

Energy-saving buys may trim your taxes

By JOHN VOGEL

MOST Americans are into the energy-savings mode — especially farmers. Now, the year-end tax-saving mode kicks in.

Accomplishing both won't be easy. Even after you pencil out a "wallet savings" for energy-efficient purchases, many regulatory hoops must be cleared. But farmers are no strangers to hoops.

Here's a quick look at federal Energy Policy Act tax credits you might use through 2007.

Most details and the accompanying table are derived from information provided by the Tax Incentive Assistance Project and the American Council for an Energy-Efficient Economy, which are

Key Points

- Tax incentives are aimed at improving energy efficiency.
- Tax credits are available for the year purchases are put in place.
- Unlike deductions, tax credits come directly off your taxes.

nonprofit coalitions of public and private institutions.

Energy efficiency at home

Hottest demand for rural home heating, as evidenced at recent farm shows, has been for outdoor wood furnaces and boilers. These, along with indoor furnaces, qualify for up to a \$150 tax credit if they meet specific high-energy factor ratings. Most outdoor furnaces won't.

Homes and businesses can take tax credits of 30% of qualifying photovoltaic lighting and heating systems, and solar water-heating systems. But solar water heating can't be used to heat swimming pools and hot tubs.

Fuel-miserer credits

Premium-priced gas-electric hybrids and "lean-burn" diesel vehicles are eligible for tax credits ranging from \$250 to \$2,600. On Oct. 1, the Internal Revenue Service halved the credits on Toyota brand hybrids, since it passed the 60,000-vehicle limit set by Congress.

General Motors' 2006 Silverado and Sierra hybrid are the only pickups earning up to a \$650 credit; the 2007 models will earn up to a \$900 credit.

Keep in mind that hybrid retail markups may be greater than the tax credits plus projected fuel savings. Going into the 2007 model year, no qualifying domestic lean-burn diesels are available.

A 30% deduction for clean-fuel refueling equipment may fit more farms. A "clean fuel" is any fuel consisting of at least 85% ethanol, natural gas,

Energy-efficiency tax incentives*

Situation	Maximum tax credit
Existing homes, nonbusiness applications	\$500
High-efficiency central air conditioners	\$300
High-efficiency heat pumps	\$300
High-efficiency water heaters	(tankless) \$300
High-efficiency gas and oil furnaces, boilers	\$150
High-efficiency electric equipment (fans)	\$50
Home envelope improvements	
Insulation, exterior doors, duct sealing	10% up to \$500
Windows and skylights	10% up to \$200
Pigmented metal roofs	10% up to \$500
New homes — only if you're the builder	
Site-built or manufactured	\$2,000
Residential and business	
Photovoltaic electric system and solar water heating	\$2,000
Commercial building	
Whole building (50% energy savings)	\$1.80 per square ft.**
Lighting, HVAC or envelope (50% energy savings)	\$0.60 per square ft.**
Lighting, (at least 25% energy savings)	\$0.30 per square ft.**
Fuel cells, microturbines, solar	
Fuel cells (business or individual)	30% up to \$1,000 per kilowatt
Microturbines (business only)	10% up to \$200 per kilowatt
Solar equipment (business or individual)	30% up to \$2,000
Clean-fuel refueling equipment	30% up to \$1,000 per residential site **
Biodiesel, ethanol fuel production	10 cents per gallon up to 15 million gallons

* To be eligible, all must meet Energy Star or other federally specified energy-efficiency standards.

** Tax deduction, not a tax credit

For more details on tax credits

FIRST, thoroughly check out whether your potential energy-efficient purchases or fuel-making equipment will qualify for tax credits. Regulatory requirements are complicated and often onerous. Before moving ahead with any related purchase project, check for qualification details with your tax consultant.

The following Web sites may be helpful:

- IRS guidance notes on energy tax credits: Tax Incentives Assistance Project, www.energysite.com/incentives.org.

- Consumer and business tax credits: Alliance to Save Energy, www.ase.org/content/article/detail/2654.

- Ethanol and biodiesel producer credits: Renewable Fuels Association, www.ethanolrfa.org/policy/regulations/federal.

- Technical and energy policy analysis: American Council for an Energy-Efficient Economy, www.aceee.org.

Tax credits better than deductions

BEGINNING this year, you'll be able to itemize energy tax credits on your federal income tax form. In general, a tax credit does more to cut your tax bill than a tax deduction.

It's a dollar-for-dollar reduction of your taxes. Tax deductions, however, just lower your taxable income.

If you're in the highest (35%) tax bracket, the income tax you pay is reduced by 35% of the value of a tax deduction. But a tax credit reduces your federal income tax by 100% of the amount of the credit. Some states offer state rebates or state tax incentives for energy-efficient purchases. Check with your state's energy office Web site or inquire at your local Cooperative Extension office.

compressed natural gas, liquefied natural gas, liquefied petroleum gas, hydrogen, and any mixture of diesel fuel and biodiesel containing at least 20% biodiesel.

Qualifying property includes tanks and pumps, but not buildings. While Internal Revenue Service rules are still unclear on the dollar cap, it may be \$1,000 for each residential site.

Biofuel-maker credits available

Small-scale biodiesel and ethanol producers are eligible for a 10-cents-per-gallon tax credit for up to 15 million gallons of agri-biodiesel or ethanol. It's effective through 2008.

Tax credits for both are capped at \$1.5 million per year per producer. They can be passed through to farmer-owners of a cooperative and can be used to be offset the alternative minimum tax.

Vogel is a Farm Progress editor.

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Sign up for wetlands help by Feb. 16

THE USDA Natural Resources Conservation Service in Texas has set a Feb. 16 sign-up deadline for the 2007 Wetlands Reserve Program.

"The funds allocated for WRP will help Texas restore and protect the functions and values of wetlands in the agricultural landscape," says Larry Butler, NRCS state conservationist for Texas. "The program provides financial and technical assistance to help landowners protect, restore and enhance the original wetland hydrology and vegetation of eligible lands."

The program emphasis is to provide habitat for migratory birds and wetland-dependent wildlife, and the protection and improvement of water quality. Eligible lands can include agricultural lands farmed under natural conditions, degraded wetlands and

certain riparian areas.

Eligible landowners may enroll in WRP for a permanent or 30-year conservation easement or a restoration cost-share agreement. NRCS may purchase a conservation easement and restore the hydrology and native vegetation. Under restoration agreements, NRCS will pay up to 75% of the costs associated with establishing the restoration.

The WRP is administered by the NRCS in agreement with the USDA Farm Service Agency and also in consultation with the U.S. Fish and Wildlife Service and other cooperating-agencies and organizations.

Local NRCS field offices have complete details for this program. More information on WRP can be found on the Texas NRCS Web site at www.tx.nrcs.usda.gov/programs/wrp.html.



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