



Energy Tax Credits

Insulation and the Building Envelope

MANY HOME ENERGY INVESTMENTS are now eligible for a 30 percent federal tax credit for the 2010 tax year. Qualifying improvements must be placed in service during the year the credit is claimed.

The federal credit for insulation is up to \$1,500 per taxpayer, which is subtracted from net taxes owed.

The Montana state credit remains at 25 percent, up to \$500 per taxpayer. Clearly, this is the best time in a long time to improve the energy performance of your home.

Qualified Products

What qualifies for both the federal and state credits? Many energy efficiency products do, and some will be eligible for rebates from utilities such as NorthWestern Energy. In general, the insulation products used on the building envelope qualify: attic, wall, floor and foundation insulation products; high quality energy-efficient doors and windows; storm windows and doors. A few building envelope products qualify for only the federal credit, including certain types of insulating roofing material.

The Building Envelope

A home's "building envelope" is the perimeter of the living space: the ceiling, walls, floors and the foundation walls of full basements. Most homes will have some insulation in attics and wall cavities. Open attic ceiling insulation is probably the easiest to augment. But existing wall insulation can also be increased. Crawl space foundation walls and walls of full basements can also be improved.

Energy Codes

A stipulation of the federal tax credit is that the installed insulation levels must meet 2009 International Energy Conservation Codes (IECC) for the specific building component: i.e., walls, ceiling, floors, etc. For example, the new standards for our climate zone call for R-49 in an open attic. To earn the federal credit, the total insulation in the ceiling must meet or exceed the R-49 level when the job is done, whether existing insulation is augmented or whether starting from scratch. The homeowner doesn't have to worry about standards for walls, floors or foundations if attic insulation is the only area addressed.

Most walls must be R-20 to meet the new standards. Many houses already have about R-13 installed in 2x4 exterior wall cavities. But in some older homes the exterior stud cavities may be empty. In either case, the wall must be R-20 or higher upon completion of the job to capture the federal credit. Be sure to look at a project in its entirety, considering all related costs.

Eligible Expenses

In some instances, old exterior siding can be stripped and an insulated sheathing laid up and covered by new siding. The cost of insulated sheathing is an eligible expense for the federal credit. The replacement siding, however, is not. All-in-one “insulated siding” is specifically excluded from the federal credit.

Insulation can be blown into the exterior wall stud cavities of many older homes. But to get to R-20, the work may need to be followed by interior rigid insulation covered by drywall. The insulation is a covered expense; the drywall is not.

Applied foam insulation is becoming popular for instances where the wall cavities can be exposed and certain products can be used to fill enclosed stud cavities. The R-20 target may be attained in the cavity without additional insulated sheathing. Foam insulation products are excellent sealants against air leakage and offer high R-value per inch.

Keep in mind, only the actual insulation product costs can be applied to the 30 percent federal tax credit, and not the installation costs. Product installation costs are ineligible for the federal tax credit. Ask your contractors to itemize estimates before you engage the actual work.

You will also need receipts for the insulation products to verify the purchase. Copies of the receipts are not required to file for the federal credit, but should be kept in the event of an audit. The receipts are also required for utility rebate programs.

Montana Tax Credit

The 25 percent Montana tax credit for insulation of the building envelope is somewhat more forgiving. For example, the labor to install insulation may be included. The state encourages homeowners to insulate to the 2009 IECC standards, but the \$500 Montana credit can be captured without regard to the amount of insulation installed or the final R-value achieved. Weatherstripping and sealing the building envelope against air infiltration are eligible costs for state but not federal credits.

Utility rebates for insulation depend on the type of fuel used for space heating, the location of the installation and whether the product is installed by a contractor or the homeowner. Insulation rebates from NorthWestern Energy range from about 36 cents per square foot (homeowner installed: attic) to 62 cents per square foot (contractor installed: above grade walls). Visit NorthWestern Energy’s website for more information at:

www.northwesternenergy.com/display.aspx?Page=Insulation_Rebate&Item=102

Questions & Answers

Some common questions arise with both the tax credits and the utility rebates. These answers are intended to be general guidelines and not official tax advice.

Q: Can state and federal conservation credits be claimed together along with utility rebates for the insulation products?

A: Yes. You must be able to produce documentation in the form of the product certification label and the insulation must be installed during the year the credit is claimed. The federal tax credit can be claimed for 30 percent of the actual cost of the product, up to the maximum \$1,500, and is unaffected by state or utility incentives. Similarly, the state credit can be claimed for 25 percent of the full cost of the product and installation, up to the maximum \$500 per taxpayer.

Q: Can a homeowner who purchased and installed attic insulation in 2009, claiming the federal maximum \$1,500, have other insulation work done in 2010, claiming additional credits?

A: No. The federal maximum \$1,500 is for both years. The Montana credit maximum of \$500 can be taken in each of the years, however.

Q: Can a married couple claim up to \$3,000 federal and \$1,000 in state credits?

A: Ordinarily, a married couple filing jointly is eligible only for the \$1,500 federal maximum amount. Couples filing separate returns, each with qualifying conservation investments in the home, may be eligible for the full \$3,000 federal maximum. The Montana state maximum of \$500 is per taxpayer with qualifying expenses, whether filing jointly or separately. Consult a tax accountant for details.

Q: Can the conservation tax credit be claimed for work performed on a summer home or second home?

A: No. These particular federal credits are reserved for qualifying expenses installed in a primary residence. The state credit specifies that work be performed on a “dwelling.”

Q: What is the state tax form to claim the Montana credit?

A: Montana tax form ENRG-C. See the Resources section for more information.

Resources

The Tax Incentive Assistance Project (TIAP) is a coalition of public interest nonprofit groups, government agencies, and other organizations in the energy efficiency field. Its website is designed to give consumers and businesses the information needed to make use of the federal income tax incentives for energy efficient products and technologies. The TIAP website can be accessed at: <http://energytaxincentives.org/>

The Database for State Incentives for Renewables and Incentives (DSIRE) offers good descriptions of state and federal incentives at its national website: www.dsireusa.org/.

The Montana Department of Revenue offers a website that shows the overlap of state and federal energy tax credits at: <http://recovery.mt.gov/revenue/default.mcp> The site also offers links for additional information about state and federal conservation tax credits. You can also access the Montana tax form ENRG-C, which is used for insulation investments. The form includes questions and answers on the back.

The Montana Department of Environmental Quality maintains the Energize Montana website at: <http://deq.mt.gov/Energy/index.asp>. The Energy Savers Guidebook is a homeowners' reference to saving energy. It's available as an online document or can be ordered from the DEQ.