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Home Energy Incentives Under the Inflation Reduction Act

NEFI Membership Guidance

Frequently Asked Questions (FAQ)

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On August 16, 2022, President Joe Biden signed the *Inflation Reduction Act (IRA)* into law. The IRA includes $391 billion worth of energy and climate-related provisions, most of which are designed to incentivize nearly all sectors of the U.S. economy to transition to "cleaner" fuels and technologies and higher levels of energy efficiency. This includes tax incentives and rebate programs to encourage home energy retrofits and the installation of more efficient heating and cooling systems and all-electric appliances. **The tax credits are available now. However, the rebates are unavailable until details are fully defined and put in-place.**

This document answers frequently asked questions regarding the IRA's home energy incentives and their implications for NEFI members and their consumers.[i] It may be updated as additional questions arise or clarifications are made during the law's implementation. Note that many of the IRA's policies are authorized over ten years and some may be corrected, modified, or even repealed by Congress during this time.

Disclaimers: This FAQ is not intended as tax or legal guidance. As always, we urge you consult to with a qualified professional on how this law impacts your business. The IRA is a partisan law passed by Democrats and without any support from Republicans. NEFI is a non-partisan organization. By publishing this document, we do not intend to imply that either NEFI or its members support the IRA or any of its policies, unless otherwise stated.

1. Energy Efficient Home Improvement Tax Credit

What is the energy efficient home improvement tax credit?

The IRA substantially modifies and expands the residential energy efficiency tax credit under Section 25C of the Internal Revenue Code and extends it for ten years. This federal tax credit, often referred to simply as "the 25C credit," is designed to encourage the retrofitting of *existing* homes to reduce energy consumption and lower heating and cooling costs. It offers homeowners a menu of energy efficiency improvements to choose from, each with their own minimum requirements and individual credit limits. The IRA increases the total credit value from 10% of installation costs to 30%. It also eliminates the lifetime cap, which means a homeowner can receive the benefit annually.

How much is the tax credit worth?

The credit is valued at 30% (subject to certain limits) of the cost of installation of qualified residential energy property. The total amount of credit may not exceed an overall limit of $1,200. Electric and natural gas heat pumps and wood stoves are subject to a separate limit of $2,000. The IRS has determined that homeowners may combine these two limits for a total credit of up to $3,200. Qualified appliances and envelope components (e.g., doors, windows, and insulation) are also subject to individual caps and minimum efficiency requirements.

What specific energy efficiency improvements qualify?

The modified and expanded 25C credit offers a "menu" of choices for the homeowner, each with their own minimum efficiencies and individual credit limits. The below chart lists qualified appliances and envelope components eligible for the credit beginning on January 1, 2023:

Property or improvement	Max Amt	Minimum efficiency & other requirements
Oil furnace or hot water boiler	Up to $600	**2023 - 2026:** *2021 Energy Star*® and certified B20 compatible **2027 – 2032:** 90 AFUE and certified B50 compatible
Gas furnace or hot water boiler	Up to $600	CEE highest efficiency tier (not including advanced tier) for year placed into service*
Oil or gas water heater	Up to $600	CEE highest efficiency tier (not including advanced tier) for year placed into service*
Electric or Natural Gas Heat Pump	Up to $2,000	CEE highest efficiency tier (not including advanced tier) for year placed into service*
Biomass stove	Up to $2,000	Thermal efficiency rating of at least 75 percent
Central air conditioner	Up to $600	CEE highest efficiency tier (not including advanced tier) for year placed into service*
Electric panel upgrades	Up to $600	Must be needed for other efficiency improvements, such as the installation of a qualified air conditioner or heat pump, and be upgraded to a load capacity of at least 200 amps
Window or skylight	Up to $600	*Energy Star*® Most Efficient for year placed into service
Exterior door	Up to $250 (or $500 for multiple)	Must meet applicable *Energy Star*® requirements for year placed into service
Insulation material or system (includes air sealing)	Up to $1,200	Must meet prescriptive criteria from most recent *International Energy Conservation Code*
Home energy audit	Up to $150	Must be conducted in a principal residence and include an inspection and detailed written report that identifies the most significant and cost-effective energy efficiency improvements

Who establishes minimum efficiency requirements for qualified appliances?

Congress has tasked the Consortium for Energy Efficiency (CEE) with determining eligibility of HVAC appliances *other than* oil-fired furnaces and boilers and wood stoves. The CEE is a non-profit organization comprised of U.S. and Canadian gas and electric efficiency program administrators that publishes an annual list of appliances and equipment that meet its efficiency performance criteria. To be eligible for the 25C credit, gas furnaces and boilers, central air conditioners, and heat pumps must meet the CEE's specified efficiency criteria for the tax year in which it is placed into service. Because the CEE does not typically establish efficiencies for oilheat systems, NEFI convinced Congress to define separate eligibility requirements for these systems. When in doubt consult with your equipment supplier or the manufacturer regarding 25C eligibility.

How does an oilheat system qualify for the tax credit?

As noted in the chart above, an oilheat furnace or boiler qualifies if:

- It is installed between January 1, 2023 and December 31, 2026 and meets a minimum of *2021 Energy Star®* standards, which is 87 AFUE for boilers and 85 AFUE for furnaces. The system must also be certified by the original equipment manufacturer for use with fuel containing a minimum of 20% biofuel.
- It is installed between January 1, 2027 and December 31, 2032 and meets a minimum of 90 AFUE. It must also be certified by the original equipment manufacturer for use with fuel containing a minimum of 50% biofuel.

As noted previously, the total amount of the 25C credit taken by a homeowner for the installation of a qualified oilheat system must not exceed $600.

Does the IRA require an oilheat customer to use biofuel blends to qualify?

No. As stated above, the IRA simply requires oil-fired furnaces and boilers to be certified by manufacturers as *suitable for use with* biofuel blends. This is defined as biodiesel, renewable diesel, or second-generation (i.e., cellulosic) biofuels.

Are labor costs included?

When calculating the value of the credit, a taxpayer may include labor expenses including costs for onsite preparation, assembly, and original installation but *only* for qualified appliance and equipment installations. Labor expenses related to the installation of qualified building envelope components (e.g., doors, windows, and insulation) are *excluded* per the IRS.

What types of homes qualify?

The home must be located within the United States and personally used as a residence by the taxpayer. In the case of envelope efficiency components such as doors and windows, the home must be a principal residence owned by the taxpayer. Improvements to a second home may qualify if it is used as a residence by the taxpayer. Landlords are *prohibited* from seeking a credit for improvements made to a home they rent and do not also use as a residence.

Do multifamily homes qualify?

Multifamily homes are often rental properties or apartment buildings and are ineligible for the 25C credit. However, if four or more stories tall, they may qualify for the tax deduction for commercial building improvements under Section 179D of the tax code, which is also greatly expanded by the new law. IRS guidance on 179D is forthcoming.

Who receives the 25C tax credit?

A homeowner or renter is eligible to receive the credit for any qualified improvements made to a principal residence in a tax year. It is received through his or her tax return.

Is there an income requirement?

No, but the homeowner or renter will need taxable income to qualify. The 25C credit is "non-refundable," which means the taxpayer must have tax liability to receive it. If the taxpayer does not have enough tax liability to receive the full value of the credit, he or she *may not* carry forward the unclaimed amount to reduce tax liability in future years.

How does the taxpayer apply for the credit?

Via his or her tax return. The taxpayer will use IRS Form 5695 to apply. The IRS will publish an updated version of Form 5695, which will be made available online here.

Can a taxpayer apply for the credit more than once?

This is an annual credit with no lifetime limit. A taxpayer may receive up to the total value of the credit for eligible home improvements *each year* from 2023 through 2032.

What documentation is needed for the taxpayer's records?

Taxpayers should receive a certification of product eligibility issued by the original equipment manufacturer (OEM). The IRS encourages taxpayers to keep this certification on file but does not require it be attached to their annual tax returns.[ii] Beginning January 1, 2025, the IRS will require taxpayers to include a "qualified product identification number" for each qualified appliance or envelope component (e.g., doors, windows, and insulation) when claiming the 25C credit. These numbers will be assigned by qualified OEMs.

How long is the credit available?

The 25C tax credit (as modified by the IRA) is available for any qualified home improvements made in a tax year between January 1, 2023, and December 31, 2032. The credit is currently set to expire on January 1, 2033.

Can the 25C credit be combined with other tax credits and rebate programs?

Absolutely. It can be combined with state or local tax incentives, state rebate programs, or rebates offered by the equipment manufacturer or organizations such as the National Oilheat Research Alliance (NORA). In most cases, however, the IRS will require the taxpayer to deduct the rebate value from the total cost of purchasing or installing qualified property when calculating the value of the 25C tax credit.

What is required to receive up to $150 for a home energy audit?

The IRS requires the auditor to provide a written report to the homeowner that identifies the most significant and cost-effective energy efficiency improvements for that dwelling, including an estimate of the energy and cost savings for each improvement. Renters are also eligible and may wish to conduct an audit to provide a list of recommended improvements to their landlord. The value is 30% of the cost of the qualified energy audit, up to $150. This amount must be included when calculating the total value of the credit, which may not exceed $1,200. The IRS has not yet specified what certifications will be required of the auditor, however. Additional guidance is expected.

Can you provide an example of a qualified home improvement project under 25C?

John Smith wants to begin making home improvements to lower his heating costs. After talking with his fuel dealer, John decides to upgrade his oil-fired boiler to a newer model designed for use with renewable fuels. This qualifies him for a federal tax credit worth up to $600. He also decides to upgrade his electric panel to allow for the installation of an electric heat pump that will provide additional comfort in his new closed-in sun deck. The panel upgrade qualifies for $600, bringing his total credit to $1,200. The heat pump qualifies for an *additional* $2,000. Assuming all of this work meets IRS requirements and was done in the same tax year, John can apply for a total credit of $3,200 from the IRS.

Where can I find additional information about the 25C credit?

The tax credit is codified at 26 U.S.C. § 25C. Additional information, including other examples of qualified home improvement projects, can be found in the more comprehensive list of frequently asked questions published by the IRS, available here. You may also contact the IRS with questions at (800) 829-1040 or consult with a qualified tax professional.

2. Residential Clean Energy Tax Credit

What is the residential clean energy tax credit?

Like the 25C credit above, the IRA substantially modifies and expands the federal tax credit for installation of residential "clean energy" priority and extends it for ten years. This federal tax credit, often referred to simply as "the 25D credit," is designed to encourage homeowners to invest in "zero-emission" heating and cooling technologies. This includes qualified solar panels, solar water heaters, fuel cells, residential wind turbines, and geothermal heat pumps. The new law also expands the 25D credit to include qualified residential battery storage technology beginning in 2023.

How much is the tax credit worth?

The credit is valued at 30% for qualifying expenditures. The credit is phased out beginning in 2033 and is eliminated by January 1, 2035:

Tax year(s)	Credit Value
2022 – 2032	30%
2033	26%
2034	22%
2035 and later	0%

Unlike the Section 25C credit for home efficiency improvements, the 25D credit for "clean energy" installations does not have an overall dollar limit or cap. However, the value of the credit for a fuel cell is limited to $500 for each half kilowatt of the fuel cells' capacity. The IRS has further clarified that, in the case of a residence or dwelling unit that is jointly occupied by two or more individuals, the maximum amount of such fuel cell property expenditures used to calculate the tax credit amount for all individuals living in that dwelling unit during a calendar year is limited to $1,667 per half kilowatt of capacity.

Are labor costs included?

Yes, the taxpayer may include any related labor expenses when calculating the value of the credit. This includes onsite preparation, assembly, or original installation.

What types of homes qualify?

The home must be located within the United States and personally used as a residence by the taxpayer. Like the 25C credit, improvements to a second home may qualify if it is used as a residence by the taxpayer. Landlords are prohibited from seeking a 25D credit for the installation of qualified "clean energy" technology in a home they rent and do not also use as a residence.

Are biomass heating systems eligible?

No. The IRA moved "woody biomass" appliance (e.g., wood and pellet stoves) to the tax credit offered under Section 25C of the Internal Revenue Code effective January 1, 2023. Unfortunately, liquid biomass appliances (i.e., those designed for use with biofuels) are also ineligible for the 25D credit. However, under the IRA, qualified oilheat systems designed for use with biofuels are eligible for the 25C tax credit, subject to certain limitations. See Part I of this FAQ for details on biomass appliance eligibility for the 25C credit.

What are the requirements for each type of eligible technology?

The technology must meet the following criteria to be considered eligible:

Property type	Requirements
Solar Electric	Defined as any property which uses solar energy to generate electricity for a particular residence, such as solar PV
Solar Water Heater	Must be certified for performance by the non-profit Solar Rating Certification Corporation or a comparable entity that is authorized by the resident's state government
Fuel Cell	Must have a nameplate capacity of at least 0.5 kilowatt of electricity using an electrochemical or electromechanical process, or one kilowatt in the case of a fuel cell with a linear generator assembly. Must also have an electricity-only generation efficiency greater than 30 percent.
Small Wind Turbine	Defined as any property which uses a wind turbine to generate electricity for a particular residence
Geothermal Heat Pump	Must meet requirements of the *Energy Star* program
Battery storage	Must have a capacity of 3 kilowatt-hours or greater

Who receives the 25D tax credit?

A homeowner or renter is eligible to receive the credit for any qualified improvements made to a principal residence in a tax year. It is received through his or her tax return.

Is there an income requirement?

No, but the homeowner or renter will need taxable income to qualify. The 25D credit is "non-refundable," which means this person must have tax liability to receive it. Note that the IRS *will allow* the taxpayer to carry forward any unclaimed portion of the 25D credit for which they are eligible to reduce tax liability in future years.

How does the taxpayer apply for the 25D credit?

Via his or her tax return. The taxpayer will use IRS Form 5695 to apply. The IRS will publish an updated version of Form 5695, which will be made available online here.

What documentation is needed for the taxpayer's records?

Taxpayers should receive a certification of product eligibility issued by the original equipment manufacturer (OEM). The IRS encourages taxpayers to keep this certification on file but does not require it be attached to their annual tax returns.[ii]

How long is the credit available?
The IRA-modified 25D credit is available for qualified property placed into service in a tax year between January 1, 2022 through December 31, 2034. Qualified battery storage is eligible beginning January 1, 2023. The credit expires on January 1, 2035.

Where can I find additional information about the 25D credit?
The tax credit is codified at 26 U.S.C. § 25D. For additional information, see the more comprehensive list of frequently asked questions published by the IRS, available here. Updated guidance for homeowners interested using the credit for solar panels has been published by the U.S. Department of Energy, available here. You may also contact the IRS with questions at (800) 829-1040 or consult with a qualified tax professional.

3. Home Energy Rebate Programs

What are the home energy rebates?
The IRA provides $8.8 billion for the creation of state-administered home energy rebate programs. Specifically, these funds are split between two very different incentives (details on each of these rebate programs are provided later in this document):

- $4.3 billion to state governments for the creation of technology-neutral **home efficiency rebate programs** offering up to $4,000 per home for proven whole-home energy savings. The value is based on percentage (%) of energy savings realized and the rebate amounts are *doubled* for lower-income homes.
- $4.275 billion to state governments, with an additional $225 million to tribal governments, for the creation of **home electrification rebate programs** offering up to $14,000 per home for the installation of all-electric appliances. The value of the credit varies based on household income and what appliances are installed.

When will these rebates be available to consumers?
Late 2023 or sometime in 2024, at the earliest. The U.S. Department of Energy (DOE) must first establish guidance on how states should set-up these rebate programs or integrate them into existing programs. Each state must then develop a plan in keeping with this guidance and submit it to the DOE for review. Upon approval, states will be awarded funds under the IRA in the form of a grant. **NEFI members should refrain from marketing rebates until states have formally set up these programs.** In the meantime, we encourage HVAC service companies to actively educate customers regarding availability home efficiency tax credits mentioned earlier in this document.

Will these rebates be available to homeowners retroactively?
That is unlikely, given that states have not yet defined the parameters of their individual rebate programs. We await the release of DOE guidance for additional information.

How much funding will each state receive?
Once their plans for creating or integrating the electrification rebate programs are approved by the DOE, states will be awarded funds in the form of a grant. On November 2, 2022, the Biden Administration published an estimate of how much each state is expected to receive for these rebate programs, available here. States may use up to 20% of funds received for administrative costs related to these rebate programs.

Can states use these funds for marketing or education?
While states may use up to 20% of these funds for administrative purposes, there is no explicit set-aside for marketing or consumer education. However, the IRA provides $200 million to states for the training and education of contractors involved in home efficiency retrofits and installation of all-electric appliances that qualify under these rebate programs.

What happens when states run out of funding?
State rebate programs that run out funds will likely be suspended until additional funds are made available. The authors of the IRA (namely, Democrats) want to shore-up funding through additional appropriations in the future. That is unlikely to happen with control of Congress divided. Alternately, states could fund these rebates themselves.

What if a state fails to establish these programs?
The IRA requires any state funds not disbursed by the U.S. Department of Energy to be reallocated to states with established rebate programs within two years.

Can a consumer apply for both rebates?
Yes, but not for the same project.

Can they be combined with other rebate programs and tax incentives?
Yes, they may be combined with other non-governmental rebates and state tax incentives, where permitted. Also, there is nothing in the law that prevents a taxpayer from applying for *both* the home energy rebate programs *and* home energy tax credits under the IRA. We await additional guidance from the IRS and DOE on this matter.

When does the homeowner receive the rebate?
The new law intends these rebates to be *point of sale*. Details on how this will work will not be available until guidance is issued by the U.S. Department of Energy and may vary from state-to-state depending on how these programs are implemented.

Who issues the rebate?
In most cases, these rebates will be issued by state energy offices. However, the law also allows for an energy utility or commercial, nonprofit, or government entity to serve as a "rebate aggregator" for a group of homes and/or multifamily buildings.

Where can I find more information on these rebates?
Below you will find more specific information on each of the two rebate programs created by the IRA. Note, however, that many details on how these programs will be implemented are simply unavailable at this time. We await guidance from the U.S. Department of Energy on how states are to create and administer these programs. Each state must then submit plans to the DOE on how rebate programs will be deployed in their states or integrated into existing programs. Here are some useful links for additional information:

- Home efficiency rebates are codified at 42 U.S.C. § 18795
- Home electrification rebates are codified at 42 U.S. Code § 18795a
- U.S. Department of Energy FAQ on the Rebate Programs

Action Alert: The DOE published a request for information from the public on how these programs should be deployed. Input received will be used to create a guidance document for state agencies. See docket (FOA) #DE-FOA-0002981 on the EERE Exchange Website for more information or click here to fill-out the DOE's online questionnaire. **The deadline for completion of the questionnaire is 8:00pm ET on Friday March 3, 2023.**

3a. Home Efficiency Rebates

What is the value of the home efficiency rebate?
The value of a home efficiency rebate is based on the proven efficiency savings and household income listed in the below table:

Proven Energy Savings	Rebate amount per dwelling unit (Above 80% local median income)	Rebate amount per dwelling unit (Less than 80% local median income)
15% to 19%	Based on per kilowatt or equivalent savings calculated using a rate of $2,000 for 20% proven energy savings	Based on per kilowatt or equivalent savings calculated using a rate of $4,000 for 20% proven energy savings
20% to 34%	50% of project cost up to $2,000 Multifamily buildings capped at $200,000	80% of the project cost, up to $4,000
35% or more	50% of project cost up to $4,000 Multifamily buildings capped at $400,000	80% of the project cost, up to $8,000

Do multifamily homes qualify?
Yes, but they are subject to certain restrictions. In addition to individual caps in the total amount that can be received (as noted in the above chart), multifamily buildings are only eligible for the higher rebate amounts if at least 50% of dwelling units are households earning less than 80% of local median income.

Does the contractor receive a rebate?
Yes, but only for certain homes. The IRA provides that contractors receive a $200 rebate from the state for any qualified work performed on a home located in an "underserved community" (i.e., low-income or of racial or ethnic minority concentration).

How is energy savings calculated?
We will not know the details until the federal government publishes program guidelines and the states submit implementation plans. The IRA requires the U.S. Department of Energy to establish general procedures for measuring reductions in energy use that are consistent with BPI 2400. States must then detail in their implementation plans how they will document and value these savings based on "time, location, and greenhouse gas emissions and establish requirements for third party verification and certification.

Are any fuels or technologies prohibited?
Not currently. The law intends for home efficiency rebates to be fuel- and technology-neutral. That could change during implementation. We will monitor this process closely.

3b. Home Electrification Rebates

What is the value of the home electrification rebate?
The value of the rebate depends on the type of *Energy Star*® certified all-electric appliances installed or related improvements made to the home (see below):

Qualified property or improvement	Rebate value
Heat pump for space heating or cooling	$8,000
Heat pump water heater	$1,750
Electric stove, cooktop range, or oven, or electric heat pump clothes dryer	$840
Electric load service center upgrade	$4,000
Insulation, air sealing, and ventilation	$1,600
Electric wiring	$2,500

Up to 100% of project costs may be covered for households earning below 80% of local median income (LMI). The amount is limited to 50% of project costs for households earning 80% to 150% of LMI. Households above 150% of LMI are ineligible. **Note, however, the total rebate amount may not exceed $14,000 irrespective of income.**

Are labor costs included?
Up to $500 may be claimed to cover installation costs.

What types of homes qualify?
Both new and existing homes may qualify. In an existing home, the project must replace an existing appliance or install an appliance that did not exist before.

For heat pump installations, does it require the existing system be removed?
The IRA does not appear to require that the existing system be removed when heat pumps are installed. It remains to be seen if this will remain the case in forthcoming U.S. Department of Energy guidance or individual state implementation plans.

For more information contact:
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Thank you!

[i] Information in this FAQ is taken directly from the Inflation Reduction Act (Pub.L.117-169) or guidance documents published by relevant agencies. Relevant links can be found throughout the document.
[ii] See IRS Notices 2006-26, 2009-53 and 2013-70