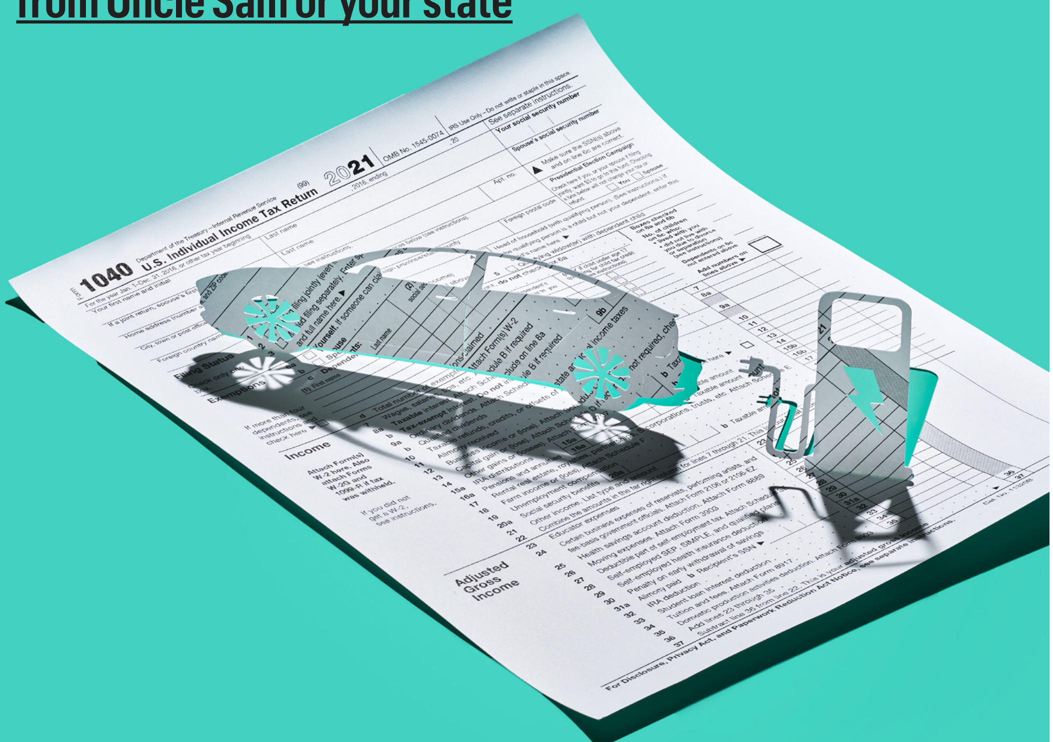
GET EXTRA CREDIT FOR YOUR TAXES

Don't miss out on any givebacks from Uncle Sam or your state



BY **BETH BRAVERMAN**

What do electric cars, IRA contributions and new windows for your home have in common? That's an easy one for a tax accountant: They're all items for which the federal government might give you a tax credit.

With the new year underway and the 2022 tax filing season about to begin, it's the perfect moment to pay attention to these offerings, which can shave hundreds or even thousands of dollars off your tax bill—and sometimes even get you a refund.

Federal and state governments offer tax credits as a way to promote behaviors that they believe will benefit the economy, the environment or activities the government deems important. Their benefits can be substantial. "Tax deductions are good, but tax credits are better," says Mark Steber, chief tax information officer at Jackson Hewitt Tax Services, based in Jersey City, New Jersey. "Credits are the holy grail of tax benefits."

Here's why: Deductions simply reduce the amount of your taxable income, while tax credits are a dollar-for-dollar reduction of your tax bill. For example, if you file jointly and have $60,000 in federal taxable income, a $1,000 tax deduction would lower your tax bill by $120. A $1,000 tax credit, on the other hand, would cut it by a full $1,000.

Most tax credits are nonrefundable, meaning that you can use them only to reduce the amount of taxes you owe. If you owe $800 in federal taxes and have a $1,000 nonrefundable tax credit, you'd reduce your liability to $0, but you wouldn't get any money back. Once a *refundable* credit zeroes out your tax bill, however, money left over becomes a refund. So in this particular case, a $1,000 refundable credit would result in a $200 refund. If you happened to owe no taxes at all, you'd be refunded the full $1,000. (Note that some tax credits are only partially refundable.) "Refundable credits are much more powerful, since you don't even need to pay taxes to get money from the government," says Eric Bronnenkant, head of tax at investment firm Betterment.

Many credits and deductions are getting more valuable for tax year 2023 since the IRS adjusts them for inflation. Keep these credits in mind when you file your taxes—both for 2022 and 2023.

EARNED INCOME

The Earned Income Tax Credit (EITC) is considered one of the government's top antipoverty programs. Its purpose is to bolster the earnings of low-wage earners and offset some of their taxes, and it's particularly valuable if you claim children or grandchildren as dependents; for tax year 2022, the EITC can go as high as $6,935 for someone with three or more dependent children. Though there's no age limit for receiving the EITC if you have qualifying dependents, people with no dependent children can get the credit, up to a maximum of $560, only from the ages of 25 through 64.

The size of the credit depends on your income and filing status too. For 2022, for example, you can't get the credit if you're a single filer with no children and your income exceeds $16,840; for joint filers with three kids, the corresponding figure is $59,187.

Thirty states also offer an earned income tax credit, typically calculated as a percentage of the federal credit.

Many retirees assume they don't qualify for the EITC because they don't collect a paycheck, Steber says. "But if you're working part-time as a consultant, or you've turned your hobby into a business with net income, those count as earnings," he says.

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ELECTRIC CARS

Authorized by last year's Inflation Reduction Act, the new Clean Vehicle Credit can get you a nonrefundable credit of up to $7,500 on the purchase of a qualifying new electric vehicle. For a used electric vehicle, the credit is $4,000 or 30 percent of the sale price, whichever is lower.

The new car's price must be less than $80,000 for vans, SUVs and trucks, and less than $55,000 for other cars. For example, a new $65,000 Tesla Model Y would not qualify, but you could get the maximum credit for the less expensive new Volvo S60. A used car must cost less than $25,000 and its model year must be at least two years earlier than the calendar year in which you buy it. Income limitations apply as well: To qualify for the new car credit, individual filers' adjusted gross income must be less than $150,000, and joint filers' income must be less than $300,000.

"The technicalities about which cars qualify can be overwhelming, but that's something that the manufacturers and dealers can tell the customer," says Annette Nellen, a tax attorney and professor at San José State University. You can also check on a specific vehicle by entering its Vehicle Identification Number into the VIN Decoder tool on the National Highway Traffic Safety Administration website (nhtsa.gov/vin-decoder).

RETIREMENT SAVINGS

If you're still working and contributing to a retirement plan, such as a 401(k) or an IRA,

TAX PREP FROM AARP

To learn how to get free tax preparation from AARP Foundation Tax-Aide, go to aarp.org/taxaide. Trained volunteer preparers can help you obtain the Earned Income Tax Credit, Saver's Credit and Energy Efficient Home Improvement Credit if you qualify. Volunteers can also work with you to apply for property tax breaks in certain states.

PHOTO: EARL RICHARDSON; ILLUSTRATION: MICHAEL HOEWELER you could qualify for the Saver's Credit. Depending on your income and tax filing status, the credit is worth 10 to 50 percent of your contribution to a retirement plan, up to $2,000 ($4,000 if married and filing jointly). You may get less if you or your spouse took a retirement distribution during the year. The credit starts to phase out for married couples earning more than $68,000 in 2022 (or more than $73,000 in 2023), and individuals earning more than $34,000 in 2022 ($36,500 in 2023).

HOME IMPROVEMENT

The Inflation Reduction Act extended and expanded tax credits available to homeowners for energy-efficient home improvements. Starting in 2023, you can get an Energy Efficient Home Improvement Credit for 30 percent of improvements, including home energy audits, Energy Star–qualified doors and windows, and HVAC upgrades; the credit is worth up to $1,200 per year. Previously, you could get a credit for only 10 percent of similar costs, with a lifetime limit of $500.

Separately, the Residential Energy Efficient Property Credit, which was going to expire at the end of 2023, has been extended through 2034. It's worth 30 percent of the cost of installing energy systems such as geothermal heat pumps, solar energy systems or battery storage technology.

PROPERTY TAXES

Fifteen states plus the District of Columbia have "circuit-breaker" tax credits, which kick in if your property taxes exceed a certain percentage of your income. The rules for these credits, some of which apply to renters as well, vary by state, but they can be quite valuable. Not sure whether your state offers one? You can check with your state representative or the website of the state's department of taxation.

"You have to apply for these credits, but they're particularly useful for older homeowners who might have fixed incomes but rising rents or property taxes," says Amy Hanauer, executive director of the Institute on Taxation and Economic Policy. "They're designed to protect taxpayers from a property tax overload." ■

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