

Inflation Reduction Act (IRA) of 2022

Clean Energy Incentives

Residential Clean Energy Credit (previously the Residential Energy Efficient Property Credit) - SOLAR

Before the passage of IRA, the federal tax credit for electric property costs in 2022 was set to be 26% of the total cost, same as 2020 and 2021. IRA extended the credit for another 11 years and increased it back to 30%. The 30% credit will apply to electric property placed in service between 2022 and 2032 (26% in 2033 and 22% in 2034).

- Qualified property includes solar electric, solar water heating, fuel cell, small wind energy, qualified battery storage costs in addition to several other less common expenditures.
- The credit is only available for clean energy property installed on a personal use property.
- To claim the credit in 2022, the property must be placed in service by 12/31/22. Timing of payments (i.e. financing) is irrelevant.
- This credit cannot be claimed retroactively (the 26% credit for 2020 and 2021 remains).
- There is no maximum credit a taxpayer can claim and there are no income limitations.

Energy Efficient Home Improvement Credit (previously the Nonbusiness Energy Credit)

Before the passage of IRA, 2021 was the final year to claim this credit. IRA extended the credit for 11 years (through 2032). However, the new provisions for this credit only apply to property placed in service in 2023 and beyond. For nonbusiness energy property placed in service in 2022, the pre-IRA rules apply (10% credit for eligible property, lifetime taxpayer limit of \$500 and includes windows, doors, skylights, roofs, insulation, etc.)

Summary of the new Energy Efficient Home Improvement Credit for 2023:

- Credit is increased from 10% to 30%.
- Improvements made to second homes and vacation homes now qualify (still must be personal use property).
- The \$500 lifetime cap has now been replaced with a \$1,200 annual limit. There are some further annual limitations based on improvement type (i.e. \$600 annual limit for doors and windows).
- There is a \$2,000 limit for the purchase of the following:
 - Electric or natural gas heat pump water heater;
 - Electric or natural gas heat pump; and/or
 - Qualified biomass stove or boiler
- \$150 credit available for home energy audits.
- For credit claims in 2024 and after, a manufacturer identification number will be required to claim the credit (more to come next year).

TIP!

If you have any energy efficient projects planned before the end of 2022, defer them to 2023!

Clean Vehicle Credit (previously the Qualified Plug-In Electric Drive Motor Vehicles Credit)

As many of you learned the hard way, the credit for Tesla and several other popular electric vehicle makers was eliminated several years ago due to the 200,000 manufacturer limit. The passage of IRA eliminated this manufacturer limit and expanded the vehicle credit for autos placed in service on or after 1/1/2023. The credit for autos purchased and placed in service before 12/31/22 will be determined under pre-IRA law. The dates and provisions are complex, so please contact us if you'd like to determine if your auto purchased in 2022 is eligible.

Here's a summary for autos purchased on or after 1/1/23 (the new law):

- The maximum credit is \$7,500, but must meet certain critical materials and battery components requirements, including a requirement that a certain percentage of materials has been produced in the U.S. or a country with which the U.S. has a free trade agreement.
- Beginning with autos purchased after 8/16/22, the final assembly of the vehicle must occur within North America. A partial list is currently available at <https://afdc.energy.gov/laws/inflation-reduction-act>. We hope a detailed list will eventually be available from the IRS.

- Income limitations now apply (\$300,000 for married filing joint taxpayers; \$150,000 for single taxpayers)
- Beginning in 2024, taxpayers will be able to claim the “credit” as a price reduction directly through the dealer. This avoids waiting to file your tax returns to get the credit, however, the income limitations will still apply! Meaning you may have to pay the IRS back for that price reduction.
- The credit cannot be claimed if the MSRP exceeds \$80,000 for vans, pick-up trucks and/or SUV’s and \$55,000 for all other vehicles.

Previously Owned Clean Vehicle Credit - NEW

For taxpayers with income below certain limits (\$150,000 married filing joint; \$75,000 single), a credit can now be claimed for the purchase of used clean vehicles bought on or after 1/1/23 through 2033. The credit is equal to 30% of the sales price, up to a \$4,000 maximum credit.

Other rules:

- Vehicle must be sold by a licensed dealer (no private party sales)
- The vehicle must be sold for \$25,000 or less
- Only the first resale of the vehicle qualifies
- Vehicle’s model year must be at least two years earlier than the calendar year in which it’s purchased
- The credit can only be claimed once every three years (based on date of sale, not tax year)

Used car dealers will be able to identify which vehicles on their lot will qualify because they must provide credit information concerning the vehicle to the IRS.

Middle Class Refunds – California

At the beginning of the legislative season, there’d been talk of a “gas tax” refund, “vehicle” refund, and “inflation” refund. The final compromise was the “middle class refund”.

- Despite the name, this is NOT an income tax refund.
- The payments are taxable to the IRS, but not to CA. The FTB will issue a 1099-MISC for payments of \$600 or more.
- Payments began in October 2022 and will conclude by the middle of January 2023.
- The payments will be made by direct deposit if your 2020 CA tax return had a refund that was direct deposited. If not, the payment will arrive as a debit card.
- See the chart below for amounts and eligibility based on AGI (adjusted gross income) and dependents.

Since this payment is taxable to the IRS, we will need to know the EXACT amount you received in either 2022 or 2023. Provide us with either a copy of the FTB issued 1099-MISC or make a record of the amount received if you do not receive 1099-MISC.

Filing status	California AGI range (2020)	Refund without dependent credit	Refund with dependent credit
Married Filing Jointly	Up to \$150,000	\$700	\$1050
	\$150,001–\$250,000	\$500	\$750
	\$250,001–\$500,000	\$400	\$600
Head of Household	Up to \$150,000	\$350	\$700
	\$150,001–\$250,000	\$250	\$500
	\$250,001–\$500,000	\$200	\$400
All other filing statuses	Up to \$75,000	\$350	\$700
	\$75,001–\$125,000	\$250	\$500
	\$125,001–\$250,000	\$200	\$400