



# COMMUNITY PROPERTY ADVISOR

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## THE ENERGY TAX INCENTIVE ACT OF 2005

By Vinay Navani, CPA



In late July, Congress passed the *Energy Tax Incentives Act of 2005*. The federal government has provided these new tax breaks to reward both domestic energy production and conservation. There are a number of provisions which may have an impact on real estate-related business. Given the current headlines related to energy prices, we felt it would be timely to provide some useful information on this important piece of legislation. This article summarizes and highlights what we believe are the most relevant issues, including:

- ◆ Personal Energy Property Credit
- ◆ Personal Residential Energy Efficient Property Credit
- ◆ Credit for Builders of Energy Efficient New Homes
- ◆ Deduction for Energy Efficient Commercial Building Improvements.

(NOTE: Due to the recent passage of this law, the procedures to be used for obtaining this credit is not yet finalized. For specific details, consult your tax advisor.)

### Personal Energy Property Credit

There is a new personal tax credit for residential energy property expenditures. This new credit is limited to a lifetime amount of \$500, and it only applies to items put to use after 12/31/05 and before 2008. The credit only applies to expenditures on your principal residence (no vacation homes). Qualified home improvements include the following:

- ◆ Metal roofs coated with heat-reduction pigments
- ◆ Exterior windows, including those in skylights (However, the lifetime credit amount for windows is limited to \$200)
- ◆ Exterior doors
- ◆ Insulation materials or systems designed to reduce heat loss or gain
- ◆ Energy efficient electric heat pumps, electric heat pump hot water heaters, geothermal heat pumps, and central air conditioners. The credit for expenditures on these items cannot exceed \$300 per item.

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### Tax Incentive Act *(Continued from pg. 1)*

- ◆ Qualified natural gas, propane, and oil furnaces and qualified hot water boilers. The credit for expenditures on these items cannot exceed \$150 per item
- ◆ Advanced main air circulating fans. The credit for expenditures on these cannot exceed \$50 per item.

### Personal Residential Energy Efficient Property Credit

There is a separate personal tax credit for upgrades involving solar energy, as follows:

- ◆ Up to 30% of the cost of qualified solar water heating equipment (maximum credit of \$2,000)
- ◆ 30% of the cost of qualified electricity generating solar photovoltaic property (also a maximum credit of \$2,000)
- ◆ 30% of the cost of qualified fuel cell property (maximum credit of \$500 for each .5 kilowatt of capacity).

(NOTE: This credit only applies to equipment installed after 12/31/05 and before 2008 and is restricted to equipment for a personal residence). The credit cannot be used for swimming pool or hot tub heating equipment. The applicable residence must be in the U.S., and the credit for fuel cell property is only available for a principal residence.

### Credit for Builders of Energy Efficient New Homes

Contractors that build new energy-efficient homes in the U.S. are eligible for a credit of \$2,000 per housing unit. To qualify, the unit must have annual energy consumption for heating and cooling that is at least 50% less than comparable units. The credit can also apply to a substantial reconstruction and rehabilitation of an existing home. These credits only apply to homes sold by contractors for use as personal residences. Construction must be substantially completed after the 2005 Energy Act became law, and the home must be purchased after 12/31/05 and before 2008. This credit will benefit consumers to the extent that builders/contractors pass along their tax savings to buyers/homeowners. An even more direct benefit to consumers will be their ability to save money on their utility bills due to reduced energy consumption.

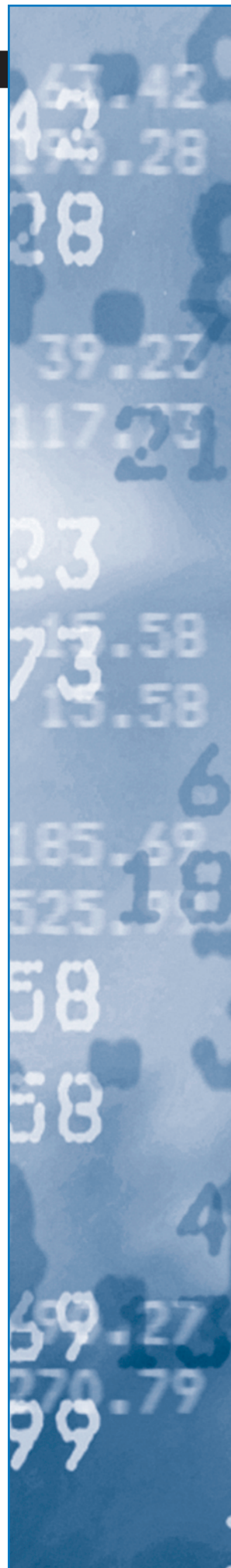


### Deduction for Energy Efficient Commercial Building Improvements

An immediate deduction (as opposed to multi-year depreciation) is allowed for the cost of qualified energy-saving improvements to commercial buildings in the U.S. The maximum deduction is generally limited to \$1.80 per square foot on a lifetime basis. To qualify, the improvements must meet a 50% reduced energy consumption standard. The improvements must be installed as part of interior lighting systems; heating, cooling, and ventilation systems; hot water systems; or the building envelope. In some circumstances, a reduced deduction amount of \$.60 per square foot may apply. The deduction is available for qualified energy efficient commercial building improvements put to use after 12/31/05 and before 2008.

### Summary

This article discusses only the highlights of some of the myriad of new rules included in the fairly extensive 2005 Energy Act. Please call us if you have questions or would like more specific information about this legislation's application to a particular situation.





# 15 Financial Issues Associations Should Consider

By Jules C. Frankel, CPA, MBA

Although we have been publishing the *CPA* newsletter for many years, Board Members, and sometimes property managers, change. Therefore, not all of our readers are necessarily familiar with some of the significant financial issues we believe are of importance to Associations. With this in mind, we have prepared the following chart, to recap some of the significant issues that we have addressed in the *CPA* over the past 5 years. Each entry includes the article title and the key concept(s) discussed in the article. If your property manager or Association retains copies of our newsletter, we have identified the issue of the *CPA* in which each article appeared, to facilitate easy reference. If you need more information, please email me at [jfrankel@wgcpas.com](mailto:jfrankel@wgcpas.com). We will be happy to assist you.

Article Title	Key Concept Discussed	CPA Issue
1. What Should A Board Do About Circumstances Beyond Its Control?	Provides general guidance for Boards to respond to circumstances that fall into various categories of causes; nature, market forces or inadequate budgeting. The response will be influenced by the cause.	Summer 2005
2. Why Associations Should Meet With Their Professionals	Discusses the circumstances in which Associations should meet with three of their professional advisors: CPA, Investment Advisor and Engineer.	Spring 2005
3. Why Your Auditors Should be Asking More Questions (or SAS #99 on Fraud Implemented by CPA's)	Places the <i>AICPA Statement of Audit Standard #99</i> on fraud in context. Discusses the professional obligations auditors must fulfill.	Spring 2004
4. Internal Controls "Checks and Balances"	Reviews the Board's responsibility in ensuring that a proper system of checks and balances is being used for the Association's finances.	Fall 2004
5. Working Capital Contributions— A Primer	Explains the sources and uses of these funds, the proper accounting procedures to be used, and guidelines for appropriate (and inappropriate) uses of working capital funds.	Summer 2003
6. What Should Associations Consider When Investing Their Funds?	Contrasts personal investment decision-making with the fiduciary responsibility of a Board member, and offers guidance on industry norms.	Winter 2004
7. What To Do With Your Association's Interest Income	Discusses approaches related to the sources and uses of an Association's investment income.	Fall 2001
8. When to Use Your CPA at General Membership Meetings	Discusses the circumstances in which Associations should consider using its CPA at open membership meetings.	Summer 2003
9. What Are The Financial Implications Of The Various Replacement Funding Options?	Explains the differences between baseline, threshold, and full funding, as well as the issues to be considered in choosing an appropriate replacement funding strategy.	Spring 2001
10. Ten Questions to Ask Your Engineer Other Than "How Much Will the Reserve Study Cost?"	Our "Top Ten" questions to ask your Engineer when performing a reserve study.	Spring 2000
11. When Is It Appropriate To Use An Association's Capital Replacement Fund?	Provides guidance for appropriate use of capital replacement funds.	Spring 2003
12. When Should An Association Consider A Bank Loan For Project-Specific Financing?	Discusses appropriate scenarios and considerations for obtaining project financing from a bank.	Summer 2002

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**15 Financial Issues Associations Should Consider** *(Continued from pg. 3)*

Article Title	Key Concept Discussed	CPA Issue
13. Interfund Balances: What, Why and How?	Explains the concept of an interfund balance; what it is, how it occurs and what action to take.	Spring 2002
14. Sales Tax Audits of Large Associations	Corrects common misconceptions about sales and use tax; provides practical guidance regarding filing and payment.	Spring 2004
15. For Many Associations, It's Budget Time	Provides a "template" and recommendations for Boards to follow to help them budget more effectively.	Fall 2002



**NEWS AT THE FIRM**

**ANNIVERSARIES** (October–December)

Congratulations to the following W&G staffers celebrating anniversaries:

- 21 years **Annette Murray, CPA**
- 20 years **Janine Zirrih**
- 19 years **Margot Julis**  
**Susan Klimcsak, CPA**
- 16 years **Carol Rosenving**
- 7 years **Donna Peskin, CPA**  
**Vinay Navani, CPA, MBA, MST**  
**Daniel Manning, CPA**
- 6 years **Jill Carvalheira, CPA**
- 5 years **Cristina McLaren, CPA**

**UPCOMING ISSUES:**

- **The Flip Tax—Coming to NJ?**
- **The New Federal Bankruptcy Law**

This publication is prepared quarterly by Wilkin & Guttenplan, P.C. For further information or for complimentary copies or subscriptions, you may contact Jules C. Frankel at:

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