qualifying HVAC equipment from the Energy Star website, which is included below, includes advanced circulating fans as qualifying for the 30% up to \$1500 tax credit. However, there is also a statement on the Energy Star website (answer to question #27 on the FAQ list) indicating that the IRS is looking at this question and will issue a clarifying rule.

Q9. *How will a taxpayer claim the credit and receive their money?*

Answer: The tax credit applies as a direct reduction of taxes owed. In the past, the IRS has directed taxpayers to use Form 5695, Residential Energy Efficient Property Credit. It is expected that the IRS will produce new rules related to the recently enacted stimulus legislation giving taxpayers further guidance on claiming tax credits.

Q10. *Where can homeowners find a manufacturer's Tax Credit certification statement?*

Answer: Certification statements for Trane matched systems will soon be posted on Trane.com. Certification statements for Trane components mix-matched with independent coils should be available at the independent coil manufacturer website.

Q11. *Where can a homeowner or dealer find a list of qualifying systems?*

Answer: www.ahrinet.org

Q12. *What's the difference between a tax credit and a tax deduction?*

Answer: A tax credit applies against the taxpayer's obligation for taxes. A tax deduction applies against a taxpayer's income, lowering the adjusted gross income. Tax credits have a greater benefit to a taxpayer. For example, if the taxpayer owes \$2000 in taxes, a \$1500 tax credit reduces the obligation to \$500.

Q13. *What if the homeowner already claimed \$500 in tax credits in 2006 or 2007?*

Answer: The "lifetime caps" that used to be in place have been removed. Previous claims do not count against the current \$1500 tax credit limit.

Q14. *Can a homeowner claim the credit for improvements to a second home?*

Answer: No. The tax credit is available for the taxpayer's primary residence only.

Q15. *Can dealers tell homeowners they will receive a \$1500 tax credit if they purchase a qualifying system?*

Answer: Dealers can tell homeowners what products and systems qualify for the tax credit and the qualifying amount; however, dealers don't know what other qualifying products the homeowner may purchase before they file their taxes. The safest strategy for dealers is to

share the following chart with homeowners, which is taken from the Energy Star website. This chart shows which HVAC products qualify and the qualifying tax credit amount. Ultimately, dealers should recommend homeowners consult a tax advisor to completely understand how the tax credit may apply to them.

The following chart is an excerpt as of March 10, 2009 from the Energy Star website http://www.energystar.gov/index.cfm?c=products.pr_tax_credits#s1

SUMMARY OF HVAC TAX CREDITS FOR HOMEOWNERS

Product Category	Product Type	Tax Credit Specification	Tax Credit	Notes
HVAC	Central A/C	<i>Split Systems:</i> EER >= 13 SEER >= 16 <i>Package systems:</i> EER >= 12 SEER >= 14	30% of cost, up to \$1,500 ²	For a list of qualified products, go to the Consortium for Energy Efficiency product directory EXIT ↗ , click on Air Conditioners, then in the "CEE Tier" enter "Residential Advanced Tier 3" for CAC Split Systems, and "Residential Tier 2" for CAC Package Systems and ASHPs. Note — not all ENERGY STAR products will qualify for the tax credit. View ENERGY STAR criteria .
	Air Source Heat Pumps	<i>Split Systems:</i> HSPF >= 8.5 EER >= 12.5 SEER >= 15 <i>Package systems:</i> HSPF >= 8 EER >= 12 SEER >= 14	30% of cost, up to \$1,500 ²	
	Natural Gas or Propane Furnace	AFUE >= 95	30% of cost, up to \$1,500 ²	For a list of qualifying products go to the Gas Appliance Manufacturing Association EXIT ↗
	Oil Furnace	AFUE >= 90	30% of cost, up to \$1,500 ²	Not all ENERGY STAR products will qualify for the tax credit. View ENERGY STAR criteria .
	Gas, Propane, or Oil Hot Water Boiler	AFUE >= 90	30% of cost, up to \$1,500 ²	ENERGY STAR Spec: Gas Furnaces: AFUE >= 90 Oil Furnaces: AFUE >= 85 Boilers: AFUE >= 85
	Advanced Main Air Circulating Fan	No more than 2% of furnace total energy use	30% of cost, up to \$1,500 ²	

²Subject to a \$1,500 maximum per homeowner for all qualifying improvements combined, which includes heating and cooling equipment, water heating equipment, shingles, insulation, windows, and doors.

Energy Star is a program developed jointly by the U.S. Environmental Protection Agency and the U.S. Department of Energy. Parties are encouraged to check the website for updates or additional information.