

# Tax Treatment of Certain Energy Rebate Programs

## Cross References

- Announcement 2024-19

The Inflation Reduction Act of 2022 included two Department of Energy (DOE) programs for whole-house energy savings retrofits and high-efficiency home electrification projects. Under the programs, money is distributed to fund State energy offices to establish rebate programs for owners of residential property for whole-house energy-saving retrofits, and to fund State energy offices and Indian Tribes to establish rebate programs for owners and occupants of residential property for qualified electrification projects.

**Individual taxpayers.** The IRS has recently issued guidance that state a rebate paid to or on behalf of a purchaser pursuant to either of the DOE Home Energy Rebate Programs will be treated as a purchase price adjustment for the purchaser for federal income tax purposes. Any such rebate is, therefore, not includible in the purchaser's gross income.

The purchase price adjustment is an adjustment to the purchaser's basis in the property. For example, if a \$500 rebate is provided at the time of sale of eligible property with a sales price (before the rebate) of \$600, then the purchaser's cost basis in the property is equal to \$100.

Payments of rebate amounts are not subject to information reporting under IRC section 6041.

**Rebates to certain business taxpayers.** Payments of rebate amounts made directly to a business taxpayer, such as a contractor, in connection with the taxpayer's sale of goods or provision of services to a purchaser are not excluded from the business taxpayer's gross income. Accordingly, such rebates are taxable to the business taxpayer. Such rebates may also be subject to information reporting under IRC section 6041.

**Coordination of rebates with energy tax credits.** Starting in 2023, taxpayers can receive a federal tax credit under IRC section 25C of up to 30% of certain qualified expenditures for making energy efficiency improvements to their home (Energy Efficient Home Improvement Credit). The credit is generally limited to an annual cap of \$1,200, with an additional \$2,000 annual cap for improvements that include electric or natural gas heat pumps, electric or natural gas heat pump water heaters, or biomass stoves and boilers.

Taxpayers who receive rebates under the DOE Home Energy Rebate Programs who are also eligible for the Energy Efficient Home Improvement Credit must reduce the amount of qualified expenditures used to calculate the credit by the amount of the rebate. For example, if a taxpayer purchases an eligible product for \$400 and receives a \$100 rebate for this purchase, the taxpayer may claim a 30% credit with respect to the remaining \$300 of qualifying expenditures, resulting in a \$90 credit ( $\$300 \times 30\%$ ).

In addition, if a taxpayer purchases items eligible for both the rebate and the credit, the taxpayer may make a pro rata allocation of amounts received as rebates to individually itemized expenditures as a share of the total project cost in determining the amounts paid for such items under IRC section 25C.

For example, if a \$2,000 rebate for a whole-house energy-saving retrofit is proportionately allocated 60% to \$3,000 in qualifying expenditures for a heat pump (\$1,200 of the \$2,000 rebate), and 40% to \$2,000 in qualifying expenditures for insulation (\$800 of the \$2,000 rebate), the taxpayer may treat the amount paid for the heat pump as \$1,800 (\$3,000 less the \$1,200 allocated portion of the rebate) and \$1,200 for the insulation (\$2,000 less the \$800 allocated portion of the rebate) for purposes of the Energy Efficient Home Improvement Credit.