

# Energy Efficiency Credits and Rebates for Residents and Owners of Residential Property

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The Inflation Reduction Act of 2022 (IRA '22) has garnered a great deal of press, along with even more confusion and concern. Its provisions cover everything from offsetting the costs of the transition to green energy to helping consumers keep pace with the rising costs of health insurance and prescription medications.

Here, in this SWC singlette, we stay with the theme of green energy by examining tax incentives and rebates intended to help residents and owners of residential property make their homes more energy efficient.



## The Residential Clean Energy Credit

In the Inflation Reduction Act of 2022, the Residential Energy Efficient Property Credit under Internal Revenue Code §25D (often referred to as the Solar Energy Credit) is renamed the “Residential Clean Energy Credit” and is extended to property placed in service prior to January 1, 2035.

Prior to passage of the Inflation Reduction Act, homeowners were entitled to a non-refundable tax credit for the use of solar electric panels, solar hot water heaters, fuel cells, small wind energy systems, geothermal heat pumps, and biomass fuel units they had installed for their homes.

That credit was in the process of being gradually reduced and then eliminated by the end of 2023. The Inflation Reduction Act retroactively returns the credit to 30 percent for the years 2022 through 2032 when it begins to phase out again and end after 2034. Those who qualify for the credit in 2022 receive a 30 percent credit rather than the expected 26 percent.

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**Electrifying:** The Act's battery storage technology is also added to the list of qualified expenditures eligible for the renamed credit and is applicable to expenditures made after December 31, 2022.

## The Energy Efficient Home Improvement Credit

The Energy Efficient Home Improvement Credit essentially renames and modifies the Internal Revenue Code's §25C Nonbusiness Energy Credit and extends it to apply to purchases of qualified property placed in service prior to January 1, 2033.

Notable changes introduced by the Energy Efficient Home Improvement Credit include the following and apply to property placed in service after December 31, 2022 and through December 31, 2032:

- Increases the credit for the cost of qualified energy efficiency improvements from 10 to 30 percent.
- Removes the requirement that the residence be the taxpayer's principal residence. It can now be claimed for any of a taxpayer's residences, including their primary residence, a second home, and a vacation home.
- Permits labor costs related to the onsite preparation, assembly, or original installation of the property to qualify for the credit.
- Replaces the \$500 lifetime cap on the credit with a \$1,200 annual credit limitation increased to \$2,000 for energy efficient building property, including heat pumps and biomass stoves and boilers. The cap is further limited annually to:
  - \$600 per any one item
  - \$600 for exterior windows and skylights
  - \$250 for any exterior door (\$500 for all exterior doors)
  - \$300 for residential qualified energy property expenses
- Updates the energy efficient standards that must be met for various items.
- Increases the credit for home energy audits up to \$150.
- Expands the list of qualified energy property to include natural gas heat pumps; natural gas, propane, and oil furnaces; hot water boilers; biomass stoves and boilers; and improvements to or replacements of a qualified panelboard, sub-panelboard, branch circuits, or feeders.
- Eliminates treatment of roofs as creditable after 2022.
- Adds air sealing insulation as a creditable expense.
- Requires that all items placed in service after 2024 for which the credit is claimed are from a qualified manufacturer registered with the Secretary of the U.S. Treasury. You'll need to provide a product identification number for each product on your tax return.

Under the new law, the party making the improvements and claiming the credit need only be a resident of the home, not necessarily the owner.

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## Home Energy Efficiency Rebates

The Inflation Reduction Act offers rebates to qualified homeowners and owners of residential buildings who perform whole-house energy-saving retrofits to their homes/buildings *and* those who purchase qualified material and appliances to make their homes or residential buildings more energy efficient.

These aren't treated as *tax credits* but as *tax rebates*, and the rebate amounts are generally added to your gross income, assuming they're paid directly to you. However, they may not be added to your gross income if they're treated as a price reduction for the material or appliances you purchase. Right now, we need to wait and see how these rebates will be paid and to whom before we can determine the tax consequences.

**Note:** You're not permitted to combine these rebates with any other federal grant or rebate for the same project, nor are you allowed to combine the Home Owner Managing Energy Savings (HOMES) Retrofit rebate with the High-Efficiency Electric Home Rebate for the same project.

## HOMES Retrofit Rebates

Under the Inflation Reduction Act, states will be given more than \$4 billion to provide HOMES rebates. Those funds will be available for whole-house energy savings retrofit projects that achieve at least 20 percent in energy savings. The funds are available for projects that started after August 16, 2022 and are completed by September 30, 2031. However, states will need to apply for them and set up systems to take applications and distribute funds, so delays are to be expected.

The rebates are equal to 80 percent for low- or moderate- income households (50 percent of qualified retrofit costs) up to a maximum of:

- \$4,000 if at least 35 percent in qualified energy savings is achieved (reduced to \$2,000 if energy savings is between 20 percent and 35 percent).
- \$8,000 if at least 35 percent in qualified energy savings is achieved for low- or moderate-income households. These rebates may be increased by a state energy office if the office receives approval from the Secretary of the U.S. Treasury.

For multifamily building owners and property aggregators who make energy efficiency upgrades of multifamily homes, similar per-dwelling rebates are available, and they're capped at \$400,000 in aggregate (\$200k if the energy savings is between 20-35 percent).

**Note:** A *low- or moderate-income household* is an individual or family whose total annual income is less than 80 percent of the median income of the area in which the individual or family resides (for example, \$106,500 for a family of four in San Francisco, or \$83,454 for a family of four in San Diego).

## Contractor/Aggregator Rebates

Contractors performing a home energy efficiency retrofit or a property aggregator who has the right to claim a rebate may also receive up to \$200 for each home located in an underserved community that receives a Home Energy Efficiency Rebate.

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## High-Efficiency Electric Home Rebates

States will also be given \$4.275 billion and Indian Tribes an additional \$225 million to provide high-efficiency electric home rebates to households equal to or below 150 percent of the area's median income. The maximum total high-efficiency electric home rebates an eligible entity can receive is \$14,000. These rebates will be available through September 30, 2031.

Eligible entities may receive rebates to purchase specified appliances under a qualified project up to the following amounts:

- \$1,750 for a heat pump water heater
- \$8,000 for a heat pump for space heating or cooling
- \$840 for an electric stove, cooktop, range, or oven or an electric heat pump clothes dryer

Eligible entities may use the following rebates to purchase non-appliance upgrades under a qualified electrification project:

- \$4,000 for an electric load service center upgrade
- \$2,500 for electric wiring
- \$1,600 for insulation, air sealing, and ventilation

All the items above must be Energy Star-certified and can be purchased:

- As part of new construction
- To replace a nonelectric appliance
- As a first-time purchase with respect to that appliance

The amount of rebate awarded for a qualified electrification project is limited to a percentage of costs depending upon who the "eligible entity" is. For instance:

- Low- and moderate-income households:
  - 100 percent of the cost for a household with annual income of less than 80 percent of the area median income
  - 50 percent of the cost for households with annual income of 80 to 150 percent of the area median income
  - Owners of multifamily buildings with at least 50 percent of residents who are low- or moderate-income households:
    - 100 percent of the cost if at least 50 percent of the resident households have annual incomes of less than 80 percent of the area median income
    - 50 percent of the cost if at least 50 percent of the resident households have annual incomes of between 80 percent and 150 percent
- Government, commercial, or nonprofit entities carrying out a project on behalf of one of the entity's above:

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- 100 percent or 50 percent depending upon the applicable household income levels as described above (reduced by any amount charged to the individual household or building owners)
  - Up to \$500 if the entity performs the installations

With energy costs on the rise and the government investing heavily in greening the U.S., you would be wise to look into these energy-efficiency tax credits and rebates, especially if you're looking to replace any old heating, cooling, or cooking appliances or are thinking about other costly home improvements that might qualify, such as new siding or insulation.

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