2022 Inflation Reduction Act

The Inflation Reduction Act extended many green energy and energy-efficient tax breaks. The Inflation Reduction Act increases the credit from 26% to 30% for tax year 2022 through 2032.

Starting December 31, 2022, the **Energy Efficient Home Improvement Credit** will be equal to 30% of what homeowners pay for various types of home energy efficiency improvements. (Exterior windows, skylights, doors, home insulation, heat pumps, water heaters, central air conditioners, furnaces, hot water boilers, biomass stoves, boilers, electric panel upgrades, home energy audits.)

These improvements must meet Energy Star requirements, and insulation must meet criteria established by the International Energy Conservation Code. The old credit contained a lifetime cap. Taxpayers would hit the limit at a mere $500. Under the IRA legislation, lifetime caps are eliminated. Instead, there is a $1,200 overall annual cap on the new credit along with annual caps for the following types of improvements:

Water heaters, central air conditioners, furnaces: $600 annual cap.

Windows and skylights: $600 cap for all exterior windows and skylights.

Doors: $250 for any single exterior door and $500 for all exterior doors.

Home energy audit: $150 per year.

This means you can perform home energy efficiency projects over several years and collect a credit up to $1,200 each year. Heat pumps, biomass stoves, and boilers have a $2,000 annual cap, which is not included in the $1,200 annual limit.

**Other Types of Credits:**

**Energy- Efficient Commercial Building Tax Deduction**: This tax deduction of up to $1.88 per square foot is available to owners of new or existing buildings who install interior lighting, a building envelope, heating, cooling, ventilation, or hot water systems that reduce the energy and power cost of the interior lighting, HVAC, and service hot water systems by 50% or more.

The **Residential Clean Energy Credit** applies primarily to the installation of home solar panels, but it can also be claimed for the cost of purchasing and installing solar water heaters, geothermal heat pumps, small residential wind turbines, residential fuel cells, and storage batteries. There is no annual or lifetime cap on this credit and you can use it for your main home or second home.

**Home EV charger Credit:** The amount of credit remains at 30% of the cost of purchasing and installing a home charger, capped at $1,000 per year. However, the credit now applies per charger—for example, if you purchase two home chargers you can obtain a $2,000 credit.

**Fuel Refueling Property Credit:** This credit will be limited to properties located in a rural or low-income census tract. It applies to individual installations as well as business installations. The credit for all property placed in service at your main home is generally the smaller of 30% of the property’s cost or $1,000.

**Clean Vehicle Credit**: Starting January 1, 2023, individuals who purchase used electric vehicles may also be eligible for a tax credit (depending on their income) of up to $4,000 or 30% of the sales price, whichever is less. Please visit the irs.gov website for more information on thresholds and restrictions.