

Energy Efficient Home Improvement Tax Credit (25C)*

April 2025

The Energy Efficient Home Improvement Credit (25C) allows taxpayers who make qualified improvements to their homes to claim 30% of the costs as a credit on their taxes.¹ To qualify, the taxpayer claiming the credit must have made eligible upgrades in the given tax year for a property located in the United States, which is used by that taxpayer as their residence. The 25C Tax Credit can also be stacked with the federal Home Energy Rebates offered through State Energy Offices to maximize benefits for consumers.²

25C is a **fuel-neutral** credit. The credit covers efficient **gas, electric, propane, and oil** products along with fuel-neutral envelope upgrades like insulation that support upgrades regardless of fuel type.

In addition to making homes more energy efficient and comfortable, the 25C credit also allows benefits to go directly to the pocket of taxpayers by **lowering tax burdens**.

Taxpayers realize **significant tax savings** by installing 25C-eligible upgrades – and lowered their energy bills by an average of **approximately \$130** in the first year.³



Consumers claim the credits when filling out their tax returns via IRS [Form 5695](#), including any relevant product receipts.

[Internal Revenue Service](#) data shows that **over 2.3 million Americans** claimed the 25C tax credit in 2023. Families **saved an average of \$882** across **all 50 states**.

The 25C Energy Efficient Home Improvement Tax Credit has historically been bipartisan. The credit was signed into law by President Bush in the Energy Policy Act of 2005. However, over time, inflation diminished the value of the credit, as did its lifetime cap on use. Yearly uncertainty over reauthorization also limited its effectiveness.

*This factsheet is for **informational purposes only** and is designed to advise based on legislation and policy guidance released by Congress, the White House and the Internal Revenue Service (IRS). The Building Performance Association and AnnDyl Policy Group are not offering tax advice and the information provided in this document should not be relied upon as legal or accounting advice.

¹ IRA Sec. 13301. For more information on 25C, see IRS's factsheet [here](#). Taxpayers making eligible installations can claim the credit provided they have sufficient tax liability.

² See the AnnDyl Policy Group's [Residential Capital Stack paper](#) for more information.

³ Per the American Council for an Energy-Efficient Economy, families using 25C lowered their energy bills by an average of about \$130 in the first year.

The Inflation Reduction Act (IRA) of 2022 ([H.R. 5376](#)) updated 25C through the end of **2032** and expanded the credit to allow households to deduct **30%** of the costs of eligible upgrades. The IRA update also added new qualified products and larger dollar maximums, while making 25C an **annual credit**. Taxpayers can claim the credit every year for new improvements, however, they cannot carry the credit forward to future years.

The IRA added a new requirement for a product identification number (PIN) assignment system aimed at limiting duplicative or fraudulent taxpayer 25C credit claims--products placed in service after December 31, 2024, can only qualify for 25C if they are produced by a qualified manufacturer, and if the taxpayer includes the qualified PIN of the item on their tax return. The Internal Revenue Service has [issued guidance](#) on how manufacturers can register to become qualified and comply with reporting requirements for products subject to the PIN requirements.

Qualified Expenditures and Credit Amount

Heat Pump, Heat Pump Water Heater, Biomass Stoves & Boilers Equipment Credit

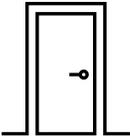
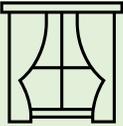
Credit Amount	Product	Requirements
<p>30% of costs, up to \$2,000 total (includes labor).</p>	 <p>Electric or Natural Gas Heat Pump⁴</p>	<p>Highest efficiency Consortium for Energy Efficiency (CEE) tier⁵ (not including any advanced tier) in effect at the beginning of the year when placed in service.</p>
	 <p>Heat Pump Water Heater</p>	<p>Highest efficiency CEE tier (not including any advanced tier) in effect at the beginning of the year when placed in service.</p>
	 <p>Biomass Stoves and Boilers</p>	<p>Must have a thermal efficiency rating of at least 75% (measured by the higher heating value of the fuel).</p>

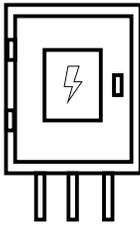
⁴ ENERGY STAR certified [geothermal heat pumps](#) are eligible for a separate tax credit (25D) and are not counted against these credit limits.

⁵ See CEE Specifications [here](#). View the CEE Directory [here](#).

Home Envelope Credit
\$1,200 annual total cap

- Some products **do not** include labor costs, but some **do**. See details below.
- **Envelope** improvements (on this page) are open only to the **principal residences of homeowners and are not** open to second homes or tenants. Energy **property** improvements (on the next page) **are** open to second homes and tenants.
- Per IRS, for building envelope components (listed on this page), the component must reasonably be expected to remain in use for at least five years.

Product	Credit Amount	Requirements
 <p>Exterior Doors</p>	<p>30% of costs (not including labor), up to \$500 total credited annually (\$250 per door)</p>	<p>Must meet applicable ENERGY STAR requirements here.</p>
 <p>Exterior Windows and Skylights</p>	<p>30% of costs (not including labor), up to \$600 credited annually</p>	<p>Must meet ENERGY STAR most efficient certification requirements.</p>
 <p>Building Envelope, including Insulation</p>	<p>30% of costs (not including labor), up to \$1,200 credited annually</p>	<p>Must meet International Energy Conservation Code (IECC) of 2 years prior to the year when the component is placed in service.</p> <p><i>Added:</i> Air sealing <i>Removed:</i> Roofing</p>
 <p>Home Energy Audit</p>	<p>30% of costs (including labor), up to \$150 credited annually</p>	<p>Must be conducted by a certified home energy auditor (see certification requirements here).</p>



Panelboards, Sub-panelboards, Branch Circuits, or Feeders

30% of costs (including labor), up to **\$600** credited annually

Must be installed according to the National Electric Code and have a load capacity of **200 amps** or greater.
Must enable installation and use of other components.

Natural Gas, Propane, or Oil Water Heater

30% of costs (including labor), up to **\$600** credited annually

Highest efficiency CEE tier (not including any advanced tier) in effect at the beginning of the year when placed in service.

Central Air Conditioner

30% of costs (including labor), up to **\$600** credited annually

Highest efficiency CEE tier (not including any advanced tier) in effect at the beginning of the year when placed in service.

Natural Gas, Propane, or Oil furnace or Hot Water Boiler

30% of costs (including labor), up to **\$600** credited annually

Before 2026:
Meet or exceed 2021 Energy Star efficiency criteria and is rated by the manufacturer for use with fuel blends at least 20 percent of the volume of which consists of an eligible fuel.

After 2026:
Achieve an annual fuel efficiency rate of not less than 90 and is rated by the manufacturer for use with fuel blends at least 50 percent of which consists of an eligible fuel.⁶

⁶ For more information, see the ENERGY STAR web pages [Furnaces \(Natural Gas, Oil\) Tax Credits](#) and [Hot Water Boilers \(Natural Gas, Propane, Oil\) Tax Credit](#)

Frequently Asked Questions (FAQs)

Q: Do you need to owe taxes to take advantage of the 25C tax credit?

A: Yes.

Q: Can a taxpayer claim the credits for expenditures incurred for a **newly constructed home**?

A: **No.** For energy efficiency in newly constructed single- and multifamily homes (including manufactured homes), see the separate homebuilder [New Energy Efficient Home Tax Credit](#) (45L).

Q: Are the credits available for a **second home** or an investment property? What about **renters**?

A: Per IRS, the credit for building envelope components (exterior doors, windows and skylights, insulation, air sealing) **is only available for primary residences and is not eligible** for second homes or renters.

However, per IRS, credits for heat pumps, heat pump water heaters, oil and natural gas furnaces, panelboards, and central AC units **are eligible for both second homes and renters.** For specifics, see charts above.

Landlords are **not** eligible to take the credit. Any upgraded home under 25C must be used as a residence by the taxpayer.

Q: What does it mean to meet the 2021 IECC for credit eligibility?

A: Best efforts should be made to meet the insulation levels set by the [2021 IECC](#) taking into account “Chapter 5, Existing Buildings” for each area of the home being upgraded. The credit does not require air leakage testing or third-party certification of compliance.

Q: Since **labor is not** an eligible expense for **building envelope** under the 25C credit, what is considered an eligible expense?

A: Labor has **never** been an eligible expense for **building envelope** under the 25C tax credit.

The contractor should make a reasonable estimate of the qualifying cost of the insulation materials and the non-qualifying labor cost of the project.

Labor **is** an eligible expense for other non-envelope upgrades (heat pumps, water heaters, central AC, and more). For specifics, see charts above.

Q: Can I claim the credit for multiple improvements in the same tax year?

A: There is a **\$1,200** yearly tax credit maximum for insulation, air sealing, energy audits, and energy property like central AC, furnaces, external doors, windows, and more.

Heat pump water heaters, air source heat pumps, biomass stoves and boilers have a **separate** yearly credit limit of **\$2,000**.

In a single year, taxpayers may claim **up to \$3,200** in tax credits for combined upgrades, provided costs fall under each sub-limit.

Q: What types of eligible property require a PIN?

A: Per the IRS, all property eligible for 25C requires a PIN, the only exceptions are insulation materials or systems and enabling property. For heat pumps with indoor and outdoor units, the PIN would only be required for the outdoor unit.

Q: Can 25C stack with Home Electrification and Appliance Rebates (HEAR) or Home Owner Managing Energy Savings (HOMES) rebates?

A: Yes. Taxpayers can apply the 25C credit to remaining costs for the same single upgrade after HOMES or HEAR rebate is applied. However, for the HOMES rebates, they must deduct the proportional share of rebate from tax credit cost basis for eligible equipment, based on share of whole-home project cost.⁷

If you have questions, contact: Skip Wiltshire-Gordon, AnnDyl Policy Group, skip@anndyl.com.

⁷ See IRS Announcement 2024-19: <https://www.irs.gov/pub/irs-drop/a-24-19.pdf>