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Residential Clean Energy Property Credit

Cross References

- FS-2025-01, January 2025
- IRC §25D

The IRS recently updated its frequently asked questions (FAQs) on the Residential Clean Energy Property Credit. These updated FAQs supersede earlier FAQs that were issued in 2024.

General overview. The Residential Clean Energy Property Credit is a 30% credit for certain qualified expenditures made by a taxpayer for residential energy efficient property, with no lifetime credit limit. The Residential Clean Energy Property Credit has been extended through 2034. The applicable credit percentage rates have been modified, and a new qualified battery storage technology has been added as an eligible expenditure. This new modified credit applies to property placed in service after December 31, 2021, and before January 1, 2033. The credit percentage rate phases down to 26% for property placed in service in 2033 and 22% for property placed in service in 2034. No credit is available for property placed in service after December 31, 2034.

Qualifying expenditures and credit amount.

Q1. What residential clean energy expenditures are eligible for the credit, and how much is the credit?

A1. The following expenditures are eligible for a Residential Clean Energy Property Credit of 30% of the cost:

- Qualified solar electric property expenditures (solar panels),
- Qualified solar water heating property expenditures (solar water heaters),
- Qualified fuel cell property expenditures,
- Qualified small wind energy property expenditures (wind turbines),
- Qualified geothermal heat pump property expenditures, and
- Qualified battery storage technology expenditures.

Q2. Are roofing expenditures that were necessary for the installation of solar panels eligible for the credit?

A2. In general, traditional roofing materials and structural components do not qualify for the credit because they primarily serve a roofing or structural function. However, some solar roofing tiles and solar roofing shingles serve as solar electric collectors while also performing the function of traditional roofing, serving both the functions of solar electric generation and structural support and such items qualify for the credit.

Q3. Is there a dollar limit on the credit?

A3. No, there is no overall dollar limit for the credit. The credit is generally limited to 30% of qualified expenditures made for property placed in service beginning in 2022 through

2032. However, the credit allowed for qualified fuel cell property expenditures is 30% of the expenditures up to a maximum credit of \$500 for each half kilowatt of capacity of the qualified fuel cell property. In the case of a residence or dwelling unit that is jointly occupied by two or more individuals, the maximum amount of such fuel cell property expenditures used to calculate the credit amount for all individuals living in that dwelling unit during a calendar year is limited to \$1,667 for each half kilowatt of capacity of qualified fuel cell property.

Energy efficiency requirements.

Q1. What energy efficiency requirements must be met to qualify for the credit?

A1. The following energy efficiency requirements must be met to qualify for the credit:

- Qualified solar water heating property: must be certified for performance by the non-profit Solar Rating Certification Corporation or a comparable entity endorsed by the government of the State in which such property is installed.
- Qualified fuel cell property: must have a rated capacity of 0.5 kilowatts or more.
- Qualified geothermal heat pump property: must meet the requirements of the Energy Star program which are in effect at the time that the expenditure for such equipment is made.
- Qualified battery storage technology property: must have a capacity of 3 kilowatt-hours or greater.

Qualifying residence.

Q1. What type of residence is required for the credit? For example, is the credit available for expenditures for a home rented by the taxpayer or for a second home?

A1. A taxpayer claiming the credit for qualified solar electric property expenditures, qualified solar water heating property expenditures, qualified small wind energy property expenditures, qualified geothermal heat pump property expenditures, and qualified battery storage technology expenditures must have incurred such expenditures for a home located in the United States and used as a residence by the taxpayer. In this case, the taxpayer may rent the home for which such expenditures are incurred, and such expenditures may be incurred for the taxpayer's second home.

A taxpayer claiming the credit for qualified fuel cell property expenditures must have installed such property on or in connection with a home located in the United States and used as a principal residence by the taxpayer. In this case, the taxpayer may rent the home on (or in connection with) which such property is installed. Due to the principal residence requirement, a taxpayer who installs such property on (or in connection with) the taxpayer's second home would not be entitled to the credit.

The credit is never available for homes not used as a residence by the taxpayer. For example, landlords can never use the credit for homes they rent out but do not use as a residence themselves.

Q2. Can a taxpayer claim the credit for expenditures incurred for an existing home? What about a newly constructed home?

A2. A taxpayer can claim the credit for qualifying expenditures incurred for either an existing home or a newly constructed home.

Q3. May a taxpayer claim the credit if the qualified property is also used for business purposes, such as in a dwelling unit in which the taxpayer also conducts a business?

A3. If a taxpayer uses property solely for business purposes, the property will not qualify for the credit. A taxpayer who qualifies for the credit and whose use of the qualified property for business purposes is not more than 20% of the total use may claim the full credit. A taxpayer who otherwise qualifies for the credit, but whose use of the qualified property for business purposes exceeds 20%, must calculate the amount of credit by including only that portion of the expenditures for the property that are properly allocable to use for nonbusiness purposes.

Labor costs.

Q1. May a taxpayer include labor costs when calculating the credit?

A1. Yes. A taxpayer may include the labor costs properly allocable to the onsite preparation, assembly, or original installation of the qualified property, and for piping or wiring to interconnect the qualifying property to the home.

Timing of credit.

Q1. May a taxpayer carry forward an unused credit to a later taxable year?

A1. Yes. A taxpayer may carry forward the unused amount of the credit to reduce tax liability in future taxable years.

Q2. How long does a taxpayer have to claim the credit?

A2. The credit is allowed for a taxable year for certain amounts a taxpayer pays or incurs during such taxable year. For example, assuming all other requirements have been met for the credit, taxpayers that incur qualifying expenses in taxable year 2025 may claim the credit on their tax returns filed for taxable year 2025.

Q3. Can a taxpayer who did not claim the credit on a previously filed tax return amend the return to claim the credit?

A3. Yes. Generally, to claim a refund, a taxpayer must file an amended return within 3 years after the date the original return was filed, or 2 years after the date the tax was paid, whichever is later.

General questions.

Q1. Will a taxpayer qualify for the credit if the property installed has been used by another individual?

A1. No. Used property is not eligible for the credit.

Q2. Is the credit refundable or nonrefundable?

A2. The credit is a nonrefundable personal tax credit. A taxpayer claiming a nonrefundable credit can only use it to decrease or eliminate tax liability. A taxpayer will not receive a tax refund for any amount of the credit that exceeds the taxpayer's tax liability for the year.

Q3. Is a taxpayer who is subject to the alternative minimum tax (AMT) eligible to claim the credit?

A3. Yes. A taxpayer who is subject to the AMT is eligible to claim the credit and may offset the AMT with the credit.

Q4. What happens to the credit if a government or a public utility provides a subsidy (for example, an incentive, grant, or rebate) to a taxpayer to purchase or install qualifying property?

A4. The answer depends on the facts that apply to each taxpayer.

- **Public utility.** Generally, if a public utility provides (directly or indirectly) a subsidy to a customer for the purchase or installation of any energy conservation measure, the value of the subsidy is not included in the customer's gross income. A taxpayer may not claim a credit for the amount of the subsidy that is used to purchase or install qualifying property. This rule applies whether a third-party contractor receives a subsidy on behalf of the taxpayer, or the taxpayer receives the subsidy directly. Payments from public utilities to compensate taxpayers for excess generated electricity delivered to the utility's electrical grid (for example, net metering credits) are not subsidies for installing qualifying property and do not affect taxpayers, credit qualification or amounts.
- **Rebates.** Rebates generally represent a reduction in the purchase price or cost of property, so the tax credit amount must be reduced by the amount of the rebate. In general, rebates are nontaxable purchase price reductions if they are based on or related to the cost of the property, received from someone having a reasonable connection to the sale of the property (for example, the manufacturer, distributor, or seller/installer), and do not represent payment or compensation for services provided by the taxpayer. The IRS will treat as rebates amounts paid with funds from the Department of Energy's "Home Energy Rebate Programs" for the purchase of energy efficient property and improvements. See Announcement 2024-19 for details.
- **State energy-efficiency incentives.** A state may provide incentives to encourage taxpayers to purchase property that also qualifies for the credit. Generally, a taxpayer is not required to reduce the purchase price or cost of property acquired with a governmental energy-efficiency incentive unless that incentive qualifies as a rebate under federal income tax law. While many states label their energy-efficiency incentives as "rebates" that reduce the purchase price, these incentives may not qualify as rebates under federal income tax law, and the amount of the incentive could be included in the taxpayer's gross income for federal income tax purposes.

Q5. How does a taxpayer claim the credit?

A5. Use IRS Form 5695, *Residential Energy Credits*, and file it with your federal income tax return for the year the credit is claimed.

Q6. What kind of records does a taxpayer have to keep for the credit, and for how long?

A6. Taxpayers are generally required to keep records sufficient to establish the amount of the credit on their tax returns, and are generally required to keep such records for as long as their contents may become material in the administration of any internal revenue law.

Q7. Can taxpayers include financing costs such as interest payments in determining the amount of the credit?

A7. No. Financing costs such as interest, as well as other miscellaneous costs such as origination fees and the cost of an extended warranty, are not eligible expenditures for purposes of the credit.