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Save Money, Save Taxes, Save the Environment

Tax Credits for Solar, Wind & Geothermal Systems

The stock market has disillusioned many people because of the inherent risks and volatility. Many people are looking for something that will give them a guaranteed return. If that return was tax-free, that makes it all the more attractive. Many of us are also concerned about environmental issues, our dependence on oil, and the future price increases of energy. Here are some investment ideas that can address some of these issues.

These investments don't pay you a dividend as income, but they will lower your monthly expenses. As energy prices increase, your savings will be even greater. This will reduce your income needs in the future. Because the savings are not income, they are not taxable, and in addition, you do get a significant tax savings when you make these investments – keep reading! Finally, you will see these systems will definitely reduce your dependence on other forms of energy.

Solar, wind and geo-thermal energy systems are often not even seriously considered by many people because they just are not familiar with them. We see some of them in the news occasionally, but for those of us in Michigan, our winters are very cloudy reducing our days of sunlight to just a few. We also have heard about the cost of building windmills and wonder if the energy they produce will pay for themselves, ever. Geo-thermal doesn't get the press as much, but actually has probably the greatest potential for helping us save money. I have clients that have put them in their homes and really like the systems, and especially if you are building a new home, the payback is very significant.

Usually geo-thermal is used to heat and cool your home or business, as well as provide hot water. Using ground temperature water, it compresses the water to heat it up, which then can be used in your furnace to heat your home or hot water heater to heat your water. The cooled water is returned to the ground to be re-heated. Cooling works the opposite way, we take ground temperature water, compress it which naturally heats it, then cool it with the air or ground, then release the pressure by your main blower providing cold water much the way any air-conditioner works. All of this uses much less energy to pump and compress the water than burning natural gas or oil. Even the air-conditioning operating costs are lower than using conventional systems.

Although these systems are more expensive to buy and install, the energy savings alone makes the cost worth while. In addition, 30% of the cost of your system (incurred in 2009 to 2016) can be used as a credit against your income taxes. (No limit!) Now this is worth serious consideration as to whether it will benefit you.

To qualify for the credit, the geo-thermal system must be connected with a U.S. residence and must meet the Energy Star rating.

There are several other systems that qualify for the 30% tax credit which some of you may find an interest in. Here is some basic information on the requirements of several systems:

Solar water heating systems (which produce hot water and is certified that at least 50% of energy is from solar) and **photovoltaic** systems (which use the sunlight to produce electricity for use in the residence) installed in your U.S. residence in years 2009 through 2016 qualify for a 30% tax credit with no limit. (It does not have to be your primary residence.)

Small **wind** turbines (100 kilowatts or less of capacity) installed in either your residence or business qualify for a 30% credit up to \$4,000. (One of my sources indicated a 10 kilowatt residential wind turbine costs about \$32,000 and takes about 15 years to pay for itself. A \$4,000 credit will help take a couple of years off that payback period.)

Fuel cells (which use hydrogen and oxygen to produce electricity) installed on or in connection with a residence qualify for a 30% tax credit, limited to \$500 per .5 kilowatt of capacity. It must have an electricity only efficiency rating of at least 30%.

Property used to heat a swimming pool or hot tub does not qualify for the credit. The only limits (not specifically stated above) are that the credits cannot be more than your income tax and alternative minimum tax (AMT). The unused portion of the credit can be carried forward and used as a credit in the following years. (Although many credits do not reduce the AMT, these credits are allowed against AMT.)

In the long term, these systems should easily pay for themselves, reduce the impact you have on the environment, and right now, the U.S. government is willing to help you pay for them. There is a certain amount of guaranteed return on these investments – which is more than what your stock broker can offer.

Please feel free to call us with any questions about these items, or visit our web-site for more tax saving ideas.