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CLEAN ENERGY CREDITS

Clean Energy Credits. For 2022, the clean energy tax credits available include (1) residential energy property credits (the nonbusiness energy property credit and the residential clean energy property credit) and (2) vehicle-related credits (the qualified plug-in electric drive motor vehicle credit and the alternative fuel refueling property credit). These credits were significantly expanded by the Inflation Reduction Act, generally beginning after December 31, 2022. However, as described in more detail below, a change to the credit for purchasing an electric vehicle, requiring the final assembly of the vehicle in the United States, takes effect on August 17, 2022.

ENERGY EFFICIENT HOME IMPROVEMENT CREDITS

For years before 2023, the nonbusiness energy property credit (renamed the energy efficient home improvement credit by the Inflation Reduction Act) is a credit for: (1) 10 percent of the cost of qualified energy efficiency improvements installed during the year; and (2) the amount of the residential energy property expenditures paid or incurred during the year. Qualified energy efficiency improvements include the following qualifying products: (1) energy-efficient exterior windows, doors and skylights; (2) roofs (metal and asphalt) and roof products; and (3) insulation. Residential energy property expenditures generally include: (1) energy-efficient heating and air conditioning systems, and (2) water heaters (natural gas, propane, or oil). There is a lifetime limit of \$500 on the total amount of nonbusiness energy property credits that may be claimed. In addition, the amount of the credit taken with respect to windows is limited to \$200. The following additional limitations also apply to the nonbusiness energy property credit: (1) \$300 for any item of energy-efficient building property; (2) \$150 for any furnace or hot water boiler; and (3) \$50 for any advanced main air circulating fan.

Beginning in 2023, this credit is increased to 30 percent of the costs of all qualified energy efficiency improvements and residential energy property expenditures made during the year. In addition, the lifetime credit limitation is replaced with an annual limit of \$1,200. The annual limits for specific types of qualifying improvements are (1) \$250 for any exterior door (\$500 total for all exterior doors), (2) \$600 for exterior windows and skylights, (3) \$600 for other qualified energy property (including central air conditioners; electric panels and certain related equipment; natural gas, propane, or oil water heaters; oil furnaces; water boilers), and (4) a higher \$2,000 annual limit for heat pumps and heat pump water heaters, biomass stoves, and boilers. The Inflation Reduction Act also added a credit of up to \$150 per year for home energy audits. Roofs no longer qualify for the credit beginning in 2023.

The residential energy efficient property credit (renamed the residential clean energy credit by the Inflation Reduction Act) equals 30 percent of the cost of certain qualified property installed on or used in connection with your home. For 2022, qualifying properties are: (1) solar electric property, (2) solar water heaters, (3) fuel cell property, (4) small wind turbines, (5) geothermal heat pumps, and (6) biomass fuel property. Biomass fuel property expenditures no longer qualify after December 31, 2022. However, battery storage technology expenditures qualify beginning in 2023.

VEHICLE-RELATED CREDITS

The qualified plug-in electric drive motor vehicle credit may be available if you acquired a qualified electric vehicle and placed it in service this year. For 2022, the amount of the credit is \$2,500, plus an amount based on the battery capacity of the vehicle if the vehicle draws propulsion energy from a battery with at least 5 kilowatt hours of capacity. The credit begins to phase out for a manufacturer's vehicles when at least 200,000 qualifying vehicles have been sold for use in the United States. For instance, Tesla and GM vehicles purchased in 2022 are not eligible for tax credits since those manufacturers have exceeded the 200,000 vehicle threshold.

The Inflation Reduction Act significantly modified the electric vehicle credit. After August 16, 2022, the credit is generally available only for qualifying electric vehicles for which final assembly occurred in North America. However, under a transition rule, if you entered a written binding contract to purchase an electric vehicle on or before August 16, 2022, but took possession of the vehicle after that

date, you would not be subject to the final assembly requirement.

The Inflation Reduction Act also increased the amount of this credit, effective after December 31, 2022. Beginning in 2023, the total credit amount is \$7,500, consisting of \$3,750 for vehicles meeting a critical minerals requirement and \$3,750 for vehicles a battery component requirement. In addition, price limits apply depending on the vehicle type (\$80,000 for vans, SUVs, and pickup trucks; \$55,000 for other vehicles). The credit is also not available to taxpayers with adjusted gross income over \$300,000 (married filing jointly), \$225,000 (head of household), and \$150,000 (single). Other requirements apply beginning after 2023.

The alternative fuel vehicle refueling property credit is a credit for 30 percent of the cost of purchasing qualified alternative fuel vehicle refueling property. This credit initially expired at the end of 2021 but was extended through 2032 by the Inflation Reduction Act. The amount of the credit is limited to a certain dollar amount, which depends on whether the property is used for business or personal purposes. The amount of the credit for business-use property (i.e., depreciable property) is limited to \$30,000. The amount of the credit for personal-use property (i.e., non-depreciable property) is limited to \$1,000.

Beginning next year, the credit allowed with respect to any single item of qualified alternative fuel vehicle refueling property placed in service during the tax year cannot exceed (1) \$100,000 in the case of depreciable property, and (2) \$1,000 in any other case. In addition, the definition of qualifying property is expanded to include bidirectional charging equipment and the credit can also be claimed for electric charging stations for two- and three-wheeled vehicles that are intended for use on public roads.