

JANUARY 2023

# Tax News & Strategies

## Monthly Newsletter



The Inflation Reduction Act of 2022 (IRA) amended the credits for energy efficient home improvements and residential clean energy property. These tax credits are non-refundable personal tax credits which means that they may be used to reduce or even eliminate a taxpayer's federal tax liability, and they are available to all taxpayers regardless of income level. These tax credits are available for expenditures made for properties used as primary residences (including renters who make such expenditures in most cases), and even second homes in some cases. There is an aggregate annual limit of \$1,200 for the tax credits, although certain water heaters, heat pumps, biomass stoves and biomass boilers have an additional and separate aggregate tax credit limit of \$2,000. So, the maximum tax credit in any given year would be \$3,200. Other limitations apply and taxpayers should seek guidance from a tax professional if considering such an expense to ensure the property qualifies for the tax credit.

### Energy Efficient Home Improvement Credit

This credit generally equals 30% of costs (limits may apply) for the following property which meets the energy efficient criteria, and which is placed in service between January 1, 2023 and December 31, 2032 on existing homes only:

- Exterior Doors, windows, skylights and insulation/air sealing materials or systems.
- Central Air Conditioners; natural gas, propane or oil water heaters, furnaces, and hot water boilers; improvements or replacements to panelboards, branch circuits, or feeders installed along with and to support such equipment.
- Electric or natural gas heat pump water heaters, heat pumps and biomass stoves and biomass boilers.
- The cost of Home Energy Audits

### Residential Clean Energy Property Credit

Although this credit is also non-refundable, any unused portion of this credit will carry forward to future years (such is not the case for the energy efficient home improvement credit discussed in the previous section). This credit equals 30% of costs for qualified property placed in service between January 1, 2022 and December 31, 2032. (You will note this is retroactive to the beginning of tax year 2022.) with the credit decreasing each year after December 31, 2032. Taxpayers may claim this credit for the installation of qualified property on existing homes, as well as newly constructed homes, as follows:

- Solar panels and solar water heaters.
- Wind turbines.
- Fuel Cell property expenditures (limits may apply).
- Geothermal heat pump property.
- Battery storage technology (capacity must be 3 kilowatt-hours or greater).

Taxpayers should note that the labor costs properly allocable to onsite preparation, assembly, installation, and for piping or wiring to interconnect the clean energy property to the home, are also included in the costs for the tax credit.

### Tax Strategy:

Since these energy tax credits are not available to property owners who make the improvements to their rental properties, taxpayers who are considering converting their personal residence to a rental property at some point in the future should make these home energy improvements while still using the property for personal purposes. In the case of the Residential Clean Energy Property Credit, since any unused portion is carried forward into future, a taxpayer could potentially continue to receive the benefit of the tax credit for years after converting the property to rental use.