



It's time to get comfortable.



## Frequently Asked Questions Concerning the Federal Residential HVAC Tax Credits for 2011

On December 17, 2010, President Obama signed the “Federal Tax Relief, Unemployment Insurance Reauthorization and Job Creation Act of 2010” into law. This bill extends the federal tax incentives for consumer purchase of high efficiency heating and cooling equipment for 2011. Overall, the tax credits have been set to 10% of the installed cost of those improvements, or up to a total of \$500 for residential HVAC products installed from January 1, 2011 through December 31, 2011.

The following information has been prepared to help answer those frequently asked questions on this complicated tax credit issue for residential HVAC equipment. Before filling for tax credits, it is always recommended that homeowners consult with a tax professional to review the provisions of the Section 25C of the Internal Revenue Code. Taxpayers should keep copies of invoices and receipts for documenting their actual expenditures, but need to file Form 5695 with their tax returns.

### *What are the qualifying criteria for residential equipment to get these tax credits?*

The criteria for qualifying residential HVAC equipment for the federal tax credits remain the same as used for the federal tax credits in 2009 and 2010. The tax credit is 10% of the installed cost of the qualifying energy efficient equipment meeting as noted below.

1. A maximum of \$150 tax credit for natural gas, propane, or oil furnace rated 95.0% AFUE or higher.
2. A maximum of \$50 tax credit for any furnace equipped with an advanced main air circulating fan that uses no more than 2% of the total furnace total energy use.
3. A maximum of \$300 tax credit for a central air conditioner that achieves the highest efficiency tier established by the Consortium for Energy Efficiency as in effect on January 1, 2009 (16 SEER or higher, 13 EER or higher rating).
4. A maximum of \$300 tax credit for an electric air source heat pump that achieves the highest efficiency tier established by the Consortium for Energy Efficiency in effect on January 1, 2009 (15 SEER or higher, 12.5 EER or higher, 8.5 HSPF or higher rating).
5. A maximum of \$300 tax credit for a single package air conditioner that achieves the highest efficiency tier established by the Consortium for Energy Efficiency as in effect on January 1, 2009 (which is 14 SEER or higher and 12 EER or higher).
6. A maximum of \$300 tax credit for a single package electric air source heat pump that achieves the highest efficiency tier established by the Consortium for Energy Efficiency in effect on January 1, 2009 (14 SEER or higher, 12 EER or higher, 8 HSPF or higher).

### *What is an “advanced main air circulating fan?”*

An advanced main air circulating fan is the blower/fan used in a natural gas, propane, or oil furnace which has an annual electricity use of no more than 2% percent of the total annual energy use of the furnace (as determined in the standard Department of Energy test procedures). This criteria and tax credits do not apply to air handlers with energy efficient motors, as the benefit of the advanced main air circulating fan has already been included in the energy efficiency ratings of the outdoor products.

### *What's the difference between a tax credit and a tax deduction?*

A tax credit applies directly against the taxpayers' liability. A tax deduction applies against a taxpayer's income, lowering the adjusted gross income and possibly moving the taxpayer to a lower tax bracket. Tax credits have a greater benefit to a taxpayer than a tax deduction. There are two categories of tax credits:

Refundable and Non-Refundable. Residential Energy Tax Credits for 2011 are considered to be Non-Refundable tax credits under the IRS regulations, just as previous tax credits.

*What is the difference between Non-Refundable and Refundable Tax Credits?*

Most but not all, tax credits are referred to as non-refundable credits. A non-refundable credit is a tax credit that can reduce your tax liability to zero (0), but not below. You must have tax liability on line 46 of Form 1040, line 18 of Form 1040A, or line 43 of Form 1040NR to claim a non-refundable tax credit. A refundable tax credit is a tax credit that can reduce your tax liability below zero (0). Because it is possible to receive a refund based on these types of credits, the credits are referred to as refundable.

*Can a homeowner use the \$500 tax credit towards a single appliance installation?*

Yes, a homeowner may use the entire \$500 in tax credits for installing a single qualified appliance, such as a furnace, air conditioner, heat pump, etc.

*What happens if the 10% of the installed cost is less than the \$500 limit?*

The homeowner can “bank” the remaining amount of the available tax credit towards the cost of other qualified improvements during 2011. Any single item that the installed cost is more than \$5000 will instantly reach the \$500 limit.

*Does the tax credit apply to the cost of the equipment or equipment plus labor?*

The tax credit applies to the **installed** cost of the equipment that qualifies for the tax credits, which includes labor for that specific installation.

*Can a homeowner claim credits for improvements to a second home, such as a vacation home?*

No, the tax credit program is only available for improvements made to the taxpayer’s primary residence or home, and may not be used for second or vacation homes

*Can a small business that operates out of a townhouse and installs residential equipment in a commercial setting claim the credit?*

No. The tax credit may only be claimed by taxpayers on their personal income taxes for improvements to their primary residence.

*Can a homeowner claim \$1500 in tax credits for improvements made in 2009 or 2010, and then again claim tax credits for more improvements made in 2011?*

No, for 2011 taxpayers are eligible for a total of \$500 in tax credits for improvements made in 2011. However, there is now a specific individual or lifetime cap of \$500, which dates back to January 2006. If an individual or household has claimed any 25C tax credits at any time since 2006 for any qualifying energy efficiency upgrade up to or over \$ 500, they are **not eligible** for claiming the tax credit in 2011.

*Do “Energy Star” Certified products meet the requirements for these tax credits?*

Because there are different equipment definitions and product tiers used by the “Energy Star” program, most “ENERGY STAR” products do meet the criteria for these tax credits, but not all of them do. Refer to the qualifying criteria as shown on the “Energy Star” website and the criteria for the federal tax credits.

*What other types of energy efficiency improvements qualify for the tax credits?*

Homeowners may be able to qualify for the tax credits if they make qualified improvements to many energy savings products, such as windows and doors including skylights, storm windows and storm doors; roofing including metal and asphalt roofs; and insulation. All of these improvements qualify, but homeowner may only claim \$500 in total for any improvements. The exception to this is for geothermal heat pump applications and installations, where there is no limit on the tax credit amount.

*How do homeowners claim the tax credits and receive their money?*

Before filling for tax credits on any listed models, it is always recommended that homeowners/consumers consult with a tax professional to review the provisions of the Section 25C of the Internal Revenue Code. The IRS has directed taxpayers to use Form 5695, Residential Energy Efficient Property Credit. Taxpayers should keep copies of invoices and receipts to document their actual expenditures, but only need to file Form 5695 with their tax returns to get the tax credits.

*Should a contractor promise a homeowner that they will qualify for the tax credit?*

No, as each taxpayer's situation may be different. The contractor may not know if the taxpayer has already made other improvements that qualify, or if their tax situation will change by the end of the tax year. But to be safe, the contractor can always say "by installing qualified equipment, the taxpayer may be qualified to claim of 10% of the installed costs (up to a \$500 limit) in tax credits." And the contractor should always advise the homeowner to refer to the applicable IRS forms and regulations.

*What if a homeowner/taxpayer had already completed energy improvements under the provisions of the "American Recovery and Revitalization Act of 2009" that qualify for tax credits under this new bill?*

The "American Recovery and Revitalization Act of 2009" allows tax credits for equipment installed between January 1, 2009 and December 31, 2010. Tax credits for that time are filed with the consumers tax returns for those years. Refer to the appropriate IRS rules, regulations, and information on this topic.

*What should be done with manufacturer's tax credit certificates published for 2009 and 2010 tax credits?*

Please note that there are no significant changes to the qualifying criteria for high efficiency products and to other provisions related to HVAC equipment under this new legislation. But the total dollar amounts for the tax credits have been reduced from the amounts eligible from 2009 and 2010. Because of these changes, previous versions of tax certificates which specify qualifying residential equipment are no longer valid and should not be used at this time. Certificates can also be downloaded from the AHRI and GAMA websites indicated at the end of this document if manufacturer's certificates are not yet available.

Document prepared January 10, 2011. Any questions may be directed to:

Bryan K. Rocky  
Director, Residential Product Management  
Building Efficiency, North America  
Johnson Controls Inc.  
P.O. Box 19104  
Wichita, KS 67204-9104  
316-832-6431  
[bryan.rocky@jci.com](mailto:bryan.rocky@jci.com)

**Additional Resources:**

This document was prepared using information from a number of sources, including the following websites. Additional information may be found at:

ACEEE (American Council for an Energy-Efficient Economy)  
<http://aceee.org/energy/national/taxkey.htm/>

AHRI (Air Conditioning, Heating, and Refrigeration Institute)  
<http://www.ahrinet.org/Pages/ShowMeMore.aspx?src=single&pk=741/>

CEE (Consortium for Energy Efficiency)  
<http://www.ceehvacdirectory.org/>

Energy Star  
[http://www.energystar.gov/index.cfm?c=products.pr\\_tax\\_credits#s9/](http://www.energystar.gov/index.cfm?c=products.pr_tax_credits#s9/)

Heating, Air conditioning and Refrigeration Distributors International (HARDI)  
<http://www.hardinet.org/>

Tax Incentives Assistance Project  
<http://www.energytaxincentives.org/general/legislative.php>

**Reference Material:**

Consortium for Energy Efficiency (CEE) - High Efficiency Specification, January 1, 2009

**CEE High-efficiency Specification  
for Residential HVAC Systems**

Effective January 1, 2009

(Terms of Usage below)

**Central Air Conditioners**

**Split Central Air Conditioners**

Level	SEER	EER
CEE Tier 1 and ENERGY STAR	14.5	12
CEE Tier 2	15	12.5
CEE Tier 3 (Advanced)	16 or higher	13 or higher

**Packaged Central Air Conditioners**

Level	SEER	EER
CEE Tier 1 and ENERGY STAR	14	11
CEE Tier 2	14 or higher	12 or higher

**Air Source Heat Pumps**

**Split Heat Pumps**

Level	SEER	EER	HSPF
ENERGY STAR	14.5	12	8.2
CEE Tier 1	14.5	12	8.5
CEE Tier 2	15 or higher	12.5 or higher	8.5 or higher

**Packaged Heat Pumps**

Level	SEER	EER	HSPF
CEE Tier 1 and ENERGY STAR	14	11	8
CEE Tier 2	14 or higher	12 or higher	8 or higher

SEER – Seasonal Energy Efficiency Ratio  
EER – Energy Efficiency Ratio  
HSPF – Heating Seasonal Performance Factor

© 2007 Consortium for Energy Efficiency, Inc. All rights reserved.

For information regarding federal tax credits for Central Air Conditioners and Heat Pumps, visit <http://www.cee1.org/resid/rs-ac/rs-ac-tax-credits.php3>.

To search the *CEE Directory of ARI Verified Equipment* by the levels indicated in this specification, visit <http://www.cee1.org/directory>.