

Everybody's Doing It – Tax Breaks for Going Green

By Megan Powers

Going green can benefit your tax return as well as the environment. The federal government, as well as many states, offer significant tax credits for engaging in certain environmentally friendly activities. This article highlights tax credits available to offset your federal, Maryland, or Virginia income taxes. Unfortunately, Washington, DC, does not provide any substantive going green tax benefits. Before you purchase a new car, make home improvements, or purchase new equipment for your business, consider what tax benefits may be available for going green.

Federal government

The federal government offers tax credits to both individuals and businesses for energy-saving improvements and investments. Many have already taken advantage of the tax credit for purchasing a hybrid car. The credit amount can be up to \$3,400 (depending on the vehicle and when it is purchased), and credits are still available for certain Ford, Mazda, and Mercury hybrids.

There are also tax credits available for energy-efficient home improvements. If you are planning home improvements, going green could give you something in return by improving your energy bills in the long run and by providing a tax break in the meantime. The American Recovery and Reinvestment Act of 2009 (ARRA) allows a tax credit equal to 30 percent of the cost of certain home improvements, with the maximum credit being \$1,500. Qualified improvements include adding insulation, energy-efficient exterior windows, and energy-efficient heating and air conditioning systems. For the installation of solar water heaters, geothermal heat pumps, and small wind turbines, there is no limit to the 30 percent tax credit.

There are two new tax credits this year for those who purchase plug-in electric vehicles, also known as neighborhood vehicles. The ARRA created a credit for those who purchase low-speed electric vehicles with two or three wheels between February 17th, 2009 and January 1st, 2012. This credit is good for 10 percent of the cost of the vehicle up to \$2,500. There is a similar tax credit created by the Emergency Economic Stabilization Act of 2008 (EESA) for those who purchase plug-in electric vehicles with four wheels, such as a Tesla. The minimum tax credit is \$2,500, but, depending on the weight of the vehicle and battery capacity, the credit can be as much as \$15,000.

State of Maryland

Maryland also offers tax credits for individuals and businesses going green. If you own waterfront property in Maryland, consider installing an aquaculture oyster float and you will receive up to a \$500 tax credit and help restore the oyster population in the Chesapeake. An oyster float can house up to 200 oysters, which can filter up to 10,000 gallons of bay water a day. Also, you can contribute directly to the Bay Fund on your Maryland tax return. If you make a contribution, Maryland will deduct the amount from your refund or add it to your tax liability. In addition, contributions to the Bay Fund qualify as itemized deductions on your federal return.

For pre-approved businesses and individuals, Maryland allows a Bio-Heating Oil tax credit equal to \$0.03 for each gallon of heating oil blended with at least 5 percent biodiesel used for space or water heating, up to \$500. Businesses operating in Maryland can receive a credit for expenses incurred for research and development in cellulosic ethanol technology. The credit is equal to 10 percent of a business's qualified research and development expenses, but is limited to \$250,000 for all business claiming the credit.

Pre-approved businesses may also receive a Clean Energy Incentive tax credit for using renewable energy sources or waste to produce energy. The credit amount ranges from \$0.50 to \$0.85 per kilowatt produced and businesses may be pre-approved for a credit amount up to \$2.5 million. The Water Quality Improvement tax credit is available to pre-approved individuals and businesses and is equal to 50 percent of the cost of additional commercial fertilizer needed to convert agricultural production to a nutrient management plan, up to \$4,500.

Commonwealth of Virginia

Virginia corporations can claim a tax credit for certified equipment purchased to produce tangible personal property items from recycled materials. These items must be produced for sale and the manufacturing facility where they are produced must be located in Virginia. This credit is for 10% of the price of the equipment and cannot exceed 60 percent of the entity's tax liability.

Virginia resident businesses or individuals with waterfront property can claim the Riparian Waterway Buffer credit for developing a certified Forest Stewardship Plan. If you harvest timber on the land, you must not harvest trees within a buffer zone that is from the water's edge to at least 35 feet from the water's edge for at least 15 years after the tax credit is taken. The credit is for 25 percent of the value of the timber in the buffer zone and cannot exceed \$17,500. The buffer zone used for calculating the credit cannot exceed 300 feet from the water's edge.

Virginia offers a credit to individual and corporate farm owners for the purchase of conservation tillage equipment, such as "no-till" planters or low soil disturbance drills, which help prevent soil erosion, improve water conservation, and reduce fuel consumption. The tax credit is 25 percent of the cost of such equipment, up to a maximum of \$4,000.

Virginia also offers a Land Preservation tax credit to those who convey Virginia property to a public or private agency for conservation or preservation purposes. The tax credit is equal to 40 percent of the appraised value of the donated land and can be carried forward for ten years.