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August 2024

Energy Efficient Home Improvement Credit.

Effective for 2023 The inflation Reduction Act extended and expanded the tax credits for energy efficient home improvements. The tax credit is increased to 30% of the cost of home improvements, and removed the lifetime limitation, and included annual limitations as follows:

1. In General, the combined tax credit for all energy efficient home improvements is limited to $1,200
2. Tax credit for residential energy property expenditures is limited to $600 per year.
3. The tax credit for windows is limited to $600 per year in the aggregate for exterior windows and skylights.
4. Tax credit for doors is limited to $250 per year for any exterior door, and $500 in the aggregate for all exterior doors.
5. Tax credit allowed for heat pumps and heat pump water heaters, biomass stoves and boilers is limited to $2,000 per year and #1 and #2 limits do not apply.
6. Tax credit for energy audits is limited to $150 per year.

What is the difference between a tax credit and a rebate?

Tax Credit

An energy tax credit is applied as a reduction in the income tax liability you incur on your federal income tax return. Thus, a tax credit is taken with the filing of your federal tax return. This credit will reduce your total tax liability; however, it cannot reduce to more than zero and if you have no tax liability, the credit cannot be used in the current year. Further, this tax credit cannot be refunded to you if you have no tax liability. You can however, “carry forward” any excess or unused tax credit and apply it to reduce your tax liability in subsequent years.

Rebate

There are various states, local governments and utility companies that offer rebates for energy efficient home improvements, rather than tax credits on your state income tax return. These rebates must be “applied for” by you or your contractor directly to the state, local government or utility agency offering the specific rebate. Thus, a rebate will put actual cash in your pocket when received.