

Dear Client,

## **Inflation Reduction Act and how it affects you personally and professionally**

The newly passed Inflation Reduction Act is the largest clean-energy bill in U.S. history, as it aims to make a huge impact in environmental health and provide tax credits to businesses and individuals who take advantage of this bill. Below are some important highlights of the Act and how it affects business owners and individuals.

- For primary residences and vacation homes, it extends the nonbusiness energy property credit through 2032, increases the credit rate to 30%, replaces the lifetime limit with an annual limit of \$1,200, and modifies the standards for qualified energy-efficiency improvements, which generally applies to property placed in service after 2021. For eligible home improvements after 2024, no credit will be allowed unless the manufacturer of any purchased item creates a product identification number for the item, and the person claiming the credit includes the number on his or her tax return.
- Extends the residential energy efficient property credit through 2034. Replaces the credit for biomass fuel property expenditures with a new credit for battery storage technology expenditures made after 2022.
- Modifies the formula for computing the maximum deduction for energy-efficient commercial buildings, increases the deduction amount if new wage and apprenticeship requirements are met, modifies the energy efficiency standard, eliminates partial deduction for property that does not meet the certification standard, and provides an alternative deduction for energy-efficient building retrofit property. This provision generally applies to taxable years beginning after 2022.
- For contractors who manufacture or construct energy-efficient homes, it extends the new energy-efficient home credit through 2032. It increases the credit amounts, modifies the energy-saving requirements and provides a larger credit amount for residences that meet wage requirements. The increased credit amount generally applies to dwelling units acquired from an eligible contractor after 2022 and is also subject to more stringent requirements. For dwelling units acquired in 2022, the extension of the current credit applies and is not subject to the new requirements.
- Preserves the existing tax credit for qualified vehicles, up to \$7,500, including electric, plug-in hybrids and hydrogen fuel cell vehicles. Provides a new nonrefundable personal credit for qualifying used clean vehicles. A taxpayer may elect to transfer the credit to a registered dealer in exchange for payment from that dealer, which applies to vehicles acquired after 2023. The credit is subject to limitations involving retail price, taxpayer-modified adjusted income, and includes a new requirement that battery components manufactured by certain “foreign countries of concern” would be ineligible to receive the credit. The final assembly of the vehicle must occur in North America. This credit generally applies to vehicles acquired after 2022 and terminates after 2032.

- For qualified commercial clean vehicles acquired after 2022, it provides a new business credit of up to \$7,500 for vehicles weighing less than 14,000 pounds and \$40,000 for vehicles greater than 14,000 pounds. The credit per clean commercial vehicle will be equal to the lesser of 15% of the basis of the vehicle, or the incremental cost of the vehicle. The percentage increases to 30% of the basis if the vehicle is not powered by a gasoline or diesel engine.
- Provides rebates for household appliances, heat pumps, insulation and electrical wiring for qualified homeowners, which is subject to household income thresholds.
- Extends the reduced percentage of household income that is used to calculate the premium contribution for an individual claiming the premium tax credit through 2025. For taxable years beginning after 2022, it allows a taxpayer with a yearly household income of 400% or more of the federal poverty line to qualify for premium tax credit.
- Increases the limit on the amount of research credit that qualified small businesses may elect to treat as a credit against their payroll tax liability from \$250,000 to \$500,000 for taxable years beginning after 2022.
- Extends limitation of Excess Business Losses until 2028.
- The IRS will receive nearly \$80 billion in additional funding to add auditors, improve customer service and modernize technology. Provides \$15 million to the IRS with funding for a report to Congress on the potential creation and maintenance of an IRS-run e-file system.

If you have questions as to how the new Inflation Reduction Act affects you personally and professionally, contact our team. We are here to help.

*Rugh CPA Group, LLC*