

IRS Issues New Guidelines for Section 25C Remodeler Tax Credit

The Internal Revenue Service has published new guidance on the Internal Revenue Code Section 25C \$1500 remodeling tax credit. The incentive provides homeowners a tax credit for installing in their home energy efficient property, such as windows and insulation, and was expanded by Congress in the *American Recovery and Reinvestment Act of 2009*.

Notice 2009-53 (<http://www.irs.gov/pub/irs-drop/n-09-53.pdf>) explains the requirements for homeowners to claim the credit, as well as providing detailed information regarding what property qualifies.

NAHB's recently held a media teleconference to promote the use of the energy-efficiency tax credits for home remodeling, including the section 25C tax credit and the section 25D tax credit for solar, wind, geothermal and fuel cell property. The teleconference featured a panel of experts who reviewed the rules of the tax credits and provided examples of how remodelers are using the credits to market their services and expand into the field of energy-efficiency retrofitting.

Teleconference moderator NAHB Remodelers Chairman Greg Miedema, CGR, CAPS, GMB, CGP, and President of [Dakota Builders](#) in Tucson, Ariz., reported that with 111 million existing homes in the U.S. much more work needs to be done to update the energy efficiency of these homes.

NAHB Director of Tax Issues, economist Robert Dietz, Ph.D., gave an overview of the section 25C tax credit, the value of which is equal to 30 percent of expenditures (up to a maximum of \$1,500 for tax years 2009 and 2010) for qualified energy-efficiency products placed in service in a principal residence after December 31, 2008 and before January 1, 2011. Unlike a tax deduction, tax credits offset income tax liability dollar for dollar. Thus, the tax incentive is a major boon for homeowners looking to remodel their homes.

It is important to note that the credit is only available for property installation in existing homes. New homes are eligible for the \$2000 Section 45L New Energy Efficient Home Tax Credit. However, in communication with the IRS, NAHB learned that installation of tax credit eligible property in an addition to an existing home is an eligible activity.

Notice 2009-53 states that eligible property must be reasonably expected to remain in use for at least five years. One method taxpayers can rely on to satisfy this requirement is at two-year manufacturer warranty offered at no additional cost. Otherwise, a facts and circumstances case applies. Expenditures are treated as having occurred when the installation is complete, or if part of a reconstruction, when the original use of the reconstructed property begins.

The Energy Star website (http://www.energystar.gov/index.cfm?c=products.pr_tax_credits#s1) maintains a detailed listing of property that qualifies for the section 25C program. It is important for homeowners to note that not all Energy Star property qualifies for the tax credit.

Notice 2009-53 provides the technical information regarding qualifying installed property. These include:

Eligible building envelope components:

- *Insulation material or system (primary function, so SIPs do not qualify)*
- *Exterior window, skylight, or door (meets prescriptive criteria for IECC, U factor of .3 or below)*
- *Storm window (meets prescriptive criteria for IECC, U factor of .3 or below)*
- *Storm door (meets prescriptive criteria for IECC, U factor of .3 or below)*
- *Metal or asphalt roofs that resist heat gain*

Tax Code Section 25C **excludes** installation costs from the 30 percent credit calculation for all qualified property classified above as building envelope components. For homeowners to claim the section 25C tax credit for such product installation, remodelers must provide an itemized breakout of the cost of the property installed, minus any labor or installation charges. Also eligible for the tax credit is the following property:

Qualified energy property:

- *Electric heat pump water heater (yields an energy factor of at least 2.0 in standard Department of Energy test procedure)*
- *Electric heat pump (must achieve highest efficiency tier established by the Consortium for Energy Efficiency as of January 1, 2009)*
- *Central air conditioner (must achieve highest efficiency tier established by the Consortium for Energy Efficiency as of January 1, 2009)*
- *Natural gas, propane, or oil water heater (energy factor of at least .82 or thermal efficiency of at least 90 percent)*
- *Biomass burning stove (thermal efficiency rating of at least 75 percent as measured using a lower heating value)*
- *Natural gas furnace (achieves annual fuel utilization efficiency rate of not less than 95)*
- *Natural gas hot water boiler (achieves an annual fuel utilization rate of not less than 90)*
- *Propane furnace (achieves annual fuel utilization efficiency rate of not less than 95)*
- *Propane hot water boiler (achieves an annual fuel utilization rate of not less than 90)*
- *Oil furnace (achieves an annual fuel utilization rate of not less than 90)*
- *Oil hot water boiler (achieves an annual fuel utilization rate of not less than 90)*
- *Advanced main air conditioning fan (annual electricity use of no more than two percent of the total annual site energy use of the furnace)*

Unlike the building envelope class, tax code section 25C does permit homeowners to claim as part of the 30% tax credit calculation costs due to installation of the above listed qualified energy property.

Taxpayers may in general rely on certification statements made by the manufacturer that the installed property qualifies for the \$1500 section 25C tax credit. Taxpayers should maintain records of certification statements after claiming the credit in case subject to future IRS review. The manufacturer certification should contain:

- *Name and address of manufacturer*
- *Identification of the class of eligible building envelope component*
- *Make, model number, and any other property identifiers*
- *A statement that the component is eligible for the credit (may include U factor, class of window or door etc.)*

Another important element of Notice 2009-53 is the set of transition rules for qualifying property installed by homeowners prior to June 1, 2009. For such installations, taxpayers may claim for tax credit purposes installation of property that meets less stringent energy efficiency requirements. In particular, taxpayers can claim the credit for installation of windows and skylights that meet Energy Star requirements, requirements listed under prior IRS Notice 2006-53, or manufacturer's certifications for 25C made under IRS Notice 2006-52. For installations on or after June 1, 2009, the requirements listed in Notice 2009-53 and described above are binding.

Some remodelers and new home builders are also using a related tax credit to help home owners install products that help generate energy (section 25D of the tax code). Claimed by homeowners and homebuyers, this credit is equal to 30 percent of expenditure costs and thanks to changes made in the economic stimulus legislation is not subject to any tax credit cap. Qualifying property includes installation of solar electric, geothermal heat pumps, fuel cells, or wind property. In addition, installation costs can be included into the calculation of the credit. Tax credits can be claimed for installation in primary or second homes, except for fuel cell property which must be installed in a principal residence for tax credit purposes.

New home builders can install energy property and provide an itemized cost to the home buyer for tax credit claims after purchase of the home.

Both tax credits, existing homes (section 25C) and energy property (section 25D), can be claimed on IRS Form 5695.

During the teleconference Michael Strong, CGR, GMB, CGP, President of [Brothers Strong](#) in Houston, Texas, explained that green remodeling is their full-time purpose and that the tax credit is very important to his business and

consumers. "This credit is one of the best kept secrets for selling remodeling jobs." Strong creates a worksheet for the home owner calculating their options and the value and affordability generated by using the credits and possible savings on future utility bills.

Donna Shirey, CGR, CAPS, CGP, President of [Shirey Contracting](#) in Issaquah, Wash., said her company has been an energy-efficient builder since 1987. She feels consumers continue to drive the market on energy-efficiency. Shirey Contracting is building a zero-energy demonstration home to show consumers energy-efficiency options. They are installing a wind turbine, evacuated tubes for solar water heating, and a geothermal system for generating the home's energy. She calculates these improvements yield an \$11,000 credit and help to make energy solutions for the home more affordable.

During the question and answer session, the remodelers discussed the benefits of conducting a pre-remodel energy audit and post-testing to measure changes in the home's energy efficiency. Energy audits can help identify the location of energy losses and calculate possible utility savings.

Remodelers say energy-efficiency improvements can be suggested on nearly every job because when the house is under examination there is an opportunity to look at all the systems of the house and make suggestions on the best places for improvements.

To replay the teleconference, download a fact sheet on the energy-efficiency tax credits, or access a comprehensive web site on the credits, visit www.nahb.org/efficiencycall.