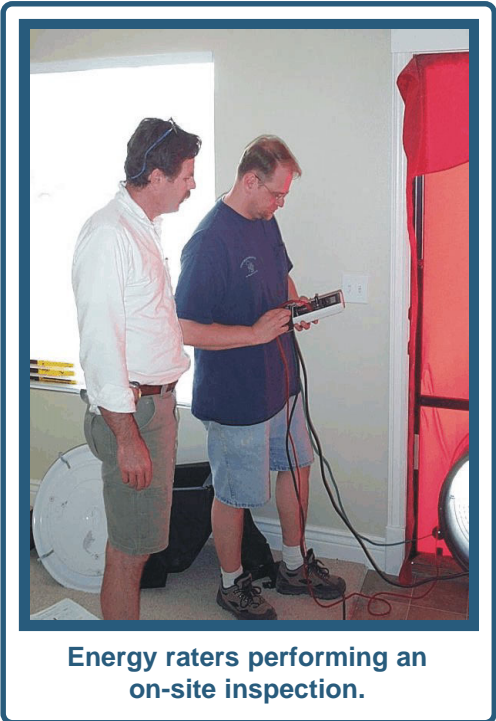


The Energy Policy Act of 2005 (EPA 2005 H.R.6) created tax incentives for energy efficiency measures in buildings or systems placed in service from January 1, 2006, through December 31, 2008. Proposals are pending before Congress to extend the qualifying period by several years. Current information is available on the web, at: <http://www.energytaxincentives.org>. The following is a summary of the tax credits available to builders and commercial property owner/developers.

### Residential Construction

Residential contractors may earn a tax credit of \$2,000 for homes that reduce energy use for heating and cooling only (no hot water) by 50% compared to the stated national model energy code, the 2004 Supplement to the 2003 International Energy Conservation Code, with a minimum SEER-13 for air conditioners and heat pumps. The building envelope component improvements must account for at least 1/5 of the 50 percent reduction, which is clearly achievable with ICF construction. Third-party inspectors certified according to DOE rules must document compliance. Energy Star Raters can provide this inspection service, as well as energy modeling and design in the plan phase of the project.



**Energy raters performing an on-site inspection.**

***"The bill I sign today is a critical first step... toward a more affordable and reliable energy future for the American citizens."***

- President George Bush, August 8, 2005 as he signs the Energy Policy Act of 2005, enacting tax provisions into law.

The RESNET Website offers a complete directory of raters at [www.natresnet.org](http://www.natresnet.org).

To qualify, contractors must submit IRS Form 8908 with their business tax returns. The directions for this form stipulate that the property in question

must be acquired by an individual from that contractor during the tax year for use as a residence. This clause precludes the application of this tax credit to owner/builders. Instead, homeowners can apply for the Residential Energy Credit, using IRS Form 5695 (only through December 31, 2007). A credit is calculated for improvements to energy efficiency, both through improvements to the building envelope as well as installation of renewable energy systems. This credit is limited to a total combined amount of \$500 for all tax years.

**Residential contractors can earn a \$2,000 tax credit for a home certified to save 50% in energy consumption.**

### Commercial Construction

Business taxpayers (i.e. the building owner) can earn a deduction of \$1.80 per square foot for commercial buildings that achieve a 50% reduction in annual energy costs, compared to a base building defined by the industry standard ASHRAE/IESNA 90.1-2001. Energy costs refer only to heating, cooling, lighting and water heating, since only these uses are within the scope of the ASHRAE standard and within the control of the building designer.

**Commercial building owners are eligible for a \$1.80 / ft<sup>2</sup> tax deduction by meeting a 50% energy savings target.**

Note that energy use in commercial construction can be caused by internal factors, which might outweigh the impact of the external environment on the building. Typical examples include

increased cooling load due to heat generated by machinery or people.

The requirement of 50% savings over the 2001 ASHRAE Standard may require significant measures, as the ASHRAE standard is already a challenging benchmark. Partial deductions of \$.60 per square foot can be taken for improvements to one of three building systems—the building envelope, lighting, or heating/ cooling system—that reduce total energy consumption in consideration by 16 2/3% (16 2/3% is the 50% goal for the three systems spread equally over the three systems). Also, note that tax incentives for photovoltaic and solar water systems are only for residential use, and do not qualify for commercial construction.

### **An Important Distinction**

There is an important difference between a tax deduction and a tax credit. A tax deduction is subtracted from income before total tax liability is computed. On the other hand, a tax credit is subtracted directly from the total tax liability. This means that a deduction and a credit have different values, with a credit being 25%-50% more financially advantageous to the taxpayer than the deduction. For example, a tax credit of \$1,000 for someone in the 35% tax bracket is equal to a tax deduction of \$1,538.

### **ICFs Fit the Bill**

The unique combination of continuous insulation, airtight construction and thermal mass of insulating concrete form (ICF) construction contributes significantly to energy savings. By using ICFs, a contractor is well on the way towards qualifying for the Energy Efficient Home Credit. It is most beneficial to engage a residential energy modeler in the design stage of the building project, to help identify the most cost-effective of the possible energy measures. Raters may then return during the project for an on-site inspection to measure the air tightness of the home at the completion of the project using a blower door test. This same RESNET rater and testing procedure is used for the Energy Star labeling, for Energy Efficiency Mortgages and for “rightsizing” HVAC units. All this for a fee which can now be offset by the Federal Tax Credit. The time is right for ICF contractors to aim for this new energy benchmark.



*The Insulating Concrete Form Association (ICFA) is the business association of the insulating concrete form industry, representing over 470 international firms through ICF promotion, codes and standards, research, partnering and education. Founded in 1994, the ICFA is located in Suburban Chicago, IL.*

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