

 **SEBY & ASSOCIATES, LTD**
CERTIFIED PUBLIC ACCOUNTANTS

GLENN E. FYDRYCH, CPA
JOHN G. CHO, CPA, CGMA
MATTHEW W. ENTWISTLE, CPA

POST OFFICE BOX 31090
TUCSON, ARIZONA 85751-1090

NATIONAL BANK PLAZA
333 N. WILMOT RD., #215
TUCSON, ARIZONA 85711
TELEPHONE (520) 790-5500
FAX (520) 790-9899
EMAIL: cpa@sebycpa.com

M.J. SEBY (1930-2016)

Dear Clients,

The recently enacted Inflation Reduction Act of 2022 contains a multitude of new environmentally related tax credits that are of interest to individuals and small businesses. The Act also extends and modifies some pre-existing tax credits.

Extension, Increase, and Modifications of Nonbusiness Energy Property Credit. Before the Act, you were allowed a personal credit for specified nonbusiness energy property expenditures. The credit applied only to property placed in service before January 1, 2022. Now you may take the credit for energy-efficient property placed in service before January 1, 2033.

Increased credit. The Act increases the credit for a tax year to an amount equal to 30% of the sum of (a) the amount paid or incurred by you for qualified energy efficiency improvements installed during that year, and (b) the amount of the residential energy property expenditures paid or incurred by you during that year. The credit is further increased for amounts spent for a home energy audit. The amount of the increase due to a home energy audit can't exceed \$150.

Annual limitation in lieu of lifetime limitation. The Act also repeals the lifetime credit limitation, and instead limits the allowable credit to \$1,200 per taxpayer per year. In addition, there are annual limits of \$600 for credits with respect to residential energy property expenditures, windows, and skylights, and \$250 for any exterior door (\$500 total for all exterior doors). Notwithstanding these limitations, a \$2,000 annual limit applies with respect to amounts paid or incurred for specified heat pumps, heat pump water heaters, and biomass stoves and boilers.

Extension and Modification of Residential Clean Energy Credit. Before the Act, you were allowed a personal tax credit, known as the residential energy efficient property (REEP) credit, for solar electric, solar hot water, fuel cell, small wind energy, geothermal heat pump, and biomass fuel property installed in homes in years before 2024.

The Act makes the credit available for property installed in years before 2035. The Act also makes the credit available for qualified battery storage technology expenditures.

Extension, Increase, and Modifications of New Energy Efficient Home Credit. Before the Act, a New Energy Efficient Home Credit (NEEHC) was available to eligible contractors for qualified new energy efficient homes acquired by a homeowner before Jan. 1, 2022. A home had to satisfy specified energy saving requirements to qualify for the credit. The credit was either \$1,000 or \$2,000, depending on which energy efficiency requirements the home satisfied.

The Act makes the credit available for qualified new energy efficient homes acquired before January 1, 2033. The amount of the credit is increased, and can be \$500, \$1,000, \$2,500, or \$5,000, depending on which energy efficiency requirements the home satisfies and whether the construction of the home meets prevailing wage requirements.

New Clean Vehicle Credit. Before the enactment of the Act, you could claim a credit for each new qualified plug-in electric drive motor vehicle (NQPEDMV) placed in service during the tax year.

The Act, among other things, retitles the NQPEDMV credit as the Clean Vehicle Credit and eliminates the limitation on the number of vehicles eligible for the credit. Also, final assembly of the vehicle must take place in North America.

No credit is allowed if the lesser of your modified adjusted gross income for the year of purchase or the preceding year exceeds \$300,000 for a joint return or surviving spouse, \$225,000 for a head of household, or \$150,000 for others. In addition, no credit is allowed if the manufacturer's suggested retail price for the vehicle is more than \$55,000 (\$80,000 for pickups, vans, or SUVs).

Finally, the way the credit is calculated is changing. The rules are complicated, but they place more emphasis on where the battery components (and critical minerals used in the battery) are sourced.

Credit for Previously-Owned Clean Vehicles. A qualified buyer who acquires and places in service a previously-owned clean vehicle after 2022 is allowed an income tax credit equal to the lesser of \$4,000 or 30% of the vehicle's sale price. No credit is allowed if the lesser of your modified adjusted gross income for the year of purchase or the preceding year exceeds \$150,000 for a joint return or surviving spouse, \$112,500 for a head of household, or \$75,000 for others. In addition, the maximum price per vehicle is \$25,000.

New Credit for Qualified Commercial Clean Vehicles. There is a new qualified commercial clean vehicle credit for qualified vehicles acquired and placed in service after December 31, 2022.

The credit per vehicle is the lesser of: (1) 15% of the vehicle's basis (30% for vehicles not powered by a gasoline or diesel engine) or (2) the "incremental cost" of the vehicle over the cost of a comparable vehicle powered solely by a gasoline or diesel engine. The maximum credit per vehicle is \$7,500 for vehicles with gross vehicle weight ratings of less than 14,000 pounds, or \$40,000 for heavier vehicles.

Increase in Qualified Small Business Payroll Tax Credit for Increasing Research Activities. Under pre-Act law, a "qualified small business" (QSB) with qualifying research expenses could elect to claim up to \$250,000 of its credit for increasing research activities as a payroll tax credit against the employer's share of Social Security tax.

Due to concerns that some small businesses may not have a large enough income tax liability to take advantage of the research credit, for tax years beginning after December 31, 2022, QSBs may apply an additional \$250,000 in qualifying research expenses as a payroll tax credit against the employer share of Medicare. The credit cannot exceed the tax imposed for any calendar quarter, with unused amounts of the credit carried forward.

Extension of Incentives for Biodiesel, Renewable Diesel and Alternative Fuels. Under pre-Act law, you could claim a credit for sales and use of biodiesel and renewable diesel that you use in your trade or business or sold at retail and placed in the fuel tank of the buyer for such use and sales on or before December 31, 2022. Now you are permitted to claim a credit for sales and use of biodiesel and renewable diesel fuel, biodiesel fuel mixtures, alternative fuel, and alternative fuel mixtures on or before December 31, 2024.

You are also allowed now to claim a refund of excise tax for use of (1) biodiesel fuel mixtures for a purpose other than for which they were sold or for resale of biodiesel mixtures on or before December 31, 2024 and (2) alternative fuel as fuel in a motor vehicle or motorboat or as aviation fuel, for a purpose other than for which they were sold or for resale of such alternative fuel mixtures on or before December 31, 2024.

I don't have space to go into all the details of the credits, but I hope this letter provides you with a summary of them. Feel free to contact me if you have any questions about taking advantage of the new and modified credits.

Very truly yours,

Seby & Associates, Ltd.

Seby & Associates, Ltd.