

Updated FAQs About Energy Efficient Home Improvements and Residential Clean Energy Property Credits

Cross References

- FS-2024-15, April 2024

The IRS has updated its frequently asked questions (FAQs) that address the tax treatment of the new Energy Efficient Home Improvement Credit and the Residential Clean Energy Property Credit. This update is in light of the recently issued guidance in Announcement 2024-19 that addresses the federal income tax treatment when taxpayers receive rebates for the purchase of energy efficient property.

The updated FAQ is question 4 under General Questions, and reads as follows:

Q4. What happens to the Energy Efficient Home Improvement Credit or the Residential Clean Energy Property Credit if a government or a public utility provides a subsidy (for example, an incentive, grant, or rebate) to a taxpayer to purchase or install a qualifying property? (Updated April 17, 2024)

A4. The answer depends on the facts that apply to each taxpayer.

- **Public utility.** Generally, if a public utility provides (directly or indirectly) a subsidy to a customer for the purchase or installation of any energy conservation measure, the value of the subsidy is not included in the customer's gross income. But as a result, the taxpayer may not claim a credit for the amount of the subsidy that is used to purchase or install qualifying property. This rule applies whether a third-party contractor receives a subsidy on behalf of the taxpayer or the taxpayer receives the subsidy directly. However, payments from a public utility to compensate for excess generated electricity not consumed by the taxpayer but delivered to the utility's electrical grid (for example, net metering credits) are not subsidies for installing qualifying property and do not affect the taxpayer's credit qualification or amounts.
- **Rebates.** Rebates generally represent a reduction in the purchase price or cost of property, and the taxpayer must reduce the amount of the expenditure on which the taxpayer calculates the tax credit by the amount of the rebate. In general, rebates are nontaxable purchase price reductions if they are based on or related to the cost of the property; received from someone having a reasonable connection to the sale of the property (for example, the manufacturer, distributor, or seller/installer) and do not represent payment or compensation for services provided by the taxpayer. The IRS will treat as rebates amounts paid for the purchase of energy efficient property and improvements as part of the Department of Energy's "Home Energy Rebate Programs" under sections 50121 and 50122 of the IRA. See Announcement 2024-19.

- ***State energy-efficiency incentives.*** A state may provide incentives to encourage taxpayers to purchase property that also qualifies for an Energy Efficient Home Improvement Credit or the Residential Clean Energy Property Credit. Generally, a taxpayer is not required to reduce the purchase price or cost of property acquired with a governmental energy-efficiency incentive unless that incentive qualifies as a rebate under federal income tax law. While many states label their energy-efficiency incentives as “rebates,” these incentives may not qualify as rebates or purchase-price adjustments under federal income tax law and could be included in the taxpayer’s gross income for federal income tax purposes.