



RESIDENTIAL ENERGY TAX CREDITS: INFLATION REDUCTION ACT

BACKGROUND

The Inflation Reduction Act is a federal law passed in August 2022 by Congress that includes funding for tax credits for installing clean energy technologies, home energy efficiency and upgrades, and electric vehicles.

Credits are available from 2023–2032. There is no limit on the total amount a person or household can claim over their lifetime.

TAX CREDIT DETAILS

Credits are nonrefundable: one cannot get more back on the credit than they owe in taxes (tax liability) for the year, or one cannot make money from the credits.

Public utility rebates are subtracted from eligible total upfront cost of the equipment before calculating credit amount. State rebates are not subtracted from total upfront cost before calculating amount.

	State Rebate	Utility Rebate
Rebate Amount	\$1,000	\$1,000
Upfront Cost	\$18,000	\$18,000
Calculation	Credit = \$18,000 * 30%	Credit = (\$18,000-\$1,000) * 30%

One cannot file until the year that the system is installed and in-service (e.g., solar panels generating energy, car on the road, or equipment being used in a home).

CLEAN ENERGY CREDITS

Clean Energy Tax Credit

Eligible activities: installing solar electric panels, solar water heaters, wind turbines, geothermal heat pumps, fuel cells, or battery storage technology.

Amount: 30% of total cost of installation, labor costs, and piping/wiring to connect to home

Limits: fuel cell credit is limited to \$500 for each half kilowatt of capacity

Eligible applicants: homeowners or renters that pay for the system. Multifamily tenants can apply if they paid for a portion of the system on the building they live in.

Application details:

- Nonrefundable credit and can rollover excess credit to a following year (if tax credit exceeds amount one owes, they can apply excess tax credit the following year as needed)
- Fill out **Form 5695** to file

HOME ENERGY EFFICIENCY CREDITS

Energy Efficient Home Improvement Credit

Eligible activities: Home improvements that meet energy efficiency standards and use new materials.

Amount and limits: Overall limit per applicant is \$1,200 in a year for energy efficient improvements and \$2,000 per year for heat pumps and biomass stoves. Each item is eligible for 30% of total upfront costs, up to the following limits:

- **Envelope:** exterior doors (\$250 per door; \$500 total); exterior windows (\$600 total); insulation and air sealing (\$1,200 total)
- **Home energy audits:** \$150 total
- **Heating and cooling equipment:** \$600 per item
- **Electrical panel upgrades:** \$600 per item
- **Heat pumps and biomass stoves:** \$2,000 per year

Eligible applicants: homeowners or renters for primary residence (does not include landlords or property owners)

Application details:

- **Nonrefundable credit:** cannot rollover excess credit to a following year
- Fill out **Form 5695** to file

Energy Efficient New Homes Credit

Eligible activities: Construction of a new energy efficient home or substantial reconstruction of an existing energy efficient home. Credit is for builders but can benefit homeowners by reducing total cost.

Amount and limits: Depends on certification achieved:

- ENERGY STAR program for single-family or manufactured homes: \$2,500 per home
- ENERGY STAR program for multifamily homes: \$500–\$2000 per home
- Zero Energy Ready Home program requirements: \$5,000

Eligible applicants: Contractors and home builders that sell or lease the home.

Application details:

- Work with contractor for them to apply for application and reduce total cost of new home; share [form 8908](#) with contractors for them to file.

ELECTRIC VEHICLE CREDITS

Clean Vehicle Tax Credit

Eligible activities: Purchase of a new electric vehicle, plug-in hybrid vehicle, or a fuel cell vehicle.

Amount: \$3,750 if vehicle meets critical minerals requirement or battery components¹ requirement; \$7,500 if vehicle meets both requirements.

¹Critical minerals requirement states that a percentage of the minerals in battery must be extracted or processed in United States or country that US has free trade agreement with (each year the percentage increase). The battery requirement states that a certain percent of battery components must be manufactured or assembled in North America (percent increases each year).

Limits: Must be a light-duty vehicle (less than 14,000 pounds), undergo final assembly in North America, and suggested retail price cannot exceed \$80,000 for SUVs, vans, and pickups and \$55,000 for all other vehicles.

Eligible applicants: Individuals or households. Income must be below \$300,000 for married couples filing jointly, \$225,000 for heads of households, and \$150,000 for other filers.

Application details:

- Nonrefundable credit; cannot rollover excess credit to a following year
- Fill out [Form 8936](#) to file OR dealership can request **advanced payment** through IRS portal and subtract credit from purchase price.

Used Clean Vehicle Tax Credit

Eligible activities: Purchase of a qualified used electric vehicle or fuel cell vehicle from a licensed dealer for \$25,000 or less.

Amount: 30% of sale price up to \$4,000

Limits: Vehicle must be at least 2 years old and be considered a light-duty vehicle (i.e., 14,000 lbs or less)

Eligible applicants: Individuals or households. Income must be below \$150,000 for married couples filing jointly, \$112,000 for heads of households, and \$75,000 for other filers.

Application details:

- Nonrefundable credit; cannot rollover excess credit to a following year
- Fill out [Form 8936](#) to file

Alternative fuel vehicle refueling property tax credit

Eligible activities: Installation of electric vehicle charging (or other clean fuel dispenser) at primary residence.

Amount: 30% of total upfront cost with a limit of \$1,000

Limits: Must be installed in a **census tract that is not in an urban area, tract with 20% poverty rate**, or tract where median family income is less than 80% of statewide median income.

Eligible applicants: Individuals or households.

Application details:

- Nonrefundable credit; cannot rollover excess credit to a following year
- Fill out [Form 8911](#) to file

RESOURCES

More details on heat pumps: focusonenergy.com/equipment/heat-pump

Answers to frequently asked questions on renewable energy and energy efficient tax credits: irs.gov/pub/taxpros/fs-2022-40.pdf

Answers to frequently asked questions on vehicles: irs.gov/newsroom/frequently-asked-questions-about-the-new-previously-owned-and-qualified-commercial-clean-vehicles-credit

List of applicable vehicles for tax credits: fuelconomy.gov/feg/taxused.shtml

Nonrefundable tax credit explanation: irs.gov/newsroom/tax-credits-for-individuals-what-they-mean-and-how-they-can-help-refunds

Focus on Energy Resource: focusonenergy.com/blog/ira-federal-tax-credits