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Tax Credits In The American Recovery & Reinvestment Act Of 2009 (“Stimulus” Bill)

Energy tax credits that have popped in and out of the Internal Revenue Code (IRC Sections 25C & 25D) over the last few years have been broadened and their expiration dates pushed further into the future. Here are the changes to the tax credits that directly impact the plumbing, heating and cooling industry.

The energy tax credit for qualified energy efficiency improvements in the taxpayer’s principal residence has been increased to 30% of the amount invested in new residential energy efficiency property during the tax year. The maximum credit for most property is now capped at \$1,500. (It used to vary between \$50 and \$300 depending on the energy efficient improvement made.) This means that improvements made up to \$5,000 qualify for the energy tax credit. However, for purposes of this tax credit there is no cap for investments in solar water heaters and geothermal heat pumps as long as they meet the energy specific standards. (See the chart below). The homeowner can take a tax credit of 30% of the investment made in the solar water heater or geothermal heat pump system. (NOTE: You can install a geothermal heat pump in a home that is not your personal residence and still take the deduction. This is the only exception to that rule.)

The energy tax credit for new water heaters (gas, propane or oil), central air conditioners, furnaces (gas, propane or oil), heat pumps (electric) and boilers (gas, propane or oil) are available for installations made during 2009 and 2010 (from 1/1/09 through 12/31/10.) Solar water heating and electric systems and geothermal heat pump installations made from 1/1/09 through 12/31/16 are eligible for the tax credit.

Here are a couple of important points to know. First, this credit goes with the taxpayer and not the residence. Once you’ve reached the maximum credit limit, you are done. You can’t maximize the credit on your current principal residence, move and take another energy credit. Secondly, the tax credit for non-solar water heating and HVAC equipment are NOT available for new homes being built. They’re only available for existing homes. There is a separate \$2,000 tax credit available for contractors for building a new energy-efficient home.

If the tax credit you take exceeds your tax liability for the year, the excess amount will be carried forward to the next tax year. You will not receive a refund of the excess. Another important point to understand is that this is a tax CREDIT not a tax DEDUCTION. What’s the difference? Well, a tax deduction means that you can use the amount claimed as a deduction to offset your taxable income. A tax credit means that you offset your tax liability. For example, if you were eligible to take the maximum \$1,500 energy tax credit on a new comfort system installation, it would reduce your tax liability (the amount you owe in taxes) by \$1,500. That’s a heck of a lot better than it being used as a deduction where you’d simply reduce your taxable income by \$1,500 and then calculate the tax liability on the taxable income.

These provisions that are included in the “Stimulus” bill are great news and come at a very good time for our industry. This is another incentive (benefit) that you can use with your client base to encourage them to invest in new home comfort systems. It’s not a foregone conclusion that sales will be made easily with these tax credits. Our industry is not the only one included in these energy tax credits. We’ll be competing with insulation, roofing and window & door contractors. Why? Well, guess what also

qualifies for that 30%/\$1,500 tax credit. Yep, insulation materials, roofs, storm windows and doors, and exterior windows and doors.

As this information can be confusing, please call us at (847) 432-5561 to further explain the law and more important, which equipment models qualify for these credits.

WATER HEATER

Natural Gas, Propane or Oil

Solar

Electric Heat Pump Water Heater

Energy Rating Requirements

Energy factor of at least .82 or a thermal efficiency of 90%

System must be certified by Solar Rating & Certification Corp.; the water must be used in the home and at least 50% of energy generated must come from the sun.

Energy Factor of at least 2.0

CENTRAL AIR CONDITIONER

Split Systems

Package Systems

Energy Rating Requirements

Energy Efficiency Rating (EER) of at least 13 and a Seasonal Energy Efficiency Rating (SEER) of at least 16

Energy Efficiency Rating (EER) of at least 12 and a Seasonal Energy Efficiency Rating (SEER) of at least 14

ELECTRIC HEAT PUMP

Split Heat Pumps

Package Heat Pumps

Energy Rating Requirements

Highest efficiency tier established by the Consortium for Energy Efficiency (CEE) as of 1/1/09. Currently, those ratings are:

- EER of 12.5 or higher

- SEER of 15 or higher

- Heating Seasonal Performance Factor (HSPF) of 8.5 or higher

Highest efficiency tier established by the Consortium for Energy Efficiency (CEE) as of 1/1/09. Currently, those ratings are:

- EER of 12 or higher

- SEER of 14 or higher

- Heating Seasonal Performance Factor (HSPF) of 8 or higher

GEOHERMAL HEAT PUMP

Closed Loop

Open Loop

Energy Rating Requirements

Energy Efficiency Rating (EER) of at least 14.1 or a Co-efficiency of Performance (COP) of at least 3.3

Energy Efficiency Rating (EER) of at least 16.2 or a COP of at least 3.6

FURNACE

Natural Gas or Propane

Oil

Energy Rating Requirements

Annual Fuel Utilization Efficiency (AFUE) of at least 95%

Annual Fuel Utilization Efficiency (AFUE) of at least 90%

BOILER

Natural Gas, Propane or Oil

Energy Rating Requirements

Annual Fuel Utilization Efficiency (AFUE) of at least 90%