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Save on energy — and taxes

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Buying a hybrid vehicle in Schuylkill County could put as much as $2,400 back into your pocket from federal government tax credits.

Using solar power in your home can save you at least $500 more.

During a Pennsylvania Manufacturers and Employers Association roundtable Tuesday morning at the Pottsville Club, officials from Parente Randolph LLC Accountants and Consultants, Scranton, spoke to chief executive officers of association member firms about energy tax breaks and other money-saving options in gearing up for tax season.

"I think everybody has been focused on energy projects," Joseph F. Pigga, CPA for Parente Randolph, told the gathering.

Homeowners can claim the $500 for installing windows, doors, insulation, heating and air conditioning systems that meet federal energy requirements, according to Pigga.

Edward A. Kollar, senior manager at Parente Randolph, said buying a fuel-efficient hybrid vehicles can save people between $400 and $2,400, depending on fuel economy of the vehicle — with one major caveat.

Once a car manufacturer sells 60,000 hybrid or more fuel-efficient models, the credit phases out. Toyotas, including the Prius — one of the most popular hybrid vehicles — are no longer eligible for the tax breaks because more than 60,000 have been sold, according to Kollar.

The federal tax credit does help, but Kollar said in the short run, car buyers will probably pay just as much because of higher vehicle costs in the hybrid market.

The future, Kollar said, is where savings lie.

"The hope is that one (tax credit) offsets the other (higher cost) and then you save money in fuel costs down the road," Kollar said.

Kollar added he expects tax credits for energy-saving measures to increase over time.

"It hasn't been a big year for tax changes," Pigga said, but new cost-saving opportunities are available for anyone embracing changes in energy and fuel efficiency.

He said new tax credits allow businesses to claim a $1.80-per-square-foot tax deduction for energy-saving improvements at their facilities, including lighting, heating, cooling and ventilation improvements.

Steve Redlich, CEO of Poly Plastic Products Inc., Delano, said his company is re-doing lighting systems in its warehouses in Delano. He said new energy-efficient lighting has already been put in place at the firm's Marshville, N.C., location.

"We did it in North Carolina a few years back and immediately saw savings," Redlich said.

In order to take advantage of the credit, energy and power costs at the business must be reduced by 50 percent, Pigga said.

Tax credits for energy-saving measures aren't just for businesses. Kollar said credits for solar panels in homes and buying more fuel-efficient vehicles are there for the taking.

"Energy efficient home improvements are eligible for up to a $500 credit," Kollar said.

On the business side, Pigga said firms that buy products exclusively from U.S. manufacturers can write off six percent of their company's yearly "bottom line," potentially saving thousands of dollars, depending on the size of the company.

Pigga said those Section 199 deductions have grown from three to six percent and are expected to rise to nine percent by 2010.

Pigga said companies will have to verify that all parts and components inside their facilities are from the U.S. In the past, the three percent might not have been enough to spur businesses into exclusively domestic buying, but the jump in tax breaks will probably change that, Pigga said.

In a major change for individuals, the “kiddie tax” has new laws for the upcoming tax season that the Parente Randolph representatives describe as “more stringent” than years past.

“The (tax) break, for all intents and purposes, is gone,” Kollar said.

Until this year, investment income for children 14 and older was taxed at a rate lower than the parents’ tax rate, allowing families to build up money for a child’s college education or other needs.

Kollar said parents would set up an investment fund in the child’s name, allowing the money to be taxed at a lower rate.

In 2007, the so-called kiddie tax expanded its reach to children under 18, meaning any income investments for children under 18 will be taxed at the parents’ highest tax rate.

Kollar said setting up investment income funds in a child’s name looking for a tax break is no longer possible.

Kollar and Pigga Parente suggested shifting funds to tax-free securities or growth stocks that defer taxes until the child’s 18th birthday as one of way of lessening the effects of new tax rules.

Kollar added there are plenty of other tax breaks available for individuals, ranging from college savings plans to itemizing deductions, but seeking professional help is the best way to maximize savings.

“Obviously, depending on your financial situation, you need good tax advice,” Kollar said. “They’re (tax credits) too complicated. The only way to do it is to plan.”