

ENERGY CREDITS FOR HOME IMPROVEMENTS

The tax credits available for energy efficient improvements to your primary residence was increased effective in 2023 under the Inflation Reduction Act of 2022. Prior to recent legislation there were lifetime limitations (caps) on credits for replacing windows, doors, insulation, etc. The new law removes the lifetime limitations and replaces them with annual limits.

These credits are incredibly detailed in the legislation. It is important to collect a Manufacturer's Certification for each credit eligible item installed on your home to safeguard your tax credit. These should be available from the manufacturer's website, the contractor that performs the work, or the store that sells the product in question. Additionally, please visit the following to be sure your component or item qualifies.

https://www.energystar.gov/about/federal_tax_credits/non_business_energy_property_tax_credits

There are two main credits available. The first is the Residential Clean Energy Credit. The second is the Energy Efficient Home Improvement Credit.

Both credits are non-refundable. This means they can only be claimed up to the federal income tax generated by your income. Doing so would generate a refund equal to the total of withholding plus estimated payments. While the remaining Residential Clean Energy Credit can be carried forward to the following year, unused Energy Efficient Home Improvement Credit is not able to be carried forward. For this reason, you may want to spread tax credit eligible projects over multiple years to maximize the tax credit available to you each year.

The maximum credit for each subsection is 30% of the costs related to the qualified improvement. Many of the subsections also have a separate maximum annual credit as well.

The following credits are available for qualifying improvements that were completed/installed prior to the end of the year for each of the following categories:

- a. Residential Clean Energy Credit:
 - 1) Qualified Solar Electric property
 - 2) Qualified Solar Water Heating property
 - 3) Qualified Small Wind Energy property
 - 4) Qualified Geothermal Heat Pump property
 - 5) Qualified Battery Storage Technology with at least 3 KW hours capacity
 - 6) Qualified Fuel Cell property

- b. Energy Efficient Home Improvement Credit: This section is broken into two subsections as follows:
 - 1) Qualified Energy Efficiency Improvements: Must be installed in/on your main home (primary residence) and in the United States. You must provide the full address of the home where the property was installed. The property must be new, and the components must be expected to remain in use for at

least 5 years. These improvements must not be related to the construction of your main home. They must be improvements completed after the year of original construction.

- i. Insulation or Air Sealing Material or System specifically and primarily designed to reduce heat loss or gain of your home that meets criteria established by the IECC. The credit for these is limited to \$1,200 per year.
 - ii. Exterior Doors that meet applicable Energy Star requirements. The credit for the most expensive qualified exterior door purchased is limited to \$250. The total credit for all qualified exterior doors is limited to \$500 annually.
 - iii. Windows and Skylights that meet Energy Star certification requirements. This credit is limited to \$600.
- 2) Residential Energy Property Expenditures: Must be installed on or in connection with a home located in the United States (not required to be your primary residence/main home). The property must be new. You must provide the full address of the home where the property was installed.
- i. Central Air Conditioners that achieve the highest efficiency tier that has been established by the Consortium for Energy Efficiency that is in effect as of the beginning of the calendar year in which the property is placed in service. This credit is limited to \$600 per year. *If you plan to replace multiple units you may want to plan to replace them in separate tax years.*
 - ii. Natural Gas, Propane or Oil Water Heaters that achieve the highest efficiency tier that has been established by the Consortium for Energy Efficiency that is in effect as of the beginning of the calendar year in which the property is placed in service. This credit is limited to \$600 per year.
 - iii. Natural Gas, Propane or Oil Furnace or Hot Water Boilers that achieve the highest efficiency tier that has been established by the Consortium for Energy Efficiency that is in effect as of the beginning of the calendar year in which the property is placed in service. In addition, oil furnaces and hot water boilers placed in service before 1/1/27 must meet 2021 Energy Star efficiency criteria and be rated by the manufacturer for use with fuel blends at least 20% of the volume of which consists of an eligible fuel. This credit is limited to \$600 per year.
 - iv. Improvements or replacement of Panelboards, Subpanelboards, Branch Circuits, or Feeders that were installed in a manner consistent with the

National Electric Code, have a load capacity of at least two hundred amps, and were installed with qualified energy efficiency improvements or qualified energy property. This credit is limited to \$600 per year.

- v. Home Energy Audits that include an inspection of your main home (primary residence), located in the U.S. and a written report prepared. Beginning with audits performed in 2024 the audit must be performed by a Qualified Home Energy Auditor or under the supervision of a Qualified Home Energy Auditor. The Qualified Home Energy Auditor must be certified by a Qualified Certification Program at the time of the home energy audit. This credit is limited to \$150 per year.
- vi. Heat Pumps and Heat Pump Water Heaters; Biomass Stoves and Biomass Boilers: The credit for these items is limited to \$2,000 per year.
 - 1. Electric or Natural Gas Heat Pumps that achieve the highest efficiency tier established by the CEE that is in effect as of the beginning of the year in which the property is placed in service.
 - 2. Electric or Natural Gas Heat Pump Water Heaters that achieve the highest efficiency tier established by the CEE that is in effect as of the beginning of the year in which the property is placed in service.
 - 3. Biomass Stoves and Biomass Boilers that have a thermal efficiency rating of at least 75% (measured by the higher heating value of the fuel).

Basis reduction: Your basis in any property must be decreased by the amount of any of the above credits taken. For example, if you paid \$70,000 for qualifying solar panels to be installed on your home and used the entire credit of \$21,000 (30%) your basis in the home would only increase by \$49,000 (\$70,000 total cost minus \$21,000 credit) due to the improvement. If your purchase basis was \$300,000 your total basis would be \$349,000 after the improvement. This new basis would be used for calculation of depreciation and eventual gain/loss when you sell the property.