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SLASH YOUR TAXES: THE SECRET POWER OF DEDUCTIONS AND CREDITS

Presenter: Warren M Bergstein, CPA, AEP©
My CPE Webinar Presentation

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BIOGRAPHY-Warren Bergstein, CPA

More than forty-five years of practice in tax planning, estate and trust administration and planning, personal financial planning and accounting have given Warren an extraordinarily deep understanding of taxation and personal finance. At his firm, Adelman, Katz & Mond LLP, his clients, who include primarily high net worth individuals, entrepreneurs and sole proprietors, benefit from his expertise in tax law, its applications and implications. Warren is an adjunct professor of accounting and taxation at Long Island University, New Jersey City University, and Rutgers. He has spoken at the Institute of Management Accountants, both the New York and Long Island chapters of Financial Planning Association, the New York State Society of CPAs, New York University, and myCPE. In addition, he is an accomplished author and has regularly contributed to publications the experts rely on, like Marshall Loeb's Money Guide, Taxation for Accountants, and The CPA Journal. Warren has been very active in professional organizations, and has frequently been elected as president, board member or committee chair. Warren is a fan of local sports teams. He also likes to read biographies and books on current events. He and his wife, Susan, live in Langhorne, PA. They have two children, Sam and Robin, and a granddaughter, Reily.

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LEARNING OBJECTIVES

- To **EXPLAIN** the Federal Income Tax formula
- To **UNDERSTAND** how deductions reduce taxable income
- To **DIFFERENTIATE** between deductions and credits.
- To **KNOW** how deductions affect the parts of the tax formula.

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LEARNING OBJECTIVES

- To **INTRODUCE** credits that became available with recent tax legislation.
- To **LEARN** how deductions and credits affect the Alternative Minimum Tax .
- To **INTRODUCE** strategies using deductions and credits to reduce the tax liability.

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INDIVIDUAL INCOME TAX FORMULA

		Gross income
Minus:		For AGI (above the line) deductions
Equals:		Adjusted Gross Income (AGI)
Minus:		From AGI (below the line) deductions:
		(1) Greater of
		(a) Standard deduction or
		(b) Itemized deductions
		(2) Deduction for qualified business income
Equals:		Taxable Income
Times:		Tax Rates
Equals:		Income tax liability
Plus:		Other taxes
Equals:		Total tax
Minus:		Credits
Minus:		Prepayments
Equals:		Taxes due or (refund)

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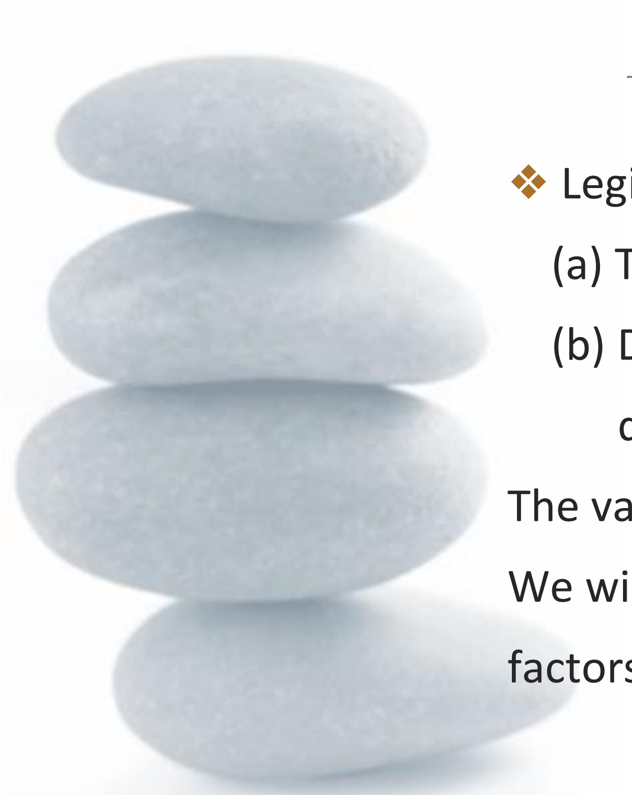
GENERAL REQUIREMENTS FOR DEDUCTIONS



❖ Legislative grace

(a) There is no constitutional right to a deduction.

(b) Deductions are said to be a matter of legislative grace and are allowed solely at the discretion of Congress.

The value of a deduction depends on the tax bracket of the taxpayer.

We will discuss deductions that are allowable. They may not be able to utilize due to various factors we will review.

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STATUTORY AUTHORITY IS REQUIRED

- Deductions do not necessarily need to be identified specifically in the Code before a deduction is allowed.
- Some expenses are specifically allowed despite the fact they do not meet the general criteria; however, these are relatively few in number.
- The cost of living are generally not deductible, while the costs of earning a living are ordinarily deductible in full.

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TIMING OF DEDUCTIONS, WHEN WILL THE TAXPAYER REPORT THE DEDUCTION?

- Significance. Time value of money suggests acceleration of all deductions.
- Year of deduction depends on accounting method (cash or accrual).
- Distinguishing between deductions for AGI and itemized deductions for individuals is important.
- Substantiating deductions

  1. Taxpayer must establish his or her right to a deduction, as well as the amount spent, or the loss incurred.
  2. Acceptable methods of substantiation are examined.

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THE STATUE: SECTIONS 162

- Section 162(a) allows a taxpayer to deduct "all the ordinary and necessary expenses paid or incurred during the taxable year in carrying on a trade or business".

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THE STATUE: SECTIONS 212

❖ Section 212 allows a taxpayer to deduct all the ordinary and necessary expenses paid or incurred during the taxable year:

(a) For the production or collection of income

(b)For the management, conservation, or maintenance of property held for the production of income; or

(c) In connection with the determination, collection, or refund of any tax.

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ALLOWABLE DEDUCTIONS

- The expenses must be sufficiently related to carrying on a trade or business or income-producing activity.
- The expenses must be ordinary and necessary.
- The expenses must be reasonable, and
- The expense must be paid or incurred during the taxable year.

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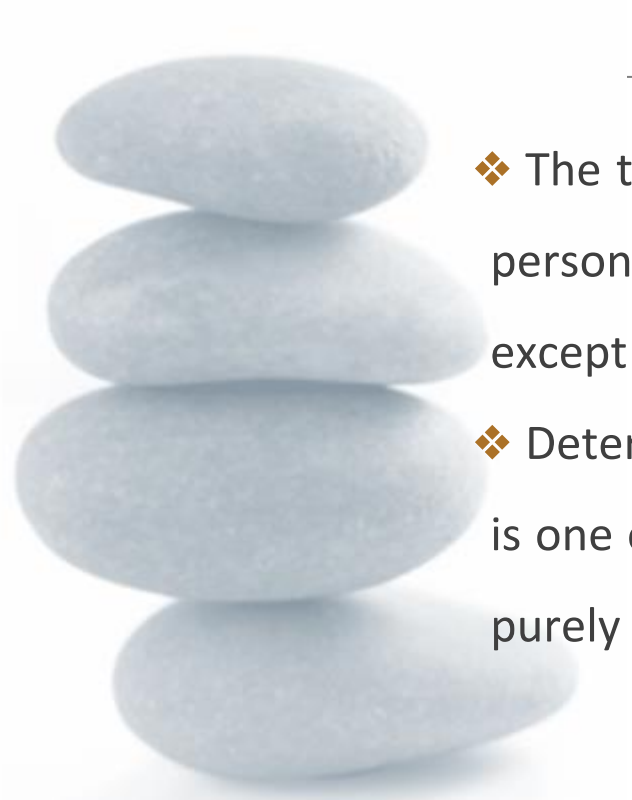
ACTIVITY AND RELATIONSHIP



- The thrust of the general rules is to allow expenses incurred in seeking a profit and disallowed personal expenses. In fact, §262 specifically prohibits the personal, living, or family expenses, except those specifically allowed.
- Determining whether a particular expenses is for profit-making purposes or personal purposes is one of the most difficult problems in taxation. Although many expenses are purely personal or purely business, many expenses have both elements

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ACTIVITY AND RELATIONSHIP

- A perfect case for illustrating the difficulty of determining whether the proper relationship exists is Harold L Jenkins, who is better known as Conway Twitty, the famous country singer. Twitty decided to try his luck in the fast-food business and established Twitty Burger Inc. The business went broke within two years after it opened. Twitty decided it was in his best interest to reimburse his friends for their losses. Consequently, he reimbursed the investors $97,000 even though he was legally obligated to do so. The IRS denied the deduction for the payments, indicating that Twitty did it out of a sense of moral obligation. Twitty however asserted that the payments were made to protect his reputation

ACTIVITY AND RELATIONSHIP

The legal staff of the IRS drafted the following responses regarding their appeal:

- Harold Jenkins and Conway Twitty, they are both the same
- But one was born; the other achieved fame
- The man is talented and has many a friend
- They opened a restaurant. His name he did lend
- They are two different things- making burgers and song
- The business went sour. It didn't take long
- He repaid his friends. Why did he act?
- Was it business or friendship? Which is fact?
- Business the court held. It's deductible they feel
- We disagree with the answer but let's not appeal

GREY AREAS

- If the expense would be incurred regardless of whether the taxpayer was seeking a profit, the Courts have been reluctant to allow the deduction.
- In Reading, the Tax Court denied the taxpayer’s claim that personal living expenses incurred were effectively the cost of labor sold.
- In Sparkman, The Ninth Circuit denied a radio announcer’s deduction for dentures that were obtained to overcome a speech handicap.
- If the primary purpose of the expense was business, the entire cost is deductible.
- If the expense has both personal and business elements, allocate a portion of the expense to each.
- If the expense would not have been incurred except for the business activity, the additional or excess cost is deductible.

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GREY AREAS

- Meals and lodging. These are deductible when taxpayer is away from home on business or meeting with a business purpose.
- Clothing and hygiene. The costs of uniforms and their maintenance are deductible if required as a condition of employment and not suitable for everyday wear.
- Revenue Ruling 56-168 denies deduction (or credits) for costs of dependent care while the taxpayer does charitable work.

SPECIAL RULES

- ❖Commuting – never deductible
- ❖Home office – use of simple procedures
- ❖Education deductions and credits
- ❖Interest expense personal vs residential vs investment
- ❖Litigation expenses – business related, generally
- ❖Moving expenses – very limited – armed forces personnel

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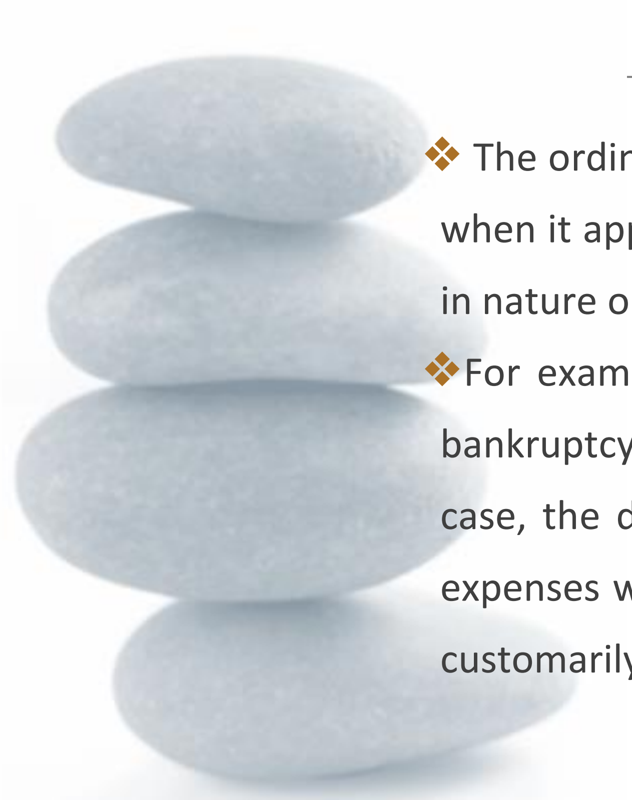
ORDINARY AND NECESSARY



- The ordinary condition has been imposed since the inception of the law. As a practical matter, however, it is unclear when it applies to deny a deduction. In the past the courts have employed it to deny expenses that are highly unusual in nature or are in the nature of capital expenditures.
- For example, in the landmark case of Welch vs Helvering, expenses of paying off debts previously discharged by bankruptcy were not considered ordinary and more likely were capital expenditures that were not deductible. In this case, the definition of ordinary was established by Justice Cardoza, who stated that the test was not whether the expenses were “habitual or normal in the sense that the taxpayer will make them often; but whether the payment is customarily made in the given circumstances”.

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LANDMARK COURT CASES

- In Geodel, a stock dealer could not deduct premiums paid on insurance on the life of the President of the United States where he believe the death would disrupt the stock market. The court state: “the expenditure is so unusual as never to have been made, so far as the record reveals, by the other persons in the same business when confronted with similar conditions”. In Greenspan, the court denied a deduction to a corporation for the creation of a horticultural showplace at his home of its principal officer and stockholder because the corporation failed to show that such an expense was ordinarily incurred in promoting a corporate business.
- In Dunn and McCarthy Inc, a corporation was allowed amounts paid to certain employees who had loaned funds to its former president who had lost the money gambling and had died insolvent.

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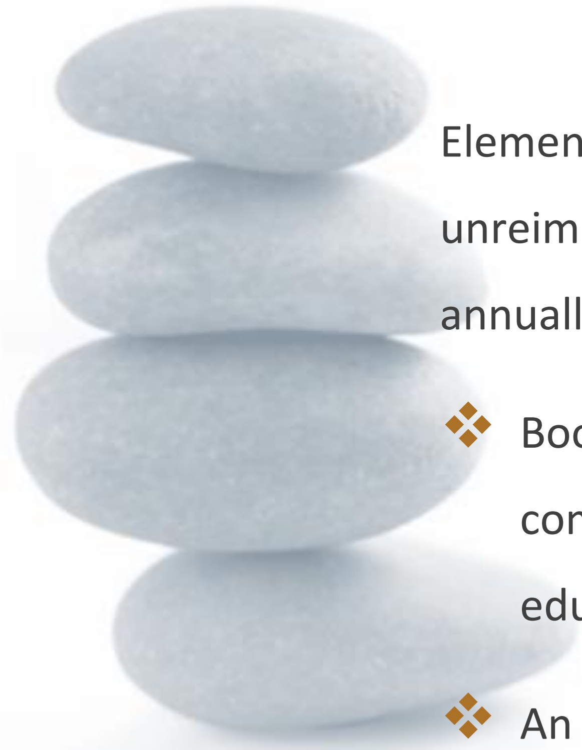
NECESSARY AND REASONABLE

- Necessary implies that the expenses must be "appropriate and helpful" in contrast to being indispensable or unavoidable. As a practical matter, the courts rarely consider this aspect of the expenses, leaving this judgement to the taxpayer.
- Reasonable implies an expenditure is neither extravagant or exorbitant.
- This criterion may be applied to regulate expenses between related parties.
- Most common application is to deny deduction for compensation payments that are nondeductible dividends, so disguised to avoid double taxation.

EDUCATOR EXPENSES



Elementary (primary) and middle/ high (secondary) school educators may claim a deduction for unreimbursed expense paid or incurred for books and supplies used in the classroom up to $300 annually. Each taxpayer (educator) on a joint return may deduct up to the maximum amount.

- Books, supplies (including personal protective equipment such as face mask and disinfectants), computer equipment, and supplementary materials used in the classroom qualify for the education.
- An eligible educator is an individual who, for at least 900 hours during a school year, is a kindergarten through grade 12 teacher, instructor, counselor, principal, or aide.

HEALTH SAVINGS ACCOUNT DEDUCTION

A health Savings Account is a tax-exempt account the taxpayer sets up with a U.S financial institution to save money used exclusively for future medical expenses.

This account must be used in conjunction with a High Deductible Health Plan.

The amount that may be contributed to a taxpayer's Health Savings Account depends on the nature of his or her coverage and his or her age.

For self only coverage, the taxpayer or his or her employer can contribute up to $3850 ($4850 for taxpayers who have reached age 55)

For family coverage, the taxpayer or his or her employer can contribute up to $7,750 ($9,950 for taxpayer who have both reached age 55).

Contributions to a Health Savings Account for 2023 may include contributions made until April 15. 2024.

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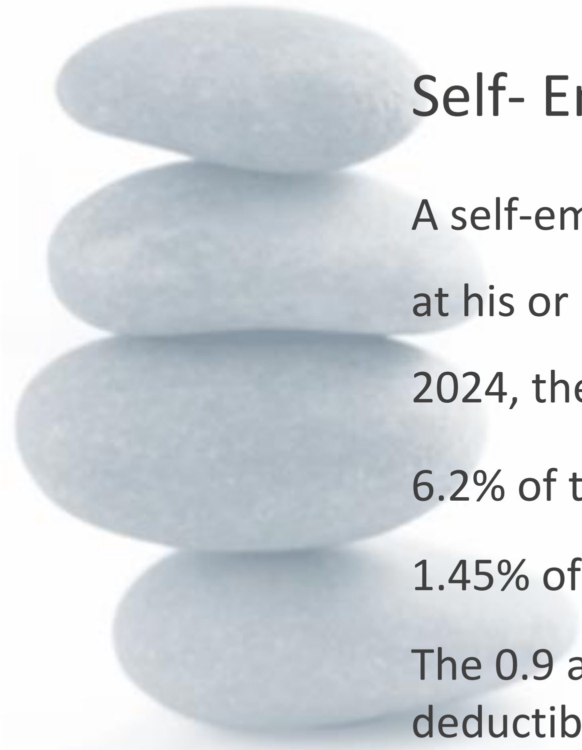
SELF-EMPLOYMENT EXPENDITURES



Self- Employment Tax

A self-employed person is allowed a deduction for the employer’s portion of the FICA taxes paid to arrive at his or her AGI. The deduction for the employer’s share is equal to 50% of the self-employment tax. For 2024, the deduction equals.

6.2% of the first $168,600 of net earnings from self-employment plus

1.45% of net earning from self-employment (no-cap)

The 0.9 additional Medicare tax is on the employee’s portion of FICA taxes. Therefore, 0.9 % tax is not deductible.

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SELF-EMPLOYED SEP, SIMPLE, AND QUALIFIED PLANS

A self- employed individual can deduct specified amount paid on his or her behalf to a qualified retirement or profit-sharing plan, such as a SEP plan.

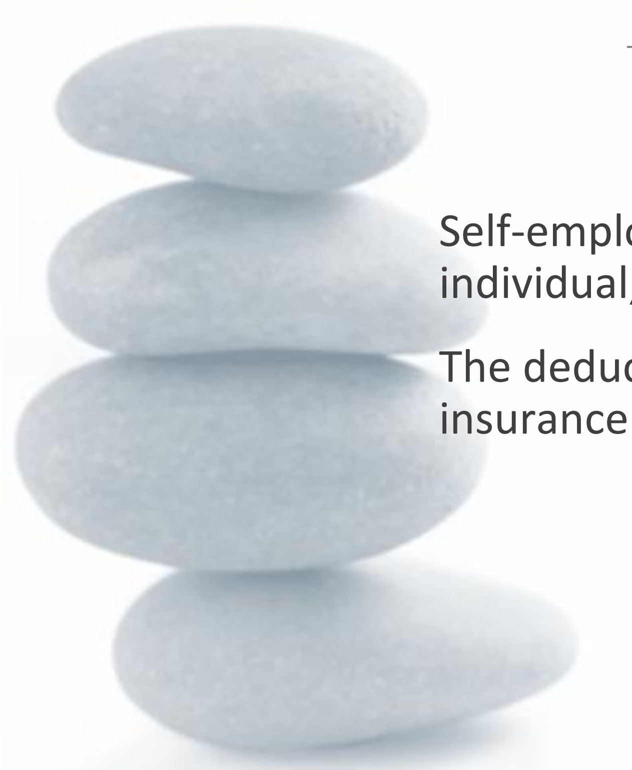
The most common self-employed retirement plan used is a SEP plan.

The maximum annual contribution is limited to the lesser of 25% of the self-employment earnings or $69,000 in 2024.

Self-employed earnings are reduced by the deductible part of self-employment taxes.

Contributions to the plan are subtracted from net earnings to calculate self-employed earnings, creating a circular computation. For convenience, a standard rate of 20% is used to calculate the allowed deduction.

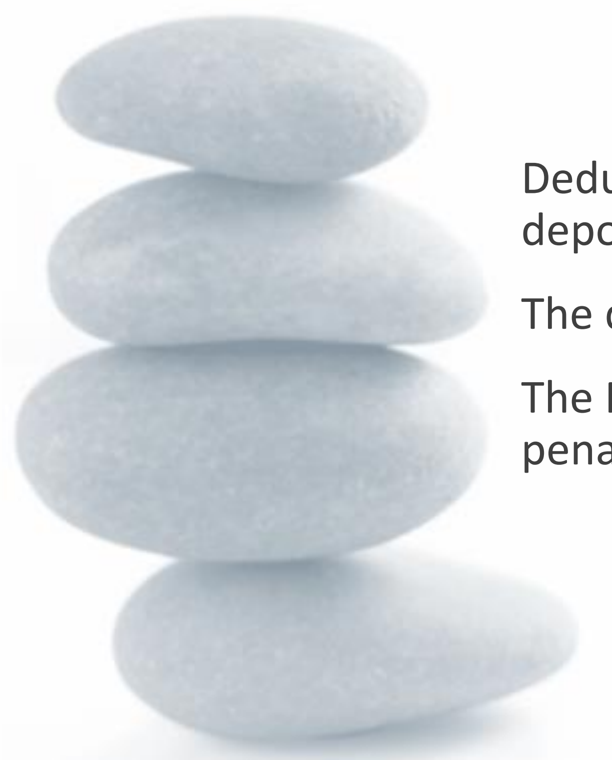
SELF-EMPLOYED HEALTH INSURANCE DEDUCTION



Self-employed individuals can deduct 100% of payments made for health insurance coverage for the individual, his or her spouse, and dependents.

The deduction is limited to the taxpayer's earned income derived from the business for which the insurance plan was established.

PENALTY ON EARLY WITHDRAWAL OF SAVINGS



Deduction is allowable for penalties from an early withdrawal of funds from certificates of deposit or other time savings accounts.

The deduction is taken in the year the penalty is incurred.

The Form 1099-INT or Form 1099-OID the taxpayer received will show the amount of any penalty charged.

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ALIMONY

Divorces Executed before 2019

Alimony is gross income to the recipient and deductible by the payor.

Alimony payments may not extend past the death of the payee spouse.

Divorces Executed or Modified after 2018.

Alimony is nondeductible to the payor and not included in the gross income of the recipient

Thus, whether alimony is deductible or not depends on when the divorce was executed.

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IRA DEDUCTION

Individual Retirement Arrangement (IRA) Contributions (Traditional IRAs)

For 2024, contributions are fully deductible (subject to certain qualifying rules and limitations) up to the lesser of $7,000 ($8,000 for taxpayers aged 50 and over) or 100% of includible compensation. Because contributions are deducted from gross income, all distributions are included as ordinary gross income.

To qualify for the return year, contributions must be made by the due date of the return without regard to extensions.

Compensation includes alimony and earned income but not pensions, annuities, or other deferred compensation distributions.

An additional $7,000 ($8,000 for taxpayers aged 50 and over) may be contributed to the IRA for the taxpayer’s nonworking spouse, or a spouse earning less income , if a joint return is filed.

The combined IRA contributions by both spouses cannot exceed that combined compensation for the year.

STUDENT LOAN INTEREST DEDUCTION

Taxpayers may deduct $2,500 of interest paid on qualified educational loans in 2024. This deduction is available for each year interest is paid.

The deduction is subject to income limits.

	AGI Phaseout Range
MFJ	$170,000 to $200,000
Single,HH,MFS	$85,000 to $100,000

STANDARD VS ITEMIZED DEDUCTIONS

Itemized vs. Standard

Generally, the taxpayer itemizes deductions if the total amount of allowable itemized deductions is greater than the amount of the standard deduction. Otherwise, the taxpayer claims the standard deduction. A taxpayer must elect to itemize, or no itemized deductions will be allowed.

Election is made by filing Schedule A of Form 1040.

Election may be changed by filing an amended return (Form 1040X).

MEDICAL AND DENTAL EXPENSES

Amounts paid for qualified medical expenses that exceed 7.5% of AGI may be deducted.

To qualify for a deduction, an expense must be paid during the taxable year for the taxpayer, the taxpayer's spouse, or a dependent and must not be compensated for by insurance or otherwise during the taxable year. The service (expense) could have been rendered (incurred) in a prior year.

The expenses must be primarily to alleviate or prevent a physical or mental disability or illness. Such expenses include:

Diagnosis, cure, mitigation, treatment or prevention of disease, or for the purpose of affecting any structure or function of the body

Transportation primarily for and essential to medical care

Medical insurance

Qualified long-term care premiums and services

TAXES

The owner of real estate may deduct state and local real property taxes. *subject to the overall limit on the tax deduction - $10,000 single and $30,000 married filing jointly*

If real property is bought or sold during the year, the real property tax is apportioned between the buyer and the seller based on the number of days each one held the property during the real property tax year.

Personal property taxes (ad valorem) are deductible, but only if the tax is

Substantially in proportion to the value of the property,

Imposed on an annual basis.

State and local income taxes are deductible within the above limits.

INTEREST PAID

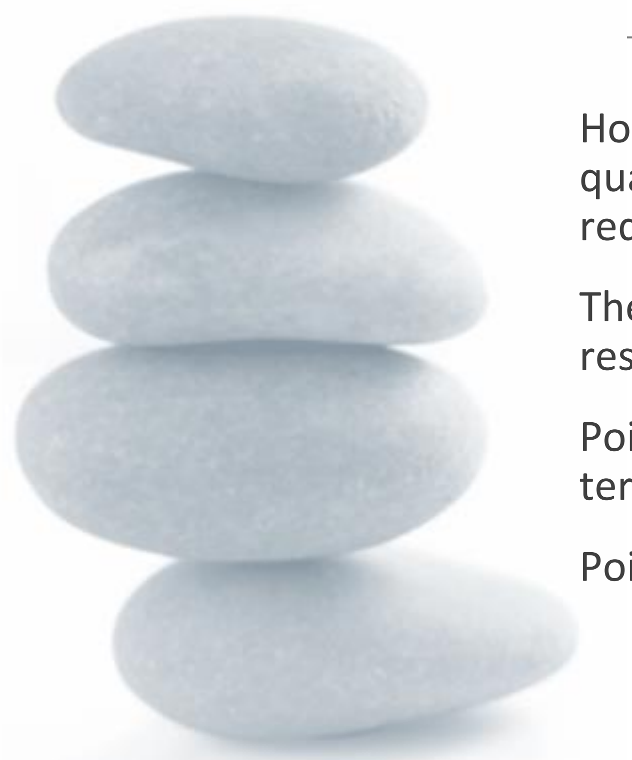
Qualified Residence Interest

Qualified residence interest is deductible on no more than $750,000 of the sum of acquisition and home equity indebtedness ($375,000 if married filing separately).

It is interest paid or accrued during the tax year on acquisition or home equity indebtedness that is secured by a qualified residence.

- A qualified residence includes the principal residence of the taxpayer and one other residence owned by the taxpayer.
- A taxpayer who has more than two residences may select, each year, the residence used to determine the amount of qualified residence interest.
- Acquisition indebtedness is debt incurred in acquiring, constructing, or substantially improving a qualified residence. The debt must be secured by the residence.

INTEREST PAID



Home equity indebtedness is all debt other than acquisition debt that is secured by a qualified residence to the extent it does not exceed the fair market value of the residence reduced by any acquisition indebtedness.

The home equity debt must be used to buy, build or substantially improve the qualified residence.

Points paid by the borrower are prepaid interest, which is typically deductible over the term of the loan.

Points paid by the seller are a selling expense that reduces the amount realized on the sale.

INVESTMENT INTEREST EXPENSE

Investment interest is an interest paid or incurred (on debt) to purchase or carry property held for investment.

Investment interest does **not** include qualified residence interest or passive actively interest.

Passive activity interest is includible with passive activities and deductible within the passive loss rules.

The IRC allows the deduction of a limited amount of investment interest as an itemized deduction.

Limit. Investment interest may be deducted only to the extent of net investment income, which is any excess of income over investment expense.

INVESTMENT INTEREST EXPENSE

Investment income is

- Non-trade or nonbusiness income from (1) interest; (2) dividends not subject to the capital gains tax; and (3) annuities, royalties, and other gross income from property held for investment.
- Net gain on the disposition of property held for investment. A taxpayer may elect to treat all or a portion of long-term capital gains and qualified dividends as investment income.
- Income treated as gross portfolio income under the PAL rules.
- Income from interest in activities that involve a trade or business in which the taxpayer does not materially participate, if the activity is not treated as passive activity under the PAL rules.

Disallowed investment interest is carried forward indefinitely . It is the extent of investment income in a subsequent tax year.

Interest related to producing tax-exempt income is not deductible.

CHARITABLE DEDUCTIONS

Charitable contributions made to qualified organizations (public charities or private foundations) are deducted on Schedule A (Itemized Deductions)

Donations can be made in the form of cash or noncash property.

Individuals may carry forward excess contributions for 5 years.

All rights and interest to the donation must be transferred to the qualified organization.

CHARITABLE DEDUCTIONS

Additional donation requirements:

Clothing and household items donated must be in good or better condition unless valued by a qualified appraisal at $500 or more.

For cash or cash equivalent donations, regardless of the amount, the taxpayer must maintain as a record of the contribution a bank record (such as a canceled check or credit card statement) or a written record from the charity.

The written record must include the name of the charity, date, and the amount of the contribution.

Donations of $250 or more continue to require substantiation by a written receipt from the organization (the bank record alone is insufficient).

A qualified appraisal for real property donations is required to be attached to the tax return for property valued over $5000.

CHARITABLE DEDUCTIONS

If a donation is in the form of property, the amount of the donation depends on the type of property and the type of organization that receives the property.

Capital gain property is property on which a long-term capital gain would be recognized if it were sold on the date of the contribution.

Ordinary income property is property on which ordinary income or short-terms capital gain would be recognized if it were sold on the date of the contributions.

CHARITABLE DEDUCTIONS

50% limit organizations, which encompass most qualified charitable organizations, are generally public organizations. The following list represents some 50% organizations:

- Churches
- Educational organizations
- Hospitals and certain medical research organizations
- Organizations that are operated only to receive, hold, invest, and administer property and to make expenditures to or for the benefit of state and municipal colleges and universities
- The United States or any state, the District of Columbia, a U.S possession (including Puerto Rico), a political subdivision of a state or U.S possession, or an Indian tribal government
- Private operating foundations
- Private nonoperating foundations that make qualifying distributions of 100% of contributions within 2 ½ months following the year they receive the contribution

CHARITABLE DEDUCTIONS

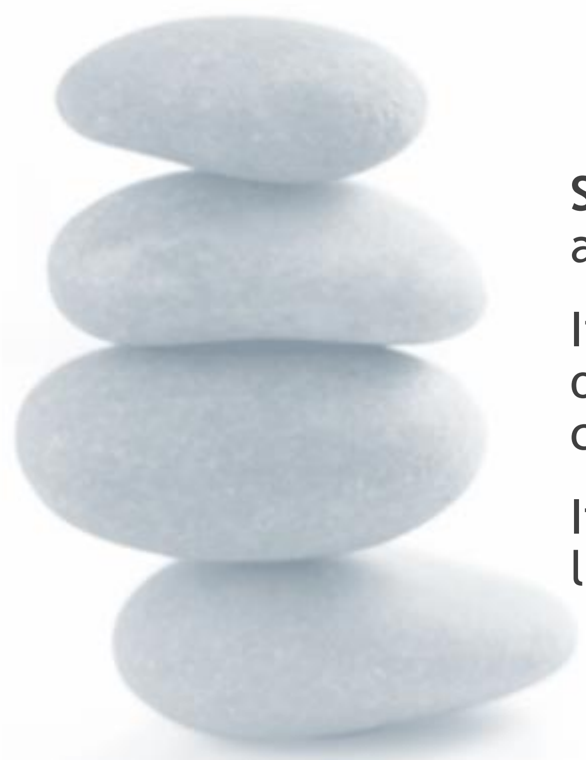
Non-50% limit organizations are qualified charities that are not designated as 50% limit organizations.

Charitable contribution deductions are subject to limitations.

The overall limitation on charitable deductions is 50% (60% for cash contributions) of AGI (applicable to the total of all charitable contributions during the year), but certain contributions may be further limited to 30% or 20% of AGI, depending on the type of contribution given and the type of organization to which it is given.

Any donations that exceed this limitation can be carried forward and potentially deducted in the next 5 tax years.

CHARITABLE DEDUCTIONS



Special 30% limitation for capital gain property. A special 30% limitation applies to gift of capital gain property given to 50% limit organizations.

It is only applicable if the donor elects **not** to reduce the fair market value of the donated property by the amount that would have been long-term capital gain if (s)he had sold property.

If the reduction is elected, only the 50% (60% for cash contributions) limitation applies.

CHARITABLE DEDUCTIONS

20% limitation. This limitation applies to capital gain property donated to non-50% limit charities. The limit is the lesser of 20% of AGI or 30% of AGI minus capital gain contributions to public charities.

In accounting for the different limitations, all donations subject to the 50% (60% for cash contributions) limit are considered before the donations subject to the 30% limit.

In carrying over excess contributions to subsequent tax years, the excess must be carried over to the appropriate limitation categories. If a contribution in the 30% category is more than the limit, the excess is carried over and subject to the 30% limitation in the next year.

CASUALTY AND THEFT LOSSES

The itemized deduction for personal casualty and theft losses is allowed if attributed to a federally declared and non-federally declared disaster losses limited to offsetting casualty gains.

Only the amount of loss over $100 is deductible.

Only the aggregate amount of all losses more than 10% of AGI is deductible.

OTHER ITEMIZED DEDUCTIONS

The following expenses are deductible as other itemized deductions:

- Amortizable premium on taxable bonds
- Casualty and theft losses from income–producing property
- Federal estate tax on income in respect for decedent
- Gambling losses and expenses up to the amount of gambling winnings
- Impairment-related work expenses of persons with disabilities
- Repayments of more than $3,000 under a claim of right
- Unrecovered investment in a pension

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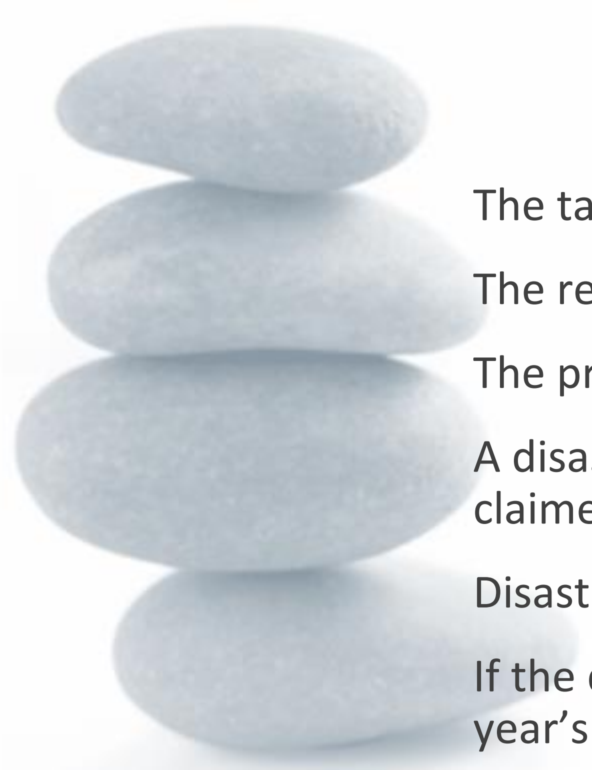
DISASTER AREAS



The taxpayer has the option of deducting the loss on

The return for the year in which the loss occurred or

The preceding year’s return (by filing and amended return).

A disaster loss deduction is computed the same way as a casualty loss, but personal losses are claimed on Schedule A as an itemized deduction.

Disaster losses exceeding $100 plus 10% of AGI are deductible.

If the disaster loss is claimed on the preceding year’s return, the AGI limitation is based on prior year’s AGI.

HOBBY LOSSES

A hobby is an activity for which profit is not a primary motive; thus, the IRS does not consider the activity a business.

An activity is presumed not to be a hobby if profits result in any 3 of 5 consecutive tax years (in the case of breeding, training, showing, or racing horses, 2 of 7 consecutive years).

Some of the factors used to determine whether an activity is carried on for profit are

- The way the taxpayer carries on the activity;
- The expertise of the taxpayer or advisors;
- The time and effort expended by the taxpayer in carrying on the activity;
- The expectation that assets used in the activity may appreciate in value;
- The success of the taxpayer in carrying on other similar or dissimilar activities;
- Elements of personal pleasure or recreation.

TAX CREDITS

Tax credits are used to achieve policy objectives, such as providing tax relief to low-income taxpayers. A $1 credit reduces gross tax liability by $1.

Nonrefundable credits. Nonrefundable credits **cannot** exceed the taxpayer's federal income tax. Once tax liability reaches zero, no more credits can be taken to produce refunds. Nonrefundable credits include the

- Foreign Tax Credit
- Lifetime Learning Credit
- Retirement Savings Contribution Credit
- Credit for the Elderly or the Disabled

Refundable credits. A refundable is payable as a refund to the extent the credit amount exceeds tax otherwise due. Refundable credits include the Additional Child Tax Credit and the Earned Income Credit.

ENERGY EFFICIENT HOME IMPROVEMENT CREDIT

An individual may claim a tax credit for certain home energy improvements placed in service before January 1, 2033, with respect to a home (including manufactured housing) in the United States. The credit is generally equal to 30% of the amount paid or incurred during the tax year for:

1) Installed qualified energy efficiency improvements
2) Residential energy property expenditures
3) Home energy audits

Expenditures made from subsidized energy financing are not considered. Cooperative and condominium dwellers can claim by splitting qualified costs among the owners of the units that are benefited by the improvement. A taxpayer calculates the credit om Form 5695.

Qualified energy property, exterior windows and exterior doors placed in service after 2024 must be produced by a qualified manufacturer, and the taxpayer's tax return must include the qualified product identification number.

ENERGY EFFICIENT HOME IMPROVEMENT CREDIT

- The annual credit is generally limited to a maximum total credit of $1200, with the annual credit also limited to $600 for any item of the qualified energy property or for exterior windows and skylights; $500 for all exterior doors and $250 for any single exterior door; and $150 for an energy audit. However, in addition to the $1200 maximum credit, a taxpayer may also claim a maximum $2000 annual credit for electric or natural gas heat pump water heaters, and biomass stoves and boilers.

- The credit is a nonrefundable personal credit that may be claimed against regular tax and alternative minimum tax (AMT) liabilities. Unlike the residential clean energy credit, any unused energy efficient home improvement credit is lost; it cannot be carried over to another tax year. The amount of the allowed credit reduces any basis increase that would otherwise result from the expenditure.

RESIDENTIAL CLEAN ENERGY CREDIT

An individual may claim a tax credit for residential clean energy efficient property placed in service before January 1, 2035, and installed on or in connection with a dwelling unit in the United States that the taxpayer uses as a residence. A taxpayers calculates the credit on Form 5695.

The residential clean energy credit is equal to 30% of the cost qualified;

- Solar electric property
- Solar water heating property
- Fuel cell property
- Small wind energy property
- Geothermal heat pump property
- Battery storage technology

Fuel cell property must be installed on the taxpayer's principal residence, and the credit for it is limited to $500 for each 0.5 kilowatt of capacity.

RESIDENTIAL CLEAN ENERGY CREDIT

- The credit also applied to expenditures made in 2021 and 2022 for biomass fuel property. Cooperative and condominium dwellers can claim the credit by splitting the qualified costs with the owners of other units benefited by the qualified property. The credit rate drops to 26% in 2033 and 22% in 2034.
- The credit is a nonrefundable personal credit that may be claimed against regular tax and alternative minimum tax (AMT) liabilities. The allowed credit reduces the taxpayer's basis in the residence. Unlike the energy efficient home improvement credit, the residential clean energy credit applies to labor costs for the on-site preparation, assembly and original installation of qualified property, and to existing homes as well as new ones. Any unused credit may be carried forward.

NEW CLEAN VEHICLE CREDIT

An individual may claim a tax credit for a qualified new clean vehicle placed in service after 2022 and before 2033. A taxpayer may rely on proposed regulations that provide guidance on the new clean vehicle credit. This is widely knoiwn as the EV credit.

The credit has two components:

A $3,750 credit applies if the vehicle satisfies a domestic test for critical minerals in the battery.

A $3,750 credit applies if the vehicle satisfies a domestic content test for battery components.

Thus, the maximum credit for a vehicle is $7,500.

The credit is not allowed if:

- The taxpayer's modified adjusted gross income (AGI plus excluded foreign earned income, foreign housing expenses, and U.S possession income) for the tax year of the credit (or if less, for the preceding tax year) exceeds $300,000 for married filing jointly and surviving spouses, $225,000 for head of household, or $150,000 for single or married filing separately.
- The manufacturer's suggested retail price (MSRP) for the vehicle exceeds $80,000 for a van, sports utility vehicle (SUV), or pick-up truck; or $55,000 for any other vehicle.

Q&A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