



Business

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What You Need to Know About Home-Improvement Tax Credits

The U.S. offers tax credits for many energy-saving home improvements. But you have to act fast—some of those credits are expiring at the end of 2010. Here's what you need to know.

By Mara Lemos Stein

As winter approaches, you may be looking for ways to cut your energy bills. The good news is that the U.S. offers tax credits for many energy-saving home improvements. The bad news: You have to act fast—some of those credits are expiring on Dec. 31. What you need to know:

What improvements are covered by the expiring credits?

Homeowners can get a tax credit for installing certain wood or pellet stoves; energy-efficient furnaces, water heaters and air-conditioning systems; insulated roofs, windows and doors; and wall and ceiling insulation. The tax credit covers 30% of the purchase costs, up to \$1,500. (For a full list, check the Energy Star website at www.energystar.gov.)

Is the installation cost covered?

The cost of putting in heating and air-conditioning systems, water heaters and biomass stoves is, but installing new windows, doors, roofs and insulation isn't.

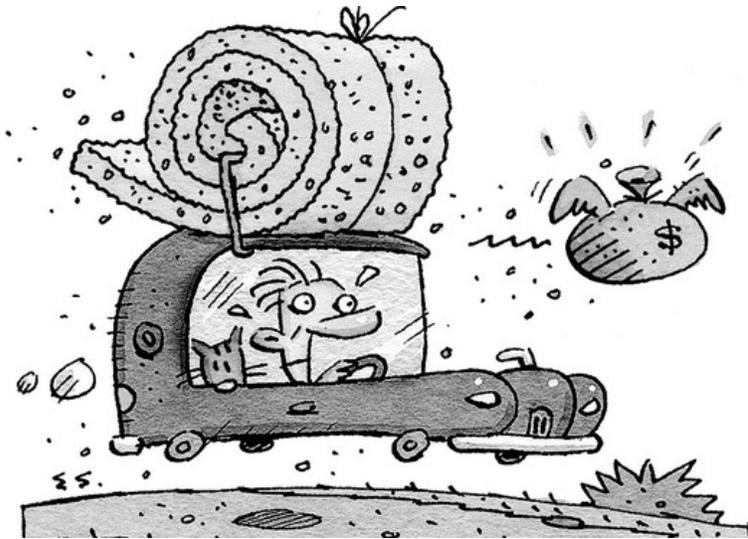
Can I use the tax credits for improvements in a vacation home?

Sorry, no. The improvements qualify for an existing home that is your primary

residence, even if it is a houseboat or mobile home. But rentals, vacation homes and new construction aren't eligible.

With time short, what improvements make the most sense?

Upgrading your heating and cooling, which can be as much as 50% of the average home's energy bill. If your furnace or boiler is more than 10 years old, this may be the ideal time to replace it. All improvements must be in place and equipment in service by Dec. 31 to qualify for the tax credits.



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What improvements can be done relatively cheaply?

Adding insulation. If you choose to insulate just the area where your family spends most of their waking hours, for instance, the cost will be low but your family will be much more comfortable. And often insulation is a do-it-yourself project, so you save on labor costs.

Am I going to have trouble finding a contractor on short notice?

Not only are contractors available, but many of them are using the expiring tax credits as a marketing tool, according to the National Association of the Remodeling Industry. You can find qualified contractors at the association's website, www.nari.org. Many of the contractors have the equipment and materials ready to go, and you'll be helping workers in an industry badly hit by the recession.

Will a new dishwasher get me some tax credits?

Appliances don't qualify, but appliances carrying the Energy Star seal will

help reduce your energy bill. Also, many states and local utilities are offering direct rebates—no need to wait for tax returns—on some appliances. Check www.energysavers.gov to see details of programs in your state.

Might the program be reinstated for future tax years?

Legislation has been introduced to extend the tax credits, but experts say it is unlikely Congress will pass it before the end of the year.

Will I be able to handle this on my tax return without having to call on an expert?

The form is simple. Just make sure you save the manufacturer's certificate that states the equipment or service is eligible under the program. If not available with the product, the certificates can also be found on the websites of the manufacturers.

I'm subject to the alternative minimum tax. Will I still be able to qualify for this tax credit?

These credits can be used to offset the AMT, says Gary R. Price, tax partner with Sensiba San Filippo LLP, an accounting firm in the San Francisco Bay area.

Are there any tax incentives for rooftop solar-power systems?

Yes, and they are far more generous. Federal tax credits for solar-energy, small residential wind turbines and geothermal pump systems cover 30% of all costs—installation included—with no upper limit. These are good on both primary homes and vacation homes, new construction or otherwise. And they don't expire until 2016.

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