

Energy Efficiency Tax Credits ***Furnaces, Boilers and Air Conditioners***

Many home energy efficiency investments are eligible for a state and a federal tax credit, up to a maximum \$500 per taxpayer. The state of Montana credit is 25 percent, up to \$500 per taxpayer. Look for other Fact Sheets in this series that focus on investments in conservation and renewable energy. Now we turn our attention to the utility room: home furnaces and boilers and air conditioning units. Many products are eligible. Some utilities and electric co-ops offer rebates on these appliances that can make the decision even easier.

The federal tax credit is only available for existing principle residences while the Montana tax credit is available for both existing and new residences and buildings.

Most homes in Montana are heated with natural gas. The federal Department of Energy (DOE) recognizes several classes of home heating units. In general, they can be divided into those that heat water or other fluids — boilers. Home heating units that heat and distribute air are classified as furnaces. A third class embraces air-source heat pumps that provide space heating and in some instances cooling as well.

Federal and state tax credits are available for investments in furnaces and boilers fueled by natural gas, but also those fired by propane or fuel oil. Restrictions apply and they relate largely to threshold energy efficiency of the home heating unit to claim the federal credit. The requirements are so high that not all Energy Star-labeled products meet the federal tax credit requirements. For information on the federal tax credits go to; https://www.energystar.gov/about/federal_tax_credits

Energy Star is a reliable guide for natural gas and propane furnaces to capture the Montana state credit. However, for boilers and oil furnaces, carefully review the manufacturer's certification label, since the state requirements mirror those of the federal credit. The appliance provider should supply a Manufacturer's Certification Statement that the product or component qualifies for the tax credit. Taxpayers should keep a copy of the certification statement for their records, but do not have to submit a copy with either the state or federal tax return

Furnaces

For natural gas or propane furnaces, the federal tax credit may be taken for the full investment, including installation costs. An installed system must meet Annual Fuel Utilization Efficiency (AFUE) rating of 95 percent or higher. While the taxpayer may take the credit for the full cost of the unit, the credit caps-out at \$150 per taxpayer. Any replacement unit must be installed during the tax year that the credit is claimed (2015 and 2016) and must be installed in a principal home or residence. Use federal form 5695 to claim the credit.

The Montana credit for a furnace is 25 percent of the investment, inclusive of installation costs, up to \$500 per taxpayer. The furnace must be a central system; portable heaters or space heaters are ineligible. The unit may be installed in a second home or other building. Efficiency rating must be 95 percent for natural gas or propane and 90 percent for those burning fuel oil.

Boilers

As previously mentioned, boilers heat fluids. The fluid (or in some instances steam) is then distributed through a network of piping to radiators that heat spaces. Boilers that burn natural gas, propane, or oil must offer an AFUE rating of 95 percent to claim the federal credit. As with

furnaces, the credit may be claimed against the cost of the appliance including installation costs. The maximum is capped at \$150.

The Montana credit for a boiler is 25 percent of the investment, inclusive of installation costs, up to \$500 per taxpayer. To claim the credit, a boiler must have an AFUE efficiency of 90 percent or higher. The unit may be installed in a second home or other building.

Homeowners who have purchased a boiler or furnace should keep the energy efficiency certification label on file, even though there's no requirement to submit a copy to claim the credit for either state or federal taxes. Use state form ENRG-C to claim the credit.

Air-Source Heating and Conditioning

Don't confuse air-source heat pumps with ground-source heat pumps. Ground-source systems warrant a separate set of state and federal credits and a separate advisory has been prepared. Consumers investigating ground-source systems should research those areas.

A split-system will feature coils for the refrigerant evaporator unit in an outdoor location, while the condenser coil and compressor are inside the house. This is a common configuration for residential applications. Integrated or packaged systems are more common for larger buildings and commercial applications.

Residential air-source heat pumps may be configured to run in reverse — cooling the house in summer as well as providing heat in winter. For certain climates, a combined system that both heats and cools spaces is highly desirable.

The tax credit issues surrounding air conditioning require the system to be central and it may be split — having components outdoors and indoors — or packaged. Specific information to capture the federal credit is available below.

The Montana credit for air conditioning is 25 percent of the qualified investment, inclusive of installation costs, up to \$500 per taxpayer. The unit must be a central system and feature an EER of at least 13 and a SEER of at least 16 (split system) and EER of at least 12 and SEER of at least 14 (packaged system).

Note that for new systems or for new homes, the cost of distribution systems, (ductwork, and registers) is not eligible. Use state form ENRG-C to claim the credit.

The federal credit is equal to the full cost of the equipment up to the following caps:

Gas, propane or oil furnace or boiler with AFUE of at least 95. \$150

Advanced main air circulating furnace fan. \$50

Central air conditioner which achieves the highest efficiency tier established by the Consortium for Energy Efficiency: \$300

Electric heat pump which achieves the highest efficiency tier established by the Consortium for Energy Efficiency: \$300

SEER and EER

A Seasonal Energy Efficiency Rating (SEER) expresses — as the name suggests — the efficiency of electrical consumption over an entire heating (or cooling) season. The SEER rating applies to the cooling efficiency of combined heating and cooling systems. To capture the federal credit, the SEER must be at least 15. The Energy Efficiency Ratio (EER) measures how a unit performs at a given air temperature. This second operating mode must be at least 12.5. The higher the number, the better the rating. Energy Star-endorsed products generally qualify for the federal tax credit.

Resources

For Information on the federal tax credit go to;

https://www.energystar.gov/about/federal_tax_credits

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 for state energy tax credits at:

https://revenue.mt.gov/home/individuals/taxrelief_energy The site offers links for additional information about state conservation tax credits. You can also access the Montana tax form ENRG-B, which is used for alternative energy projects such as ground-source heating systems. The form ENRG-C is used for energy conservation work. The forms include questions and answers on the back.