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Energy Tax Credits

With winter here, you may be thinking about installing property to make your home more energy-efficient or you may be looking at installing a new renewable energy system in your home.

Both categories of home improvements can provide you with valuable tax benefits.

Energy efficient home improvement credit

- The types of improvements that may qualify for this credit include new building envelope components, such as insulation, windows, or doors, or a more efficient main air circulating fan, furnace, boiler, central air conditioner, or water heater.
- The credit is equal to the sum of 30% of the expenses that you pay for qualified property.
- However, the credit is limited to \$1,200 per year, and subject to the following additional credit limits:
- \$600 for credits for residential energy property expenditures (including certain heat pumps, central air conditioners, water heaters, and hot water boilers), windows, and skylights; and
- \$250 for any exterior door (\$500 total for all exterior doors).
- In addition, a \$2,000 annual limit applies to the cost of specified heat pumps, heat pump water heaters, and biomass stoves and boilers.
- These are annual limits, rather than lifetime limits. For example, if you take a \$1,200 credit this year, you can take another \$1,200 credit for improvements made next year as well.
- To be eligible for the credit, the expenses must be for property originally placed in service by you and made on or in connection with a home located in the U.S. and used by you as a residence, or in some cases, as your main residence.
- You can claim the credit in the year in which the installation is completed. The credit covers both the costs of the property purchased and the expenses of installing it.
- There is no phaseout of the credit based on income, so you can claim it no matter how much income you had for the year.

Residential clean energy credit for individuals

- Individuals are allowed a personal tax credit equal to the sum of 30% of expenses paid for qualified:
 - solar electric property that uses solar power to generate electricity in a home;

-solar water heating property that uses solar power to heat water in a home;

-fuel cell property that turns fuel into electricity by electrochemical means;

-small wind energy property that uses a wind turbine to generate electricity in a home;

-geothermal heat pump property that uses the ground or ground water as a thermal energy source to heat or cool a home.

-battery storage technology that must have a capacity of at least 3 kilowatt hours.

- The types of property that qualifies are expensive. For example, say a solar electric system for your home qualifies for the credit and costs around \$20,000. The credit would be 30% of \$20,000, or \$6,000.
- In addition to the federal tax credit, many state and local governments and public utilities also offer incentives, such as rebates and tax credits, for investment in renewable energy property.
- To qualify for the credit, the equipment must be installed in a home that is located in the U.S. and that you use as your residence.
- For fuel cell property, the home must be your main residence.
- For the other types of property, it can be any residence of yours in the U.S., not just the main one.
- Water heating equipment can't be claimed for equipment that is used to heat a swimming pool or hot tub.
- If otherwise eligible equipment is used more than 20% for business purposes, only the expenses allocable to non-business use qualify for the credit.
- Each type of equipment must meet energy-efficiency requirements. You can rely on a manufacturer's certification that a component meets those requirements. You don't have to attach the certificate to your return, but you should keep it with your tax records.
- The credit covers both the cost of the hardware and the expenses of installing it. You can claim the credit for labor costs of on-site preparation, assembly, and installation of the equipment and for piping or wiring to connect it to your home.
- You claim the credit in the year in which the installation is completed. If you install the equipment in a newly constructed or reconstructed home, you claim the credit when you move in.
- The credit for fuel cell property is limited to \$500 for each 0.5 kilowatt (kw) of capacity.
- No other dollar limit applies to the credit.
- There's no phase-out of the credit based on income, so you can claim it no matter how much income you had for the year.
- If the credit exceeds your tax liability, you can carry over the excess to the next tax year.

This alert covers only some of the tax rules related to energy tax credits that could potentially benefit you, your family or your business. The tax rules in this area are complex and there are many issues to consider in deciding whether to move forward with a project that could potentially qualify for an energy tax credit. Please contact us if you have questions, want more information, or would like us to help you with a specific project that could potentially qualify for an energy tax credit, so that by working together we can deliver the best tax results for you.

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