

What the IRA Means for Contractors and Electrification



The Inflation Reduction Act (IRA), signed into law in August 2022, includes \$200 million in electrification and energy efficiency contractor training grants, as well as contractor incentives per qualifying electrification project (up to \$500) and per qualifying energy efficiency project (\$200).

In addition, the IRA provides billions of dollars in up-front discounts — much of which will flow through contractors — that will reshape the residential HVAC and household appliance landscape. This funding will make electric machines like heat pumps and heat pump water heaters the default economic choice for millions of households across the country. The IRA also includes residential electrification and energy efficiency tax credits that will lower the cost of electrification for millions more households.

Last but not least, the IRA creates opportunities for contractor growth beyond residential HVAC and appliance replacements. Tax credits for new energy-efficient homes may be claimed by builders, and tax deductions for commercial energy efficiency retrofits may in some cases be transferred to retrofit designers, including contractors.

Taken together, these electrification incentives represent a once-in-a-generation market opportunity for HVAC contractors. The IRA will lead to tens of millions of heat pump installations over the next decade — and ambitious contractors who understand the incentives and opportunity can claim an outsized share of that new market. Modern heat pumps are the most efficient HVAC products out there; they're effective in very cold climates; and they save consumers money.

	Name of incentive	Type	Details
Contractor training	Home Energy Efficient Contractor Training Grants	Grants	\$200 million for States to develop and implement contractor training programs
Contractor incentives	High-Efficiency Electric Home Rebates (HEEHRA)	Rebates	Up to \$500 contractor rebate per qualifying HEEHRA project
	Home Owner Managing Energy Savings Rebates (HOMES)	Rebates	\$200 contractor rebate per qualifying HOMES project
Consumer rebates that may flow through contractors	High-Efficiency Electric Home Rebates (HEEHRA)	Rebates	Up-front discounts for qualified LMI electrification projects, up to \$14,000 per unit
	Home Owner Managing Energy Savings Rebates (HOMES)	Rebates	Rebates for modeled or measured energy savings, up to \$8,000 for LMI households and \$4,000 per unit otherwise
Consumer tax credits contractors should know	25C Residential Energy Efficiency Tax Credit	Tax credit	30 percent tax credit for select upgrades, including up to \$2,000 annually for heat pumps or heat pump water heaters
Tax credits that may be claimed by contractors	45L New Energy Efficient Home Credit	Tax credit	For new construction or major retrofits, up to \$5,000 per unit
	179D Energy Efficient Commercial Buildings Deduction	Tax credit	For reductions in energy costs or energy use intensity, up to \$5/SF

Contractor training

Home Energy Efficient Contractor Training Grants

Funding: \$200 million

Administration: Funding distributed by DOE; contractor training programs implemented by State Energy Offices (SEOs), who can partner with nonprofit organizations

Timing: Funding available to DOE immediately, likely allocated to SEOs in 2023 (depending on the timing of DOE guidance and SEO implementation plans)

Program details: The Home Energy Efficiency Training Grants “shall provide training and education to contractors involved in the installation of home energy efficiency and electrification improvements.” SEOs and nonprofit partners may use the grants to reduce the cost of contractor training and to provide testing and certification for contractor training. More guidance on the program is forthcoming from DOE.

Contractor incentives

High-Efficiency Electric Home Rebates (HEEHRA) and Home Owner Managing Energy Savings Rebates (HOMES)

Administration: Funding distributed by DOE; contractor incentives implemented by State Energy Offices (SEOs) and Tribes.

Timing: Funding available to DOE immediately, likely allocated to SEOs and Tribes in 2023 (depending on the timing of DOE guidance and SEO implementation plans).

Program details: The IRA creates two electrification and energy efficiency rebate programs — HEEHRA and HOMES, both discussed below — that include rebates specifically for contractors. These rebates are designed to incentivize contractors to install electric machines in low- and moderate-income (LMI) communities (in the case of HEEHRA) and to perform energy-saving retrofits in disadvantaged communities (in the case of HOMES). For each qualifying HEEHRA project, contractors may claim a rebate of up to \$500; while for each qualifying HOMES rebate, contractors may claim a rebate of \$200. More guidance on the program is forthcoming from DOE.

Consumer rebates that may flow through contractors

High-Efficiency Electric Home Rebates (HEEHRA)

Funding: \$4.5 billion (with \$225 million reserved for Tribes)

Administration: Funding distributed by DOE; rebate programs administered by State Energy Offices (SEOs) and Tribes

Timing: Funding available to DOE immediately, likely allocated to SEOs and Tribes in 2023 (depending on the timing of DOE guidance and SEO implementation plans)

Eligible Recipients: LMI households and majority-LMI multifamily building owners

Program details: HEEHRA provides up-front consumer discounts to enable LMI households to electrify their homes. For households that are below 80% of Area Median Income (AMI), HEEHRA covers 100% of electrification project costs (both purchase and installation) up to \$14,000. For households that are 80-150% of AMI, HEEHRA covers 50% of electrification project costs up to \$14,000. This means that electric appliances and HVAC systems will become significantly cheaper than their gas counterparts at point of sale for low-income households, and will become cheaper or cost-competitive at point of sale for moderate-income households.

For majority-LMI buildings, HEEHRA rebates aggregate per eligible unit. Appliances must be ENERGY STAR certified, where such certification categories exist. HEEHRA rebates only apply if a household is replacing a non-electric appliance or machine. Contractors can (and likely will) claim HEEHRA's up-front discounts, provided that the full value of the discounts is passed to the consumer. More guidance on the program, including guidance on income verification at point of sale, is forthcoming from DOE.

HEEHRA discounts per appliance are:

- \$8,000 for heat pumps;
- \$1,750 for heat pump water heaters;
- \$840 for heat pump clothes dryers;
- \$840 for electric or induction stoves;
- \$4,000 for electrical panel upgrades;
- \$2,500 for rewiring; and
- \$1,600 for basic weatherization.

Home Owner Managing Energy Savings Rebates (HOMES)

Funding: \$4.3 billion

Administration: Funding distributed by DOE; rebate programs administered by State Energy Offices (SEOs)

Timing: Funding available to DOE immediately, likely allocated to SEOs in 2023 (depending on the timing of DOE guidance and SEO implementation plans)

Eligible Recipients: All households and multifamily building owners

Program details: HOMES rebates are designed to reward energy efficiency retrofits that are modeled to achieve or have achieved verifiable minimum energy use reductions.

Incentives for low-income households (less than 80% of AMI) are doubled, or up to 80 percent of project costs. HOMES may be most useful for low- and moderate-income households with electric resistance heating, since those households are not eligible for HEEHRA up-front discounts. HOMES may also be useful for high-income households who do not qualify for HEEHRA discounts and are pursuing a whole-home energy retrofit.

Contractors can (and likely will) claim HOMES rebates. More guidance on the program, including guidance on measured and modeled energy system savings, is forthcoming from DOE.

The incentive tiers are as follows:

- Retrofits with modeled energy system savings of 35 percent or more: the lesser of \$4,000 or 50 percent of project costs;
- Retrofits with modeled energy system savings of 20-34 percent: the lesser of \$2,000 or 50 percent of project costs; and
- Retrofits with measured energy savings of 15 percent or more: a payment rate per kWh saved up to \$2,000 for a 20 percent reduction in energy use.

Consumer tax credits contractors should know

25C Residential Energy Efficiency Tax Credit¹

Administration: IRS

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

Eligible Recipients: All taxpayers who pursue a qualified project and have adequate tax liability to offset

Program details: The 25C tax credit incentivizes household electrification by lowering the total cost of qualified electrification upgrades. 25C provides a capped 30 percent tax credit for the purchase and installation costs of heat pumps, heat pump water heaters (HPWHs), qualifying electrical panel upgrades, select weatherization measures, and energy audits. For the first time, heat pumps and HPWHs will be eligible for an annual tax credit of up to \$2,000 per year, and electrical panels upgrades installed in conjunction with a heat pump or HPWH will be eligible for a tax credit of up to \$600.

The 25C credit limits are annual, so they reset each year and can be used again. 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. 25C is applicable only to heat pumps and HPWHs in the Consortium for Energy Efficiency's highest tier, ENERGY STAR-certified doors, and ENERGY STAR Most Efficient-certified windows. It's nonrefundable, so households must have adequate tax liability to offset.

The total annual credit allowed under 25C is \$3,200, with annual credit limits as follows²:

- \$2,000 cap for heat pumps and heat pump water heaters; and
- \$1,200 cap for all other upgrades, including:
 - \$1,200 for insulation;
 - \$500 for doors;
 - \$600 for windows;
 - \$600 for electrical panel upgrades; and
 - \$150 for energy audits.

¹ Other potentially relevant tax credits include the 30% 25D credit for rooftop solar, battery storage, and geothermal heating installations and the 30% 30C credit for household EV chargers in low-income or rural communities.

² 25C covers some other appliances and machines, but this overview's scope is limited to appliances and machines relevant to electrification.

Tax credits that may be claimed by contractors

45L New Energy Efficient Home Credit

Administration: IRS

Timing: Old version of 45L retroactive to all of 2022; new version of 45L starts in 2023

Eligible Recipients: Contractors who build and sell qualifying energy-efficient new homes or perform major renovation

Program details: The 45L tax credit incentivizes new homes and major renovations to meet EPA's Energy Star certification and DOE's Zero Energy Ready Homes certification. The credit amounts are as follows:

Energy standard	Dwelling types	Without prevailing wage	With prevailing wage
EPA Energy Star	Single-family	\$2,500	\$2,500
	Multifamily	\$500	\$2,500
DOE Zero Energy-Ready Homes	Single-family	\$5,000	\$5,000
	Multifamily	\$1,000	\$5,000

179D Energy Efficient Commercial Buildings Deduction

Administration: IRS

Timing: New version of 179D starts in 2023

Eligible Recipients: Building owners or contractors who design a retrofit plan on behalf of a non-taxable entity

Program details: The 179D deduction incentivizes retrofits of commercial buildings, including traditional commercial spaces and large apartment buildings as well as buildings owned by non-taxable entities like governments, schools, hospitals, and houses of worship. Specifically, 179D rewards reductions of at least 25% in total annual energy and power costs or energy use intensity (EUI) with a tax deduction of up to \$5/SF. The deduction amounts are as follows:

Reduction in total annual energy and power costs or EUI	Without prevailing wage	With prevailing wage
25% minimum	\$0.50/SF	\$2.50/SF
+1%	\$0.02/SF	\$0.10/SF
50% maximum	\$1.00/SF	\$5.00/SF

Any tax-exempt entity would be allowed to allocate the deduction to the designer of the building or retrofit plan, which can include contractors.