

# Plug-in Tax Breaks for Energy Saving

By **Jeremy Smith, CPA**  
(480) 839-4900 ~ [JeremyS@hhcpa.com](mailto:JeremyS@hhcpa.com)



The tax law provides a number of powerful energy-saving incentives to homeowners and businesses. Here's a brief overview of the key tax rules in this area.

**Tax breaks for homeowners:** Currently, the residential energy credit is equal to 10% of the cost of qualified energy-saving improvements. However, a lifetime dollar cap of \$500 was reinstated by a tax law change last year. The credit, which has been extended several times, is now scheduled to expire after 2011.

Previously, a maximum lifetime credit of \$1,500 was allowed, spanning 2009 and 2010. If you have already claimed a residential energy credit exceeding the \$500 limit, you are not eligible for a credit in 2011.

The list of qualified energy-saving expenses is expansive. It includes the following:

- exterior windows and doors (including storm windows and skylights)
- air-conditioning systems
- qualified water heaters and furnaces
- hot-water boilers
- metal and asphalt roofs
- stoves
- advanced main air circulating fans
- insulation materials

Furthermore, you may be able to claim credits for geothermal heat pumps, solar water heaters and fuel cells. Credits for these expenses are available through the end of 2016.

A special credit may also be claimed for plug-in electrical vehicles. The credit amount is based on fuel capacity (subject to a phaseout once a manufacturer sells 200,000 units). This credit is available to both

purchasers and lessees. The credit for alternative fuel vehicles, including popular hybrid models, expired after 2010.

**Tax breaks for business owners:** If you own a business building, you may be able to claim a tax deduction equal to \$1.80 per square foot for energy systems placed in service after 2006 and before 2014. A partial deduction of up to \$.60 per square foot is available for improvements to the building envelope, lighting systems, or heating and cooling systems.

To qualify for this deduction, the following conditions must be met:

- The property must be installed as part of the interior lighting systems; the heating, cooling, ventilation or hot air systems; or the building envelope.
- The property must otherwise be depreciable or amortizable.
- The property must be installed on or in a building in the United States that meets strict standards of the American Society of Heating, Refrigerating, and Air Conditioning Engineers (ASHRAE).
- The property must be certified as part of an overall plan designed to reduce the total annual energy and power costs by 50% or more in comparison to a reference building meeting the minimum requirements of the ASHRAE standards.

There are other potential tax benefits for certain types of businesses. Consult with your Henry & Horne, LLP professional advisers.

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**Jeremy Smith, CPA, is a Partner in the Tempe office of Henry & Horne. His areas of expertise include tax and consulting work for businesses and individuals. Contact Jeremy at (480) 839-4900 or [JeremyS@hhcpa.com](mailto:JeremyS@hhcpa.com).**



HENRY & HORNE, LLP  
Certified Public Accountants

**Tempe**  
2055 E. Warner Road  
Suite 101  
Tempe, AZ 85284  
(480) 839-4900

**Scottsdale**  
7098 E. Cochise  
Suite 100  
Scottsdale, AZ 85253  
(480) 483-1170

**Casa Grande**  
1115 E. Cottonwood  
Suite 100  
Casa Grande, AZ 85122  
(520) 836-8201

*www.henryandhorne.com*