

Residence Credits. The Energy Tax Incentives Act of 2005 provides two new credits for energy efficient improvements made to personal residences, but only if the improvement is made after 2005. Improvements eligible for credits in 2006 are as follows:

- Qualified home improvements on your principal residence (no vacation homes), including metal roofs coated with heat-reduction pigments; exterior windows, including those in skylights; exterior doors; insulation materials or systems designed to reduce heat loss or gain, energy efficient electric heat pumps, electric heat pump hot water heaters, geothermal heat pumps, and central air conditioners; qualified natural gas, propane, and oil furnaces and qualified hot water boilers; and advanced main air circulating fans. The available credit for such expenditures is generally limited to a lifetime amount of \$500, although other limits may also apply.
- Qualified solar water heating equipment, electricity generating solar photovoltaic property, and fuel cell property put to use after 2005 in your personal residence. However, equipment used to heat swimming pools or hot tubs does not qualify. The credit will generally equal 30% of the item's cost, limited to \$2,000 per type of item or, in the case of fuel cell property, \$500 for each .5 kilowatt of capacity.

Hybrid Vehicles. The same Act of Congress that introduced the Residence Credits discussed above, also replaced the \$2,000 deduction available for hybrid vehicle purchases made before 2006 with a credit of up to \$3,400 for hybrid vehicles purchased after 2005. This is a major benefit as not only did the amount increase, but a tax credit represents a dollar for dollar reduction of tax, where the former deduction only reduced the tax by your effective tax rate which could be as low as 10 cents on the dollar.