THE INFLATION REDUCTION ACT

REWIRING AMERICA

25C Residential Energy Efficiency Tax Credit and 25D Residential Clean Energy Tax Credit

Timing: New version of 25C starts in 2023; new version of 25D retroactive to all of 2022

Administration: IRS

THE BIG PICTURE

The 25C and 25D tax credits incentivize household electrification by lowering the total cost of qualified electrification upgrades. 25C provides a capped 30 percent tax credit for heat pumps, heat pump water heaters (HPWHs), qualifying electrical panel upgrades, select weatherization measures, and energy audits. **For the first time, air source heat pumps for space heating/cooling and HPWHs will be eligible for a tax credit of up to $2,000 per year, and electrical panel upgrades installed in conjunction with a heat pump or HPWH will be eligible for a tax credit of up to $600.**

25D provides an uncapped 30 percent tax credit for rooftop solar, battery storage (for the first time), and geothermal heating. IRS has also allowed 25D to be applied to an electrical panel upgrade as long as it is installed in conjunction with and enables another eligible energy installation.

The details on 25C: heat pumps, heat pump water heaters, and more

→ New version of 25C starts in 2023

→ 30 percent capped tax credit for residential efficiency and electrification upgrades, up to $3,200 per year (see chart)
- Annual total credit for heat pumps and heat pump water heaters capped at $2,000
- Annual total credit for other upgrades capped at $1,200; limits per upgrade may apply
- Covers purchase and installation costs
- Qualifying upgrades subject to efficiency requirements

→ Up to $600 for electrical panel upgrades if they are installed in conjunction with and enable a heat pump or HPWH

→ Credit limit is annual (not lifetime), so it resets each year and can be used again

→ Nonrefundable, so households must have adequate tax liability to offset

25C Tax Credit
For Qualified Electrification Upgrades

Total Annual Credit	**$3,200**
Heat pumps and HPWHs	**$2,000**
Other upgrades	**$1,200**
Annual Credit for Heat Pumps and HPWHs	**$2,000**
Heat Pump	**$2,000**
HPWH	**$2,000**
Annual Creadit for Other Upgrades	**$1,200**
Insulation	**$1,200**
Doors	**$500**
Windows	**$600**
Electrical panel	**$600**
Energy Audit	**$150**

The details on 25D: rooftop solar, battery storage, and geothermal heating

→ New version of 25D retroactive to all of 2022*
*Except for battery storage credits, which start in 2023

→ 30 percent uncapped tax credit for rooftop solar, battery storage, and geothermal heating
• Should include electrical panels if they are installed in conjunction with and enable any of the above installations
• Covers purchase and installation costs

→ Nonrefundable, so households must have adequate tax liability to offset

→ Carry-forward ability applies, so households may roll over unused tax credits year over year

Frequently Asked Questions

Will 25C and 25D reduce up-front costs for consumers?

No, but they will reduce total costs.

Can renters utilize 25C and 25D?

Yes! Renters may be specifically interested in the 25C credit for portable, window-unit heat pumps.

Who qualifies for 25C and 25D?

Anyone with adequate tax liability to offset can qualify for 25C and 25D.

Can 25C and 25D stack with other incentives?

Yes! 25C and 25D can stack with other federal incentives like the HEEHR and HOMES rebates.

Do 25C and 25D cover electrical panel upgrades?

25C and 25D cover panel upgrades if they are installed in conjunction with and enable the installation of another covered upgrade, like a heat pump or rooftop solar, respectively.

Do smart panels qualify for 25C and 25D?

25D has no statutory panel requirements, so smart panels should qualify.

Which tax credits cover which heat pumps?

25C covers air-source heat pumps, and 25D covers geothermal heat pumps.

Does 25C have efficiency requirements?

Yes. 25C is applicable only to heat pumps and HPWHs that meet the Consortium for Energy Efficiency's highest non-"advanced" tier. ENERGY STAR-certified doors and ENERGY STAR Most Efficient-certified windows also are eligible.

What does it mean that 25C resets every year?

By resetting every year, 25C will be available to households for multiple upgrades over multiple years. For example, if a household maxes out 25C in one year by claiming a $2,000 credit for a heat pump and a $1,200 credit for insulation, that household can utilize 25C again in a future year for a HPWH and an electrical panel upgrade.

Does 25D cover community solar?

25D may cover community solar in some cases, especially if you're a partial owner of a community solar installation. If you're a "subscriber" to a community solar project owned by a developer (including nonprofits, co-ops, and local governments), you'll likely not be eligible for 25D, but the developer may be eligible for the supplier-facing Section 48 investment tax credit. In either case, the IRA will further reduce the cost of community solar.