

## About Solar/Energy Efficient Improvements and the Residential Energy Credit (Form 5695)

The Residential Energy Credit allows taxpayers to claim a tax credit for certain qualified energy efficiency improvements made to their primary or secondary residence. This is a tax credit and not a deduction. It is non-refundable so it may be used only to reduce the tax owed.

**Note:** Some changes to energy credits included in the 2022 Inflation Reduction Act will not take effect until 2023.

There are two types of Residential Energy Credits, only one of which is in scope for VITA.

	<b>Residential Clean Energy Credit (Part I on Form 5695)</b>	<b>Energy Efficient Home Improvement Credit (Part II on Form 5695)</b>
<b>What is covered?</b>	qualified residential alternative energy equipment, including all SOLAR photovoltaic systems (such as solar water heaters, solar electric equipment, and solar panels) as well as geothermal heat pumps and wind turbines	qualified insulation, energy-efficient exterior windows and doors, qualifying metal or asphalt roofs, and energy-efficient heating and air conditioning systems, etc.
<b>In Scope for VITA?</b>	<b>NO</b> - refer taxpayer to Special Tax Services	<b>YES</b>
<b>Amount:</b>	30% of eligible expenses, no maximum	10% of the costs of installing certain insulation, windows, doors, roofing, and similar improvements. 100% of the costs of installing certain water heaters, heat pumps, central A/C systems, furnaces, hot water boilers, and air circulating fans.  Lifetime limit of \$500 for the credit (includes credits taken in previous years). Lifetime limit of \$200 for new windows. Individual credit limits for air circulating fans (\$50); some furnaces and boilers (\$150); and certain water heaters, heat pumps, and air conditioning systems (\$300).
<b>Refundable?</b>	No	No
<b>Carry forward to future years?</b>	Yes	No

## Residential Clean Energy Credit (Out of Scope for VITA)

The Residential Energy Credit includes qualified residential alternative energy equipment, including all **SOLAR** photovoltaic systems (such as solar water heaters, solar electric equipment, and solar panels) as well as geothermal heat pumps and wind turbines. The equipment must have been installed during the tax year, located at the taxpayer's residence, and must be owned by the taxpayer (even if financed).

The 2022 Inflation Reduction Act renamed and increased the residential clean energy credit, as well as extending it through 2034. There is no maximum amount that can be claimed.

Tax Year	Credit is Worth This Percentage of Total Cost
2019 & prior	30%
2020 & 2021	26%
2022-2032	30%
2033	26%
2034	22%

This credit is claimed on **Part I: Residential Clean Energy Credit of Form 5695**.

This energy credit is NOT in scope for VITA. Refer these taxpayers to the Special Tax Services team for return preparation.

## Energy Efficient Home Improvement Credit (in scope for VITA)

This credit includes insulation, energy-efficient exterior windows and doors, qualifying metal or asphalt roofs, and energy-efficient heating and air conditioning systems. It is worth a maximum of 10% of the costs of qualified items. There is a total combined credit limit of \$500 (\$200 limit for windows) for all tax years after 2005.

**Note:** Tax law changes in 2020 retroactively extended this credit for tax years 2018 and 2019. Therefore, eligible taxpayers may benefit from filing an amendment to claim this credit for 2019 if they qualify. (The deadline for amending 2018 tax returns has passed.)

The Energy Efficient Home Improvement Credit is in-scope for VITA and can be prepared by the Tax Program.

In TaxSlayer, the credit is entered using **Federal Section→Deductions→Credits→Residential Energy Credit**. This adds **Form 5695, Residential Energy Credit** to the tax return and completes **Part II: Energy Efficient Home Improvement Credit** of the form.

**Future changes!** Starting in **2023**, this credit will be equal to 30% of the costs for all eligible home improvements made during the tax year. It will also be expanded to cover the cost of certain biomass stoves and boilers, electric panels and related equipment, and home energy audits. Roofing and air

circulating fans will no longer qualify for the credit. Some of the energy-efficiency standards will be updated as well.

In addition, the \$500 lifetime limit will be replaced by a \$1,200 annual limit on the credit amount (the lifetime limit on windows will also be removed). The annual limits for specific types of qualifying improvements will also be modified. Beginning in 2023, they will be:

- \$150 for home energy audits;
- \$250 for an exterior door (\$500 total for all exterior doors);
- \$600 for exterior windows and skylights; central air conditioners; electric panels and certain related equipment; natural gas, propane, or oil water heaters; natural gas, propane, or oil furnaces or hot water boilers; and
- \$2,000 for electric or natural gas heat pump water heaters, electric or natural gas heat pumps, and biomass stoves and boilers (for this one category, the \$1,200 annual limit may be exceeded).