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Recent Federal and State Legislation Addresses Tax Deductions and Credits for Renewable Energy and Energy Efficiency

By Loukas P. Kalliantasis

The “Federal Bailout Bill”

The Emergency Economic Stabilization Act of 2008, popularly known as the federal bailout bill, was signed into law by President Bush on October 3, 2008. A significant portion of the bill addresses energy improvements and includes tax deductions and credits for renewable energy and energy conservation. Deductions and credits relating to residential property and commercial taxpayers are summarized below.¹

Residential Energy Efficient Property Credit

The “residential energy efficient property” tax credit includes credits for solar electric, solar water heating, small wind energy, geothermal heat pump, and fuel cell property. Highlights of the bailout bill with respect to this tax credit include:

- an extension through December 31, 2016 of the following tax credits:
 - a credit for expenditures made for qualified solar electric property in an amount equal to 30 percent of such expenditures;
 - a credit for expenditures made for qualified solar water heating property in an amount equal to 30 percent of such expenditures, limited to \$2,000; and
 - a credit for expenditures made for qualified fuel cell property in an amount equal to 30 percent of such expenditures, limited to \$500 per each half-kilowatt of capacity;
- the removal of a \$2,000 tax credit limit for expenditures made for qualified solar electric property;
- the addition of a credit for expenditures made for qualified small wind energy property in an amount equal to 30 percent of such expenditures, limited to \$500 per each half-kilowatt of capacity, not to exceed \$4,000; and
- the addition of a credit for expenditures made for qualified geothermal heat pump property in an amount equal to 30 percent of such expenditures, limited to \$2,000.

¹ The bailout bill also includes tax credits available to producers of renewable energy. This article is directed towards tax credits and deductions available to consumers of renewable energy and manufactures of energy efficient property. For this reason, production tax credits are not summarized.

Non-Business Energy Credit

Improvements and expenditures that qualify for the “non-business energy” tax credit include: insulation materials; exterior windows and doors; natural gas, propane, or oil furnaces or hot water boilers; and advanced main air circulating fans. The bailout bill creates tax credits available only in 2009. Highlights include:

- a tax credit for stoves used to heat dwelling units or water for use in dwelling units that use plant-derived fuel available on a renewable or recurring basis;
- a modification to water heater requirements, requiring either an energy factor of at least 0.80 or a thermal efficiency of at least 90 percent; and
- the eligibility of asphalt roofs with cooling granules for a tax credit.

Energy Efficient Commercial Building Deduction

The bailout bill extends the “energy efficient commercial building” tax deduction through December 31, 2013. This deduction is available for the cost of property installed as part of interior lighting, heating, cooling, ventilation, and hot water systems, and building envelope components, including insulation, exterior windows and doors, and roofing, limited to the product of \$1.80, and the square foot of the building, over the aggregate amount of deductions under this credit with respect to the building for all prior taxable years. To qualify for the deduction, the property must be designed to and reduce energy and power costs by 50 percent or more in comparison to a reference building that meets the minimum requirements of Standard 90.1-2001 of the American Society of Heating, Refrigerating, and Air Conditioning Engineers and the Illuminating Engineering Society of North America, as in effect on April 2, 2003.

New Energy Efficient Home Credit

The bailout bill extends the “new energy efficient home” tax credit for an additional year through December 31, 2009. This credit is available to eligible contractors who construct or produce dwelling units that meet specific energy saving requirements. For qualified dwelling units having annual heating and cooling energy consumption at least 50 percent below the annual consumption level of comparable dwelling units, the credit is in the amount of \$2,000 per unit; for manufactured homes having annual heating and cooling energy consumption at least 30 percent below the annual consumption level of comparable dwelling units, the credit is in the amount of \$1,000 per unit.

Energy Efficient Appliance Credit

This “energy efficient appliance” tax credit applies to manufacturers of dishwashers, clothes washers, and refrigerators. The bailout bill modifies the applicable amount of tax credits for appliances produced by taxpayers in years 2008, '09, and '10. The tax credit amount increases with appliance efficiency and varies from year to year.

State of Michigan Public Act 287

In Michigan, Public Act 287 was signed into law by Governor Granholm on October 6, 2008. This act amended the Michigan Income Tax Act of 1967, creating two new tax credits for taxpayers for 2009, '10, and '11. These tax credits are summarized below.

Qualified Home Improvement Credit

A taxpayer with an adjusted gross income equal to or less than \$37,500, or a husband and wife filing a joint return with an adjusted gross income equal to or less than \$75,000, who purchase and install a “qualified home improvement” may claim this tax credit.

“Qualified home improvements” include the following items intended for residential and noncommercial use at the taxpayer’s principal residence that meet or exceed the applicable energy star efficiency guidelines established by the U.S. Environmental Protection Agency and the U.S. Department of Energy:

- insulation;
- furnaces;
- water heaters;
- windows; and
- refrigerators, clothes washers, and dishwashers.

The tax credit is the lesser of an amount equal to ten percent of the cost of the purchase and installation of the improvement, or \$75 for a single taxpayer or \$150 for a husband and wife filing a joint return. However, there is a limit of one credit per tax year under each of the five categories listed above.

To claim the credit, verification must be provided of the amount paid for the purchase and installation of the qualified home improvement along with documentation of its compliance with the energy star efficiency guidelines.

Customer’s Electric Utility Credit

A taxpayer with an adjusted gross income equal to or less than \$65,000, or a husband and wife filing a joint return with an adjusted gross income equal to or less than \$130,000, may claim a “customer’s electric utility” tax credit.

An electric provider may recover from customers incremental costs associated with its renewable energy plan. To do so, the plan must be approved by the Michigan Public Service Commission pursuant to renewable energy standards established by Michigan’s Clean, Renewable, and Efficient Energy Act. An itemized charge will appear on the customer's bill. This tax credit is equal to a percentage of the itemized charge. The applicable percentage for the 2009 tax year is 25 percent, and for tax years 2010 and '11 is 20 percent.

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