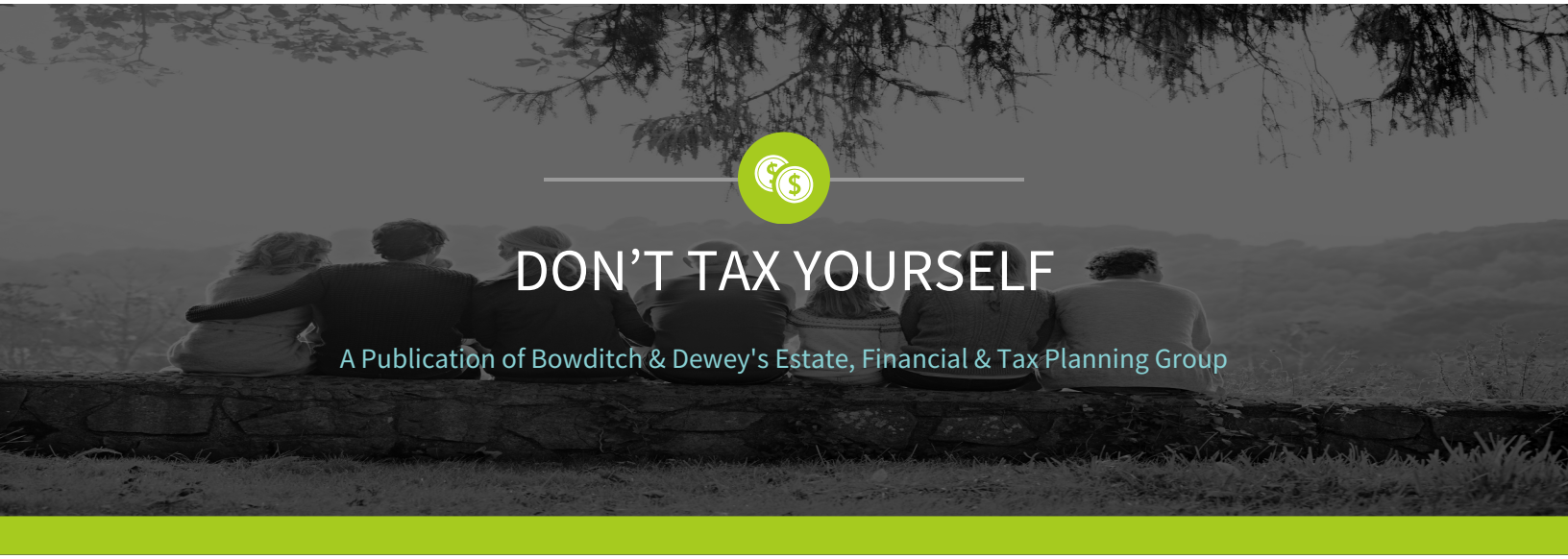

DON'T TAX YOURSELF

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Save on Your Energy Bill and Income Taxes

BY SCOTT C. CASHMAN • JANUARY 21, 2025

It is possible to reduce both your energy bills and your federal income tax through use of the energy tax credit. If you make energy efficient home improvements after January 1, 2023, you may qualify for a tax credit up to $3,200 per year. A tax credit, unlike a tax deduction, reduces your federal income tax dollar for dollar.

Prior to January 1, 2023, the energy efficient home improvement credit was a $500 lifetime credit.

As amended by the Inflation Reduction Act, the energy efficient home improvement credit is increased for years after 2022, with an annual credit of up to $1,200.

In addition, there is a separate credit, up to $2,000 yearly, for electric or natural gas pump water heaters, electric or natural gas heat pumps, biomass stoves and biomass boilers.

Therefore, the maximum energy efficient home improvement credit is $3,200 per year.

There are limits on certain improvements. For example, the exterior door credit is limited to 30% of costs up to $250 per door and a total credit of $500. The credit for exterior windows is limited to 30% of costs with a maximum credit of $600. Additional information on the tax credit and limitations on certain types of energy efficient improvements can be found on the IRS Fact Sheet.

Taxpayers claim the residential energy tax credit on Form 5695.

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