



# OLR RESEARCH REPORT

August 15, 2011

2011-R-0291

## **STATE AND FEDERAL ENERGY EFFICIENCY TAX INCENTIVES**

By: Lee R. Hansen, Legislative Analyst II

You asked for information regarding the state and federal tax incentives available for residential energy efficient products, including weatherization and insulation installation.

### **SUMMARY**

There are currently two tax incentives available to promote energy efficient products: (1) a state sales tax exemption on products such as insulation, windows, doors, and programmable thermostats, and (2) a federal personal tax credit of up to \$500 for purchasing energy efficient insulation, windows, doors and other equipment. Unless it is extended, the federal tax credit expires at the end of 2011.

### **STATE SALES TAX EXEMPTION**

In Connecticut, CGS § 12-412k exempts certain residential weatherization products from the state's sales tax. The exemption applies only to products that are designed and marketed for residential, not commercial, use. However, it does not matter if the purchaser is a residential owner, tenant, or contractor.

The tax exemption applies to: programmable thermostats; window film; caulking marketed for preventing drafts, such as window and door caulking; window and door weather strips, including door sweeps; insulation for attics, walls, water pipes, heating ducts, switches, and

outlets; water heater blankets; water heaters; boilers with an annual fuel utilization efficiency (AFUE) rating of at least 84%; natural gas furnaces, propane furnaces, windows, and doors that meet the federal Energy Star standard; oil furnaces with at least an 84% AFUE efficiency rating; and ground-source heat pumps that meet the minimum federal energy efficiency rating.

**FEDERAL TAX CREDIT**

The federal government offers a personal tax credit for purchasing certain products that improve the energy efficiency of a dwelling that is owned and used as a taxpayer’s primary residence. In 2011, these tax credits can cumulatively reach up to \$500, although any credits claimed since 2006 count toward the \$500 cap. A taxpayer who has claimed \$500 or more in the credit in the past is ineligible to claim it for purchases made in 2011 (prior to 2011, a taxpayer could claim up to \$1500 in the credit).

Table 1 shows products eligible for the credit and the amount that can be claimed. The credits do not apply to product installation costs.

**Table 1: Products Eligible for Federal Tax Credit**

<b>Product</b>	<b>Requirements</b>	<b>Tax Credit</b>
Biomass stoves	Thermal efficiency rating of at least 75%	\$300
Advanced main air circulating fan	Cannot use more than 2% of a furnace’s total energy	\$50
Air source heat pumps	For Split Systems: Heating Seasonal Performance Factor (HSPF) of at least 8.5 Energy Efficiency Ratio (EER) of at least 12.5 Seasonal Energy Efficiency Ratio (SEER) of at least 15 For Package Systems: HSPF of at least 8 EER of at least 12 SEER of at least 14	\$300

<b>Product</b>	<b>Requirements</b>	<b>Tax Credit</b>
Central air conditioning	Split Systems: SEER of at least 16 EER of at least 13 Package Systems: SEER of at least 14 EER of at least 12	\$300
Gas, propane, or oil hot water boiler	AFUE of at least 95%	\$150
Natural gas, propane, or oil furnace	AFUE of at least 95%	\$150
Insulation, including bulk insulation, weather stripping, spray foam designed to air seal, caulk designed to air seal, and house wrap	Air seal products must come with a manufacturer's certification statement	10% of the cost, up to \$500
Metal and asphalt roofs	Metal roofs must have appropriate pigmented coatings Asphalt roofs must have appropriate cooling granules and meet Energy Star requirements	10% of the cost, up to \$500
Gas, oil, or propane water heaters	Energy factor of at least 0.82 or 90% thermal efficiency	\$300
Electric heat pump water heater	Energy factor of at least 2.0	\$300
Windows, doors, and skylights	Must be Energy Star qualified	10% of the cost, up to \$500, but windows are capped at \$200

To apply for the credit, consumers must claim the residential energy tax credit and file IRS Form 5695 with their 2011 tax filing. They should also save any applicable receipts and manufacturer's certification statements with their records. Downloadable IRS forms are available at [www.irs.gov](http://www.irs.gov).

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