

General Overview of the Energy Efficient Home Improvement Credit

- **Effective January 1, 2023**, the amount of the credit is equal to 30% of the sum of amounts paid by the taxpayer for certain qualified expenditures, including windows and doors.
- There are limits on the allowable annual credit and on the amount of credit for certain types of qualified expenditures.
- The credit is allowed for qualifying property placed in service on or after January 1, 2023, and before January 1, 2033.
- The following energy efficient home improvements are eligible for the **Energy Efficient Home Improvement Credit**:
 - Exterior Doors – (30% of cost up to \$250 per door, up to a total of \$500);
 - Exterior Windows (30% of cost up to \$600)
 - Insulation materials or systems and air sealing materials or systems (30% of cost)
 - Home energy audits (30% of cost up to \$150)
 - Residential energy property such as central air conditioners, certain water heaters and furnaces. (30% of cost, including labor, up to \$600)
- There is a \$1200 aggregate yearly tax credit maximum for all building envelope components, home energy audits and energy property.
- The following energy efficient requirements, as they pertain to windows and doors, must be met to qualify for the Energy Efficient Home Improvement Credit:
 - Exterior Doors must meet applicable **Energy Star** requirements
 - Windows must meet **Energy Star Most Efficient**
- The home must be owned and used by the taxpayer as the taxpayer's principal residence.
 - The taxpayer can claim the credit only for qualifying expenditures incurred for an existing home or for an addition to or renovation of an existing home, and not for a newly constructed home.
- A taxpayer may not include the labor cost for installation of windows & doors.
- A taxpayer may not claim the credit until the year the product is installed.
- There is no lifetime limit for the credit; the limits for the credits are determined on a yearly basis. For example, beginning in 2023, a taxpayer can claim the maximum Energy Efficient Home Improvement Credit allowed every year that eligible improvements are made.

Here is an example to illustrate how the Energy Efficient Home Improvement Credit limit works:

- In one taxable year, a taxpayer purchases and installs the following: two exterior doors at a cost of \$1000 each, windows at a cost of \$2200, and one central air conditioner at a cost of \$5000. All of the purchases installed meet the applicable energy efficiency and other requirements for qualifying for the Energy Efficient Home Improvement Credit.
 - First, 30% of each \$1000 door's cost is \$300, but the per door limit of \$250 applies to reduce the maximum possible credit for each door to \$250 each. Thus, the taxpayer's expenditures for exterior doors potentially qualify the taxpayer to claim up to a \$500 tax credit.
 - Second, 30% of the taxpayer's total \$2200 of expenditures for windows is \$660, but the limit for all windows applies to limit the taxpayer's credit for such expenditures to \$600. Thus, the taxpayer's expenditures for windows potentially qualify the taxpayer to claim up to \$600.
 - Third, 30% of the taxpayers \$5000 cost paid for the central air conditioner is \$1500, but the \$600 per item limit for energy property applies to limit the taxpayers credit for such expenditures to \$600.
 - Adding these credit amounts yields a sum of \$1700 ($\$500 + \$600 + \600), but the aggregate limit of \$1200 applies to limit the taxpayer's total amount of the credit to \$1200.