Maximize Your Year-End Planning: Energy Efficiency Tax Credits

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Over the next weeks, we'll be periodically highlighting year-end tax planning strategies for our clients to consider as we approach the end of the 2024 tax year. Today, we'll be focusing on home improvements that you might already be considering for your primary residence but which can provide a tax break if completed before the end of the year. Energy tax credits for residential homeowners can vary by year and jurisdiction, but several federal and state programs typically exist to incentivize energy-efficient home improvements and renewable energy installations. Here's a summary of some common energy tax credits and incentives available for residential homeowners in the United States:

Residential Clean Energy Credit:

- What It Covers: This credit allows homeowners to deduct a percentage of the cost of installing renewable energy systems, including solar panels, solar water heaters, wind turbines, and geothermal heat pumps.
- Percentage: For systems installed in 2024, the credit is 30% of the installation costs.
- Caps: There is no annual maximum or lifetime limit for this limited type of credit.
- Expiration: The credit will remain at 30% until the end of 2032, after which it will gradually decrease to 26% in 2033 and 22% in 2034.
- These improvements must be made to your primary residence in order to claim the tax credit.

Energy Efficient Home Improvement Credit (formerly known as the Non-Business Energy Property Credit):

- What It Covers: This credit is available for improvements that enhance the energy efficiency of a home, such as insulation, energy-efficient windows and doors, and qualified heating and cooling systems.
- Percentage: Homeowners can claim a credit of 30% of qualifying improvement costs,
- Caps There is a maximum credit limit of $1,200 per year for most improvements, but some specific product categories have their own limits (e.g., a maximum of $600 for windows and $2,000 for qualified heat pumps).
- Expiration: The credit will expire at the end of 2023, but there is no lifetime cap on the amount a taxpayer can claim (other than the yearly limits noted above).
- Beginning in 2025, the IRS will be requiring that the property be produced by a Qualified Manufacturer and the taxpayer will be required to include a PIN for the item on the taxpayer's tax return.
- These improvements must be made to your primary residence in order to claim the tax credit.

State and Local Incentives

In addition to federal credits, many states and local governments offer further incentives, including:

- State Tax Credits: Various states provide their own tax credits for renewable energy installations and energy-efficient upgrades. Homeowners should check with their state's department of revenue or energy office for details. In Massachusetts, taxpayers can visit the **Massachusetts Department of Energy Resources (DOER) website** and the **Mass Save website** for additional information on available programs.
- Utility Incentives: Numerous utility companies offer rebates for energy-efficient appliances, home energy assessments, and renewable energy systems. These incentives can vary widely based on location.

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- Property Tax Incentives: Some states have programs that exempt renewable energy systems from property taxes, helping homeowners install systems without increasing their tax burden.

For more details on maximizing energy efficiency tax credits or other year-end planning strategies, connect with your Johnson O'Connor advisor. We're here to help you make the most of available tax-saving opportunities.

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