

Energy Efficient Home Improvement Credit (Previously Called Nonbusiness Energy Property Credit)

The Inflation Reduction Act of 2022 includes new energy credits which replace the Non-Business Energy Property Credit which expired on 12/31/22.

Prior Law. The nonbusiness energy property credit was for energy efficient improvements made to the principal residence of the taxpayer. The credit did not apply for new construction.

New Law. The new law renames the Nonbusiness Energy Property Credit as the "Energy Efficient Home Improvement Credit," and extends the credit through the end of the 2032 tax year. However, the amendments made to IRC section 25C apply to property placed in service after December 31, 2022 (with the exception of certain identification number requirements that do not apply until after 2024).

The new law modifies the credit to equal 30% of the sum of:

- 1) The amount paid or incurred by the taxpayer for qualified energy efficiency improvements installed during the year,
- 2) The amount of the residential energy property expenditures paid or incurred by the taxpayer during the year, and
- 3) The amount paid or incurred by the taxpayer during the year for home energy audits.

The lifetime limitation under the old rules, are replaced with the following annual limitations:

1. In general, the combined credit for all energy efficient home improvements is limited to \$1,200 per year, except for (5) below.
2. The credit for residential energy property expenditures is limited to \$600 per year.
3. The credit for windows is limited to \$600 in the aggregate for all exterior windows and skylights.
4. The credit for doors is limited to \$250 per year for any exterior door, and \$500 in the aggregate for all exterior doors.
5. Notwithstanding paragraphs (1) and (2) above, the credit allowed for heat pumps and heat pump water heaters, biomass stoves and boilers is limited to \$2,000 per year.
6. The credit for energy audits is limited to \$150 per year.

Qualified energy efficiency improvements include energy efficient insulation, exterior windows, skylights, and exterior doors that meet various energy

standard requirements. The new law removes roofs from the definition of building envelope components but adds air sealing insulation to the definition of insulation material or system which reduces the heat loss or heat gain of a dwelling unit.

The new law changes the term “residential energy property expenditures” to include any dwelling unit used as a residence by the taxpayer, replacing the “principal residence” requirement that previously applied. The home must be located in the United States. Expenditures include the cost for labor for onsite preparation, assembly, and installation.

Residential energy property expenditures include any of the following that meet or exceed certain high efficiency standards (various standards per item apply).

- An electric or natural gas heat pump water heater,
- An electric or natural gas heat pump,
- A central air conditioner,
- A natural gas, propane, or oil water heater,
- A natural gas, propane, or oil furnace or hot water boiler,
- A biomass stove or boiler which uses the burning of biomass fuel to heat a dwelling unit or to heat water for a dwelling unit,
- An oil furnace or hot water boiler, and Improvements to, or replacement of a panel-board, sub-panelboard, branch circuits, or feeders with a load capacity of not less than 200 amps which is installed in conjunction with an energy efficiency improvement or qualified energy property.

The term “home energy audits” means an inspection and written report with respect to a dwelling unit owned or used by the taxpayer as the taxpayer’s principal residence that identifies the most significant and cost-effective energy efficiency improvements, including an estimate of the energy and cost savings with respect to each improvement. The home energy auditor must meet certain certification requirements as established by the IRS.

Beginning with credits claimed after 2024, the taxpayer must include on his or her tax return the qualified product identification number of the energy efficient property. A qualified product identification number is a number assigned by a qualified manufacturer to the energy efficient property in which the credit is claimed.