

***On January 1, 2023, an increased tax credit became available to homeowners who upgrade their insulation and add air sealing in their homes, per Section 25C of the Internal Revenue Code as part of the Inflation Reduction Act of 2022. Below are some basic FAQs regarding this increased credit and how homeowners can apply. Have more questions?***

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### **What is the Energy Efficient Home Improvement Credit?**

Adding insulation and air sealing to your home will lower energy costs and contribute to a clean energy future. To sweeten the deal to upgrade your insulation, the federal government is offering a significant tax credit which can shave as much as \$1,200 off your tax bill. A tax credit is an amount of money that taxpayers can subtract from the income taxes they owe.

The tax credit is equal to 30% (up to \$1,200) of the amount paid by the taxpaying homeowner for qualified energy efficiency improvements installed during the year. These improvements include insulation and air sealing materials. The credit does not apply to labor/installation costs.

### **How do I conserve energy and reduce greenhouse gas emissions?**

No other energy conservation system is quicker to install, less costly, or more certain to succeed than air sealing and insulation. Insulation is a cost-effective, energy-saving measure that increases building comfort while reducing greenhouse gas emissions and contributing to a green environment.

### **How did this come about?**

This tax incentive to make your home more energy efficient is part of the new climate and tax law, the Inflation Reduction Act of 2022, under Section 25C of the Internal Revenue Code, and applies to insulation upgrades 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. The home must be owned and used by the taxpayer as their principal residence. The tax credit is not applicable to a newly constructed home. Homeowners who have no tax liability are not eligible for the tax credit.

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

For homeowners who improve their insulation levels, the maximum amount of money returned to the homeowner through the tax credit is \$1,200.

### **What do I need to do to get the tax credit?**

1. Have insulation materials installed during the year. 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.
2. You can also choose to air seal, which is a cost-effective way to improve energy efficiency, increase comfort, and cut heating and cooling costs.
3. It's a good idea to keep proper documentation of the work including the installation contract or receipt.
4. File [IRS Form 5695](#) along with your Form 1040.

An ICAA member insulation contractor can help you figure out how to qualify for the tax credit.

### **How do I know if my house needs more insulation and air sealing?**

There are over 78 million homes that today remain *underinsulated*. This is likely the result of older, less stringent energy codes and some homebuilders who focused on low-cost options during construction. This is an ideal time to bring your insulation levels up to today's standards.

### **What products qualify?**

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

### **Where can I have these products installed?**

Attics are the primary place and where typically you get the biggest bang for the buck. Other areas include exterior wall cavities, basements, crawlspaces, garage ceilings, bonus rooms, and the attic access panel/drop-down stair.

### **Why hire a professional insulation contractor?**

Because you want insulation materials professionally installed, in a safe manner, to manufacturer's specifications and to ASTM Standards. For example, improper preparation and installation of insulation can enable moisture/mold issues, trap existing house toxins, enable some fire risks and other unsafe conditions due to heat buildup in some recessed lighting fixtures.

### **What do professional insulation contractors do?**

They follow the U.S. Federal Trade Commission R-value Rule which governs the sale of insulation by manufacturers and professional installers. Insulation contractors must show the customer the required FTC Fact Sheet before the sale, typically with their bid.

### **What are installers required to tell their customers?**

Pursuant to the U.S. Federal Trade Commission, insulation contractors must give their customers a contract or receipt for the insulation installed. For all insulation except loose-fill and reflective insulation, the receipt must show the coverage area, thickness, and R-value of the insulation installed. The receipt must be dated and signed by the contractor. For loose-fill, the receipt must show the coverage area, initial installed thickness, minimum settled thickness, R-value, and the number of bags used. For reflective insulation, the receipt must show the number and thickness of the air spaces, the direction of heat flow, and the R-value.

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

A *tax credit* reduces the federal tax owed, dollar for dollar. A *tax deduction* reduces the amount of income taxed and is not as valuable as a tax credit. Suppose you prepare your 2023 tax return and owe \$3,000. If you qualify for a \$1,200 tax credit, then you will only owe \$1,800.

### **What form do I need to file with my taxes to get this credit?**

It's rather simple to get the tax credit. Get the insulation work done during the year and file [IRS Form 5695 "Residential Energy Credits"](#) the following year when you file your taxes. If you have taken this tax credit in tax years 2022 and before, that's okay - - you are not excluded from qualifying for the new 2023 tax credit. The only way anyone can get the credit is by filing a tax return and claiming the credit.

### **Do I need a manufacturer's certification statement that the building envelope component used is an eligible building envelope component?**

In previous years, for purposes of taking the credit, taxpayers were permitted to rely on a manufacturer's certification in writing that a building envelope component was an eligible building envelope component. This is no longer a requirement.

## Important Points to Remember

1. When calculating the tax credit, the total amount of the job does not include any amounts paid for the onsite preparation, assembly, or 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. Have the energy efficiency improvements installed in 2023 or subsequent years. The 25C tax credit resets every year, so multiple improvements over multiple years will be available.
3. A tax credit of 30% of the cost of a home energy audit up to \$150 is available for a home energy audit performed during the year. A home energy audit or a home inspection preceding or following the install is not required. An inspection and written report are required to be eligible for the home energy audit tax credit. The written report must identify the most significant and cost-effective energy efficiency improvements, including an estimate of the energy and cost savings for each such improvement. The U.S. Department of the Treasury and the Internal Revenue Service will be issuing guidance regarding what certification or other requirements the home energy auditor must have.
4. There is a \$1,200 aggregate yearly tax credit maximum for building envelope components such as insulation and air sealing; home energy audits; and energy property such as efficient air conditioners, furnaces, water heaters, exterior doors and windows, and skylights.
5. 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.