

# Tax Letter

## October 2005, Vol I - 3 Residential New Tax Credits

Dear clients and friends:

On August 8 and 10, 2005, President Bush signed two Bills into law. They are the 2005 Transportation Act ( H.R. 3) and the 2005 Energy Act (H.R. 6). According to the Bush administration that United States will improve its traffic conditions and become energy independent by implementing these two Bills. Whether these two Bills will work in the way President Bush said is not the purpose of this Letter. The income tax provisions buried inside these two Bills are the key reasons, however. Since it is our Belief that some of the buried tax provisions will impact you and your business; therefore, they are highlighted for your reference as follows:

### **(I) PRINCIPLE RESIDENCE TAX CREDITS**

#### **(a) Home improvement tax credits:**

A home owner who uses energy saving devices and materials to improve his or her house used as principle residence will receive 10% of total costs, up to a maximum of \$500, as income tax credit during 2006 and 2007. The energy saving materials and devices including insulations, energy saving water heater, furnace, exterior doors and windows.

#### **(b) Energy saving appliance tax credits:**

In addition to home improvement mentioned in above, acquisition and installation of certain energy saving appliances for the principle residence, the taxpayer will receive appliance income tax credits. For example, \$50 tax credit for the installation of a main air circulation fan, \$150 tax credit for either natural gas or propane burning furnace or hot water boiler, and \$300 tax credit for a new central air conditioning system, heat pump, or water heater qualified as energy-efficient property. All appliances must be purchased and installed in 2006 and/or 2007 in the taxpayer's principle residence.

### **(II) SOLAR ENERGY TAX CREDITS (any personal residence)**

The owner of a personal residence, not necessary to be a principle residence, will received 30% of total costs, up to a maximum of \$2,000, as income tax credit during 2006 and/or 2007, for installing either (a) property which will use solar power to generate electricity in the residence; or (b) for the installation of qualified solar water heating device in the residence. If the owner installs both solar powered electricity generation property and water heating device, he or she may claim up to \$4,000 income tax credits.

### **(III) BUILDERS AND CONTRACTORS TAX CREDITS**

If a builder or a contractor completed construction and sold a house built by the builder or contractor in 2006 or 2007 to a buyer who will use the house as his or her personal residence, the builder or contractor will be able to claim a \$2,000 or \$1,000 business tax credit for each such house sold. However, to qualify for this per house credit, the house must be constructed to save energy. The energy saving requirement will be:

(a) To qualify for \$2,000 tax credit - the house must be certified in accordance with IRS guidance for a projected 50% reduction in energy consumption as compared to a comparable dwelling built to meet the standards set forth by Chapter 4 of the 2003 International Energy Conservation Code and the Federal efficiency standards specified in Code section 45L (c); or

(b) To qualify for \$1,000 tax credit - the house need only to be certified for a projected 30% reduction in energy consumption, not 50% as stated in (a) above; and

(c) Both the \$2,000 and the \$1,000 tax credits energy consumption reduction will be for the entire house and will be measured using a "building envelope" concept. A "building envelope" means that all building components including insulation materials, systems or devices installed specifically for and primarily designed to reduce heat loss or gain, such as exterior windows, doors, and any duct sealing and infiltration measures.

If you need any further information please give us a call at **415-381-0681**, or visit our web site at **[www.chochan.com](http://www.chochan.com)**.

Sincerely,

Cho F. Chan, CPA, Inc.