



Residential Energy Tax Credits: Changes in 2023

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P.L. 117-169, commonly referred to as the [Inflation Reduction Act of 2022](#) (IRA), expanded and extended two nonrefundable tax credits meant to encourage individuals to invest in energy efficiency improvements or clean energy in their homes:

1. the energy efficient home improvement credit (previously known as the tax credit for nonbusiness energy property, Internal Revenue Code [IRC] [Section 25C](#)), which subsidizes certain investments that reduce energy consumption in homes; and
2. the residential energy tax credit (previously, the energy efficient property credit, [IRC Section 25D](#)), which subsidizes investments in renewable energy production at taxpayers' residences.

The IRA also created two grants for states to establish rebate programs to subsidize expenses similar to those covered by these credits—the HOMES rebate program and the high-efficiency electric home rebate program. These state programs are not yet operational. The IRA does not prohibit taxpayers from claiming both a rebate and one of the residential tax credits for the same project, although the rebate may reduce the expenses eligible for the credit.

Energy Efficient Home Improvement Credit (Section 25C)

The Section 25C credit had expired at the end of 2021, but the IRA reintroduced the credit retroactively for qualifying property placed in service during tax year 2022. For investments placed in service from 2023 through 2032, the credit amount is higher [than it was in the past](#) and the scope of qualifying expenses eligible for the credit is expanded ([Table 1](#).)

Taxpayers typically claim expenses for the credit in the year in which they install the property in their homes. Expenses related to new home construction [are claimed when](#) “the original use of the constructed or reconstructed structure by the taxpayer begins.” Separate from the tax credits for individuals investing in the energy efficiency of their homes, contractors may be able to claim tax credits for constructing new energy-efficient homes ([Section 45L](#)).

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Table 1. Major Changes to the Energy Efficient Home Improvement Credit Beginning in 2023

Element	Tax Year 2022 (Filed in 2023)	Major Changes for Tax Year 2023 and Beyond
Rate	10%	30%
Qualifying Expenses	Qualifying energy efficiency improvements installed during the year, and expenses related to energy efficient property paid or incurred during the year. Investments must meet energy efficiency criteria set by statute.	Expenses related to qualifying home energy audits paid or incurred during the year will also qualify. The energy efficiency standards that investments must meet to qualify will change and update automatically in the future. Starting in 2025, taxpayers must report their products' identification numbers to claim the credit.
Definition of "energy efficiency improvements"	Improvements to heating, cooling, and water-heating equipment, and to a building's "envelope," which includes the insulation materials or systems, the roof, and exterior doors and windows.	Investments in roofs will no longer qualify, but certain investments in biomass stoves and air-sealing material placed in service in 2023 or later will. Improvements to, or replacement of, panelboards, sub-panelboards, branch circuits, or feeders also qualify beginning in 2023.
Definition of "energy efficient property"	Spending on heating, cooling, and water-heating property that meets efficiency criteria. Associated labor and installation costs also qualify. Expenditures must be made on the taxpayer's primary residence located in the United States.	Expenditures made for homes the taxpayer uses as a residence, whether or not as their primary residence, will qualify.
Lifetime Limit	\$500 per taxpayer for the entire credit. \$200 for windows.	No lifetime limits.
Annual Limits	\$300 for any single energy property item. \$150 for any qualified natural gas, propane, or oil furnace and hot water boiler. \$50 for any advanced main air circulating fans.	\$1,200 for the entire credit for most taxpayers. \$600 for any single energy property item. Notwithstanding these limits, the credit for qualifying expenditures on biomass stoves or water heaters and/or heat pumps powered by electricity or natural gas is capped at \$2,000. \$600 on windows. \$150 for home energy audits. \$500 for exterior doors in the aggregate, and \$250 per exterior door.
Expiration	The credit expired at the end of 2021. The IRA extended it, with 2021 parameters, for 2022.	The credit will expire after 2032.

Source: CRS analysis of IRC Section 25C and P.L. 117-169.

Notes: The Section 25C credit is claimed on [Form 5695](#). The instructions give taxpayers additional information regarding eligibility for the credit.

Residential Energy Property Credit (Section 25D)

Through 2019, taxpayers could claim a Section 25D credit worth up to 30% of qualifying expenditures. The credit's rate was scheduled to be reduced to 26% through 2022 and 22% in 2023, expiring after 2023. The IRA restored the 30% credit for the 2022 tax year and made battery storage technology placed in service in 2023 or later eligible ([Table 2](#)).

Table 2. Major Changes to the Residential Energy Property Credit Beginning in 2023

Element	Tax Year 2022 (Filed in 2023)	Major Changes in Tax Year 2023 and Beyond
Rate	30% for all qualifying investments placed in service in 2022.	30% in 2023 through 2031. The credit's rate is scheduled to fall to 26% in 2032 and 22% in 2034.
Qualifying expenses	<p>Qualifying expenditures on residential solar electric property, solar water heating property (used for purposes other than heating swimming pools or hot tubs), geothermal heat pumps, small wind energy property, biomass stoves, and fuel cell power plants.</p> <p>Costs associated with onsite preparation, installation, and assembly also qualify.</p> <p>The credit for fuel cell property is capped at \$500 per half kilowatt (kW) of capacity.</p> <p>Qualifying property must be used in connection with a residence of the taxpayer located in the United States.</p>	Biomass stoves will no longer qualify (qualify under Section 25C instead). Battery storage property placed in service in 2023 or later is eligible.
Expiration	The credit had begun phasing out and was scheduled to expire at the end of 2023.	The credit is scheduled to begin phasing out in 2032 and expire after 2034.

Source: CRS analysis of IRC Section 25D and P.L. 117-169.

Notes: The Section 25D credit is claimed on [Form 5695](#). The instructions give taxpayers additional information regarding eligibility for the credit.

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