

Energy Tax Credits Fact Sheet

Energy Efficiency Tax Credits for Renewable Energy

Federal tax incentives for renewables stem from the 2009 American Recovery and Reinvestment Act and the Emergency Economic Stabilization legislation passed a year earlier. The Stimulus legislation uncapped investments that can be made to claim the credit. For individuals, the federal investment tax credit for most renewable projects remains at 30 percent of the project, inclusive of design, engineering, and installation costs.

Wind

Eligible wind projects must be 100 kilowatts (kW) or smaller and be installed before Jan. 1, 2017 to be eligible for the federal credit. There is no ceiling on the federal credit, at least for the 2014 tax year. For those considering commercial wind investments, the tax strategy has become more flexible since passage of the Stimulus legislation. Commercial wind systems at 100 kW or smaller are eligible for a 30 percent federal credit, uncapped.

The Montana state investment tax credit is for the entire investment, but tops out at \$500 per taxpayer. Property tax exemptions up to \$20,000 may also apply over 10 years, pertaining only to any tax increase resulting from the renewable energy installation.

As with any small electrical generation system, wind energy can be used directly or stored by a battery array. Some investors will negotiate an agreement with their electrical providers to tie into the grid and be credited for the energy generated. Note that a standard net-metering arrangement with NorthWestern Energy calls for wind systems to have a peak capacity of 50 kW or less. Montana electric co-op agreements typically are for 10 kW or less.

Solar

Photovoltaic panels (PV) generate electricity directly and are a popular choice for individuals and small-scale commercial applications. These installations may be stand-alone systems with battery storage, or may be net-metered systems.

Solar thermal applications are commonly installed for domestic or commercial space heating and to provide hot water. To claim the federal credit, a solar thermal system must provide at least half of the energy needed to heat the dwelling's water. Similar to

wind, state and federal tax credits are available for individual and commercial investments.

As with wind, a 30 percent federal investment tax credit per project can be claimed by individuals for solar systems. The federal credit is 30 percent of the entire renewable investment, including engineering and installation costs. The credit is available for existing and new home construction, including second homes, placed into service before January 1, 2017. The credit is uncapped, at least for the tax year 2014.

The Montana credit is the cost of the investment, but carries a limit of up to \$500 per taxpayer. For the Montana credit, the system must be installed for a primary residence. A qualifying thermal system must be used for the primary residence, and not for a swimming pool or hot tub. State or federal credits for thermal systems cannot include expenses for standard plumbing fixtures ordinarily required of a dwelling. Similarly, photovoltaic systems cannot include expenses for electrical wiring beyond that required of the solar application, inverters, batteries and/or meters.

Ground-Source Heat Pumps

Ground-source heat pumps can provide very efficient space heat to residential and commercial buildings. But a great deal of pipe must be laid in eight-foot deep trenches around the structure, which often precludes retrofit applications. Wells are also sometimes used, even ponds and streams. Geology keeps these sources at an almost constant temperature year-round. Heat can be withdrawn from these geothermal sources and delivered to a living or work space. Many systems can be run in reverse, providing summertime space cooling. Access to the heat exchange aspect of this technology and the cost of compressors and motors make the up-front cost of ground-source heat pumps quite high. However, the low cost to heat building spaces over the years is almost unrivaled among competing systems.

The federal government has deemed ground-source heat pumps an underused technology and a 30 percent tax credit is available against the cost and installation of residential systems, or 10 percent for commercial systems. There is no maximum dollar amount for the federal credit and, unlike some other federal energy tax credits, engineering and installation costs can be claimed. The heat pump must be installed before Jan. 1, 2017. As with wind and solar installations, the credit is uncapped at least for the 2014 tax year.

The Montana credit is the cost of the investment, up to a \$1,500 credit for geothermal heat systems. For this credit, the system must be installed for a primary residence, either newly constructed or an established home. The \$500 renewable energy credit could be taken instead of the \$1,500 credit, but both credits cannot be claimed for the same project. Once again, state or federal credits for these types of systems cannot include expenses for standard plumbing fixtures. Montana state tax credits do not have an expiration date, and will stay in effect until the legislature acts to change them.

For further information on renewable energy tax credits, visit the Database of State Incentives for Renewables & Efficiency

at: www.dsireusa.org/incentives/incentive.cfm?Incentive_Code=US37F The federal Energy Star site may also be of some assistance: www.energystar.gov/index.cfm?c=tax_credits.tx_index The Montana Department of Revenue website <http://revenue.mt.gov/home.aspx> offers details on state and federal tax credits as well.