**Tax Tips
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**The Inflation Reduction Act: Energy Efficiency Credits and Provisions**

The Inflation Reduction Act of 2022 (the “Act”) was recently passed, and it includes a range of new tax rules addressing various areas, including healthcare, energy, and tax measures. With one of its significant goals being to address climate change and jump-start clean energy production, the Act created a significant number of renewable energy sector benefits, including extended and expanded energy-efficiency credits and provisions.

If you have made any energy-related improvements to your home, let your tax professional know so they can consult with you on whether your investments qualify for these credits. Here is a brief rundown.

**Expanded Credit for Home Energy Efficiency Improvements**

Although the *IRC 25C nonbusiness energy property credit* already existed for various home energy efficiency improvements, the impact was limited because of it only applying to primary residences and being subject to a lifetime limitation of $500 for each taxpayer. The Act extends the previous credit for another year through the end of 2022 and expands the credit significantly beginning in 2023. Starting in 2023, the following new rules apply:

1. The credit has a $1,200 annual limitation with no lifetime limit for most qualifying improvements.
2. The credit is equal to 30 percent of the property’s cost.
3. Certain subcategories under the $1,200 cap have their own annual limits - $600 for windows, $500 for exterior doors ($250 per door), $600 for energy equipment, and $150 for home energy audits. Heat pumps and biomass stoves have a $2,000 annual limit instead of $1,200.
4. The credit can be claimed for improvements to any dwelling unit, not just a residence, and can include installation and enhanced wiring costs.

**Extended Residential Clean Energy Credit**

The *IRC 25D residential energy efficiency property credit* is also an existing credit already available, but while it originally allowed a 30 percent credit (mostly used for solar systems and related costs), it was reduced to 26 percent in recent years and was scheduled for additional reductions and eventual expiration. The Act renamed the credit to the *residential clean energy credit and* brought the credit back up to 30 percent starting in 2022, and it also extended the credit through 2034 (with reduced percentages in 2033 and 2034). It will completely expire in 2035 unless Congress continues it.

**Clean Energy Credits for Businesses and Investors**

This credit is similar to the residential credit for individuals, with the business investment tax credit for solar and other renewable energy technologies reduced from 30 percent to 26 percent in recent years and scheduled for further reductions and expiration. The Act brings this back to 30 percent for projects completed in 2022, 2023, and 2024 and is expanded to include energy storage technologies. For 2025 and beyond, the 30 percent credit still applies for geothermal projects, but it will also require projects to meet certain wage and apprenticeship standards and use source materials from within the United States. This will apply to such projects that start construction through 2034, but the credit will start to phase out for projects beginning after 2032 (26 percent for 2033 and 22 percent for 2034).

**High-Efficiency Electric Home Rebate Program**

While not a credit, this provision of the Act will create a program to award rebates to individuals or families who purchase certain energy-efficient improvements. Participants must earn less than 150 percent of the median income where they live to qualify. The rebate amounts will depend on the category of improvement or upgrade: for example, a stove, cooktop, range, or heat pump clothes dryer could qualify for a rebate of $840, while a rebate for a heat pump for space heating and cooling could be as high as $8,000. The percentage of the property’s cost awarded as a credit will vary depending on income level, and each family will be limited to no more than $14,000 in total rebates under the program. This program will run through 2031.

**Other**

There are other credits and incentives available under the Act to encourage production of electricity using clean energy and reduce carbon emissions – however, above are some of the most common provisions. Consult with your tax professional to learn more!

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#BusinessTip: The Inflation Reduction Act of 2022 brings the business investment tax credit for solar and other renewable energy technologies back up to 30 percent for projects completed in 2022 through 2024 and is expanded to include energy storage technologies. Learn more here: [link]

Starting in 2023, new rules have been applied for the nonbusiness energy property credit. This includes allowing the credit to be claimed for improvements to any dwelling unit, not just a residence. Learn more in our latest blog article: [link]

DID YOU KNOW… There is now a provision in the Inflation Reduction Act of 2022 that will create a program to award rebates to individuals or families who purchase certain energy-efficient improvements. Learn more here: [link]

There are many credits and incentives available under the Act to encourage production of electricity using clean energy and reduce carbon emissions. Check out some of the most common ones in our latest blog article: [link]

Have you made any energy-related improvements to your home? You may qualify for energy-efficiency credits! Find out more in our latest blog: [link]