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Federal Tax Credits for Energy Efficiency

Frequent Questions about Tax Credits

What forms do I need for the consumer energy efficiency tax credits?

You need to fill out [IRS Form 5695](#)  [EXIT](#) 

[See all Tax Credits FAQs](#)

The Energy Policy Act of 2005 includes:


- [Tax Credits for Consumers](#)
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A tax credit can provide significant savings. It reduces the amount of income tax you have to pay. Unlike a deduction, which reduces the amount of income subject to tax, a tax credit directly reduces the tax itself. You must refer to the final Internal Revenue Service (IRS) rules to determine what qualifies for the tax credit.

Please note, not all ENERGY STAR qualified homes and products qualify for a tax credit. These tax credits are available for a number of products at the highest efficiency levels, which typically cost much more than standard products. If, for whatever reason, you decide not to purchase a product covered by the tax credit, you may still consider purchasing an ENERGY STAR product. ENERGY STAR distinguishes energy efficient products which, although they may cost more to purchase than standard models, will pay you back in lower energy bills within a reasonable amount of time, without a tax credit.

Tax Credits for Consumers:

Home Improvements

The Internal Revenue Service (IRS) has provided guidance for consumers: [IRS Notice 2006-26](#) 

[EXIT ↗](#)

Tax credits are available for many types of home improvements including adding insulation, replacement windows, and certain high efficiency heating and cooling equipment. [See chart](#). The maximum amount of homeowner credit for all improvements combined is \$500 during the two year period of the tax credit. This tax credit applies to improvements made to your primary residence from January 1, 2006 through December 31, 2007.

Efficient Cars

Tax credits are available to buyers of hybrid gasoline-electric, diesel, battery-electric, alternative fuel, and fuel cell vehicles. The tax credit amount is based on a formula determined by vehicle weight, technology, and fuel economy compared to base year models. These credits are available for vehicles placed in service starting January 1, 2006. For hybrid and diesel vehicles made by each manufacturer, the credit will

be phased out over 15 months starting after that manufacturer has sold 60,000 eligible vehicles. For vehicles made by manufacturers that have not reached the end of the phase-out, the credits will end for vehicles placed in service after December 31, 2010. [See the IRS Website for updated information](#)



Solar Energy Systems



Tax credits are available for qualified solar water heating and photovoltaic systems. The credits are available for systems “placed in service” from January 1, 2006 through December 31, 2008. The tax credit is for 30 percent of the cost of the system, up to \$2,000. This credit is not limited to the \$500 home improvement cap.



Fuel Cells




There is a consumer tax credit of up to 30 percent of the cost (up to \$500 per 0.5 kW of capacity maximum) for installing a “qualified” fuel cell and microturbine systems. The credits are available for systems “placed in service” from January 1, 2006 through December 31, 2008. This credit is not limited to the \$500 home improvement cap.




ENERGY POLICY ACT OF 2005 — SUMMARY OF TAX CREDITS FOR HOMEOWNERS







Product Category	Product Type	Tax Credit Specification	Tax Credit	Notes
Windows & Doors	Exterior Windows and Skylights	ENERGY STAR qualified OR meets IECC ¹	10 percent of cost, up to \$200 ² for all windows, skylights and storm windows	<p>All ENERGY STAR labeled windows and skylights qualify for tax credit. Learn more about ENERGY STAR qualified windows and skylights.</p> <ul style="list-style-type: none"> • Installation costs are not included. • For tax purposes, save your receipt and either the ENERGY STAR label from all your new windows OR the Manufacturer's Certification Statement. • Use IRS Form 5695


Storm Windows	Meets IECC ¹ in combination with the exterior window over which it is installed, for the applicable climate zone	10 percent of cost, up to \$200 ² for all windows, skylights and storm windows	<p>Manufacturer Certification Statement³ will list classes of exterior window (single pane, clear glass, double pane, low-E coating, etc.)⁴ that a product may be combined with to be eligible in specific climate zones.</p> <ul style="list-style-type: none"> • Installation costs are not included. • Manufacturer's Certification Statement³ required. • For tax purposes, save your receipt and the Manufacturer's Certification Statement. • Use IRS Form 5695  EXIT
Exterior Doors	Meets IECC ¹	10 percent of cost, up to \$500 ²	<p>ENERGY STAR doors will almost always qualify, except for certain parts of California⁴. Learn more about ENERGY STAR qualified doors.</p> <ul style="list-style-type: none"> • Installation costs are not included. • Manufacturer's Certification Statement³ required. • For tax purposes, save your receipt and the Manufacturer's Certification Statement. • Use IRS Form 5695  EXIT





	Storm Doors	In combination with a wood door assigned a default U-factor by the IECC ¹ , and does not exceed the default U-factor requirement assigned to such combination by the IECC	10 percent of cost, up to \$500 ²	<p>Eligibility will be confirmed by manufacturer and documented in the Manufacturer Certification Statement³</p> <ul style="list-style-type: none"> • Installation costs are not included. • Manufacturer's Certification Statement³ required. • For tax purposes, save your receipt and the Manufacturer's Certification Statement. • Use IRS Form 5695  EXIT
Roofing	Metal Roofs	ENERGY STAR qualified	10 percent of cost, up to \$500 ²	<p>All ENERGY STAR labeled metal roofs qualify for the tax credit.</p> <ul style="list-style-type: none"> • Must be expected to last 5 years OR have a 2 year warranty. • Installation costs are not included. • Manufacturer's Certification Statement³ required. • For tax purposes, save your receipt and the Manufacturer's Certification Statement. • Use IRS Form 5695  EXIT



Insulation	Insulation	Meets 2000 IECC & Amendments	10 percent of cost, up to \$500 ²	<ul style="list-style-type: none"> For insulation to qualify, its primary purpose must be to insulate. (example: vapor retarders are covered, siding does not qualify). Must be expected to last 5 years OR have a 2 year warranty Installation costs are not included. Manufacturer's Certification Statement³ required. For tax purposes, save your receipt and the Manufacturer's Certification Statement. Use IRS Form 5695  EXIT 
HVAC	Central A/C	EER >=12.5/SEER >= 15 Split Systems EER >= 12/SEER >= 14 Package systems	\$300 ²	<p>For a list of qualified products, go to the Consortium for Energy Efficiency product directory , click on the Air Conditioners and in the "CEE Tier" enter "Residential Tier 2."</p> <p>Note — not all ENERGY STAR products will qualify for the tax credit. The ENERGY STAR specification is:</p> <p>EER >= 11.5/ SEER >= 14 Split systems EER >= 11/SEER >= 14 Package systems</p> <ul style="list-style-type: none"> Manufacturer's Certification Statement³ required.

			<ul style="list-style-type: none"> For tax purposes, save your receipt and the Manufacturer's Certification Statement. Use IRS Form 5695  EXIT ↗
Air Source Heat Pumps	HSPF \geq 9 EER \geq 13 SEER \geq 15	\$300 ²	<p>Note — not all ENERGY STAR products will qualify for the tax credit. The ENERGY STAR specification is:</p> <p>HSPF \geq 8.2 EER \geq 11.5 SEER \geq 14 Split systems HSPF \geq 8 EER \geq 11 SEER \geq 14 Package systems</p> <ul style="list-style-type: none"> Manufacturer's Certification Statement³ required. For tax purposes, save your receipt and the Manufacturer's Certification Statement. Use IRS Form 5695  EXIT ↗
Geo-Thermal Heat Pump	<p>Same criteria as ENERGY STAR:</p> <p>EER \geq 14.1 COP \geq 3.3 Closed Loop EER \geq 16.2 COP \geq 3.6 Open Loop EER \geq 15 COP \geq 3.5 Direct Expansion</p>	\$300 ²	<p>All ENERGY STAR labeled geo-thermal heat pumps qualify for the tax credit.</p> <ul style="list-style-type: none"> Manufacturer's Certification Statement³ required. For tax purposes, save your receipt and the Manufacturer's Certification Statement. Use IRS Form 5695  EXIT ↗

Gas, Oil, Propane Furnace or Hot Water Boiler	AFUE \geq 95 for both furnaces and boilers	\$150 ²	<p>For a list of qualifying products go to the Gas Appliance Manufacturing Association </p> <p>Note — not all ENERGY STAR products will qualify for the tax credit. The ENERGY STAR specification is:</p> <p>AFUE \geq 90 for furnaces AFUE \geq 85 for boilers</p> <ul style="list-style-type: none"> • Manufacturer's Certification Statement³ required. • For tax purposes, save your receipt and the Manufacturer's Certification Statement. • Use IRS Form 5695  
Advanced Main Air Circulating Fan	No more than 2 percent of furnace total energy use	\$50 ²	<p>For a partial list of qualifying products go to the Gas Appliance Manufacturing Association </p> <ul style="list-style-type: none"> • Manufacturer's Certification Statement³ required. • For tax purposes, save your receipt and the Manufacturer's Certification Statement. • Use IRS Form 5695  

Water Heaters	Gas, Oil, Propane Water Heater	Energy Factor ≥ 0.80	\$300 ²	<p>Only some tankless water heaters currently qualify. This is over 33 percent more efficient than the current federal standard.</p> <p>For a partial list of qualifying products go to the Gas Appliance Manufacturing Association .</p> <ul style="list-style-type: none"> • Manufacturer's Certification Statement³ required. • For tax purposes, save your receipt and the Manufacturer's Certification Statement. • Use IRS Form 5695  .
	Electric Heat Pump Water Heater	Energy Factor ≥ 2.0	\$300 ²	<p>This is more than twice as efficient as the current federal standard.</p> <ul style="list-style-type: none"> • Manufacturer's Certification Statement³ required. • For tax purposes, save your receipt and the Manufacturer's Certification Statement. • Use IRS Form 5695  .

Cars	Cars	Hybrid gasoline-electric, diesel, battery-electric, alternative fuel, and fuel cell vehicles	Based on a formula determined by vehicle weight, technology, and fuel economy compared to base year models	<p>Guidance for auto manufacturers  is available from IRS.</p> <p>There is a 60,000 vehicle limit per manufacturer before a phase-out period begins. Consumers who buy from companies that already sell large numbers of qualifying vehicles will experience a relatively short “window of opportunity” for the credits.</p> <ul style="list-style-type: none"> Use IRS Form 8910  for hybrid vehicles purchased for personal use. Use IRS Form 3800  for hybrid vehicles purchased for business purposes.
Solar Energy Systems	Solar Water Heating	<ul style="list-style-type: none"> At least half of the energy generated by the “qualifying property” must come from the sun. Homeowners may only claim spending on the solar water heating system property, not the entire water heating system of the household. The credit is not available for expenses for swimming pools or hot tubs. The water must be used in the dwelling. 	30 percent of cost, up to \$2,000	<ul style="list-style-type: none"> Use IRS Form 5695 

		<ul style="list-style-type: none"> The system must be certified by the Solar Rating and Certification Corporation (SRCC). 		
	Photovoltaic Systems	Photovoltaic systems must provide electricity for the residence, and must meet applicable fire and electrical code requirement.	30 percent of cost, up to \$2,000	<ul style="list-style-type: none"> Use IRS Form 5695  EXIT ↗
Fuel Cells	Fuel Cells	Efficiency of at least 30 percent and must have a capacity of at least 0.5 kW.	30 percent of the cost, up to \$1000 per kW of power that can be produced	<ul style="list-style-type: none"> Use IRS Form 5695  EXIT ↗


¹Either the 2001 Supplement of the 2000 International Energy Conservation Code or the 2004 Supplement of the 2003 International Energy Conservation Code.



²Subject to a \$500 maximum per homeowner for all improvements combined.

³A Manufacturer's Certification is a signed statement from the manufacturer certifying that the product or component qualifies for the tax credit. The IRS encourages manufacturers to provide these Certifications on their website to facilitate identification of qualified products. Taxpayers must keep a copy of the certification statement for their records, but do not have to submit a copy with their tax return.

⁴Additional information on exterior window features may be viewed at [Anatomy of an Energy Efficient Window](#).

Tax Credits for Home Builders:

Eligible contractors need to fill out [IRS Form 8908](#)  [EXIT ↗](#) to get the tax credit. The IRS has provided the following guidance regarding the tax credits for constructing energy efficient new homes available under the Energy Policy Act of 2005:

- [IRS Notice 2006-27](#)  [EXIT ↗](#) provides guidance for the credit for building energy efficient homes other than manufactured homes.
- [IRS Notice 2006-28](#)  [EXIT ↗](#) provides guidance for the credit for building energy efficient manufactured homes.

The tax credit information provided below is based on information contained in the Energy Policy Act of 2005. The IRS guidance provides specific information that home builders and housing manufacturers can rely on to take action to claim the tax credits. ENERGY STAR will study the IRS publications and provide updates as necessary.

Home builders are eligible for a \$2,000 tax credit for a new energy efficient home that achieves 50 percent energy savings for heating and cooling over the 2004 International Energy Conservation Code (IECC) and supplements. At least 1/5 of the energy savings must come from building envelope improvements. This credit also applies to contractors of manufactured homes conforming to Federal Manufactured Home Construction and Safety Standards.

There is also a \$1,000 tax credit to the producer of a new manufactured home achieving 30 percent energy savings for heating and cooling over the 2004 IECC and supplements (at least 1/3 of the savings must come from building envelope improvements), or a manufactured home meeting the [requirements](#) established by EPA under the ENERGY STAR program.

Please note that, with the exception of the tax credit for an ENERGY STAR qualified manufactured home, these tax credits are not directly linked to ENERGY STAR. Therefore, a builder of an ENERGY STAR qualified home may be eligible for a tax credit but it is not guaranteed.

These tax credits apply to new homes located in the United States whose construction is substantially completed after August 8, 2005 and that are acquired from the eligible contractor for use as a residence from January 1, 2006 through December 31, 2008.

Tax Credits for Manufacturers:




While not directly affecting consumers, manufacturers of energy efficient clothes washers, dishwashers and refrigerators are eligible for tax breaks themselves, which may lead to increased availability and a reduction in prices for these energy-saving appliances:

- [ENERGY STAR qualified dishwashers](#) that meet ENERGY STAR's 2007 specification.
- [ENERGY STAR qualified clothes washers](#) that meet ENERGY STAR's 2007 specifications.
- Refrigerators that are more efficient than 2001 federal energy conservation standards




Tax Deductions for Commercial Buildings:

A tax deduction of up to \$1.80 per square foot is available to owners or designers of new or existing commercial buildings that save at least 50 percent of the heating and cooling energy of a building that meets ASHRAE Standard 90.1-2001. Partial deductions of up to \$.60 per square foot can be taken for measures affecting any one of three building systems: the building envelope, lighting, or heating and cooling systems. The credits are available for systems "placed in service" from January 1, 2006 through December 31, 2008.

- [IRS Notice 2006-52 \(6/2/2006\)](#) [EXIT ↗](#) provides guidance on deduction for energy efficient commercial buildings

- [Qualified Software for Calculating Energy Savings](#) 
- [ENERGY STAR Brochure for Commercial Tax Deductions](#)  (114KB)
- [Commercial Building Tax Deduction Coalition](#) 

For More Information:

- [Tax Incentives Assistance Project \(TIAP\)](#) 
- [Energy Bill](#)  
- [Department of Energy Web site on Tax Incentives](#) 

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