

## Energy Efficient Home Improvement Tax Credit (25C)\*

June 2023

The Inflation Reduction Act of 2022 ([H.R. 5376](#)) extends the Energy Efficient Home Improvement Credit (25C)<sup>1</sup> through the end of **2032** and expands the credit to allow households to deduct **30%** of the costs of eligible upgrades from their taxes while adding new qualified products and larger dollar maximums. IRA also eliminates the credit's lifetime cap and makes 25C an **annual credit**, meaning eligible taxpayers can claim it every year for new improvements (but cannot carry the credit forward to future years).

**25C is available now** for qualifying upgrades placed in service **on or after January 1, 2023**. Consumers claim the credits when filling out their tax returns via IRS [Form 5695](#), including any relevant product receipts.

### Frequently Asked Questions (FAQs)

**Q:** Do you need to owe taxes to take advantage of the 25C tax credit?

**A: Yes.**

**Q:** Can a taxpayer claim the credits for expenditures incurred for a **newly constructed home**?

**A: No.** For energy efficiency in newly constructed single- and multifamily homes (including manufactured homes), see the separate homebuilder [New Energy Efficient Home Tax Credit \(45L\)](#).

**Q:** Are the credits available for a **second home** or an investment property? What about **renters**?

**A:** Per IRS, the credit for building envelope components (exterior doors, windows and skylights, insulation, air sealing) **is only available for primary residences and is not eligible** for second homes or renters.

However, per IRS, credits for heat pumps, heat pump water heaters, oil and natural gas furnaces, panelboards, and central AC units **are eligible for both second homes and renters**. For specifics, see charts below.

Landlords are **not** eligible to take the credit. Any upgraded home under 25C must be used as a residence by the taxpayer.

**Q:** What does it mean to meet the 2021 IECC for credit eligibility?

**A:** Best efforts should be made to meet the insulation levels set by the [2021 IECC](#) taking into account "Chapter 5, Existing Buildings" for each area of the home being upgraded. The credit

<sup>1</sup> IRA Sec. 13301. For more information on 25C, see IRS's factsheet [here](#).

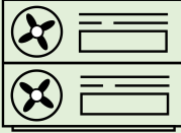
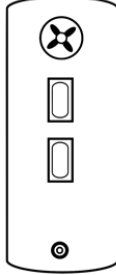

\*This factsheet is for **informational purposes only** and is designed to advise based on legislation and policy guidance released by Congress, the White House and the Internal Revenue Service (IRS). The Building Performance Association and AnnDyl Policy Group are not offering tax advice and the information provided in this document should not be relied upon as legal or accounting advice.

	does not require air leakage testing or third-party certification of compliance.
<b>Q:</b> Since <b>labor is not</b> an eligible expense for <b>building envelope</b> under the 25C credit, what is considered an eligible expense?	<p><b>A:</b> Labor has <b>never</b> been an eligible expense for <b>building envelope</b> under the 25C tax credit.</p> <p>The contractor should make a reasonable estimate of the qualifying cost of the insulation materials and the nonqualifying labor cost of the project.</p> <p>Labor <b>is</b> an eligible expense for other non-envelope upgrades (heat pumps, water heaters, central AC, and more). For specifics, see charts below.</p>
<b>Q:</b> Can I claim the credit for multiple improvements in the same tax year?	<p><b>A:</b> There is a <b>\$1,200</b> yearly tax credit maximum for insulation, air sealing, energy audits, and energy property like central AC, furnaces, external doors, windows, and more.</p> <p>Heat pump water heaters, air source heat pumps, biomass stoves and boilers have a <b>separate</b> yearly credit limit of <b>\$2,000</b>.</p> <p>In a single year, taxpayers may claim <b>up to \$3,200</b> in tax credits for combined upgrades, provided costs fall under each sub-limit.</p>
<b>Q:</b> Is a certificate of insulation product purchase required?	<b>A:</b> While there are product identification number reporting requirements for certain 25C eligible products beginning in <b>2025</b> , there are no such requirements imposed on insulation or air sealing materials.
<b>Q:</b> Can 25C stack with the High-Efficiency Electric Home Rebate Program (HEEHR)?**	<b>A:</b> The HEEHR Rebate is for specific technologies and applied at point-of-sale. Thus, a reasonable expectation is the basis for the credit is reduced by the amount of rebate as the credit is applied to the cost of the technology, thus 30% of what the customer paid for the eligible technology up to the credit cap.
<b>Q:</b> Can 25C stack with HOMES rebates?*	<b>A:</b> The HOMES Rebate is technology neutral, based on the energy saved and not the measures installed, and the rebate is applied for whole house measures in an amount that will fluctuate based on the state's implementation pathway (modeled or measured). The rebate may also be taken by an aggregator, rather than the homeowner, passing on savings which cannot be easily attributed to one technology. As a result, it would be reasonable to apply the 25C tax incentive without consideration of the HOMES rebate.

\*\*More information may be included in the Department of Energy's rebate program guidance, expected in July 2023.

**Heat Pump, Heat Pump Water Heater, Biomass Stoves & Boilers Equipment Credit**  
\$2,000 total annual cap

- All products include labor costs.
- Open to both homeowners (including second homes) and tenants.

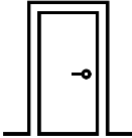
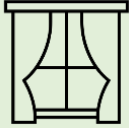


Credit Amount	Product	Requirements
<p><b>30% of costs, up to \$2,000 total credited (includes labor).</b></p>	 <p>Air Source Heat Pump<sup>2</sup></p>	<p>Highest efficiency Consortium for Energy Efficiency (CEE) tier<sup>3</sup> (not including any advanced tier) in effect at the beginning of the year when placed in service.</p>
	 <p>Heat Pump Water Heater<sup>2</sup></p>	<p>Highest efficiency CEE tier<sup>3</sup> (not including any advanced tier) in effect at the beginning of the year when placed in service.</p>
	 <p>Biomass Stoves and Boilers</p>	<p>Must have a thermal efficiency rating of at least 75% (measured by the higher heating value of the fuel).</p>

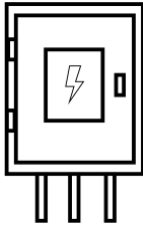
<sup>2</sup> Per statute, includes both Electric and Natural Gas Heat Pumps and Electric and Natural Gas Heat Pump Water Heaters. ENERGY STAR certified [geothermal heat pumps](#) are eligible for a separate tax credit and are not counted against these credit limits.

<sup>3</sup> See CEE Specifications [here](#). View the CEE Directory [here](#).

**Home Envelope Credit**  
**\$1,200 annual total cap**

- Some products **do not** include labor costs, but some **do**. See details below.
- **Envelope** improvements (on this page) are open only to the **principal residences of homeowners and are not** open to second homes or tenants. Energy **property** improvements (on the next page) **are** open to second homes and tenants.
- Per IRS, for building envelope components (listed on this page), the component must reasonably be expected to remain in use for at least five years.

Product	Credit Amount	Requirements
 <p>Exterior Doors</p>	<p>30% of costs (<b>not</b> including labor), up to <b>\$500</b> total credited annually (\$250 per door)</p>	<p>Must meet applicable ENERGY STAR requirements <a href="#">here</a>.</p>
 <p>Exterior Windows and Skylights</p>	<p>30% of costs (<b>not</b> including labor), up to <b>\$600</b> credited annually</p>	<p>Must meet ENERGY STAR most efficient certification requirements <a href="#">here</a>.</p>
 <p>Building Envelope, including Insulation</p>	<p>30% of costs (<b>not</b> including labor), up to <b>\$1,200</b> credited annually</p>	<p>Must meet International Energy Conservation Code (IECC) of 2 years prior to the year when the component is placed in service.</p> <p><i>Added:</i> Air sealing  <i>Removed:</i> Roofing</p>
 <p>Home Energy Audit</p>	<p>30% of costs (including labor), up to <b>\$150</b> credited annually</p>	<p>Must be conducted by a certified home energy auditor (certification requirements forthcoming from IRS).</p>



Panelboards,  
Sub-  
panelboards,  
Branch  
Circuits, or  
Feeders

30% of costs  
(including labor), up  
to **\$600** credited  
annually

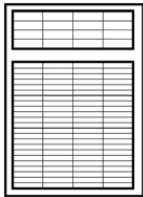
Must be installed  
according to the  
National Electric Code  
and have a load capacity  
of **200 amps** or greater.  
Must enable installation  
and use of other  
components.



Natural Gas,  
Propane, or  
Oil Water  
Heater

30% of costs  
(including labor), up  
to **\$600** credited  
annually

Highest efficiency CEE  
tier<sup>3</sup> (not including any  
advanced tier) in effect  
at the beginning of the  
year when placed in  
service.



Central Air  
Conditioner

30% of costs  
(including labor), up  
to **\$600** credited  
annually

Highest efficiency CEE  
tier<sup>3</sup> (not including any  
advanced tier) in effect  
at the beginning of the  
year when placed in  
service.



Natural Gas,  
Propane, or  
Oil furnace  
or Hot  
Water Boiler

30% of costs  
(including labor), up  
to **\$600** credited  
annually

**Before 2026:**  
Meet or exceed 2021  
Energy Star efficiency  
criteria and is rated by  
the manufacturer for  
use with fuel blends at  
least 20 percent of the  
volume of which  
consists of an eligible  
fuel.  
**After 2026:**  
Achieve an annual fuel  
efficiency rate of not  
less than 90 and is rated  
by the manufacturer for  
use with fuel blends at  
least 50 percent of  
which consists of an  
eligible fuel.

If you have questions, contact: Skip Wiltshire-Gordon, AnnDyl Policy Group, [skip@anndyl.com](mailto:skip@anndyl.com).