

Office for Financial Success – Financial Tip of the Week
 A service of the Personal Financial Planning Department
 College of Human Environmental Sciences
 University of Missouri-Columbia
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Hombama

Some days it just pays to spend money. Such is the case with another of the many stimulus packages, where the government wants to help you pay for energy efficient home improvements. While this idea is not new, the programs have been expanded and extended through 2010. It just might be time to replace some windows, your air conditioner, or to install a new roof.

For starters, homeowners will be eligible to receive up to a \$1,500 tax credit (one-time only) for energy efficiency improvements to their home. Prior to the stimulus bill’s passage, the limit was \$500 and many of the previous credits were only allowed through 2007.

Still, like any purchase, homeowners need to put the pencil to the paper, in the context of their expected residency and the potential value of the additions to the next owner, to make the correct choice. A quick primer on the program:

Product	Max. Tax Credit	Requirement 1	Requirement 2	Potential Savings/Notes
Insulation	30% of costs up to total tax credit of \$1,500	R-30 to R-60 when finished	Does not apply to installation costs	20% of energy bills
Windows & Doors	30% of costs up to total tax credit of \$1,500	NFRC rating of no more than 0.30	SHGC of no more than 0.30	Storm windows and doors may also qualify
Air Conditioner	30% of costs up to total tax credit of \$1,500	SEER of at least 16	EER of at least 13	Should replace units every 12-15 years, regardless
Replacing the roof	30% of costs up to total tax credit of \$1,500	Reflect the sun if you’re in a warm part of the earth.	Absorb the sun if you’re in a cold part of the earth.	Cost of from \$200-\$300 per 100 sq.ft. of roof (a “square”) Will need at least \$5,000 to qualify for \$1,500 tax credit

As an example, assume you’re an [average 2007 Missourian spending \\$86.22 per month on electricity](#). You purchase a new air conditioner for \$1,700, netting you a tax credit of 30% of the purchase price, or \$510. Each month, we’ll assume you’ll save 20% on your electric bill, or \$17.24. If we assume a time value of money of 5%, it will take 82 months, or 6.8 years, for you to fully recoup your costs. Every month you live in the house, past 82 months, you’ll be “paid” for the home improvement. At a 0% time value of money (much closer to today’s APYs!), you would only need to live in the home for 69 months (5.75 years) to begin to profit from your expenditure. Of course, these

figures ignore any increase in the resale value of your home or the smug satisfaction you feel by being “greener” than your neighbor.

While this may seem complicated, the point of the above should be reiterated. Your family is like a business. You need to work to reduce costs, while maximizing revenues. Of course, this is always done in the context of what brings you the greatest satisfaction – which is what makes your family different than a business. Regardless, consideration of the financial impact of expenditures, as well as your expected residency in a home and how the improvement is valued at resale, are key inputs to decisions in support of your *financial success*.

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