

IRS Releases Guidance on Energy Tax Credit for Contractors

March 2, 2006

The Energy Policy Act of 2005 provides tax credits to contractors who build certain types of energy efficient construction. Recently, the Internal Revenue Service provided guidance regarding requirements for qualifying for those credits.

Contractors who construct qualified new energy-efficient homes may qualify for a credit of up to \$2,000. The credit applies to all new construction, including manufactured homes that comply with the Federal Manufactured Homes Construction and Safety Standards. "Construction" includes substantial reconstruction and rehabilitation.

A new energy-efficient home qualifies for the credit if (1) it is located in the United States; (2) the construction is substantially completed after Aug. 8, 2005; (3) it meets the statutory energy savings requirements; and (4) it is acquired from the eligible contractor after December 31, 2005 and before January 1, 2008 for use as a residence.

To qualify for a \$2,000 credit, site-built homes must be certified to provide a level of heating and cooling energy consumption that is at least 50% below that of a comparable dwelling unit constructed in accordance with the standards of the 2004 Supplement to the 2003 International Energy Conservation Code.

Manufactured homes qualify for a \$1,000-\$2,000 credit, depending on the level of energy savings achieved. If certified to provide a level of heating and cooling energy consumption that is at least 30% below that of a comparable home, then the contractor will qualify for a \$1,000 credit. If the level of heating and cooling energy consumption is certified to be at least 50% below that of a comparable home, the contractor will qualify for a \$2,000 credit.

To qualify for the credit, the dwelling unit, whether site-built or a manufactured home, must have building envelope component improvements that provide for a level of heating and cooling energy consumption that is at least 10% below that of a comparable dwelling unit.

The guidance provides information regarding the certification process a contractor must complete to qualify for the credit. It specifies the procedures and methods for calculating energy and cost savings. It also provides that the IRS will create and maintain a public list of software programs that may be used to calculate energy consumption for purposes of providing the certification required. Finally, the guidance provides the process by which a software developer may seek to have its program included on the list of software programs approved for this purpose.

If you have further questions about this alert you may contact our Federal Tax and Employee Benefits Group; Michael A. Indenbaum at (313) 496-7679, email: indenbaum@millercanfield.com; Marla Schwaller Carew at (313) 496-7981, email: carew@millercanfield.com; Ryan J. Riehl at (313) 496-7539, email: riehl@millercanfield.com; or Lisa M. Berden at (313) 496-7581, email: berden@millercanfield.com. This message is for general information only and should not be used as a basis for specific action without obtaining further legal advice.