

# Energy Related Tax Relief FAQs

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## Energy Conservation Installation Credit (Form ENRG-C)

### *Q. What is the energy conservation installation credit?*

**A.** It is a credit that individual Montana residents can claim for materials or equipment purchased and installed in a home or other building that either:

- Reduces the waste or dissipation of energy, or
  - Reduces the amount of energy required to accomplish a given quantity of work.
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### *Q. What capital investments can I make to a building that will qualify for the energy conservation credit?*

**A.** To qualify for this credit, your investment has to be made to the building itself. The following investments qualify for the energy conservation credit:

- Heat recovery ventilators (HRV) meeting the CSA C439-00 standard
- Heating and cooling systems that meet or exceed the following ratings:
  - Split system central air conditioning with an EER greater than or equal to 13 and SEER greater than or equal to 16
  - Package system central air conditioning with an EER greater than or equal to 12 and SEER greater than or equal to 14
  - Split system air source heat pumps with an HSPF greater than or equal to 8.5, EER greater than or equal to 12.5 and SEER greater than or equal to 15
  - Package system air source heat pumps with an EER greater than or equal to 12 and SEER greater than or equal to 14
  - Natural gas or propane furnaces with an AFUE greater than or equal to 95
  - Oil furnaces with an AFUE greater than or equal to 90
  - Hot water boilers with an AFUE greater than or equal to 90
- Gas, oil, or propane water heaters with an energy factor greater than or equal to 0.82 or thermal efficiency of at least 90%
- Electric heat pump water heater energy factor greater than or equal to 2.0
- Exterior windows and skylights with a U-factor less than or equal to 0.30 (**\*See note below**)
- Storm windows with a U-factor less than or equal to 0.30 when measured in combination with the exterior window over which it is installed (**\*See note below**)
- Exterior doors with a U-factor less than or equal to 0.30 (**\*See note below**)
- Storm doors with a U-factor less than or equal to 0.30 when measured in combination with the exterior door over which it is installed (**\*See note below**)

**\*Please note-**for windows, skylights and doors installed after December 31, 2014 in new construction situations, only the amount spent to exceed the current International Energy Conservation Code with Montana amendments as adopted by the Montana Department of Labor and Industry is eligible for the credit

- Insulation of floors, walls, ceilings and roofs in existing buildings
- Insulation in the floors, walls, ceilings and roofs of a new building, to the extent that it exceeds the current International Energy Conservation Code with Montana amendments as adopted by the Montana Department of Labor and Industry
- Insulation of heating and air conditioning pipes, insulation and sealing of heating, ventilation and air conditioning (HVAC) ducts, and insulation of hot water heaters and tanks
- Glass fireplace doors on existing fireplaces
- Exhaust fans to reduce air conditioning requirements
- Replacement of incandescent light fixtures with fixtures of a more efficient type such as those with electronic ballast and compact or linear fluorescent lamps and LED lights
- Lighting controls with cutoff switches to permit the selective use of lights
- Programmable thermostats
- Caulking and weather stripping of an existing structure (except when it is a standard component in the construction or maintenance of the structure, such as the chinking and caulking in a log home)
- Devices which limit the flow of hot water from shower heads and lavatories

***Q. What are some examples of investments that will NOT qualify for the energy conservation installation credit?***

**A.** In general, any investment for repairs or maintenance to a building or residence will not qualify. The following are examples of expenditures that will NOT qualify for the energy conservation installation credit. *This list is not intended to be an all-inclusive list, but a guideline to assist you in determining if your investment qualifies.*

- Installing carpet
- Reshingling or repairing a roof
- Metal roofs with pigmented coating or asphalt roof with cooling granules
- Paint
- Replacing or repairing a failing foundation
- Siding
- Portable air conditioners
- Space heaters
- Insulating an unheated space
- Gas fireplaces and fireplace inserts
- Household appliances such as ENERGY STAR stoves, washers, and dryers

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***Q. I installed a high efficiency central air-conditioning system in my home that did not have a central air-conditioning system previously. Can I claim the credit?***

**A.** Yes. You may claim the credit if the system meets or exceeds the applicable specification listed in the chart above.

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***Q. I am constructing a new home. Can I claim the energy conservation credit?***

**A.** Yes you can. Investments made in items as part of constructing new buildings or dwellings will qualify for the credit as long as the items meet or exceed the applicable specification listed in the chart on the previous page. Except for insulation, if an item meets or exceeds the applicable specification, both the cost of the item itself and any basic installation costs qualify. Insulation must exceed the 2012 IECC as amended for Montana and only the costs of exceeding the specifications qualify.

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***Q. Is there another way to calculate the credit for investments made while constructing a new home?***

**A.** Yes, there is another option. The purchase by the first owner or construction by an individual of a site-built home can be considered the equivalent of investing \$2,000 in energy conserving measures if the home has been certified under either the ENERGY STAR program or the Montana Building Industry's Green Build program. A home certified under the Green Build program must attain either Gold level or a Silver level with an ENERGY STAR heating system in order to calculate the credit in this manner.

The resulting credit of \$500 ( $\$2,000 \times 25\%$ ) may be split among all individuals who purchased the home. The resale of a home certified under either program does not qualify for any credit. For more information, please contact the Department of Revenue toll-free 1-866-859-2254 (in Helena, 444-6900) or review the administrative rules.

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***Q. My spouse and I replaced the windows and doors in our home with those that will qualify us for the energy conservation installation credit. Are we both entitled to the energy installation credit?***

**A.** Yes, you are. If your energy conservation investments were \$4,000 or more and both you and your spouse paid for the investments, you are each entitled to a \$500 energy conservation installation credit. If you are filing jointly with your spouse, you may claim \$1,000 as your energy conservation installation credit. If you are filing separately with your spouse, each spouse's energy conservation installation credit is limited to the smaller of \$500 or 25% of his or her investment.

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***Q. I qualify for the energy installation credit this year but am unable to claim the full amount of my credit because my income tax liability is less than \$500. Can I carry my unused credit forward?***

**A.** No, you cannot. The energy conservation installation credit is a nonrefundable single year credit. You cannot carry forward any unused portion of your credit to succeeding tax years.

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***Q. I installed new windows and exterior doors in my home. I paid half of the total price in 2013 and the balance was paid when the installation was complete in 2014. Does my down payment qualify for the energy conservation installation credit? Do I qualify for the credit in both 2013 and 2014?***

**A.** The energy conservation installation credit is available in tax year 2014 only (the year when the installation is completed). You can include the down payment expended in 2013 to determine the total cost of your expenditures for the credit.

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***Q. I Installed new windows and exterior doors in my home for a total expenditure of \$10,000. My 25% energy conservation credit is \$2,500. Am I eligible for the full \$2,500 credit?***

**A.** No, you are not. Your energy conservation installation credit is limited to the smaller of \$500 or 25% of the qualified investments made during the tax year. You are not eligible to carry any of the excess credit forward to succeeding tax years.

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***Q. What type of records should I retain to document my eligible expenses for the energy conservation installation credit?***

**A.** You should retain invoices, sales agreements, or receipts that document work done and the equipment installed. Your records should clearly state the equipment manufacturer, make and model number of any installed heating and cooling systems, windows, doors, light fixtures, thermostats, etc., and their ratings that will determine the qualifications for this tax credit.

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## **Geothermal Systems Credit (Form ENRG-A)**

***Q. What is a geothermal system?***

**A.** A geothermal system is a system that transfers energy either from the ground, by way of a closed loop, or from ground water, by way of an open loop, for the purpose of heating or cooling a residential building.

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***Q. What installation costs are allowed when claiming this credit?***

**A.** Your allowed installation costs include:

- Trenching, well drilling, casing, and downhole heat exchangers
- Piping, control devices and pumps that move heat from the earth to heat or cool the building
- Ground source or ground coupled heat pumps
- Liquid-to-air heat exchanger, ductwork, and fans installed with a ground heat well that pump heat from a well into a building
- Design and labor

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***Q. Who qualifies for the geothermal system credit?***

**A.** For individuals, the geothermal system credit is available to a Montana resident who completes the installation of a geothermal system in his or her principal dwelling or home. This credit is also available to an individual for installing a geothermal system while constructing a new Montana residence "on spec." This credit is not available to a nonresident individual who installs a system in a residence they own but is not their principal dwelling or home or is located outside of Montana.

The credit is also available to contractors that install a geothermal system in a new residence they're building for sale.

Only builders that are individuals or C corporations can claim the credit. This credit is not available to builders that are partnerships or S corporations.

Only one credit is allowed for a residence so the builder and owner of a new residence with a qualifying geothermal system cannot both claim the credit.

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***Q. I am an individual and purchased a newly constructed home with a geothermal system installed by the builder. Am I entitled to the credit?***

**A.** No. Because you did not directly pay the installation costs of the system, you are not entitled to the credit. The builder may be entitled to the credit.

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***Q. I am a contractor or builder and have been hired to construct a residence. The plans include installing a geothermal system. Am I entitled to the credit?***

**A.** No. The individual for whom you are installing the system may, however, be entitled to the credit.

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***Q. I am an individual purchasing a "spec house" that is still under construction. The current plans do not include a geothermal system. If I have the plans changed to include a system, can I claim the credit?***

**A.** Yes. As long as you pay for the additional costs associated with installing the geothermal system, you are entitled to the credit.

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***Q. I am unable to claim the full amount of my geothermal credit because my income tax liability is less than \$1,500. Can I carry my unused credit forward?***

**A.** Yes. This credit is considered a nonrefundable carryover credit that you can carry forward for seven succeeding tax years. Your total credit reported in the year of installation and in subsequent years cannot exceed the maximum credit of \$1,500.

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***Q. My spouse and I jointly own our primary home. Can we both claim the geothermal system credit?***

**A.** Yes, you can, but the credit is limited to \$1,500 for the installation of a geothermal system in your principal home. You may allocate the credit between you and your spouse in any manner you choose.

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***Q. I made repairs to my geothermal system this year. Am I entitled to claim this credit for the cost of my repairs?***

**A.** No. Repairs to your existing geothermal system are not installation costs that entitle you to a geothermal system credit.

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### **Alternative Energy Systems Credit (Form ENRG-B)**

***Q. What is a recognized nonfossil form of energy generation?***

**A.** A recognized nonfossil form of energy generation means:

- a system that captures energy or converts energy sources into usable sources, including electricity, by using:
  - o solar energy, including passive solar systems
  - o wind
  - o solid waste
  - o the decomposition of organic waste
  - o geothermal
  - o fuel cells that do not require hydrocarbon fuel; or
- a system that produces electric power from biomass or solid wood wastes; or
- a small system that uses water power by means of an impoundment that is not over 20 acres in surface area.

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***Q. What is a low-emission wood or biomass combustion device?***

**A.** A low-emission wood or biomass combustion device means:

- a wood-burning appliance that:
  - o is certified by the U.S. environmental protection agency pursuant to 40 CFR 60.533, or
  - o uses wood pellets as its primary source of fuel; or
- an outdoor hydronic heater qualified for the phase 2 white tag under the U.S. Environmental Protection Agency Method 28 OWHH; or
- a masonry heater constructed or installed in compliance with the requirements for masonry heater in the International Residential Code for One- and Two-Family Dwellings.

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***Q. Who qualifies for the alternative energy system credit?***

**A.** The alternative energy system credit is available only to Montana resident individuals who install a qualifying system or device in their principal dwelling or home. This credit is not available to a nonresident individual.

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***Q. In 2014, I paid for an alternative energy system but installation wasn't complete until 2015. When can I take the credit?***

**A.** You can claim the credit in 2015 when installation is complete and the system is first in service. You can include the amount paid in 2014 when calculating your credit for 2015.

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***Q. I installed a wood burning stove in my principal home this year but I am unable to claim the full amount of my alternative energy system credit because my income tax liability is less than \$500. Can I carry my unused credit forward?***

**A.** Yes. You can carry forward any unused portion of your alternative energy system credit for four succeeding years. Your total credit reported in the year of installation and in subsequent years cannot exceed the maximum credit of \$500 per taxpayer for each installation.

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***Q. My spouse and I jointly own our principal dwelling. Can we both qualify for the alternative energy system credit?***

**A.** If you both paid for the installation of any one alternative energy system and the total cost was \$1,000 or more, you can each claim up to \$500. If the cost of the system was less than \$1,000, you may allocate the credit between you and your spouse, but neither spouse can claim more than \$500.

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***Q. I made repairs to my alternative energy system this year. Am I entitled to claim this credit for the cost of my repairs?***

**A.** No. Repairs to your existing alternative energy system are not installation costs that entitle you to an additional alternative energy system credit.

For example: In 2014, you replaced damage solar panels that were installed in your principal home in 2012, at which time you claimed an alternative energy system credit of \$500. You are not entitled to an additional \$500 credit for the repairs and replacement of parts to your existing solar system.