

# INFLATION REDUCTION ACT

The Inflation Reduction Act (IRA), signed this August, includes nearly \$370B dedicated to climate and energy programs. Starting in 2023, as incentives become available, there will be an opportunity to showcase our products as viable energy efficient solutions.

These big incentives are likely to pique a homeowner’s curiosity in considering more energy efficient solutions for their home. The IRA Home Energy Efficiency Upgrades includes a substantial expansion of the already popular **Energy Efficiency Home Improvement Tax Credit (25C)**, also known as the *Non-business Energy Property Tax Credit*, as well as an extension and expansion to the **New Energy Efficient Home Tax Credit (45L)**. In addition to tax credit expansions, substantial funding for **Energy Efficiency Rebate Programs** was included in the bill to encourage more energy efficient homes.

TAX CREDITS

### ENERGY EFFICIENCY HOME IMPROVEMENT TAX CREDIT (25C)

Provides a 30% credit rate with an annual cap of \$1,200 and up to \$2,000 for qualified heat pumps. This credit will be an annual tax credit opportunity for homeowners, whereas it was previously a one-time credit.

### NEW ENERGY EFFICIENT HOME TAX CREDIT (45L)

Targets developers and building contractors, offers up to \$2,500 for Energy Star certified new construction, and up to \$5,000 for DOE Zero Energy Ready new construction.

REBATE PROGRAMS

### HIGH EFFICIENCY ELECTRIC HOME REBATE PROGRAM

An income-based rebate program that can cover up to 100% of the project costs for low income homeowners, or 50% for moderate incomes.

### HOME ENERGY-PERFORMANCE-BASED WHOLE-HOUSE REBATES (THE HOMES REBATE PROGRAM)

A performance-based rebate program that may allow a homeowner to receive up to \$4,000 per dwelling. The amount could be doubled for low-to-moderate income households.

## 2022 CURRENT TAX CREDIT OPPORTUNITIES

In advance of 2023, the previous tax credits that had expired December 2021 have been retroactively extended to the 2022 tax year. **This means some customers may be eligible to receive 25C or 45L credits this year.** We encourage dealers to take advantage of this opportunity as the 2023 programs continue to be defined.

### 1. 25C

#### NON-BUSINESS ENERGY PROPERTY TAX CREDIT

The current version of 25C, known as the **Non-Business Energy Property Tax Credit** targets energy efficient home improvements. Presently, homeowners who meet the requirements may be eligible to claim a tax credit for a **10% credit rate** of the installed costs, with a lifetime cap of up to **\$500 for equipment placed in service by December, 31<sup>st</sup> 2022.**

While the 2023 version of this program will be expanded upon, there is an opportunity to have a conversation with your customers about current tax credit opportunities—perhaps even delighting customers who installed eligible equipment earlier this year!

### 2. 45L

#### ENERGY EFFICIENT HOME TAX CREDIT

The current version of 45L, known as the **Energy Efficient Home Tax Credit**, is available to developers and building contractors. The requirements require a HERS rater to confirm through energy modeling and on-site performance verification that the home is at least 50% more energy efficient than the 2006 IECC. Presently, developers or building contractors who meet the requirements may be eligible for up to **\$2,000 per unit** for new energy efficient homes, or **\$1,000 per unit** for manufactured homes. This current version of the tax credit is available until **December 31<sup>st</sup> 2022.**

2022 TAX CREDITS

	TIME-FRAME	INTENT	WHO QUALIFIES	INCENTIVE DETAILS	TECHNICAL REQUIREMENTS	ELIGIBILITY
<p>1.</p> <p><b>Non-business Energy Property Tax Credit (25C)</b></p>	<p>1/1/22 - 12/31/22</p> <p><i>Equipment placed in service</i></p>	<p>Provides tax credit for energy efficient equipment</p>	<p>Currently active for homeowners</p>	<p>10% credit rate with lifetime cap of \$500, Credits for qualified HP/AC (\$300) and furnace (\$150)</p>	<p>Equipment must meet Energy Star 5.0</p>	<p>Products must be produced by qualified manufacturers</p>
<p>2.</p> <p><b>Energy Efficient Home Tax Credit (45L)</b></p>	<p>1/1/22 - 12/31/22</p> <p><i>Homes acquired.</i></p>	<p>Encourage energy-efficient new construction</p>	<p>Currently active for developers and building contractors</p>	<p>\$2,000 per unit for new energy-efficient home. \$1,000 per unit for manufactured homes.</p>		

**2023 FUTURE TAX CREDIT OPPORTUNITIES**

**1. 25C**

**ENERGY EFFICIENT HOME IMPROVEMENT TAX CREDIT**

Beginning 2023, the expanded version of **25C**, now called the *Energy Efficient Home Improvement Tax Credit*, will provide a **30% credit rate** with an annual cap of \$1,200 for HVAC products that meet the highest non-advanced Consortium for Energy Efficiency (CEE) tier; up to \$600 for qualified air conditioner and furnaces, and up to \$2,000 for qualified heat pumps. Unlike the existing program, the expanded 25C tax credit has generous annual limits (not lifetime), meaning that the same customer could benefit from the credit with energy efficient upgrades year after year. This expansion will extend the program out to 2032.

**2. 45L**

**NEW ENERGY EFFICIENT HOME TAX CREDIT**

Beginning 2023, the increased **45L** tax credit, called the *New Energy Efficient Home Tax Credit*, will provide developers and building contractors of new construction single family and manufactured homes up to **\$2,500** tax credit for Energy Star® certified new construction. The expansion also provides an even higher 45L tax credit of **\$5,000** for single family and manufactured homes as outlined by new Department of Energy (DOE) Zero Energy Ready Home requirements. Prevailing wage requirements must be satisfied for multifamily construction for contractors to receive the highest rebate opportunities. This expansion will extend the program out to 2033.

**2023 CEE TIERS**

The CEE announced the new tiers for Residential Electric HVAC going into effect January 1st, 2023. These guidelines will determine which equipment qualifies for the 25C homeowner tax credit. Visit the CEE released content directly here:

- > [CEE Residential Electric HVAC Specification - January 1, 2023](#)
- > [CEE Residential Natural Gas Specification \(Hydronic\) - 2021 - \(unchanged\)](#)

2023 TAX CREDITS

	TIME-FRAME	INTENT	WHO QUALIFIES	INCENTIVE DETAILS	TECHNICAL REQUIREMENTS	ELIGIBILITY
<p><b>1.</b></p> <p><b>Energy Efficient Home Improvement Tax Credit (25C)</b></p>	<p>1/1/23 – 12/31/32</p> <p><i>Equipment placed in service.</i></p>	<p>Revision and expansion of the 25C tax credit for energy efficient equipment</p>	<p>Homeowners</p>	<p>30% credit rate with annual cap of \$1,200, with exceptions that favor heat pumps, which have a \$2,000 annual credit limit.</p>	<p>CEE highest efficiency tier (not including any advanced tier) equipment; may include electric or natural gas Heat Pump, central Air Conditioner, natural gas, propane, or oil furnace.</p>	<p>Products must be produced by qualified manufacturers</p>
<p><b>2.</b></p> <p><b>New Energy Efficient Home Tax Credit (45L)</b></p>	<p>1/1/23 – 1/1/33</p> <p><i>Homes acquired.</i></p>	<p>To encourage energy-efficient and net-zero ready new construction</p>	<p>Developer and Building Contractors</p>	<p>For Single Family or Manufactured Homes: \$2,500 for Energy Star®</p> <p>\$5,000 for Zero-energy Ready</p> <p>For Multifamily: \$500 for Energy Star® and \$1,000 for Zero-energy Ready (per dwelling unit)</p>		

Breakdown of programs based on Inflation Reduction Act guidance.

## ENERGY EFFICIENCY REBATE PROGRAMS

The Energy Efficiency Rebate Programs in the IRA are federally funded programs that each state must apply for, develop, and enforce. The rebate programs may vary from state to state, and it is possible that some states may choose not to offer the rebates.

Here are the two rebate programs shared in the IRA relevant to Residential HVAC:

### 1. HIGH-EFFICIENCY ELECTRIC HOME REBATE PROGRAM

The High-Efficiency Electric Home Rebate Program is an **income-based program** set up to encourage the purchase of efficient electric equipment for single and multi-family homes and public buildings. The program is based on income, and the state-based rebate program can cover **up to 100% of the project costs for low income homeowners, or 50% for moderate incomes**. This rebate program also includes rebates for electric load service and wiring upgrades. Total rebates are **not to exceed \$14,000 per eligible entry**.

*\$4.4B is appropriated to this program, however, states must request federal funding to distribute locally to qualified electrification projects. As such, states will apply for funding to begin rolling out their programs in 2023.*

### 2. HOME ENERGY-PERFORMANCE-BASED WHOLE HOUSE REBATES (THE HOMES REBATE PROGRAM)

The HOMES Rebate Program is a **performance-based rebate program** for single or multi-family homes. The equipment's technical requirements and potential rebate amounts for homeowners will vary based on state requirements and income levels. However, the guidance outlines that a homeowner may receive **up to \$4,000 per dwelling**, and that amount could be doubled for low-and moderate income (LMI) homeowners, tenants, and multi-family landlords.

*State energy programs must submit applications for The HOMES Rebate Program, and funding will then be distributed to state energy offices. As such, states will apply for funding to begin rolling out their programs in 2023.*

	TIME-FRAME	INTENT	WHO QUALIFIES	INCENTIVE DETAILS	TECHNICAL REQUIREMENTS	ELIGIBILITY
REBATE PROGRAMS	<p>1.</p> <p><b>High-Efficiency Electric Home Rebate Program</b></p>	<p>Income-based rebates to encourage purchase of electric equipment in single and multifamily dwellings</p>	<p>State energy offices will develop locally. The program details will be rolled out by the states.</p>	<p>Can cover up to 100% (low income) or 50% (moderate income); \$8,000 max for HPs; Also includes rebates for electric load service and wiring upgrades. Total rebates are not to exceed \$14,000 per eligible entry.</p>	<p>Equipment must be Energy Star Certified</p>	<p>Low and moderate income homes, multifamily households, and public buildings. New construction can be considered for the rebate.</p>
	<p>2.</p> <p><b>Home Energy-Performance-Based, Whole-House Rebates (The HOMES rebate program)</b></p>	<p>Performance-based rebates for homes and multifamily dwellings</p>	<p>State energy offices must apply for, develop and enforce this rebate program</p>	<p>Up to \$4,000 per dwelling unit  Up to \$8,000 for low and moderate income households</p>	<p>The total rebate amount varies. Retrofits must show measured or modeled overall energy reduction; Local governing bodies must measure or model overall energy reduction retrofit.</p>	<p>All incomes are eligible, but rebates are higher for low &amp; moderate income customers</p>

Breakdown of programs based on Inflation Reduction Act guidance.

## PROGRAM DETAILS AWAITING GUIDANCE

The rebate programs are still awaiting guidance from the U.S. Department of Energy. Once guidance is received, the rebate programs will be administered by state energy offices. It is expected that it will take several months for state-specific programs to roll out.

For full text and qualifications regarding the Inflation Reduction Act, please visit: [H.R.5376 - 117th Congress \(2021-2022\): Inflation Reduction Act of 2022](https://www.congress.gov/bills/117/house/5376) ▶ [Congress.gov](https://www.congress.gov) ▶ [Library of Congress](https://www.libraryofcongress.gov).