



ICAA Fact Sheet – 25C Tax Credit (2023)

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2023 Energy Efficient Home Improvement Credit Now Available

Adding insulation and air sealing to your home will lower energy costs and contribute to a clean energy future. An increased annual tax credit is now available. The tax credit is equal to 30% of the amount paid by the taxpaying homeowner for qualified energy efficiency improvements (up to \$1200). These improvements include insulation and air sealing materials. The credit does not apply to labor/installation costs.

How did this come about?

This credit is included in the Inflation Reduction Act of 2022 under Section 25C of the Internal Revenue Code, and applies to improvements made on or after January 1, 2023.

Who is eligible for this federal government incentive (in the form of a tax credit)?

All taxpaying homeowners are eligible. Home must be owned and used by the taxpayer as their principal residence.

How much money will I get back if I am eligible and apply for the tax credit?

The maximum amount of money returned to the homeowner through the tax credit is \$1200. *This is the largest tax credit ever available to homeowners for improvements to their insulation levels, and is an increase from the previous 25C tax credit of \$500.*

What should I do?

Have insulation materials installed. Installing to the prescriptive insulation requirements of the 2021 International Energy Conservation Code will qualify. Generally, this means increasing your insulation to R-49 or R-60 in the attic space, depending on your climate zone. Add air sealing, which is a cost-effective way to improve energy efficiency, increase comfort, and cut heating and cooling costs. An ICAA member insulation contractor can help you figure out how to qualify for the tax credit.

What products qualify?

Insulation materials that reduce heat loss or heat gain from a living space. This includes insulation, air sealants, vapor and air retarders, and recessed light covers.

Where can I have insulation and air sealing materials installed?

Attics are the primary place, where typically you get the biggest bang for the buck. Other areas include exterior wall cavities, basements, and crawlspaces.

Why hire a professional insulation contractor?

Because you want insulation materials professionally installed, in a safe manner, to manufacturer's specifications.

What is a tax credit and how is that different from a tax deduction and a rebate?

A *tax credit* reduces the tax owed, dollar for dollar. For example, a qualifying homeowner who has paid at least \$1200 in taxes for the calendar year can request a tax credit (a reduction in taxes) of \$1200, when filing their 2023 tax forms. A taxpayer must have sufficient tax liability to claim all or a portion of the credit in the year in which the qualifying expenditure is placed in service.

This differs from a *tax deduction* reduces the amount of income taxed and is not as valuable as a tax credit, and a rebate which is a reduction in the purchase price to the purchaser.

How does one get the tax credit?

By completing [IRS Form 5695 "Residential Energy Credits"](#). Include it when you file your 2023 taxes. If you have taken this tax credit in previous years, you are not excluded from qualifying for the 2023 tax credit.

Important Points to Remember

1. When calculating the tax credit, the total amount of the job does not include the amount paid for the onsite installation of the materials. The taxpayer must make a reasonable allocation between the qualifying cost of the property and the nonqualifying onsite labor cost of the installation. An ICAA member insulation contractor can help you figure this out.
2. Taxpayers can rely on a certification statement from the insulation manufacturer that the product is an eligible building envelope component for the tax credit. However, this statement should not be attached to IRS Form 5695 when filing your 2022 taxes.
3. Have the energy efficiency improvements installed in 2023.
4. A tax credit of 30% of the cost up to \$150 is available for certified home energy audits performed during 2023.

5. There is a \$1200 aggregate yearly tax credit maximum for building envelope components, home energy audits, and energy property such as efficient air conditioners, furnaces, water heaters, and exterior doors and windows.

6. Credits cannot be carried forward, nor are they refundable, which means if you have no tax liability for the year (not just at tax filing time), you do not get a tax refund for the amount of the credit.

For more information, contact icaa@insulate.org, visit www.insulate.org or call ICAA at 703.739.0356.