

Energy Efficient Home Improvement Credit

Cross References

- FS-2025-01, January 2025
- IRC §25C

The IRS recently updated its frequently asked questions (FAQs) on the Energy Efficient Home Improvement Credit. These updated FAQs supersede earlier FAQs that were issued in 2024.

General overview. Through December 31, 2022, the Energy Efficient Home Improvement Credit had a lifetime credit limit of \$500. For years after 2022, the credit is increased, with an annual credit of generally up to \$1,200 (per taxpayer per taxable year), but with no lifetime credit limit. Beginning January 1, 2023, the amount of the credit is equal to 30% of the sum of amounts paid by the taxpayer during the taxable year for:

- 1) Qualified energy efficiency improvements installed during the taxable year,
- 2) Residential energy property expenditures, and
- 3) Home energy audits.

There are limits on the allowable annual credit and on the amount of credit for certain types of expenditures. The credit is allowed for qualifying property placed in service on or after January 1, 2023, and before January 1, 2033.

Qualifying expenditures and credit amount.

Q1. What home improvements are eligible for the credit, and how much is the credit?

A1. The following energy efficient home improvements are eligible for the credit. The law divides the items eligible for the credit into three categories, each of which includes credit caps:

- 1) "Qualified energy efficiency improvements" consisting of certain "energy efficient building envelope component[s]" that satisfy Energy efficiency requirements and consist of:
 - Exterior doors (30% of costs up to \$250 per door, up to a total of \$500 if multiple doors are installed),
 - Exterior windows and skylights (30% of costs up to \$600), and
 - Insulation materials or systems and air sealing materials or systems (30% of costs up to \$1,200).
- 2) "Residential energy property expenditures" (30% of costs, including certain labor) that satisfy Energy efficiency requirements and consist of:
 - Property subject to a \$600 cap per item:
 - Central air conditioners,
 - Natural gas, propane, or oil water heaters,
 - Natural gas, propane, or oil furnaces or hot water boilers,
 - Oil furnaces or hot water boilers meeting certain requirements,

- Improvements to or replacements of panelboards, sub-panelboards, branch circuits, or feeders that are installed in conjunction with any qualified energy efficiency improvements, or any other qualified energy property for which an Energy Efficient Home Improvement Credit is allowed, and enable its installation and use (“enabling property”).
 - Property not subject to the \$600 cap:
 - Electric or natural gas heat pump water heaters,
 - Electric or natural gas heat pumps,
 - Biomass stoves or boilers meeting certain requirements.
- 3) Home energy audits (credit is 30% of the cost with a cap of \$150).

Q2. Is there a limit on the total amount of the credit that a taxpayer can claim?

A2. Yes. The credit is generally limited to \$1,200 for each taxpayer for any taxable year, with the exception of a \$2,000 limit per taxpayer per taxable year for certain property.

Within the \$1,200 annual limitation, there are further annual limitations for certain property:

- Exterior doors are capped at \$250 per door, up to a total of \$500 if multiple doors are installed.
- Exterior windows and skylights are capped at \$600 in aggregate.
- Residential energy property expenditures for qualified energy property are capped at \$600 per item of property (except for heat pump water heaters and heat pumps, and biomass stoves or boilers, which are subject to the limitation discussed below).
- Home energy audits are capped at \$150.

The credit is limited to \$2,000 for each taxpayer for any taxable year in the aggregate for electric or natural gas heat pump water heaters, electric or natural gas heat pumps, and biomass stoves or boilers.

Thus, a taxpayer could claim a total credit of \$3,200, if the taxpayer had sufficient expenditures in categories of property (or a home energy audit) subject to the \$1,200 limitation and in categories of property subject to the \$2,000 limitation.

Q3. Can taxpayers claim the credit for qualified property they install themselves?

A3. Yes. However, qualified property performs optimally when installed by qualified professionals.

Q4. Are expenditures for window treatments, such as blinds, shutters, or tinting, eligible for the credit?

A4. No. An energy efficient building envelope component that is not an exterior window, exterior skylight, or exterior door must meet the prescriptive criteria for such component established by the most recent International Energy Conservation Code (IECC) standard in effect as of the beginning of the calendar year that is 2 years prior to the calendar year in which such component is placed in service. Window treatments do not meet the prescriptive criteria of the IECC. Window treatments also do not qualify under either of the other two categories of property eligible for the credit.

Energy efficiency requirements.

Q1. What energy efficiency requirements must be met to qualify for the credit?

A1. To qualify for the credit, certain property must meet certain energy efficiency requirements:

- Exterior windows and skylights must meet Energy Star most efficient certification requirements. See <https://www.energystar.gov/about/federal-tax-credits/windows-skylights> for details.
- Exterior doors must meet applicable Energy Star requirements. See <https://www.energystar.gov/about/federal-tax-credits/exterior-doors> for details.
- Insulation materials or systems (including air sealing materials or systems) must meet the prescriptive criteria established by the International Energy Conservation Code (IECC) standard in effect as of the beginning of the calendar year that is 2 years prior to the calendar year in which such materials or systems are placed in service. For example, materials or systems placed in service in 2025 must meet the criteria established by the IECC standard in effect as of January 1, 2023, to qualify for the credit in 2025.
- Electric or natural gas heat pump water heaters, electric or natural gas heat pumps, central air conditioners, natural gas, propane, or oil water heaters, natural gas, propane, or oil furnaces or hot water boilers, must meet or exceed the highest efficiency tier (not including any advanced tier) established by the Consortium for Energy Efficiency (CEE) that is in effect as of the beginning of the calendar year in which the property is placed in service. See <https://www.regulations.doe.gov/product-lookup> for information on the rated performance of equipment. For split system heat pumps with both an indoor and outdoor component to be eligible for the credit, the entire system (indoor and outdoor components) must be installed and must meet the applicable CEE requirements. See <https://www.regulations.doe.gov/product-lookup> for information on the rated performance of certain combinations of indoor and outdoor components.
- Biomass stoves or boilers must have a thermal efficiency rating of at least 75% (measured by the higher heating value of the fuel).
- Oil furnaces or hot water boilers must meet or exceed 2021 Energy Star efficiency criteria and be rated by the manufacturer for use with fuel blends at least 20% of the volume of which consists of an eligible fuel (if placed in service after December 31, 2022, and before January 1, 2027), or must achieve an annual fuel efficiency rate of not less than 90 and be rated by the manufacturer for use with fuel blends at least 50% of the volume of which consists of an eligible fuel (if placed in service after December 31, 2026). See <https://www.energystar.gov/about/federal-tax-credits/furnaces-natural-gas-oil> and <https://www.energystar.gov/about/federal-tax-credits/hot-water-boilers-natural-gas-propane-oil> for more information.
- Improvements to, or replacement of, panelboards, sub-panelboards, branch circuits, or feeders, must be installed in a manner consistent with the National Electric Code, have a load capacity of not less than 200 amps, be installed in conjunction with any qualified energy efficiency improvements, or any other qualified energy property for which an Energy Efficient Home Improvement Credit is allowed, and enable its installation and use.
- Home Energy Audits must meet the requirements of Notice 2023-59.

Q2. Does an energy efficient building envelope component consisting of an insulation material or system have to meet the criteria established by the International Energy Conservation Code (IECC)?

A2. Yes. An energy efficient building envelope component includes any insulation material or system, including air sealing material or system, that is specifically and primarily designed to reduce the heat loss or gain of a dwelling unit when installed in or on such dwelling unit, provided that it meets the prescriptive criteria for such component established by the most recent IECC standard in effect as of the beginning of the calendar year that is 2 years prior to the calendar year in which such component is placed in service. The 2021 IECC is the applicable standard for insulation materials placed in service in calendar years 2024 and 2025. Within the 2021 IECC, the following sections address different components that affect energy efficiency:

- Section R402.2 Specific insulation requirements.
- Section R402.4 Air leakage.
- Section R402.4.1.1 Installation.
- Table R402.4.1.1 Components of the building thermal envelope and air barrier criteria.

It is not necessary to install all energy efficient building envelope components at the same time to meet the 2021 IECC prescriptive criteria. For instance, a taxpayer may choose to install the air sealing material in the attic in one year, and insulation material in the next year. To be eligible energy efficient building envelope components for purposes of the credit, however, the materials installed in each year must meet the applicable IECC prescriptive criteria for such materials. Meeting a whole building or dwelling unit air leakage rate is not required to meet the 2021 IECC prescriptive criteria for air sealing materials.

Q3. Where can taxpayers find information about the IECC?

A3. Taxpayers can find more information about the insulation and air sealing requirements of the 2021 IECC, as well as further details about ways to identify opportunities for energy savings with insulation and air sealing at the Department of Energy webpage: <https://www.energy.gov/eere/buildings/articles/energy-efficient-home-improvement-credit-insulation-and-air-sealing>. Past and current IECC standards are available under the “I-Codes” tab at: <https://codes.iccsafe.org/>.

Qualifying residence.

Q1. What type of residence is required for the credit? For example, is the credit available for a home rented by the taxpayer or for a second home?

A1. A taxpayer claiming the credit for exterior windows or skylights, exterior doors, and insulation materials or systems (including air sealing materials or systems) must have installed such property in a home located in the United States that is owned and used by the taxpayer as the taxpayer’s principal residence. Due to the home ownership requirement, a taxpayer who rents the home in which such property is installed would not be entitled to the credit. Due to the principal residence requirement, a taxpayer who installs such property in the taxpayer’s second home would not be entitled to the credit.

A taxpayer claiming the credit for electric or natural gas heat pump water heaters; electric or natural gas heat pumps; central air conditioners; natural gas, propane, or oil water heaters; natural gas, propane, or oil furnaces or hot water boilers; biomass stoves or boilers;

oil furnaces or hot water boilers; and improvements to, or replacements of, panelboards, sub-panelboards, branch circuits, or feeders must have installed such property in a home located in the United States and used as a residence by the taxpayer. In this case, the taxpayer may rent the home in which such property is installed, and such property may be installed in the taxpayer's second home.

In the case of a taxpayer claiming the credit for a home energy audit, the home must be located in the United States and be owned or used by the taxpayer as the taxpayer's principal residence. A taxpayer may claim the credit for a home energy audit of a home the taxpayer rents. Due to the principal residence requirement, a taxpayer may not claim the credit for a home energy audit of the taxpayer's second home.

The credit is never available for homes not used as a residence by the taxpayer. For example, landlords can never use the credit for homes they rent out but do not use as a residence themselves.

Q2. Can a taxpayer claim the credit for expenditures incurred for an existing home? What about a newly constructed home?

A2. A taxpayer can claim the credit only for qualifying expenditures incurred for an existing home, or for an addition to or renovation of an existing home, but not for a newly constructed home.

Q3. May a taxpayer claim the credit if the qualified property is also used for business purposes, such as in a dwelling unit in which the taxpayer also conducts a business?

A3. It depends. If a taxpayer uses property solely for business purposes, the property will not qualify for the credit. A taxpayer who qualifies for the credit and whose use of the qualified property for business purposes is not more than 20% of the total use may claim the full credit. A taxpayer who otherwise qualifies for the credit, but whose use of the qualified property for business purposes exceeds 20%, must calculate the amount of credit by including only that portion of the expenditures for the property that are properly allocable to use for nonbusiness purposes.

Q4. How should an individual taxpayer residing in a co-op or condominium building determine that taxpayer's proportionate share of expenditures for qualified property when the expenditures were paid by the co-op or condominium board or management association?

A4. A taxpayer may rely on the relevant rules provided in the IRC section 25C proposed regulations. The relevant rules are summarized below:

- **Co-ops:** An individual tenant-stockholder in a cooperative housing corporation (as those terms are defined in IRC section 216) will be treated as having paid or incurred the taxpayer's proportionate share of any amounts paid or incurred by such corporation for qualified property. Tenant-stockholders that are not individuals cannot claim the credit.

Example

X, a cooperative housing corporation, has 10 tenant-stockholders who are all individuals. Each tenant-stockholder owns 1 share of stock. In taxable year 2024, X pays \$2,000 for a new exterior door for the building and has no other expenditures eligible for the credit. Pursuant to the IRC section 25C proposed regulations, each tenant-stockholder will be treated as having paid the tenant-stockholder's proportionate share of the expenditure for the exterior door. Under IRC section 216(b)(3), the proportionate share is the proportion that the stock of the cooperative housing corporation owned by the tenant-stockholder is to the total outstanding stock of the corporation (including any stock held by the corporation). Each tenant-stockholder will be treated as having paid \$200 ($\$2,000 \times (1 \text{ share of stock per tenant-stockholder} / 10 \text{ total shares of stock})$) for the exterior door. Assuming all other applicable requirements of IRC section 25C are met, for taxable year 2024, each tenant-stockholder is entitled to a \$60 ($\200×0.3) credit for the exterior door.

- **Condos:** A taxpayer who is a member of a condominium management association for a dwelling unit that the taxpayer owns will be treated as having paid or incurred the taxpayer's proportionate share of any expenditures for such association for qualified property. Such proportionate share may be determined using any reasonable method by the condominium management association's governing body. The governing body must maintain a consistent method for determining the proportionate share of association expenditures, and should maintain records to document such determinations.

Example

Y, a condominium, has 50 resident owners. In taxable year 2024, Y pays \$2,000 for a new exterior door for the building and has no other expenditures eligible for the credit. The organizational documents for Y include a Declaration that lists each resident's percentage interest in common elements based on the proportion of square footage of each dwelling unit to the total square footage of all dwelling units in the building. The Y Declaration shows that Z, an individual dwelling unit owner in Y, has a 10% interest in the common elements. Pursuant to the IRC section 25C proposed regulations, the Y Board of Directors can determine that Z's proportionate share of the expenditure for the exterior door is \$200 ($\$2,000 \times 0.1$). Z will be treated as having paid \$200 in taxable year 2024 for the exterior door for purposes of IRC section 25C. Assuming all other applicable requirements of IRC section 25C have been met, Z's credit for taxable year 2024 for the exterior door will be \$60 ($\200×0.3).

Labor costs.

Q1. May a taxpayer include labor costs when calculating the credit?

A1. A taxpayer may include labor costs only for certain expenditures.

- A taxpayer may include in residential energy property expenditures the labor costs properly allocable to the on site preparation, assembly, or original installation of qualified energy property (electric or natural gas heat pump water heaters; electric or natural gas heat pumps; central air conditioners; natural gas, propane, or oil water heaters; natural gas, propane, or oil furnaces or hot water boilers; biomass stoves or boilers; oil furnaces or hot water boilers; and improvements to, or replacements of, panelboards, sub-panelboards, branch circuits, or feeders).
- A taxpayer may not include the labor costs for qualified energy efficiency improvements (exterior windows or skylights; exterior doors; and insulation materials or systems (including air sealing materials or systems)).

Timing of credit.

Q1. May a taxpayer carry forward an unused credit to a later taxable year?

A1. No. A taxpayer may not carry the credit forward. Thus, if a taxpayer does not have sufficient tax liability to claim all or a portion of the credit for a taxable year, the unused amount of the credit may never be claimed.

Q2. How long does a taxpayer have to claim the credit?

A2. The credit is allowed for a taxable year for certain amounts a taxpayer pays or incurs during such taxable year. For example, assuming all other requirements have been met for the credit, taxpayers that incur qualifying expenses in taxable year 2025 may claim the credit on their tax returns filed for taxable year 2025.

Q3. Can a taxpayer who did not claim the credit on a previously filed tax return amend the return to claim the credit?

A3. Yes. Generally, to claim a refund, a taxpayer must file an amended return within 3 years after the date the original return was filed, or 2 years after the date the tax was paid, whichever is later.

Qualified manufacturers.

Q1. What is a qualified manufacturer (QM) and does a manufacturer need to register with the IRS?

A1. A qualified manufacturer means any manufacturer of specified property that enters into an agreement with the IRS that provides, generally, that such manufacturer will:

- 1) Assign a product identification number to each item of specified property produced by such manufacturer, using a methodology that will ensure that such number (including any alphanumeric) is unique to each such item (PIN assignment requirement),
- 2) Label such item with such PIN (PIN labeling requirement), and
- 3) Make periodic written reports to the IRS of the PINs so assigned (periodic written report requirement).

If a manufacturer wants to be considered a QM and produce specified property that would be eligible for the credit, it must register with the IRS through the IRS Energy Credits Online Portal. See Revenue Procedure 2024-31 and Publication 6046, *Energy Efficient Home Improvement Credit Qualified Manufacturers: Registration Guide*, for more information.

Q2. Does a manufacturer need to register with the IRS as a QM for the manufacturer's specified property to be eligible for the credit?

A2. Yes. To be eligible for the credit for any item of specified property placed in service after December 31, 2024, the specified property must be produced by a QM and the taxpayer must include a qualified product identification number (PIN) on the taxpayer's tax return. Specified property means qualified energy property and any property described in IRC section 25C(3)(B) (exterior windows, including skylights) or (C) (exterior doors). See Revenue Procedure 2024-31 for details.

Q3. When will the IRS Energy Credits Online Portal be available for manufacturers to register to become QMs? Are there registration deadlines for 2024?

A3. The IRS Energy Credits Online Portal will be available for manufacturers to register as QMs for the credit in early 2025. Please see IRS.gov for the latest information. Any manufacturer that submits its QM Registration Application and Agreement by April 30, 2025, will be deemed to have been a QM as of December 31, 2024, provided that such QM Registration Application and Agreement is validated by the IRS. For these manufacturers deemed to be a QM as of December 31, 2024, any specified property produced by them on or after January 1, 2025, and on or before April 30, 2025, will be deemed to have been produced by a QM. Otherwise, no credit is allowed for any specified property produced by a manufacturer prior to the date that the IRS accepts a manufacturer as a QM.

Q4. How does a QM assign PINs to specified property?

A4. If the IRS accepts a manufacturer's QM Registration Application and Agreement, the IRS will send a certification to the manufacturer's authorized representative through the IRS Energy Credits Online Portal. The IRS also will assign and issue a unique 4-character QM Code to the manufacturer through the IRS Energy Credits Online Portal.

Starting for property placed in service in 2026, QMs must assign a 17-character PIN unique to each item of specified property that requires a PIN. The PIN for each item of specified property is made up of three parts and may contain alphanumeric characters (including the common digits 0 to 9 and capital letters A to Z, other than I or O, but not special characters such as *, &, @, etc.). The first part is a 4-character "QM Code" assigned to the manufacturer by the IRS, the second part is a single-character "Product code" (assigned by the QM in accordance with a list of Product Codes on IRS.gov, on the IRS Energy Credits Online Portal, or in future published guidance) representing character 5 of the PIN, and the third part is a 12-character "Item Number" representing the last 12 characters of the PIN. The Item Number is chosen by the QM, must be unique to each item of specified property produced by the QM, and cannot have leading zeros. QMs report PINs to the IRS using the IRS Energy Credits Online Portal at least quarterly.

Q5. How does a QM provide PINs to taxpayers purchasing specified property?

A5. A QM must label each item of specified property and furnish the PIN to taxpayers in accordance with Revenue Procedure 2024-31. Generally, a QM may choose the method for labeling products, provided that the PIN is furnished to the taxpayer no later than the following dates, depending on when the specified property is placed in service:

- For specified property placed in service on or after January 1, 2025, and before January 1, 2026, (i) when the taxpayer places the specified property in service, (ii) when the taxpayer

requests a PIN from the QM, or (iii) when the manufacturer becomes a QM, whichever is later (for this period just the QM Code is needed, in lieu of a full 17-character PIN described in A3 of this section and in the PIN requirements section),

- For specified property placed in service on or after January 1, 2026, (i) when the taxpayer places the specified property in service, or (ii) when the taxpayer requests a PIN from the QM, whichever is later.

For any specified property produced in calendar year 2025 and placed in service on or after January 1, 2026, and to which only a QM Code has been assigned, the QM must assign and make the full 17-digit PIN available to taxpayers upon request.

Examples of methods a QM might choose to label specified property include adding the PIN to the specified property by affixing a label to it, or etching the PIN on the product itself. Alternatively, a QM may affix a label containing the PIN to the item's packaging, print the PIN directly on the packaging, or include a document containing the PIN inside the item's packaging.

Q6. Does a manufacturer of insulation materials or systems (including air sealing materials or systems) need to register with the IRS to become a QM?

A6. Insulation materials or systems are not specified property. If a manufacturer of insulation materials or systems produces no specified property, it does not need to register with the IRS to become a QM. Only manufacturers of specified property may register with the IRS to become QMs. If a manufacturer of insulation materials or systems also produces other property that is specified property, it must register with the IRS to become a QM in order for such specified property to be eligible for the credit.

Q7. How does a QM meet the periodic written report requirement?

A7. A manufacturer meets the periodic written report requirement by submitting periodic reports (QM Reports) to the IRS electronically through the IRS Energy Credits Online Portal, as provided in Revenue Procedure 2024-31. For items of specified property that leave a QM's control and enter the stream of commerce on or after January 1, 2025, and before January 1, 2026, only one QM Report is required, and a QM must file that report by January 15, 2026.

PIN requirements.

Q1. What is a qualified product identification number (PIN)?

A1. A qualified product identification number (PIN) is 17 characters assigned by a QM to each item of specified property produced by the QM that requires a PIN. For any item of specified property placed in service on or after January 1, 2025, taxpayers must include the PIN of such item on their tax returns. For example, if a taxpayer places in service four eligible external windows, the taxpayer must include the corresponding four PINs on the taxpayer's tax return for the windows for which the taxpayer claims the credit. For specified property placed in service in 2025, taxpayers may use a QM Code (a unique 4-character code assigned to a QM by the IRS) in lieu of a PIN. For enabling property, taxpayers may use a QM Code in lieu of a PIN, regardless of whether the enabling property is placed in service after 2025. See Revenue Procedure 2024-31 for details.

Q2. What types of eligible property require a PIN?

A2. All property eligible for the credit requires a PIN, with the following exceptions:

- Insulation materials or systems (including air sealing materials or systems).
- Enabling property (taxpayers may use a QM Code in lieu of a PIN).

For heat pumps with an indoor and outdoor unit, QMs are only required to assign a PIN to the outdoor unit. Taxpayers who claim the credit for a heat pump must include the PIN from the outdoor unit on their tax returns.

No PIN is required for a home energy audit.

Q3. Does a taxpayer need a PIN to claim the credit?

A3. Yes. For any item of specified property placed in service on or after January 1, 2025, taxpayers must include the PIN of such item on their tax returns. For specified property placed in service in 2025, taxpayers may use a QM Code in lieu of a PIN. A full 17-character PIN is required for specified property placed in service on or after January 1, 2026. For enabling property, taxpayers may use a QM Code in lieu of a PIN, regardless of whether the enabling property is placed in service after 2025.

To claim the credit for enabling property, the enabling property and the associated enabled property (specified property for which the enabled property enables its installation and use) must be installed in the same taxable year. If enabling property and enabled property are installed in consecutive taxable years, taxpayers may treat the enabling property and enabled property as installed in the same taxable year (deemed taxable year), provided that the deemed taxable year is the later of the taxable year in which the enabling property was installed or the enabled property was installed.

Q4. Where can taxpayers find a list of QMs to determine if a product they would like to buy was produced by a QM?

A4. The IRS will publish a list of QMs and the date that their applications to become QMs were accepted on IRS.gov. A QM may also produce products that are not eligible for the credit. The listing of the QM on IRS.gov does not indicate that any product produced by the QM is eligible.

Q5. Do taxpayers need a PIN to claim the credit for insulation materials or systems (including air sealing materials or systems)?

A5. No. Insulation materials or systems may be eligible for the credit but are not specified property, and thus do not require a PIN.

Q6. Where can taxpayers find the PIN on products they purchase?

A6. QMs generally may choose the method for labeling products with PINs. They may affix a label to the product, or etch the PIN on the product itself. They may affix a label containing the PIN to an item's packaging, print the PIN directly on the package, or include a document containing the PIN inside the item's packaging. Taxpayers who cannot locate the PIN should contact the QM.

Q7. Where can taxpayers find the QM Code for products they purchase?

A7. The QM should provide taxpayers with its QM Code. Taxpayers may use a QM Code in lieu of a PIN for enabling property and for specified property placed in service in 2025.

Q8. What happens if a product a taxpayer buys is otherwise eligible for the credit but is missing the PIN?

A8. The taxpayer should contact the QM. A QM must make its PINs available to taxpayers, including upon taxpayers' request.

Q9. How can a taxpayer get the full PIN needed to claim the credit for taxable year 2026, where the taxpayer bought specified property in 2025 (that only came with a QM Code), but didn't install it until 2026?

A9. For any specified property produced in calendar year 2025 and placed in service on or after January 1, 2026, and to which only a QM Code has been assigned, the QM must assign and make the full 17-digit PIN available to taxpayers upon request.

Q10. Can a taxpayer claim the credit if the taxpayer purchased a product and installed it but does not report the product's PIN on the taxpayer's tax return?

A10. For any item of specified property placed in service on or after January 1, 2025, taxpayers must include the PIN of such item on their tax returns. For specified property placed in service in 2025, taxpayers may use a QM Code (a unique 4-character code assigned to a QM by the IRS) in lieu of a PIN. For enabling property, taxpayers may use a QM Code in lieu of a PIN, regardless of whether the enabling property is placed in service after 2025.

General questions.

Q1. Will a taxpayer qualify for the credit if the property installed has been used by another individual?

A1. No. Used property is not eligible for the credit.

Q2. Is the credit refundable or nonrefundable?

A2. The credit is a nonrefundable personal tax credit. A taxpayer claiming a nonrefundable credit can only use it to decrease or eliminate tax liability. A taxpayer will not receive a tax refund for any amount of the credit that exceeds the taxpayer's tax liability for the year.

Q3. Is a taxpayer who is subject to the alternative minimum tax (AMT) eligible to claim the credit?

A3. Yes. A taxpayer who is subject to the AMT is eligible to claim the credit and may offset the AMT with the credit.

Q4. What happens to the 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 qualifying property?

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. A 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. Payments from public utilities to compensate taxpayers for excess generated electricity delivered to the

utility's electrical grid (for example, net metering credits) are not subsidies for installing qualifying property and do not affect taxpayers, credit qualification or amounts.

- **Rebates.** Rebates generally represent a reduction in the purchase price or cost of property, so the tax credit amount must be reduced 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 with funds from the Department of Energy's "Home Energy Rebate Programs" for the purchase of energy efficient property and improvements. See Announcement 2024-19 for details. Additional information on coordinating Home Energy Rebates with the energy-efficient home improvement credit can be found on the U.S. Department of the Treasury's web page.
- **State energy-efficiency incentives.** A state may provide incentives to encourage taxpayers to purchase property that also qualifies for the 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" that reduce the purchase price, these incentives may not qualify as rebates under federal income tax law, and the amount of the incentive could be included in the taxpayer's gross income for federal income tax purposes.

Q5. What are the requirements for a home energy audit to qualify for the credit?

A5. A home energy audit is an inspection and written report for a dwelling unit located in the United States and owned or used by the taxpayer as the taxpayer's principal residence that:

- 1) Identifies the most significant and cost-effective energy efficiency improvements for such dwelling unit, including an estimate of the energy and cost savings for each such improvement, and
- 2) Is conducted and prepared by a Qualified Home Energy Auditor that meets the certification or other requirements specified in regulations or other guidance.

The written report must be prepared and signed by a Qualified Home Energy Auditor and include:

- The Qualified Home Energy Auditor's name and relevant employer identification number (EIN) or other type of appropriate taxpayer identifying number in lieu of an EIN,
- An attestation that the Qualified Home Energy Auditor is certified by a Qualified Certification Program, and
- The name of such Qualified Certification Program.

See Notice 2023-59 for requirements related to home energy audits. Visit the U.S. Department of Energy web page at:

<https://www.energy.gov/eere/buildings/us-department-energy-recognized-home-energy-auditor-qualified-certification-programs> for a list of Qualified Certification Programs.

Q6. How does a taxpayer claim the credit?

A6. Use IRS Form 5695, *Residential Energy Credits*, and file it with the taxpayer's federal income tax return for the year the credit is claimed.

Q7. What kind of records does a taxpayer have to keep for the credit, and for how long?

A7. Taxpayers are generally required to keep records sufficient to establish the amount of the credit on their tax returns, and are generally required to keep such records for as long as their contents may become material in the administration of any internal revenue law. For example, with respect to the basis reduction required by IRC section 25C(g), taxpayers must keep records for as long as their basis in a dwelling unit is relevant in determining income tax.

Q8. Can taxpayers include financing costs such as interest payments in determining the amount of the credit?

A8. No. Financing costs such as interest are not eligible expenditures for purposes of the credit. Other miscellaneous costs, such as origination fees or amounts paid for an extended warranty are also ineligible for the credit.

Examples on how the credit limits work.

Example #1

In one taxable year, a taxpayer purchases and installs the following: two exterior doors at a cost of \$1,000 each, windows and skylights at a total cost of \$2,200, and one central air conditioner at a cost of \$5,000. All property installed meets the applicable energy efficiency and other requirements for qualifying for the credit. First, 30% of each \$1,000 door is \$300, but the per door limit of \$250 applies to reduce the maximum credit amount to \$500 for the two doors. Next, 30% of the \$2,200 for windows and skylights is \$660, but the \$600 cap for all windows and skylights limits this credit amount to \$600. Finally, 30% of the \$5,000 central air conditioner is \$1,500, but the \$600 per item limit for qualified energy property applies to limit this credit amount to \$600. Adding these credit amounts yields a sum of \$1,700 (\$500 + \$600 + \$600), but the overall cap of \$1,200 limits the amount that the taxpayer may claim for this property to \$1,200.

Example #2

Assume all the same facts as in Example #1, except that instead of purchasing and installing a central air conditioner at a cost of \$5,000, the taxpayer purchases and installs an electric heat pump at a cost of \$5,000. The heat pump meets the applicable energy efficiency and other requirements for qualifying for the credit. Here, 30% of the taxpayer's costs for the heat pump is \$1,500. Since a heat pump is a type of qualified energy property not subject to the \$600 per item cap or the \$1,200 overall limit, the taxpayer can claim a credit of \$1,500 for the cost of the heat pump. Accordingly, the taxpayer's total credit is \$2,600 (\$500 for the exterior doors + \$600 for the windows and skylights + \$1,500 for the heat pump).

Example #3

Assume all the same facts as in Example# 1, except that instead of purchasing and installing a central air conditioner at a cost of \$5,000, the taxpayer purchases and installs an electric heat pump at a cost of \$8,000. The heat pump meets the applicable energy efficiency and other requirements for qualifying for the credit. Assume further that the taxpayer also spends \$600 on home energy audits performed by a Qualified Home Energy Auditor. First, 30% of the \$600 in home energy audits is \$180, but the \$150 cap for home energy audits limits this credit amount to \$150. Adding the \$150 for the home energy audit to the allowable credit amounts for the doors, windows, and skylights yields a sum of \$1,250 (\$1,100 (\$500 for the exterior doors + \$600 for the windows and skylights) + \$150), but the overall cap of \$1,200 limits the amount that the taxpayer may claim for this property to \$1,200. Next, 30% of the \$8,000 heat pump is \$2,400. Although the heat pump is not subject to a \$600 cap or the overall \$1,200 limit, it is subject to a separate \$2,000 aggregate limit for electric or natural gas heat pump water heaters, electric or natural gas heat pumps, and biomass stoves and biomass boilers. The taxpayer can claim a total credit of \$3,200 (\$1,200 for the doors, windows, skylights, and home energy audit + \$2,000 for the heat pump).