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THE BOCA BEACH REPORT

Tax Credits: Energy Efficient Buildings

Energy Efficient Homes

An eligible contractor can claim either a \$2,000 or \$1,000 credit (depending on the type of home and the energy reduction standard it meets) for each qualified energy efficient home that the contractor builds that is acquired by a person from the contractor for use as a residence. (Code Sec. 45L).

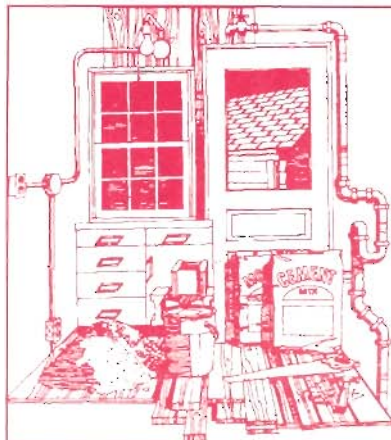
The credit applies to homes purchased after December 31, 2005 and before January 1, 2008. For a structure to qualify for the credit:

- it must be located in the U.S.;
- its construction (which includes substantial reconstruction and rehabilitation) must be substantially completed after Aug. 8, 2005;
- it must meet specific energy saving requirements;
- it must be constructed by the eligible contractor (the person who constructed the home, or the manufacturer, if the structure is a manufactured home); and
- it must be acquired or purchased by a person from the eligible contractor for use as a residence during the tax year.

The property used as a residence need not be the person’s principal residence. Thus, assuming the other requirements of Code Sec. 45L, are met, an eligible contractor may claim the credit for homes that are acquired by persons for use as second homes.

Energy Efficient Commercial Buildings

For property placed in service after December 31, 2005 and before January 1, 2008, taxpayers can claim a deduction for expenses incurred for energy efficient commercial ➔



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*Privileged
information about
your real estate*

This publication is not a solicitation but is an information service from this real estate office.

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- NEWS FROM OUR AREA

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buildings that meet a 50 percent energy reduction standard. The deduction is a major incentive for current building owners to upgrade their systems and for those building new structures to design them in an energy-efficient manner.

The maximum energy efficient commercial building deduction is equal to \$1.80 per building square foot (60 cents per building square foot for certain separate building systems), less the aggregate amount of these deductions allowed for the building for prior years. (Code Sec. 179D(b and d).)

Among other requirements, the property must be:

- depreciable or amortizable.
- installed on or in any building located in the U.S. as part of (a) the interior lighting systems, (b) the heating, cooling, ventilation, and hot water systems, or (c) the building envelope;
- certified as being installed as part of a plan designed to reduce the total energy and power costs with respect to the interior lighting systems, heating, cooling, ventilation, and hot water systems of the building by 50 percent or more, (Code Sec. 179D(c).) ▲

Energy-Efficient Windows In Your Home

You can see right through the windows in your home, but don't overlook them when it comes to energy savings.

Near the top of any list about saving energy in your home is a recommendation for double-pane windows. Look for double-pane windows that have high-performance glass. That helps reduce heat loss in the winter and heat gain in the summer.

If you're buying a new home or considering replacement windows you should look into these windows. According to the U.S. Department of Energy inefficient windows can account for 10 to 25 percent of your heating bill. The Department notes that during the summer, "sunny windows can make your air conditioner work two to three times harder."

The Energy Department recommends looking for double-pane windows which are low-e coated or solar control spectrally selective.

The "low-e" stands for "low-emissivity." Emissivity is the measurement of how much heat is emitted from any object by radiation. This can show how much of the sunshine coming in windows gets spread throughout your room, or how much of your home's heat is lost to the outside. Low-e coatings on a window reduce that flow and keep warm air inside during winter and cool air inside during summer.

The infrared portion accounts for most solar heating. It can be blocked by "spectrally selective coatings". Blocking the infrared portion allows the sun to shine in without heating up your house. These coatings are great for people in hot climates, but you should avoid them if you live in the colder parts of the country.

We're writing primarily about energy savings, but ➡

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the right windows can improve your home life in a number of other ways. Here are other benefits derived from efficient windows: improved comfort, less condensation, increased light and view, reduced fading of fabrics.

How are windows rated?

The source is the National Fenestration Rating Council. The NFRC is a non-profit, public/private organization that provides ratings on window, door and skylight products. It includes manufacturers, suppliers, builders, architects and designers, utilities and government agencies. Windows certified by the NFRC carry a label that provides the information you need to make to compare windows.

Here are the four ratings on the label:

1. The "U-factor" tells you how well a window keeps heat inside a building. The U-value of 0.35 or below is recommended for colder climates. The lower the U-value, the better the insulation.
2. Solar heat gain, shows a window's ability to block warming caused by sunlight. Look for the

rating expressed as a number between 0 and 1. The lower the number, the better the window is at blocking the sun's heat. It's recommended that windows in hot climates have a low rating, while south-facing windows in cold climates should have a high rating.

3. Visible light "transmittance," shows how much light gets through the product. The higher the number, the more light is transmitted.
4. Air leakage, also known as heat loss and gain through cracks in the window. The Energy Department recommends you select windows with a rating of 0.3 cubic feet per minute or less.

Also recommended by The Environmental Protection Agency: look for the Energy Star label on windows. Manufacturers and retailers who participate in the government program agree to promote energy-efficient products.

In one release the EPA stated: "If all residential windows in the U.S. were replaced with Energy Star qualifying models, the nation would save \$7 billion in energy costs over the next 15 years." ♣

Your Home Improvement Record Book

If you live in a home for many years, the increase in value may exceed the \$250,000 or \$500,000 that is allowed to be forgiven in taxes on the gain.

The owner will have to pay tax on the gain he or she realizes over that figure and the purchase price at the time of the sale. At selling time, the amount of gain might be overstated because the homeowner's basis will be undervalued unless the owner has records that (1.) substantiate the original cost of the home, and (2.) *prove the capital improvement expenditures made over the years.*

Although most homeowners have good records to establish what they paid for their homes, very few have records (or even have given thought to keeping records) to determine the amounts spent for improvements. The lack of proof generally means big trouble with the Internal Revenue Service; the homeowner could lose badly in the amount of taxes that must be paid.

The Solution: You can create an ongoing, permanent, written record. Set up a special, separate book in which to record the details of each and every outlay of money for home improvement.

The Record Book

First and foremost, adopt the principle that nothing will be left to memory. Trying to recall, from unwritten memory, at age 65 or so, the cost of a new roof that was put on your home some 20 or 30 years ago is virtually impossible. So use a book. Probably best is an accounting-paper (lined and ruled) hard-backed book to which pages cannot be inserted or substituted.

Here are the entries that should be made:

- Enter the exact address (street, city and state) of the residential property.
- Record the date of purchase and your costs, including fees and closing costs.
- Insert the date on which the home improvement project was started (such as, the date on which a contract was signed with an electrician or plumber or roofer.
- Describe the project. It is wise to put an envelope or pocket in the book so that you can file a copy of the contract or a written estimate provided for the job.
- Insert the date on which the home improvement project was completed. This detail is particularly important when a project takes a long time, covering periods in two different years.
- Enter the costs paid. These figures may be segregated by labor and materials. Costs should show the contractually agreed upon amount, and additional expenses that were paid as the project actually proceeded.
- Keep receipts, canceled checks, and similar written evidences of payments made. It is essential that you be able to "prove" the capital expenditure payments made and that calls for more than simply the entry of a dollar amount in a record book or a ledger.
- Start a new page for the next home you own and repeat the same kind of entries. ♣