JO Knows New and Modified Energy Credits – Part I

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The Inflation Reduction Act was passed in August of last year, and while there are multiple tax provisions in that Act, today we'll be covering the potential tax savings for individuals because of new and modified energy credits. These include the extension of the residential clean energy credit and the increase in the energy efficient home improvement credit. We'll cover the electric vehicle tax credit later.

The credit that is most likely to impact individual taxpayers directly is the energy efficient home improvement credit. You may recall that in prior years you could receive credits for certain energy-efficient upgrades to your home, such as windows and heaters, but limited to a lifetime maximum credit of $500. Beginning in 2023, the energy efficient home improvement credit is increased to an *annual amount* of $1,200. The amount of the credit is now equal to 30% of the sum of the amounts paid for certain qualified expenditures. Some examples of qualified costs are energy efficient exterior doors, windows, skylights and insulation materials, home energy audits, energy efficient air conditioners, water heaters, furnaces and boilers and other similar improvements. There is a $1,200 yearly tax credit maximum, and some of the specific improvements have their own caps as well (such as 30% of the costs of windows up to a total of $600) Some expenditures, such as electric or natural gas heat pump water heaters, electric or natural gas heat pumps, and biomass stoves and boilers are eligible for a separate aggregate yearly credit limit of $2,000, raising the maximum possible credit to $3,200 for certain improvements.

In addition to the energy efficient home improvement credit, there is a residential clean energy property credit, which allows a credit of 30% of the cost of solar electric property expenditures (solar panels), solar water heating property expenditures (solar water heaters), fuel cell property expenditures, small wind energy property expenditures (wind turbines), geothermal heat pump property expenditures, and battery storage technology expenditures. This credit does not have an overall dollar limit but there are specific limitations on the credit allowed for fuel cell property expenditures.

Both the energy efficient home improvement credit and the residential clean energy property credit are available for the taxpayer's primary residence, and in some cases may be available for a second home if it is used as a residence by the taxpayer and not as a rental property. The energy efficient home improvement credit applies only to an existing home, while the residential clean energy property credit is available for either an existing home or a newly constructed home.

If you're considering making energy efficient upgrades to your home, 2023 may be an excellent year to do so. Many of the credits extend to the end of 2032, and because the annual cap of $1,200 resets each year there may be good tax reasons to extend your purchases over several years when possible. Many of these credits have specific technical qualifications and limitations, so please consult with a member of the Johnson O'Connor's Individuals, Trusts and Estates Team before you make any purchases to be sure you qualify.

To learn more, reach out to Johnson O'Connor's Individual, Trust and Estate Team.

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