

Tax News Update

Cogen Sklar LLP

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Energy Tax Incentives Act of 2005

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As you probably have heard, Congress recently passed the **Energy Tax Incentives Act of 2005**. This legislation provides more than \$14 billion in tax breaks, primarily for businesses in the energy sector. Many of the incentives are targeted at improving the national power grid to prevent major blackouts

like those in the Northeast and Midwest two years ago.

But the Act also provides some incentives for individuals and businesses to make certain energy conservation or alternative energy expenditures. While these credits and deductions may not net you a significant tax break, you should consider them if you, or your business, are planning energy-efficient improvements or purchases, and want to save money while doing your part for the environment.

Following is a summary of key provisions. Cogen Sklar LLP offers this information to help you understand how the Act may affect you and how you might take advantage of it to reduce your tax liability. Please let us know if you have any questions about this new law or other tax matters. Just call us at (610) 668-9700 or send an email to info@cogensklar.com and let us know how we can help.

INDIVIDUALS

Credit for energy-efficient purchases for existing homes. A new 10% credit is available for energy-efficient improvements and property purchases for a principal residence. This credit applies to qualifying energy-efficient items such as insulation, exterior windows, skylights and doors placed in service in 2006 or 2007. It also applies to the purchase price of home energy equipment including circulating fans, hot water boilers, heat pumps, central air conditioners, and natural gas, propane or oil furnaces. The

credit is subject to an overall \$500 limit—for both years combined. Within that cap, there are also category limits: \$200 for windows, skylights and doors, \$50 for fans, \$150 for furnaces and boilers, and \$300 for heat pumps and air conditioners.

Credit for energy-generating or storage property. Homeowners can qualify for a 30% tax credit by installing a solar hot water heater, electricity-generating solar equipment or a fuel cell. The maximum credit is \$2,000 for the solar equipment and \$500 for each 0.5 kilowatt of fuel cell capacity. This credit is available for property placed in service in 2006 or 2007, but not for equipment used to heat swimming pools and hot tubs.

BUSINESSES

Credits for energy-generating or storage property. Businesses are eligible for several credits ranging from 10% to 30% for purchase of qualifying solar energy property and for fuel cell and microturbine power plants placed in service in 2006 and 2007.

Credits for energy-efficient new homes. Contractors are eligible for a credit of \$2,000 per home for new construction that meets a 50% energy efficiency standard, is located in the U.S. and is sold in 2006 or 2007. The Act also provides a \$1,000 credit for manufactured homes that meet a 30% energy-efficiency standard.

Energy-efficient commercial building deduction. A deduction, based on a square-footage calculation, is available for the cost of major energy-saving improvements to commercial buildings in 2006 or 2007.

INDIVIDUALS AND BUSINESSES

Alternative-fuel or clean-fuel vehicles. Credits of various amounts are available to both individuals and businesses for purchasing alternative fuel, hybrid, fuel-cell-powered and advanced lean-burn technology vehicles. In some

“What does the Energy Tax Incentives Act mean to you”

Have you started your tax planning for 2005...it's not too early.

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Energy Tax Incentives Act of 2005 (cont'd)

instances, by replacing deductions allowed under prior law, these credits provide greater incentives for qualifying purchases. The credits, which go into effect on various dates, may also apply to leased vehicles. Purchase or lease must be after 2005, but can be as late as 2009 or 2014, depending on the type of vehicle.



New tax credits for businesses & individuals.

Energy-efficient appliances.

Manufacturers will get a credit for producing energy-efficient appliances such as dishwashers, washing machines and refrigerators. Though consumers were left out of this tax

break, they may see a price break if manufacturers choose to pass along some of the savings.

SAFETEA

At the last minute, Congress also passed the highway bill as the **Safe, Accountable, Flexible and Efficient Transportation Equity Act of 2005 (SAFETEA)**. It primarily extends transportation or fuel-related excise taxes

and makes changes to occupational taxes and to excise tax exemptions. While it may not affect your tax liability, we wanted to let you know that it was now law, and we would be pleased to tell you more about it, if you like.

WE'RE HERE TO HELP

These latest acts come on the heels of several other major tax acts over the past few years. Plus, Congress will be back in session after Labor Day—and back to work on a variety of additional tax, tax reform and social security reform legislation. So, more tax law changes may occur soon.

Because our firm specializes in advising individuals and businesses on ways to minimize their taxes and maximize their financial well-being, we'll keep you posted on any changes we think you should know about. Again, feel free to call us at (610) 668-9700 or send an e-mail to info@cogensklar.com and let us know how we can help you take full advantage of these tax law changes.

We look forward to working with you to keep more of your money where it belongs—in your pocket, not the government's.