

Solar energy incentives in the Energy Tax Incentives Act of 2005

Energy-conscious home and business owners may want to check out the new tax incentives for solar energy equipment in the Energy Tax Incentives Act of 2005. Under the new law, homeowners who install solar energy systems will receive a tax credit worth 30% of the system's cost, capped at \$2,000. Businesses that purchase solar equipment will receive a credit worth 30% of the system's cost. Here are more details.

Residential systems.

Under pre-Act law, no tax credit was available on an individual's federal income tax return for investments in solar energy equipment. The new law changes that by providing a nonrefundable personal tax credit for the purchase of photovoltaic equipment (i.e., equipment that uses solar energy to generate electricity) and solar water heating property that is used exclusively for purposes other than heating swimming pools and hot tubs. (Tax credits are more valuable to taxpayers than deductions because they are subtracted dollar-for-dollar off the bottom line of your federal tax bill.) The credit equals 30% of the investment, with a maximum credit for each of those systems of \$2,000 (so the maximum credit would be \$4,000 if both systems were installed). Labor costs related to installation qualify for the credit.

The credit applies to equipment placed in service in 2006 or 2007.

Special proration rules apply in the case of jointly owned property, condominiums, and tenant-stockholders in cooperative housing corporations. Also, if less than 80% of the property is used for nonbusiness purposes, only that portion of expenditures that is used for nonbusiness purposes is taken into account.

Business systems.

Pre-Act law provides a 10% business energy credit for the cost of solar energy equipment. The new law increases the 10% credit to 30% for solar energy property. In addition, the new law makes equipment that uses fiber-optic distributed sunlight to illuminate the inside of a structure solar energy property eligible for the 30% credit. However, property used to generate energy for the purposes of heating a swimming pool is not eligible solar energy property.

The increase in the credit rate and the provision relating to fiber-optic distributed sunlight apply to periods after Dec. 31, 2005 and before Jan. 1, 2008. The credit reverts back to the permanent 10% level after 2007. The provision with respect to the heating of swimming pools applies to periods after Dec.31, 2005, and applies permanently.