



Energy Related Tax Relief

The following information is provided to assist you in understanding the Energy Conservation Installation Credit as well as other energy credits and incentives.

Energy Conservation Installation Credit

The Department of Revenue encourages citizens to weatherize their homes and take advantage of the Energy Conservation Installation Credit when individual income tax returns are filed.

The credit is applied against a taxpayer's income tax liability. Montana resident individuals can claim the credit for energy conservation investments made to a home or other building. The credit is equal to 25% of expenses, up to a maximum credit of \$500. Two or more people may each qualify for the credit, as long as the building in which the investment is made is owned by all of the people claiming the credit. For example, a married couple who jointly own their home may each claim a credit up to \$500 each or \$1,000 for the couple.

The following investments qualify for the energy conservation credit:

- Insulation in existing buildings of floors, walls, ceilings, and roofs
- Insulation of pipes and ducts located in nonheated areas and insulation of hot-water heaters and tanks
- Windows that result in reduction of energy consumption
- Insulated exterior doors
- Caulking and weather stripping
- Devices which limit the flow of hot-water from shower heads and lavatories
- Heat recovery ventilators
- Glass fireplace doors
- Caulking and weather stripping of an existing structure
- Insulating exterior doors of an existing structure
- Installing glass fireplace doors on existing fireplaces
- Installing a programmable thermostat
- Replacing incandescent light fixtures with light fixtures of a more efficient type, such as those with electronic ballast and compact or linear fluorescent lamps

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- Installing lighting controls with cut-off switches that permit the selective use of lights
- The installation of devices that limit the flow of hot water from shower heads and lavatories
- Insulation in the floors, walls, ceilings and roofs of a new building to the extent exceeds the requirements of the 2003 International Energy Conservation Code (IECC) with Montana amendments
- Installing storm windows or storm doors to existing structures
- Installing exhaust fans to reduce air conditioning requirements
- Installation and replacement of domestic water heaters, heating or cooling system in a building so long as the new system uses energy more efficiently than the previous system.

For examples of improvements that do NOT qualify, [click here](#).

If you qualify for this credit, you will need to complete Form ENRG-C and attach it when you file your individual income tax return. Qualifying expenditures purchased and installed in 2008 can be reported as a credit on your 2008 individual income tax return. The 2008 Form ENRG-C will be available soon. If you would like to review the 2007 Form ENRG-C, [click here](#).

Other Energy Related Tax Relief

For information on other energy credits and incentives, including the Alternative Energy Systems Credit and the Geothermal Systems Credit, [click here](#).

Warm Hearts/Warm Homes

For information regarding the Governor's *Warm Hearts Warm Homes* initiative, including how you can get help for paying your energy bill and what can you do to save energy in your home, [click here](#).

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- [Frequently Asked Questions](#)
 - [Montana Department of Environmental Quality - Energize Montana](#)
 - Administrative Rules: Please note that the effective dates for the administrative rules vary.
 - [Sub-chapter 1 - Individual - Tax Credits for Alternative Energy Systems](#)
 - [Sub-chapter 2 - Individual - Energy Conservation Installation Credit](#)

For personal assistance or more information, please call us toll-free at (866) 859-2254 (in Helena 444-6900).



Energy Conservation Installation Credit

Examples of investments that will NOT qualify for the energy conservation credit

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

- Installing carpet
- Installing an insulated garage door in an unheated garage
- Re-shingling or repairing a roof
- Paint
- Replacing or repairing a failing foundation
- Siding with little or no insulation
- Portable air conditioners
- Space heaters
- Household appliances such as ENERGY STAR washers, dryers and refrigerators

Subchapter 2

Individual - Energy Conservation Installation Credit

42.4.201 DEFINITIONS The following definitions apply to this subchapter:

- (1) "AFUE" means annual fuel utilization efficiency rating for furnaces and boilers expressed as the ratio of energy output to energy input.
- (2) "Building" means an enclosed structure with external walls and a roof. This includes single units within multi-unit complexes such as apartment complexes, condominiums and commercial complexes.
- (3) "Customer" is defined as a retail purchaser or distribution service provider.
- (4) "Energy factor" is the efficiency rating for water heaters. A higher percentage indicates higher efficiency.
- (5) "ENERGY STAR" is a program of the U.S. Environmental Protection Agency, which identifies high efficiency products and equipment.
- (6) "GAMA" means Gas Appliance Manufacturers Association, which is an independent agency for rating space and water heating devices.
- (7) "Heat recovery ventilator" is a device or system designed and installed to provide balanced fresh air ventilation for homes and to transfer energy from the outgoing air stream to the incoming air stream.
- (8) "HSPF" means heating season performance factor, which is a measure of the heating efficiency of a heat pump system expressed as a ratio of Btu per watt-hour.
- (9) "HVI" means Home Ventilating Institute, which is a rating agency for home ventilation products.
- (10) "IECC" means the 2003 International Energy Conservation Code, which is the current energy code version adopted by the state of Montana and enforced statewide.
- (11) "Manufactured home" means a home built on a nonremovable steel chassis or frame. Each transportable unit of a manufactured home has a red certification label on the exterior section and is built according to Manufactured Home Construction and Safety Standards (HUD Code).
- (12) "Modular home" means a home built in a factory setting in units, transported to the home site, placed on a permanent foundation, and joined.
- (13) "National Fenestration Rating Council" (NFRC) means the independent agency that rates windows, doors, and skylights.
- (14) "New construction" means construction of, or additions to, buildings, living areas, or attached garages that comply with the established standards of new construction as determined by the building code statutes in Title 50, MCA. (History: 15-1-201, 15-32-105, MCA; IMP, 15-32-105, 15-32-109, MCA; NEW, 2004 MAR p. 1965, Eff. 8/20/04; AMD, 2006 MAR p. 357, Eff. 2/10/06; AMD, 2008 MAR p. 387, Eff. 2/29/08.)

42.4.202 INDIVIDUAL INCOME TAX CREDIT FOR ENERGY CONSERVING EXPENDITURES (1) A credit against individual income tax for energy-conserving expenditures provided in 15-32-109, MCA, is claimed by filing an Individual Income Tax Return with Form ENRG-C. The credit is not allowed unless the return and form ENRG-C, providing the information prescribed in the form, are filed with the Department of Revenue, P.O. Box 5805, Helena, Montana 59604-5805. (History: 15-1-201, MCA; IMP, 15-32-106, 15-32-109, MCA; NEW, 2004 MAR p. 1965, Eff. 8/20/04; AMD, 2008 MAR p. 387, Eff. 2/29/08.)

42.4.203 CREDIT FOR ENERGY CONSERVATION INVESTMENT

(1) Eligible investments for the energy conservation credit in new construction are the investments that exceed the requirements of the IECC with Montana amendments as described in ARM 42.4.206. The amount of credit can be calculated using one of the following provisions:

(a) The credit can be based on the actual additional amount expended to exceed the requirements of the IECC with the Montana amendments. For example, if a taxpayer installs an ENERGY STAR qualified furnace in a new construction project, the incremental cost of equipment and installation costs above a conventional furnace required by code qualifies for the energy conservation credit.

(b) The purchase by the first owner or construction of a new ENERGY STAR Qualified home can be considered the equivalent of investing \$2,000 for energy conservation purposes resulting in a total credit of \$500 ($\$2,000 * 25\%$). The \$500 may be allocated among the individuals who purchased the home. Verification must be made by a third party accredited by the federal Environmental Protection Agency to rate homes under the ENERGY STAR program. The resale of an ENERGY STAR home does not qualify for the credit.

(2) For investments in existing buildings, a credit will be given for capital investments that are recognized to substantially reduce the waste or dissipation of energy, or reduce the amount of energy required for proper utilization of the building.

(3) A credit will not be allowed for capital investments that are directly used in a production or manufacturing processor rendering a service to customers.

(4) Only investments in buildings located in Montana qualify for the energy conservation credit.

(5) See ARM 42.4.118 for filing requirements. (History: 15-1-201, 15-32-105, MCA; IMP, 15-32-102, 15-32-105, 15-32-106, 15-32-109, MCA; NEW, 1977 MAR p. 971, Eff. 11/26/77; AMD, 1982 MAR p. 10, Eff. 1/15/82; AMD, 1992 MAR p. 2555, Eff. 11/26/92; AMD and TRANS, from ARM 42.15.431, 2002 MAR p. 3705, Eff. 12/27/02; TRANS, from ARM 42.4.130, 2004 MAR p. 1965, Eff. 8/20/04; AMD, 2006 MAR p. 357, Eff. 2/10/06; AMD, 2008 MAR p. 387, Eff. 2/29/08.)

42.4.204 CAPITAL INVESTMENTS FOR QUALIFYING ENERGY

CONSERVATION CREDIT (1) The following capital investments are those that exclusively qualify for the conservation of energy credit for tax year 2008:

- (a) insulation in existing buildings of floors, walls, ceilings, and roofs;
- (b) insulation in new construction of floors, walls, ceilings, and roofs, to the extent it exceeds the requirements of the IECC with Montana amendments;
- (c) insulation of pipes and ducts located in nonheated areas and of hot-water heaters and tanks;
- (d) windows that result in reduction of energy consumption;
- (e) storm doors;
- (f) insulated exterior doors;
- (g) caulking and weather stripping;
- (h) devices which limit the flow of hot-water from shower heads and lavatories;
- (i) waste heat recovery devices;
- (j) glass fireplace doors;
- (k) exhaust fans used to reduce air conditioning requirements;
- (l) replacement of incandescent light fixtures with light fixtures of a more efficient type such as those with electronic ballast and compact or linear fluorescent lamps and LED lights;
- (m) lighting controls with cutoff switches to permit selective use of lights;
- (n) programmable thermostats; and
- (o) installation of new domestic water heaters, heating or cooling systems, so long as the replacement or installation of the new system reduces the waste or dissipation of energy, or reduces the amount of energy required.

(2) If the new system described in (1)(o) differs in style or type from the previous system, such as, if one or more window air-conditioning units is replaced with a central air system, the new system must exceed the requirement in ARM 42.4.206(1)(c). If the replacement system exceeds the established standards, only the additional cost shall be considered when computing the credit. (History: 15-1-201, 15-32-105, MCA; IMP, 15-32-102, 15-32-105, 15-32-106, 15-32-109, MCA; NEW, 1977 MAR p. 972, Eff. 11/26/77; AMD, 1982 MAR p. 10, Eff. 1/15/82; AMD and TRANS, from ARM 42.15.432, 2002 MAR p. 3705, Eff. 12/27/02; TRANS, from ARM 42.4.131, 2004 MAR p. 1965, Eff. 8/20/04; AMD, 2006 MAR p. 357, Eff. 2/10/06; AMD, 2008 MAR p. 387, Eff. 2/29/08.)

42.4.205 CALCULATION OF THE ENERGY CONSERVATION CREDIT

(1) Taxpayers are entitled to an energy conservation credit for energy conservation investments made to existing buildings and new construction. The energy conservation credit is available in the tax year that the taxpayer paid for and completed the installation of the energy conservation investments.

(2) For an existing building, an example of how the credit would be applied is:

(a) The taxpayer purchased and completed installation of an ENERGY STAR qualifying furnace in the taxpayer's home during October 2005, half of the total price of the furnace was paid for in 2005 and the other half in 2006. The energy conservation credit is available in tax year 2005 only and the taxpayer is not entitled to an additional energy conservation credit for the second half payment made in 2006.

(b) The taxpayer purchased a qualifying hot water heater in 2006 but did not have it installed until spring 2007. The energy conservation credit is available in 2007 only and the taxpayer can include the money expended in 2006 to purchase the hot water heater in calculating the credit.

(c) The taxpayer made a down payment in December 2006 to have qualifying windows installed in the spring of 2007. After the installation was completed in the spring, final payment was made. The energy conservation credit is available in 2007 only and the taxpayer can include the money expended in 2006 for the down payment in calculating the credit.

(3) For new construction, the energy conservation credit is available in the tax year that the construction is completed. An example of how the credit would be applied is:

(a) The taxpayer began construction of a new home in 2004 and finished it in 2005. The taxpayer invested in energy conservation measures that exceeded the 2003 International Energy Conservation Code with Montana amendments. The energy conservation credit is available in tax year 2005 only and the taxpayer is not entitled to an energy conservation credit for tax year 2004 even though the construction began in 2004.

(4) A taxpayer who purchases a newly constructed manufactured or modular home may claim the credit if they purchase the ENERGY STAR upgrade package. The amount paid for the package is considered the qualifying expenditure for the purpose of determining the amount of credit. For example, a taxpayer who spends an additional \$1,800 for an ENERGY STAR upgrade can claim a credit of \$450.

(5) For multi-unit buildings such as apartment complexes and condominiums, an energy conservation credit will be allowed for each unit when it can be demonstrated that the expense was attributed to a specific unit. Examples of these expenditures are:

(a) an ENERGY STAR qualifying furnace that only serves one unit of a multi-unit building would qualify as one expenditure and one credit;

(b) an ENERGY STAR qualifying furnace that serves all units of a multi-unit building is considered only one energy conservation investment and would qualify as one expenditure and one credit; or

(c) installation of an ENERGY STAR qualifying furnace in each unit of a multi-unit building would qualify as a separate expenditure and credit for each unit.

(6) The energy conservation credit is available to all owners of a building who invest in energy conservation expenditures. Examples of this application are:

(a) A husband and wife replace windows and exterior doors with qualifying investments in their existing home for a total cost of \$6,000. Each spouse is entitled to a maximum \$500 energy conservation credit. ($\$6,000 \times .25 = \$1,500$ with a maximum credit of \$500 per individual.)

(b) Four individuals who own a commercial building replace windows, exterior doors and the heating system with qualifying investments for a total cost of \$20,000. Each individual is entitled to a maximum \$500 energy conservation credit. ($\$20,000 \times .25 = \$5,000$ with a maximum credit of \$500 for each individual.)

(History: 15-1-201, 15-32-105, MCA; IMP, 15-32-102, 15-32-105, 15-32-106, 15-32-109, MCA; NEW, 2006 MAR p. 357, Eff. 2/10/06; AMD, 2008 MAR p. 387, Eff. 2/29/08.)

42.4.206 NEW CONSTRUCTION STANDARDS (1) For new construction, the energy-conserving expenditure must exceed the following equipment standards:

(a) air-source heat pumps - specification (split systems - greater than or equal to 8.0 HSPF or single package system - greater than or equal to 7.6 HSPF) - reference (ENERGY STAR qualified);

(b) boilers - specification (rating of 85% AFUE or greater) - reference (ENERGY STAR qualified);

(c) central air conditioners - specification (split systems - greater than or equal to 13 SEER - single package system - greater than or equal to 12 SEER) - reference (ENERGY STAR qualified);

(d) demand or instantaneous water heaters - specifications (gas-fired instantaneous - .82 or greater energy factor and electronic ignition) - reference (GAMA directory rating certified);

(e) furnaces - specifications (rating of 90% AFUE or greater) - reference (ENERGY STAR qualified);

(f) heat recovery ventilators - specifications (CSA C439-00 standard) - reference (HVI certified product);

(g) indirect water heaters - specifications (high efficiency) - reference (minimum of two inches foam insulation);

(h) light fixtures - specifications (electronic ballast and compact or linear fluorescent lamp) - reference (ENERGY STAR qualified);

(i) skylights - specifications (skylights must have a U-factor of .60 or less and meet ENERGY STAR qualifications) - reference (National Fenestration Rating Council (NFRC) window label);

(j) thermostats - specifications (programmable thermostat) - reference (ENERGY STAR qualified); and

(k) windows and doors - specifications (windows and doors must have a U-factor of .35 or less and meet ENERGY STAR qualifications - reference (National Fenestration Rating Council (NFRC) window label.

(2) In order to qualify for energy conservation credits for new construction, the energy-conserving expenditure must exceed the following Montana prescriptive path requirements:

(a) ceilings - R-49;

(b) crawlspace walls - R-20;

(c) exterior walls - R-21;

(d) finished basement walls - R-11;

(e) floors over unconditioned spaces - R-21;

(f) heating/cooling equipment - federal minimum standards;

(g) slab perimeter area four feet vertical or horizontal - R-13; and

(h) windows U-factor - U-.35. (History: 15-32-105, MCA; IMP, 15-32-105, 15-32-109, MCA; NEW, 2006 MAR p. 357, Eff. 2/10/06.)

42.4.207 RECORD RETENTION REQUIREMENTS (1) In order to claim the energy conservation credit, the taxpayer is required to retain invoices, sales agreements or receipts that document the work done and the equipment installed. The records should clearly state the equipment manufacturer, make and model number of any installed item or product that will determine the qualifications for the energy conservation credit. (History: 15-1-201, 15-32-105, MCA; IMP, 15-32-105, 15-32-106, 15-32-109, MCA; NEW, 2006 MAR p. 357, Eff. 2/10/06; AMD, 2008 MAR p. 387, Eff. 2/29/08.)

42.4.208 ANNUAL UPDATE OF CAPITAL INVESTMENTS QUALIFYING FOR THE ENERGY CONSERVATION CREDIT (1) Each September, the department will review ARM 42.4.204 to consider other capital investments that qualify for the energy conservation credit for the following tax year.

(2) The department will consider any information received that may indicate that capital investments should be added or deleted from the capital investments in ARM 42.4.204. The department will consult with the Department of Environmental Quality to determine whether capital investments should be added or deleted.

(3) The following standards for items that do not qualify for the credit will be applied in the annual review of capital investments. The examples under each standard are provided to aid the public in understanding the type of items that do not qualify for the credit.

(a) Components of conventional buildings will typically not qualify for the energy conservation credit. Examples of such components that do not qualify for the credit include:

- (i) carpeting, carpet padding, or other flooring of any type;
- (ii) paint;
- (iii) roof vents;
- (iv) awnings that are not a component of a qualified "passive solar system";
- (v) garage doors, whether insulated or not, that are installed in an existing or new building that does not consume any energy; or
- (vi) any item with an R-value of less than 1.

(b) Expenditures for maintenance and repairs to a building do not qualify for the credit. Examples of such expenditures include:

- (i) patching holes;
- (ii) replacing a foundation;
- (iii) replacing siding;
- (iv) replacing or reshingling a roof; or
- (v) replacing existing asbestos insulation around heating pipes with other insulation.

(c) Items that are not improvements to real property do not qualify for the credit. Examples of such items include:

- (i) space heaters;
- (ii) portable air conditioners;
- (iii) appliances such as ovens, stoves, refrigerators, dishwashers, clothes washers, and dryers that are not attached fixtures are not capital expenditures, and therefore do not qualify for the credit.

(d) Any item that requires periodic human action, whether on a regular or irregular basis, to achieve energy savings, does not qualify for the credit. Examples of such items include:

- (i) nonprogrammable thermostats;
- (ii) moveable shades;
- (iii) decks; and
- (iv) outdoor grills installed as fixtures to the real estate. (History: 15-1-201, 15-32-105, MCA; IMP, 15-32-102, 15-32-105, 15-32-106, 15-32-109, MCA; NEW, 2008 MAR p. 387, Eff. 2/29/08.)