

Special ♦ Reprint ♦ Edition



As seen in



Money

August 1, 2006

A more energy-efficient home can turn up the heat on your savings

By Sandra Block
USA TODAY

In St. Louis, it's so hot, you can fry an egg and a slice of bacon on the sidewalk. In Baltimore, you can pop popcorn on the hood of your car. It's turning out to be a scorching summer across the USA, and you know what that means: higher electricity bills.

While the heat will abate eventually, don't count on much relief from rising energy bills. In some parts of the country, caps on electricity rates are set to expire. Regional blackouts are focusing attention on the need to invest more money in the nation's power grid.

Your best short-term defense is to put on a tank top and turn up the thermostat (or join those who think sweat is good for the soul and turn off the AC). For the long term, consider making your home more energy-efficient. You'll permanently reduce your energy bill, and you may also qualify for some short-term tax breaks.

An energy bill signed into law last year included several tax credits for energy-saving home improvements. The credits are limited to eligible improvements made between Dec. 31, 2005, and Jan. 1, 2008. Tax credits are more valuable than deductions because they represent a dollar-for-dollar reduction in your tax bill.

Here's a rundown of what's available:

► **Energy-efficient improvements.** This credit covers a lot of improvements you might be considering anyway, such as replacing your leaky windows. The credit is for 10% of the cost of eligible improvements, up to a lifetime maximum of \$500. You can't boost the size of your credit by spreading your purchases over two years, says Bob Scharin, senior tax analyst for RIA, which provides tax information and software to tax

professionals. The credits are limited to improvements to your primary home.

Congress also included caps on specific kinds of improvements (see chart). For example, the maximum you can claim for new windows is \$200.

If you can't afford a major project, there are less-costly ways to save energy that are eligible for the tax credit. Installing more insulation can reduce your energy bills by up to 20% and is fairly easy to do, says Kateri Callahan, president of the Alliance to Save Energy. "Insulating the attic, basement, crawl spaces — these are activities that a homeowner can do over the weekend," she says. "They don't involve a large investment of capital or time, and there's a great return on the investment."

If you buy a new energy-efficient air conditioner or heat pump, you can claim a credit for up to \$300 toward the purchase price, including installation costs.

While a new air conditioner costs a lot more than a roll of insulation, the payoff can be significant, Callahan says. "If your air conditioner is 10 years old or older, there are much, much more efficient products on the market now."

► **Energy-efficient property.** This tax credit will primarily benefit homeowners interested in using solar energy to heat and cool their homes. These credits have annual instead of lifetime caps. Keep in mind, though, that unless Congress extends the credit, you won't be able to claim the credits after 2007, Scharin says.

Homeowners who install a photovoltaic system to generate electricity can claim a credit for up to 30% of the cost, up to \$2,000 a year. A separate credit for up to \$2,000 a year is available for homeowners who install solar-powered hot water systems, as long as they're not used to heat a swimming pool or hot tub.

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These credits are available for primary and vacation homes.

You can carry over unused credits, says Mel Schwarz, legislative director for Grant Thornton in Washington. For example, if you spend \$20,000 on a photovoltaic system this year, you can claim a \$2,000 credit on your 2006 tax returns, and a \$2,000 credit in 2007.

Eligible improvements

To qualify for the tax credit, your home improvements and purchases must meet complicated energy-saving definitions outlined in the energy bill. Fortunately, the IRS says you can rely on the manufacturer to determine whether a product meets the federal standards, Scharin says.

When you purchase windows, storm doors or a new air conditioner, ask for certification that they're eligible for the credit. Make sure you file the certification, along with receipts for your purchases, with your tax documents, Scharin says. Otherwise, your tax preparer may overlook the tax break.

You and your tax preparer should find out whether your state offers tax credits for energy-efficient improvements. In Oregon, for example, residents who install energy-efficient appliances, heating and air conditioning units are eligible for up to \$1,000 in tax credits. To check out your own state's tax incentives, click on the Database of State Incentives for Renewable Energy, www.dsireusa.org.

Maximum savings

Amount of tax credits for energy-efficient home improvements. The maximum lifetime credit for all eligible improvements is \$500.

Improvement	Max.
Central air conditioner or heat pump	\$300
Furnace or boiler	\$150
Windows	\$200
Insulation and sealing	\$500

Source: Alliance to Save Energy

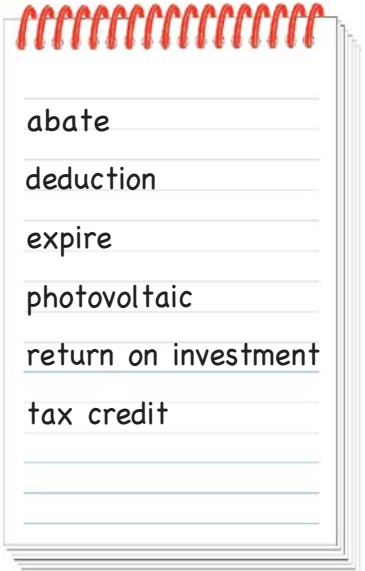
A more energy-efficient home

APPLICATIONS: *analysis, geography, economics, language arts*

DISCUSSION: Why shouldn't homeowners expect relief from rising energy bills? What are some short- and long-term solutions to high energy costs? What energy-saving home improvements are eligible for tax credits? Why are tax credits more valuable than deductions? Why does the government want to encourage the use of solar energy? Which of the improvements mentioned in the article do you think your family could make?

ACTIVITY: Photovoltaic (PV) panels convert sunlight into electricity. According to the U.S. Department of Energy, "the optimum orientation for a PV module in the northern hemisphere is true south." However, homeowners must also consider the condition and orientation of their roof, the landscape features that shade their home and the weather conditions in their area that could affect the PV module's functioning (e.g., fog).^{*} With these factors in mind, evaluate your home or one in your community. Decide where the best place for a PV system would be. Explain your decision in writing, and create a diagram that illustrates it.

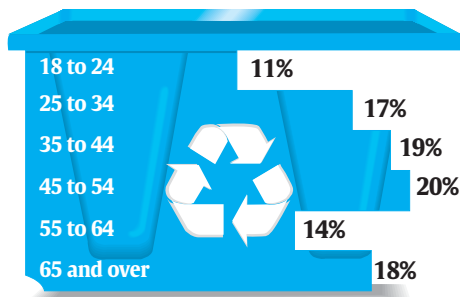
^{*}Source: www.eere.energy.gov



USA TODAY Snapshots®

Baby boomers most willing to buy environmentally friendly products

Would you pay more for environmentally friendly products? Percentage who would, by age:



Source: Simmons Market Research of 19,425 respondents. Margin of error ±1 percentage points.

By Darryl Haralson and Adrienne Lewis, USA TODAY

Why do you think baby boomers are most willing to pay more for environmentally friendly products? Does coming of age in the '60s and '70s have anything to do with boomers' attitude? Or, are people in that age group simply able to afford higher prices?

Judging from the Snapshot, are most Americans willing to spend extra dollars on environmentally friendly products? If cost were not a factor, do you think consumers would routinely choose products that don't harm the environment? Why or why not?

Like hybrid cars and organic food, renewable energy sources

(sun, wind, water, biomass and geothermal) are environmentally friendly. However, options such as solar panels are expensive to purchase and install. Even though panels will immediately reduce homeowners' energy bills and ultimately pay for themselves, many find the up-front costs prohibitive. In your opinion, how could businesses and the government encourage the use of renewable energy? What consumer behaviors might reduce the cost of converting to renewable energy? Who is responsible for educating Americans about alternatives to fossil fuels?