

## Residential Energy Credit for 2006 Returns

You may be eligible for two new credits, the nonbusiness energy property credit and the residential energy efficient property credit, for making energy saving improvements to your home in 2006.

To take the credit, you must file Form 5695, Residential Energy Credits.

For credit purposes, costs are treated as being paid when the original installation of the item is completed, or in the case of costs connected with the construction or reconstruction of a building, when your original use of the constructed or reconstructed building begins. If less than 80% of the use of an item is for non-business purposes, only that portion of the costs that are allocable to the non-business use can be used to determine the credit.

A home includes a house, houseboat, mobile home, cooperative apartment, condominium, and certain manufactured homes. You must reduce the basis of your home by the amount of credit allowed.

If you are a member of a qualified condominium management association for a condominium you own or a tenant-stockholder in a cooperative housing corporation, you are treated as having paid your proportionate share of any costs of such association or corporation.

### **Non-business energy property credit.**

You may be able to take a credit equal to the sum of:

- 10% of the amount paid or incurred for qualified energy efficiency improvements installed during 2006, and
- Any residential energy property costs paid or incurred in 2006.

However, this credit is limited as follows.

- A total combined credit limit of \$500 for all tax years after 2005.
- A combined credit limit of \$200 for windows for all tax years after 2005.
- A credit limit for residential energy property costs for all tax years after 2005 of \$50 for any advanced main air circulating fan; \$150 for any qualified natural gas, propane, or oil furnace or hot water boiler; and \$300 for any item of energy efficient building property.

### **Qualified energy efficiency improvements.**

Qualified energy efficiency improvements are the following building envelope components installed on or in your main home located in the United States if these components are new and can be expected to remain in use for at least 5 years.

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- Any insulation material or system that is specifically and primarily designed to reduce the heat loss or gain of a home when installed in or on such home.
- Exterior windows (including certain storm windows and skylights).
- Exterior doors (including certain storm doors).
- Any metal roof installed on a home, but only if this roof has appropriate pigmented coatings which are specifically and primarily designed to reduce the heat gain of the home.

For information on determining if a home is your main home, see Form 5695.

### **Residential energy property costs.**

Residential energy property costs are costs of new qualified energy property that is installed on or in connection with your main home that you owned during 2006 located in the United States. This includes labor costs properly allocable to the onsite preparation, assembly, or original installation of the property. Qualified energy property is any of the following.

- Certain electric heat pump water heaters; electric heat pumps; geothermal heat pumps; central air conditioners; and natural gas, propane, or oil water heaters.
- Qualified natural gas, propane, or oil furnaces or hot water boilers.
- Certain advanced main air circulating fans used in natural gas, propane, or oil furnaces.

### **Residential energy efficient property credit.**

You may be able to take a credit of 30% of your costs of qualified solar electric property, solar water heating property, and fuel cell property. This includes labor costs properly allocable to the onsite preparation, assembly, or original installation of the property and for piping or wiring to interconnect such property to the home. This credit is limited to:

- \$2,000 for qualified solar electric property costs,
- \$2,000 for qualified solar water heating property costs, and
- \$500 for each half kilowatt of capacity of qualified fuel cell property for which qualified fuel cell property costs are paid.
- Qualified solar electric property costs. Qualified solar electric property costs are costs for property that uses solar energy to generate electricity for use in a home located in the United States and used as your home. This includes costs relating to a solar panel or other property installed as a roof or a portion of a roof. The home does not have to be your main home.

### **Qualified solar water heating property costs.**

Qualified solar water heating property costs are costs for property to heat water for use in a home located in the United States and used as your home if at least half of the energy

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used by the property for such purpose is derived from the sun. This includes costs relating to a solar panel or other property installed as a roof or a portion of a roof. To qualify for the credit, the property must be certified for performance by the nonprofit Solar Rating Certification Corporation or a comparable entity endorsed by the government of the state in which the property is installed. The home does not have to be your main home.

### **Qualified fuel cell property costs.**

Qualified fuel cell property costs are costs for qualified fuel cell property installed on or in connection with your main home located in the United States. Qualified fuel cell property is an integrated system comprised of a fuel cell stack assembly and associated balance of plant components that converts a fuel into electricity using electrochemical means. To qualify for the credit, the fuel cell property must have a nameplate capacity of at least one-half kilowatt of electricity using an electrochemical process and an electricity-only generation efficiency greater than 30%.

Costs allocable to a swimming pool, hot tub, or any other energy storage medium that has a function other than the function of such storage do not qualify for the residential energy efficiency credit.