

Energy Efficient Home Improvement Tax Credits

- The Energy Efficient Home Improvement Credit provides tax credits for the purchase of qualifying equipment, home improvements, and energy audits to reduce your taxes.
- The Residential Clean Energy Credit provides tax credits for the purchase of qualifying equipment including solar, wind, geothermal and fuel-cell technology.
- You can claim the credit for solar, wind, and geothermal equipment installed in your principal residence as well as any other home you use as a residence.
- Fuel-cell equipment qualifies for the credit only if it is installed in your principal residence.

What are energy tax credits targeting home improvements?

In August 2022, the Inflation Reduction Act amended two credits available for energy efficient home improvements and residential clean energy equipment, so that they last longer and have a greater financial impact.

Energy Efficient Home Improvement Credit

Prior to its extension and expansion through the passage of the Inflation Reduction Act, the energy efficient home improvement credit amounted to a lifetime credit of \$500 through December 31, 2022, and had a different name, the Nonbusiness Energy Property Credit. The Inflation Reduction Act amended the credit to be worth up to **\$1,200 per year** for qualifying property placed in service on or after January 1, 2023, and before January 1, 2033 and gave it a new name, the Energy Efficient Home Improvement Credit.

Because the new credit has an annual limit rather than a lifetime limit, if you can manage to spread out your qualifying home improvements over the 10-year life of the credit, you could receive up to \$12,000 back on your taxes as compared to only \$500 allowed under the previous credit. You can receive up to an additional \$2,000 per year for making qualified investments in heat pumps and biomass stoves and boilers.

Which home improvements qualify for the Energy Efficient Home Improvement Credit?

Beginning January 1, 2023, the credit becomes equal to the lesser of 30% of the sum of amounts paid for qualifying home improvements or the annual \$1,200 credit limit. In addition, the aggregate \$1,200 limit, annual dollar credit limits apply to specific items including:

- Home energy audits: \$150
- Exterior doors: \$250 per door (up to \$500 per year)
- Exterior windows and skylights, central A/C units, electric panels and related equipment, natural gas, propane and oil water heaters, furnaces or hot water boilers: \$600

In addition to the \$1,200 credit limit above, a separate aggregate yearly credit limit of \$2,000 applies to electric or natural gas heat pump water heaters, electric or natural gas heat pumps, and biomass stoves and biomass boilers. This means you can claim a maximum total yearly energy efficient home improvement credit amount up to \$3,200.

Residential Clean Energy Credit

The Residential Clean Energy (RCE) Credit is a renewable energy tax credit extended and expanded by the 2022 Inflation Reduction Act. The credit is worth 30% of certain qualified expenses for residential clean energy property. The Inflation Reduction Act extended and modified the existing energy credit through 2034, modified the applicable credit percentage rates, and added battery storage technology as an eligible expenditure.

The credit applies for property placed in service after December 31, 2021, and before January 1, 2033. Starting in 2033, the credit percentage rate phases down to 26% for 2033, then to 22% for 2034, and finally to no credit being available after December 31, 2034.

Which equipment qualifies for the Residential Clean Energy Credit?

Equipment that qualifies for the Residential Clean Energy Tax Credit includes solar, wind, geothermal, and fuel-cell technology:

- Solar panels, or photovoltaics, for generating electricity
- Solar-powered water heaters for water used inside the home (at least half of the home's water-heating capacity must be solar and water for swimming pools and hot tubs doesn't qualify)
- Wind turbines that generate up to 100 kilowatts of electricity for residential use
- Geothermal heat pumps that meet federal Energy Star guidelines
- Fuel cells that rely on a renewable resource (usually hydrogen) to generate power for a home (minimum 0.5 kilowatts of power generation capacity)
- Battery storage technologies

Are roofing expenditures covered by the Residential Clean Energy Credit?

Generally, expenses made to upgrade or replace a roof in preparation for installing solar panels and related equipment aren't qualified to claim the Residential Clean Energy Credit because they primarily serve as a roofing or structural function. However, if you invest in certain types of solar roofing equipment like solar roofing tiles and shingles which serve as both a form of solar electric generation and traditional roofing, such investments can qualify for the credit.