

# 25C: Energy Efficient Home Improvement Credit



*National Association of  
State Energy Officials*



Enhanced Federal Energy Tax Incentives  
for Buildings, Transportation, and Energy  
Production - Overview and Use Cases



## 25C: Energy Efficient Home Improvement Credit

\*Note: The information in this brief does not represent tax advice. Please consult a tax advisor before applying for this incentive as part of your building construction or retrofit plan.

### Overview

Section 25C of the Internal Revenue Code enables residential property owners to claim a tax credit for installing qualifying energy efficiency improvements in their homes. This credit was expanded by the Inflation Reduction Act so that homeowners can claim the credit for up to 30 percent of qualifying energy efficiency improvement costs and energy property expenses, compared to 10 percent under prior law. The maximum credit a homeowner can claim each year is \$1,200 for improvements and energy property costs, and \$2,000 for heat pumps, heat pump water heaters, biomass stoves, or biomass boilers, for a total of \$3,200 in annual credits. For the first time, home energy audits now can qualify for a credit of up to \$150 as part of the \$1,200 that residents can claim annually. Eligible homeowners can claim this credit annually until 2033, and there is no lifetime dollar limit to this credit. Because the credit is nonrefundable, homeowners cannot receive more in the credit than they owe in taxes.

Homes eligible for this credit cannot be new construction and must be located in the United States. Building envelope components must have an expected lifespan of at least five years and must meet specific energy efficiency standards set forth in the IRS guidance. A resident [homeowner?] must subtract public utility subsidies from the credit and subtract rebates if they meet certain qualifications.<sup>1</sup> State energy efficiency incentives are not subtracted from the total unless they qualify as rebates.<sup>2</sup>

<sup>1</sup> Rebates must be subtracted from the total credit if they are based on the cost of the property; coming from someone connected to the sale, such as a manufacturer, distributor, seller, or installer; and not given as payment for services provided.

<sup>2</sup> For more information on coordinating tax incentives with residential rebates, see “Coordinating DOE Home Energy Rebates with Energy-Efficient Home Improvement Tax Credits: An Explainer,” U.S. Department of the Treasury, <https://home.treasury.gov/news/featured-stories/coordinating-doe-home-energy-rebates-with-energy-efficient-home-improvement-tax-credits-an-explainer>; and “Frequently asked questions about energy efficient home improvements and residential clean energy property credits,” Internal Revenue Service, <https://www.irs.gov/pub/taxpros/fs-2022-40.pdf>.

### Eligible Upgrades and Incentive Amounts<sup>3</sup>

Equipment Type	Tax Credit Available for 2023-2032 Tax Years
<b>Home Clean Energy Products</b>	
Solar (electricity)	30% of cost
Fuel Cells	
Wind Turbine	
Battery Storage	
<b>Heating, Cooling, and Water Heating</b>	
Heat pumps	30% of cost up to \$2,000 per year. Installations must have a thermal efficiency rating of at least 75 percent. Costs may include labor for installation.
Heat pump water heaters	
Biomass stoves	
Geothermal heat pumps	30% of cost. Upgrades must meet Consortium for Energy Efficiency highest efficiency tier. Costs may include labor for installation.
Solar (water heating)	
Efficient air conditioners*	30% of cost up to \$600. Upgrades must meet Consortium for Energy Efficiency highest efficiency tier. Costs may include labor for installation.
Efficient heating equipment*	
Efficient water heating equipment*	30% of cost up to \$600. Upgrades must meet Consortium for Energy Efficiency highest efficiency tier. Costs may include labor for installation.
<b>Other Energy Efficiency Upgrades</b>	
Electric panel of circuit upgrades for new electric equipment	30% of cost, up to \$600
Insulation materials*	30% of cost. House wraps, sealants, and spray foams are covered under this tax credit. Materials must meet IECC standards in effect at the start of the year two years before installation.
Windows, including skylights*	30% of cost up to \$600. Windows must meet Energy Star Most Efficient certification requirements.
Exterior doors*	30% of cost up to \$500 for doors (up to \$250 each). Doors must meet applicable Energy Star requirements.
Home Energy Audits*	30% of cost up to \$150. Audits must be prepared by a certified home energy auditor and include a written report that identifies cost-effective energy efficiency improvements and provides an estimate of energy and cost savings for those improvements.
Home Electric Vehicle Chargers	30% of cost up to \$1,000
<i>*Subject to cap of \$1,200/year</i>	

<sup>3</sup> Chart adapted from “Making Our Homes More Efficient: Clean Energy Tax Credits for Consumers,” U.S. Department of Energy, <https://www.energy.gov/policy/articles/making-our-homes-more-efficient-clean-energy-tax-credits-consumers>.

## How to Leverage this Tax Incentive

**Example:** A single-family homeowner leverages this credit to make improvements to their home.

A homeowner faced with an aging boiler and a drafty home decides to reach out to a local contractor to get an estimate of the cost to make upgrades. The contractor recognizes that there is an opportunity for the homeowner to leverage 25C if they choose to make energy-efficient upgrades and suggests this to the homeowner. The homeowner is amenable to the idea, so the contractor facilitates an audit of the home by an auditor with a certification recognized by the IRS to receive the \$150 credit and identify potential additional improvements. The auditor provides the homeowner with an assessment of the home's current energy use and identifies the most significant, cost-effective recommendations to improve energy efficiency. The audit identifies that the homeowner could improve the insulation and air conditioning unit as well as validates the benefits of the original proposed improvements. The homeowner decides to upgrade the windows, insulation, and air conditioner based on the audit's findings.

The contractor discusses the potential financing options for the improvements and notes that there are state rebate programs available for the homeowner that could reduce the up-front cost of the boiler. The homeowner agrees to leverage the rebate program and the contractor installs the energy efficiency upgrades agreed to by the homeowner. The contractor and auditor provide the homeowner with the necessary paperwork to file for the credit. At tax time, the homeowner applies for the credit by completing Form 5695 and receives the credit minus the amount of the cost covered by the rebate program.

## Considerations for State Energy Offices

### Which decision-makers need to know about this incentive?

- Single-family homeowners
- Contractors who serve single-family homes
- Auditors who need to be certified by one of the qualified programs on the list maintained by DOE<sup>4</sup>

### What are avenues to reach those decision-makers?

- Communications through mailers, webinars, and websites with key information
- Outreach to contractor networks through training webinars, mailers, etc.
- Information sharing via workforce training programs that currently or prospectively provide home energy auditor training and certification
- Coordination with community networks and other local organizations to provide educational resources and tax-related services
- Participation at in-state conferences and roadshows

<sup>4</sup> For a list of qualified programs, see "U.S. Department of Energy Recognized Home Energy Auditor Qualified Certification Programs for the Energy Efficient Home Improvement Credit (Section 25C)," U.S. Department of Energy, <https://www.energy.gov/eere/buildings/us-department-energy-recognized-home-energy-auditor-qualified-certification-programs>.

## What other sources of IIJA and/or IRA funds can homeowners and contractors potentially leverage alongside this credit?

- **IRA Section 50121** – Home Energy Performance-Based, Whole House rebates can be leveraged to cover additional costs of home energy retrofits.
- **IRA Section 50122** – High-Efficiency Electric Home Rebate Program rebates can be leveraged to cover additional costs of upgrades for LMI homeowners.
- **IIJA Section 40502** – Energy Efficiency Revolving Loan Fund capital is available to help finance the cost of home retrofits, and Home Energy Score audits are available in states that have authorized their use for that purpose.
- **IRA Section 60103** – Greenhouse Gas Reduction Fund capital is available to help finance the cost of these improvements for homeowners.

## Resources

### Internal Revenue Service Summary of 25C

This webpage provides information on 25C, including eligibility for the incentive, the incentive amounts available to qualifying homeowners, and the efficiency standards required for upgrades to qualify for the incentive. This website also has links to the forms needed for homeowners to apply for the credit, as well as information on the application process involved.

Link: <https://www.irs.gov/credits-deductions/energy-efficient-home-improvement-credit>

### Frequently Asked Questions About Energy Efficient Home Improvements and Residential Clean Energy Property Credits

This fact sheet from the IRS provides answers to frequently asked questions about the use of 25C. It provides a general overview of the credit and clarifies qualifying expenditures and the amount of the credit for each improvement. It also clarifies the length of time a homeowner can claim the credit for an investment and provides additional information that homeowners may find useful.

Link: <https://www.irs.gov/pub/taxpros/fs-2022-40.pdf>

### Coordinating DOE Home Energy Rebates with Energy Efficient Home Improvement Tax Credits: An Explainer

This fact sheet from the U.S. Treasury provides an overview of how homeowners can leverage 25C alongside DOE's Home Energy Rebate programs (HOMES and HEEHR) to make deeper retrofits to their properties. It provides examples of uses and restrictions of the rebate programs and the tax credit.

Link: <https://home.treasury.gov/news/featured-stories/coordinating-doe-home-energy-rebates-with-energy-efficient-home-improvement-tax-credits-an-explainer>

### U.S. Department of Energy Recognized Home Energy Auditor Qualified Certification Programs for the Energy Efficient Home Improvement Credit (Section 25C)

This resource from DOE provides a list of approved certification programs for home energy auditors that taxpayers can use to claim 25C for home energy audits. DOE will amend and update this list as needed over time.

Link: <https://www.energy.gov/eere/buildings/us-department-energy-recognized-home-energy-auditor-qualified-certification-programs>

### Forms Needed to Claim This Credit and Guides to the Process

[Form 5695 - Residential Energy Credits](#)

[Process Guide for Claiming 25C - Exterior Doors, Windows, Skylights, and Insulation Materials](#)

[Process Guide for Claiming 25C - Home Energy Audits](#)

[Process Guide for Claiming 25C - Residential Energy Property](#)



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