



# 2005 ENERGY ACT Quick Tax Facts

## ENERGY TAX INCENTIVES AT A GLANCE

The chart below summarizes the key incentives that were added by the Energy Tax Incentives Act of 2005. These incentives are intended to improve energy production, transportation and efficiency. See the explanations in CCH's *Energy and Highway Tax Acts of 2005: Law, Explanation and Analysis* for a complete discussion of these changes.

<b>INDIVIDUAL ENERGY INCENTIVES</b>		
<i>New credit for:</i>	<i>In effect:</i>	<i>Maximum amount:</i>
<ul style="list-style-type: none"> <li>Energy efficient home improvements (Code Sec. 25C)</li> </ul>	2006 and 2007	\$500 lifetime
<ul style="list-style-type: none"> <li>Residential solar water heaters, photovoltaic and fuel cell property (Code Sec. 25D)</li> </ul>	2006 and 2007	\$2,000 heater, \$2,000 photovoltaic, fuel cell (unlimited)
<b>BUSINESS ENERGY INCENTIVES</b>		
<i>New credit for:</i>	<i>In effect:</i>	<i>Maximum amount:</i>
<ul style="list-style-type: none"> <li>Construction of new energy efficient homes (Code Sec. 45L)</li> </ul>	2006 and 2007	\$2,000 per dwelling unit
<ul style="list-style-type: none"> <li>Manufacture of energy efficient appliances (Code Sec. 45M)</li> </ul>	2006 and 2007	\$75 million
<i>New deduction for:</i>	<i>In effect:</i>	<i>Amount:</i>
<ul style="list-style-type: none"> <li>Energy efficient commercial buildings (Code Sec. 179D)</li> </ul>	2006 and 2007	\$1.80 per sq. ft. less any prior year deduction
<b>ALTERNATIVE FUEL VEHICLE CREDIT</b>		
<i>New credit for:</i>	<i>In effect:</i>	<i>Maximum for car/light truck:</i>
<ul style="list-style-type: none"> <li>Hybrid vehicle (Code Sec. 30B)</li> </ul>	2006-2010	\$3,400
<ul style="list-style-type: none"> <li>Advanced lean-burn vehicle (Code Sec. 30B)</li> </ul>	2006-2010	\$3,400
<ul style="list-style-type: none"> <li>Alternative fuel vehicle (Code Sec. 30B)</li> </ul>	2006-2010	\$4,000
<ul style="list-style-type: none"> <li>Fuel cell vehicle (Code Sec. 30B)</li> </ul>	2006-2014	\$12,000
<b>ENERGY PRODUCTION AND INVESTMENT INCENTIVES</b>		
<i>New credit for:</i>	<i>In effect:</i>	<i>Amount:</i>
<ul style="list-style-type: none"> <li>New nuclear power facility producing electricity (Code Sec. 45J)</li> </ul>	post-enactment thru 2020	1.8 cents per kilowatt hour for 8 year period
<ul style="list-style-type: none"> <li>Small agri-biodiesel producer (Code Sec. 40A(b)(5))</li> </ul>	post-enactment thru 2008	10 cents per gallon, up to 15 million gallons per year
<ul style="list-style-type: none"> <li>Renewable diesel (Code Sec. 40A(f))</li> </ul>	2006-2008	\$1 per gallon
<ul style="list-style-type: none"> <li>Investment in alternative fuel refueling property (Code Sec. 30C)</li> </ul>	2006-2009 (2006-2014 for hydrogen property)	\$1,000 maximum credit (\$30,000 for depreciable property)
<ul style="list-style-type: none"> <li>Fuel cell power plants (Code Sec. 48(a)(3)(A))</li> </ul>	2006 and 2007	30% of basis
<ul style="list-style-type: none"> <li>Stationary microturbine power plants (Code Sec. 48(a)(3)(A))</li> </ul>	2006 and 2007	10% of basis

## CREDITS INCREASED, EXPANDED AND EXTENDED

- Solar energy credit **increased** from 10% to 30% of basis for 2006 and 2007 and **expanded** to cover hybrid solar lighting systems (Code Sec. 48)
- Renewable electricity production credit **expanded** to cover hydropower and Indian coal production (Code Sec. 45)
- Biodiesel income and excise tax credits **extended** thru 2008 (Code Secs. 40A(e), 6426(c) and 6427)
- Credit for fuel produced from nonconventional sources **expanded** to cover certain facilities producing coke and coke gas (Code Sec. 45K)
- Credit for small ethanol producer **expanded** to cover producers with alcohol production capacity up to 60 million gallons of alcohol, up from 30 million (Code Sec. 40(g))
- Research credit **expanded** to cover expenses paid to energy research consortia (Code Sec. 41)

## DEPRECIATION AND EXPENSING

- Depreciation period for natural gas distribution lines **shortened** from 20 to 15 years, for property placed in service after April 11, 2005, and before 2011 (Code Sec. 168(e)(3)(E)(viii))
- Depreciation period for natural gas gathering line **established** as 7 years, for property placed in service after April 11, 2005 (Code Sec. 168(e)(3)(C)(iv))
- Depreciation period for assets used in transmission and distribution of electricity **shortened** from 20 to 15 years (Code Sec. 168(e)(3)(E)(vii))
- Cost of refinery investments that increase capacity **expensed** 50%, for property placed in service after the date of enactment and before 2012 (Code Sec. 179C)

## AMORTIZATION

- Geological and geophysical exploration expenditures incurred in U.S. **amortized** over two years (Code Sec. 167(h))
- Cost of air pollution control facilities **amortized** over 84 months, for facilities placed in service after April 11, 2005 (Code Sec. 169(d)(5))

## DEDUCTIONS

- Percentage depletion deduction for small refiners **extended** to refiners with refinery runs not exceeding 75,000 barrels (Code Sec. 613A(d)(4))
- Deduction for costs of compliance with EPA low sulfur diesel regulations may be passed through to cooperative owners (Code Sec. 179B(e))
- Deduction for contributions to qualified nuclear decommissioning fund available to regulated and unregulated taxpayers (Code Sec. 468A)

## TAX-EXEMPT BONDS

- Safe harbor exception to tax-exempt bond arbitrage rules for certain prepaid gas contracts (Code Sec. 148(b)(4))

## TAX RATE REDUCTIONS

- Tax rate on qualifying diesel-water fuel emulsions **reduced** from 24.3 cents to 19.7 cents per gallon (Code Sec. 4081(a)(2))