

▶ See instructions.  
▶ Attach to Form 1040 or Form 1040NR.

Name(s) shown on return

Your social security number

**Before you begin:** Figure the amount of any District of Columbia first-time homebuyer credit you are claiming.

**Note.** Skip lines 1 through 21 if you only have a credit carryforward from 2007.

1	Qualified solar electric property costs . . . . .	1				
2	Multiply line 1 by 30% (.30) . . . . .	2				
3	Maximum credit amount . . . . .	3	\$2,000			
4	Enter the smaller of line 2 or line 3 . . . . .	4				
5	Qualified solar water heating property costs . . . . .	5				
6	Multiply line 5 by 30% (.30) . . . . .	6				
7	Maximum credit amount . . . . .	7	\$2,000			
8	Enter the smaller of line 6 or line 7 . . . . .	8				
9	Qualified fuel cell property costs . . . . .	9				
10	Multiply line 9 by 30% (.30) . . . . .	10				
11	Kilowatt capacity of property on line 9 above ▶ . . . . . X \$1,000	11				
12	Enter the smaller of line 10 or line 11 . . . . .	12				
13	Qualified small wind energy property costs . . . . .	13				
14	Multiply line 13 by 30% (.30) . . . . .	14				
15	Kilowatt capacity of property on line 13 above ▶ . . . . . X \$1,000	15				
16	Maximum credit amount . . . . .	16	\$4,000			
17	Enter the smallest of lines 14, 15, or 16 . . . . .	17				
18	Qualified geothermal heat pump property costs . . . . .	18				
19	Multiply line 18 by 30% (.30) . . . . .	19				
20	Maximum credit amount . . . . .	20	\$2,000			
21	Enter the smaller of line 19 or line 20 . . . . .	21				
22	Credit carryforward from 2007. Enter the amount, if any, from your 2007 Form 5695, line 34 . . . . .	22				
23	Add lines 4, 8, 12, 17, 21, and 22 . . . . .	23				
24	Enter the amount from Form 1040, line 46, or Form 1040NR, line 43 . . . . .	24				
25	<b>1040 filers:</b> Enter the total, if any, of your credits from Form 1040, lines 47 through 51; line 12 of the Line 11 worksheet in Pub. 972 (see instructions); Form 8396, line 11; Form 8839, line 18; and Form 8859, line 11. <b>1040NR filers:</b> Enter the amount, if any, from Form 1040NR, lines 44 through 46; line 12 of the Line 11 worksheet in Pub. 972 (see instructions); Form 8396, line 11; Form 8839, line 18; and Form 8859, line 11.	25				
26	Subtract line 25 from line 24. If zero or less, enter -0- here and on line 27 . . . . .	26				
27	<b>Residential energy efficient property credit.</b> Enter the smaller of line 23 or line 26 here and on Form 1040, line 53, or Form 1040NR, line 48, and check box c on that line . . . . .	27				
28	Credit carryforward to 2009. If line 27 is less than line 23, subtract line 27 from line 23 . . . . .	28				

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## General Instructions

Section references are to the Internal Revenue Code.

### What's New for 2008

**Nonbusiness energy property credit expired.** You cannot take the nonbusiness energy property credit for property placed in service in 2008.

**Credit expanded.** You can now include costs for qualified small wind energy property and qualified geothermal heat pump property in figuring the residential energy efficient property credit.

### What's New for 2009

**Nonbusiness energy property credit available.** The nonbusiness energy property credit will be available for property placed in service in 2009. The credit is available for items such as high-efficiency heating and cooling systems, water heaters, windows, doors, and insulation. The amount of the credit will be limited by the amount of any nonbusiness energy property credit you took in 2006 or 2007.

**Qualified solar electric property.** There is no limit on the amount of qualified solar electric property costs when figuring the residential energy efficient property credit.

### Purpose of Form

Use Form 5695 to figure and take your residential energy efficient property credit, including any credit carryforward from 2007.

### Who Can Take the Credit

You may be able to take the credit if you made energy saving improvements to your home located in the United States in 2008. For credit purposes, costs are treated as being paid when the original installation of the item is completed, or in the case of costs connected with the construction or reconstruction of your home, when your original use of the constructed or reconstructed home begins. If less than 80% of the use of an item is for nonbusiness purposes, only that portion of the costs that are allocable to the nonbusiness use can be used to determine the credit.

**Home.** A home is where you lived in 2008 and can include a house, houseboat, mobile home, cooperative apartment, condominium, and a manufactured home that conforms to Federal Manufactured Home Construction and Safety Standards.

You must reduce the basis of your home by the amount of any credits allowed.

**Main home.** Your main home is generally the home where you live most of the time. A temporary absence due to special circumstances, such as illness, education, business, military service, or vacation, will not change your main home.

**Special rules.** If you are a member of a condominium management association for a condominium you own or a tenant-stockholder in a cooperative housing corporation, you are treated as having paid your proportionate share of any costs of such association or corporation.

**Subsidized energy financing.** Any amounts provided for by subsidized energy financing cannot be used to figure the credit. This is financing provided under a

federal, state, or local program, the principal purpose of which is to provide subsidized financing for projects designed to conserve or produce energy.

### Residential Energy Efficient Property Credit

You may be able to take a credit of 30% of your costs of qualified solar electric property, solar water heating property, fuel cell property, small wind energy property, and geothermal heat pump property. This includes labor costs properly allocable to the onsite preparation, assembly, or original installation of the property and for piping or wiring to interconnect such property to the home. This credit is limited to:

- \$2,000 for qualified solar electric property costs,
- \$2,000 for qualified solar water heating property costs,
- \$500 for each one-half kilowatt of capacity of qualified fuel cell property for which qualified fuel cell property costs are paid.
- \$500 for each one-half kilowatt of capacity of qualified small wind energy property for which qualified small wind energy property costs are paid (not to exceed \$4,000), and
- \$2,000 for qualified geothermal heat pump property costs.

**Qualified solar electric property costs.** Qualified solar electric property costs are costs for property that uses solar energy to generate electricity for use in your home located in the United States. This includes costs relating to a solar panel or other property installed as a roof or a portion of a roof. The home does not have to be your main home.

**Qualified solar water heating property costs.** Qualified solar water heating property costs are costs for property to heat water for use in your home located in the United States if at least half of the energy used by the solar water heating property for such purpose is derived from the sun. This includes costs relating to a solar panel or other property installed as a roof or a portion of a roof. To qualify for the credit, the property must be certified for performance by the nonprofit Solar Rating Certification Corporation or a comparable entity endorsed by the government of the state in which the property is installed. The home does not have to be your main home.

**Qualified fuel cell property costs.** Qualified fuel cell property costs are costs for qualified fuel cell property installed on or in connection with your main home located in the United States. Qualified fuel cell property is an integrated system comprised of a fuel cell stack assembly and associated balance of plant components that converts a fuel into electricity using electrochemical means. To qualify for the credit, the fuel cell property must have a nameplate capacity of at least one-half kilowatt of electricity using an electrochemical process and an electricity-only generation efficiency greater than 30%.



*Costs allocable to a swimming pool, hot tub, or any other energy storage medium which has a function other than the function of such storage do not qualify for the residential energy efficiency credit.*

**Qualified small wind energy property costs.**

Qualified small wind energy property costs are costs for property that uses a wind turbine to generate electricity for use in connection with your home located in the United States. The home does not have to be your main home.

**Qualified geothermal heat pump property costs.**

Qualified geothermal heat pump property costs are costs for qualified geothermal heat pump property installed on or in connection with your home located in the United States. Qualified geothermal heat pump property is any equipment that uses the ground or ground water as a thermal energy source to heat your home or as a thermal energy sink to cool your home. To qualify for the credit, the geothermal heat pump property must meet the requirements of the Energy Star program that are in effect at the time of purchase. The home does not have to be your main home.

**Married taxpayers with more than one home.** If you or your spouse lived in more than one home, the credit limits would apply to each of you separately. For qualified fuel cell property, the homes must be your main homes. If you are filing separate returns, both of you must complete a separate Form 5695. If you are filing a joint return, figure your nonbusiness energy property credit as follows.

1. Complete a separate Form 5695 for each home through line 21.
2. On one of the forms, complete line 22. Then, figure the amount to be entered on line 23 of both forms and enter the combined amount on line 23 of this form.
3. On the dotted line to the left of the entry space for line 23, enter "More than one home". Then, complete the rest of this form.
4. Attach both forms to your return.

**Joint occupancy.** If you occupied your home jointly, each occupant must complete his or her own Form 5695. To figure the credit, the maximum qualifying costs that can be taken into account by all occupants for figuring the credit is \$6,667 for qualified solar electric, solar water heating, or geothermal heat pump property; and \$1,667 for each one-half kilowatt of capacity of qualified fuel cell or small wind energy property (not to exceed \$13,333 for qualified small wind energy property). The amount allocable to you is the lesser of:

1. The amount you paid, or
2. The maximum qualifying cost of the property multiplied by a fraction. The numerator is the amount you paid and the denominator is the total amount paid by you and all other occupants.

These rules do not apply to married individuals filing a joint return.

**Example.** Taxpayer A owns a house with Taxpayer B where they both reside. In 2008, they installed qualified solar water heating property at a cost of \$8,000. Taxpayer A paid \$6,000 towards the cost of the property and Taxpayer B paid the remaining \$2,000. The amount of cost allocable to Taxpayer A is \$5,000 ( $\$6,667 \times \$6,000/\$8,000$ ). The amount of cost allocable to Taxpayer B is \$1,667 ( $\$6,667 \times \$2,000/\$8,000$ ).

**Specific Instructions**

*Also include on lines 1, 5, 9, 13, or 18, any labor costs properly allocable to the onsite preparation, assembly, or original installation of the property and for piping or wiring to interconnect such property to the home.*

**Line 1**

Enter the amounts you paid for qualified solar electric property. See *Qualified solar electric property costs* on page 3.

**Line 5**

Enter the amounts you paid for qualified solar water heating property. See *Qualified solar water heating property costs* on page 3.

**Line 9**

Enter the amounts you paid for qualified fuel cell property. See *Qualified fuel cell property costs* on page 3.

**Line 13**

Enter the amounts you paid for qualified small wind energy property. See *Qualified small wind energy property costs* on this page.

**Line 18**

Enter the amounts you paid for qualified geothermal heat pump property. See *Qualified geothermal heat pump property costs* on this page.

**Line 25**

If you are claiming the child tax credit for 2008, include on this line the amount from line 12 of the Line 11 Worksheet in Pub. 972.



*If you are not claiming the child tax credit for 2008, you do not need Pub. 972.*

**Line 28**

If you cannot use all of the credit because of the tax liability limit (line 26 is less than line 23), you can carry the unused portion of the credit to 2009.

**Paperwork Reduction Act Notice.** We ask for the information on this form to carry out the Internal Revenue laws of the United States. You are required to give us the information. We need it to ensure that you are complying with these laws and to allow us to figure and collect the right amount of tax.

You are not required to provide the information requested on a form that is subject to the Paperwork Reduction Act unless the form displays a valid OMB control number. Books or records relating to a form or its instructions must be retained as long as their contents may become material in the administration of any Internal Revenue law. Generally, tax returns and return information are confidential, as required by section 6103.

The average time and expenses required to complete and file this form will vary depending on individual circumstances. For the estimated averages, see the instructions for your income tax return.

If you have suggestions for making this form simpler, we would be happy to hear from you. See the instructions for your income tax return.



## Small Wind Property Investment Tax Credit: Questions and Answers

January 5, 2009

On October 3, 2008 President Bush signed into law a bill that includes the creation of an investment tax credit for the purchase of small wind turbines used to power individual homes, farms, and other businesses. The following are questions and answers related to this new credit.

***AWEA does not provide tax advice and nothing in this document is intended to constitute tax advice. Taxpayers should consult their own tax advisors with respect to any questions regarding the application of Federal or state or local tax law. Nothing contained in the body of this document is intended or written to be used, and cannot be used, by the recipient for the purpose of avoiding penalties that may be imposed under the Internal Revenue Code or applicable state or local tax law provisions.***

Answers to the following questions were prepared by Joe Mikrut of Capitol Tax Partners.

### **Amount of Incentives**

#### **1. What is the amount of the credit?**

For an eligible system used in conjunction with a residence: 30% of the total cost of equipment and installation, but not to exceed the lesser of \$4,000 or \$500 per ½ kilowatt of capacity.

For an eligible system used for trade or business applications: 30% of the total cost of equipment and installation, not to exceed \$4,000.

#### **Examples:**

A 5 kilowatt (kW) system used for a home and costing \$30,000 installed would receive a \$4,000 credit. (The least of:  $0.30 \times \$30,000 = \$9,000$  –OR–  $\$4,000$  –OR–  $\$500 \times 2 \times 5\text{kW} = \$5,000$ )

A 50 kW system used for a dairy farm and costing \$200,000 installed would receive a \$4,000 credit. (The least of:  $0.30 \times \$200,000 = \$60,000$  –OR–  $\$4,000$ .)

#### **2. Can a system owner use the credit in addition to a state credit or rebate, federal grant, or other government incentive? If so, how does this work?**

A system owner can use the credit in addition to a state credit or rebate, federal grant, or other government incentive. However, in determining the amount of credits allowable with respect to certain government-subsidized projects, the taxpayer must reduce the cost of the project to reflect the government subsidy.

**3. Can a system owner use the credit (either residential or non-residential) against the Alternative Minimum Tax?**

Both the residential and business credits can offset the tentative minimum tax of the taxpayer.

**4. If a system owner cannot use all of the credit in a single tax year, can the remainder be carried over to (a) following year(s)?**

If a system owner cannot use the entire amount of the credit in a taxable year because of insufficient tax liability in such year, the unused amount of the credit may be carried forward to and used in a succeeding taxable year (subject to similar limitations in such succeeding year.)

**Owner and Equipment Eligibility**

**5. What equipment qualifies for the credit? Is there any specific equipment that does not qualify?**

In the case of the business credit, the definition of qualified property is property that uses a wind turbine with a nameplate capacity of not more than 100 kilowatts to generate electricity. The property must be constructed or erected by, or the original use of the property must begin with, the taxpayer. The property must be of a character for which depreciation is allowed. The Secretary of the Treasury, in consultation with the Secretary of Energy, may prescribe performance and quality standards for qualified property. Such regulations will be applied prospectively.

In the case of the residential credit, the definition of qualified property is property that uses a wind turbine to generate electricity for use in connection with a dwelling unit located in the United States and used as a residence by the taxpayer.

Expenditures that are allocable to a swimming pool, hot tub, or any other energy storage medium that has a function other than storage does not qualify for the credit. In general, the original use of the property must begin with the taxpayer.

**6. Can the credit be applied to used or refurbished equipment?**

In general, the property must be new. Tax rules that determine when refurbished equipment is treated as new property are complicated and beyond the scope of this document. A consumer should consult a tax advisor with respect to this and any other issue involving the credit.

**7. How is "non-residential use" defined?**

In the case of the "non-residential" credit, the property must be of a character for which depreciation is allowed. This generally means that the property is used in a trade or business or held for the production of income.

**8. Can utilities use the credit?**

For-profit utilities are eligible for the credit. Municipal power systems are not.

**9. Can schools use the credit?**

For-profit schools are eligible for the credit. Public and tax-exempt schools are not.

**10. In the case of a manufacturer leasing equipment to a third party, who claims the credit?**

In general, the owner of the property may claim the credit. In the case of a lease, complicated tax rules determine the owner of the property for tax purposes. A

consumer should consult a tax advisor with respect to this and any other issue involving the credit.

**11. Must the system be used for a primary residence only, or are second homes eligible?**

The legislation does not distinguish between principal residences and second homes.

**12. For a home located in conjunction with a business, such as a farm house or home-based business, how is the credit applied?**

If less than 80% of the use of an item is for non-business purposes, only that portion of the expenditures for such item that is properly allocable to use for non-business purposes may be taken into account for purposes of the residential credit.

**13. In the case of multiple turbines on a single property, can the credit be used toward each installation or just one of them?**

There is no limitation based on a single location. The \$500 per half-kilowatt limitation is a turbine-by-turbine limitation. The \$4,000 cap is a taxpayer-by-taxpayer limitation. Both are annual limitations.

**14. If two or more taxpayers purchase a turbine together and are each billed for a portion of the turbine, how do they claim the proper portion of the credit?**

For the residential credit, in the case of a dwelling unit that is jointly occupied and used by two or more individuals for a calendar year, the maximum expenditures that may be taken into account for all individuals is \$1,667 for each one-half kilowatt of capacity (not to exceed \$13,333) of wind turbines. The \$1,667 and \$13,333 amounts are allocated among the individuals based on their respective qualified expenditures. Special rules apply in the case of cooperative housing and condominiums to allocate credits among the residents.

**15. What is the meaning of the "joint property" stipulation of the law?**

See answer to question 14 above.

**Project Timing**

**16. When does the credit take effect?**

The credit applicable to businesses applies to periods after the date of enactment (October 3, 2008). The residential credit applies to taxable years beginning after December 31, 2007.

**17. Can the credit be applied retroactively to turbines installed in 2008, but before the October 3, 2008 enactment of the law?**

See answer to question 16 above.

**18. How is the "placed-in-service date" for a system defined?**

The credit applicable to businesses applies to qualified property when it is placed in service. "Placed in service" is a technical tax term and the determination is based on the underlying facts and circumstances. In general, property is placed in service when it is in a condition or state of readiness and available for its intended use.

**a. For a new home, is this the date a homeowner moves in, or the date the installation is completed?**

The credit applicable to residences applies to when expenditures are made for qualified property, not when the property is placed in service. For this purpose, an expenditure with respect to an item is deemed to be made when the original installation of the item is completed. In the case of an expenditure in connection with the construction or reconstruction of a structure, the expenditure is deemed made when the original use of the structure by the taxpayer begins.

**19. If the installation began before the date of the credit's enactment, or was completed after the credit's expiration in 2016 (assuming the credit is not extended), can the credit still apply?**

As described above, the credits generally are applicable with respect to completion activity, not initiation activity.

**Applying for the Credit**

**20. To apply for the credit, what legal forms and documentation does a turbine owner(s) need to complete/provide?**

The credits will be claimed on the tax return of the taxpayer for the year for which the credit is claimed. Business credits generally are claimed on Forms 3468 and 3800 and individual energy credits generally are claimed on Form 5695.

**a. To whom?**

The Internal Revenue Service.

**b. At what stage in the process?**

With the filing of the tax return for the taxable for which the credit applies.

**c. Where are the forms available?**

As of 1/5/2008 the forms have not yet been updated to reflect the new law, but should become available on the IRS website ([www.irs.gov/formspubs/](http://www.irs.gov/formspubs/)) before the 2008 filing season.

**d. When are the due dates?**

With the due date of the applicable tax return.

**e. In the case of an installation for a commercial use, are depreciation value calculations affected by this law?**

The taxpayer must reduce its depreciable basis in property by the amount of the credit.

**21. For what types of issues should a consumer consult a tax advisor?**

A consumer should consult its tax advisor with respect to any issue involving either credit.

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