

## Part III - Administrative, Procedural, and Miscellaneous

### Guidance on Requirements for Home Energy Audits for Purposes of the Energy Efficient Home Improvement Credit under Section 25C

Notice 2023-59

#### SECTION 1. PURPOSE

This notice announces that the Department of the Treasury (the Treasury Department) and the Internal Revenue Service (IRS) intend to propose regulations (forthcoming proposed regulations) addressing the requirements for home energy audits with respect to the energy efficient home improvement credit under § 25C of the Internal Revenue Code (Code),<sup>1</sup> as amended by § 13301 of Public Law 117-169, 136. Stat. 1818 (August 16, 2022), commonly known as the Inflation Reduction Act of 2022 (IRA). Sections 2 and 3 of this notice provide relevant background and definitions, respectively, with respect to the energy efficient home improvement credit allowed under § 25C (§ 25C credit). Section 4 of this notice specifies the requirements that the forthcoming proposed regulations would set forth for qualifying as a home energy auditor for purposes of the § 25C credit. Sections 5 and 6 of this notice specify the substantiation requirement and transition rule, respectively, that the forthcoming proposed regulations would establish for taxpayers claiming the § 25C credit with respect to home energy audits. Section 7 addresses the application of the Paperwork Reduction Act to this notice. The Treasury Department and the IRS also intend to

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<sup>1</sup> Unless otherwise specified, all “section” or “§” references are to sections of the Code or the Income Tax Regulations (26 CFR part 1).

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propose that the forthcoming proposed regulations would apply to taxable years ending after December 31, 2022. Until the issuance of the forthcoming proposed regulations, taxpayers may rely on the rules described in sections 3 through 6 of this notice.

## SECTION 2. BACKGROUND

### .01 Energy Efficient Home Improvement Credit

Section 25C was originally enacted by § 1333(a) of the Energy Policy Act of 2005, Pub. L. 109-58, 119 Stat. 594, 1026 (August 8, 2005), to provide a tax credit for the purchase and installation of certain energy efficient improvements in taxpayers' principal residences. Congress has amended § 25C several times since its original enactment, most recently under § 13301 of the IRA, which renamed this provision the "energy efficient home improvement credit" and provided that § 25C, as amended by the IRA, applies to property placed in service prior to January 1, 2033.

Section 13301(b) and (f) of the IRA amended § 25C(a) to allow a credit amount equal to 30 percent of the sum of the amounts that individual taxpayers pay or incur during a taxable year for (1) qualified energy efficiency improvements installed during the year, (2) residential energy property expenditures, and (3) home energy audits.

As amended by § 13301(c) of the IRA, the § 25C credit is generally limited to an annual cap of \$1,200. Within this \$1,200 limitation, § 25C(b) sets forth further annual caps for certain categories of improvements. The caps and categories of improvements under these limitations are as follows: \$600 for any item of qualified energy property, as defined in § 25C(d)(2); \$600 for exterior windows and skylights; \$250 for any single exterior door and \$500 in the aggregate for all exterior doors; and \$150 for home energy audits. Section 25C(b) also provides that residential energy property expenditures for

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heat pumps, heat pump water heaters, biomass stoves, and biomass boilers are not subject to the annual cap of \$1,200 or to the \$600 limitation for any item of qualified energy property. Instead, residential energy property expenditures for these items are subject to a separate aggregate annual limitation of \$2,000. Section 25C(d) provides that the term “residential energy property expenditures” includes expenditures for labor costs properly allocable to the onsite preparation, assembly, or original installation of the property.

#### .02 Credit for Home Energy Audit Expenditures

Section 13301(f) of the IRA amended § 25C to expand the types of expenditures eligible for the § 25C credit to include expenditures for home energy audits. Section 25C(e) defines the term “home energy audit” as an inspection and written report with respect to a dwelling unit located in the United States and owned or used by the taxpayer as the taxpayer’s principal residence (within the meaning of § 121). The audit must (1) identify the most significant and cost-effective energy efficiency improvements with respect to such dwelling unit, including an estimate of the energy and cost savings with respect to each such improvement, and (2) be conducted and prepared by a home energy auditor that meets the certification or other requirements specified by the Secretary of the Treasury or her delegate (Secretary) in regulations or other guidance. The IRA also imposed two limitations on this credit. First, as described above, § 25C(b)(6)(A) limits the credit allowed for amounts paid or incurred by the taxpayer during the taxable year for home energy audits up to \$150. Under this limit, for example, a taxpayer that pays \$1000 for a home energy audit during the taxable year may only claim a \$150 credit for such taxable year for this expenditure, and not the full

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30 percent of the amount of the expenditure, even if the taxpayer does not have any other expenditures eligible for the § 25C credit during the taxable year. Second, § 25C(b)(6)(B) imposes a substantiation requirement, requiring taxpayers claiming the credit to include with their tax returns “such information or documentation as the Secretary may require”.

In [Notice 2022-48](#), 2022-43 I.R.B. 305, the Treasury Department and the IRS requested comments on various questions arising from the IRA’s energy efficiency provisions. Among other questions, the notice requested comments on what certification or other requirements the Treasury Department and the IRS should require for home energy auditors that conduct the inspection and provide the written report that constitutes a “home energy audit” that qualifies for the § 25C credit.

The Treasury Department and the IRS published a [Fact Sheet](#) (FS-2022-40) on December 22, 2022, addressing “frequently asked questions about energy efficient home improvements and residential clean energy property credits.” This Fact Sheet provides that a qualifying home energy audit “must include an inspection of a dwelling, including condominiums and certain manufactured homes, located in the United States that is owned or used by the taxpayer as the taxpayer’s principal residence. The home energy auditor must provide a written report (to the taxpayer) that identifies the most significant and cost-effective energy efficiency improvements for that dwelling, including an estimate of the energy and cost savings for each such improvement. The auditor must meet the certification or other requirements specified by the Department of the Treasury and the Internal Revenue Service in forthcoming guidance.” The Fact Sheet also clarifies that the § 25C credit with respect to home energy audits may be claimed

by a taxpayer renting a home as their principal residence provided such home is located in the United States.

### SECTION 3. DEFINITIONS

.01 Home Energy Audit Credit. The term “Home Energy Audit Credit” means the § 25C credit allowed to individuals by reason of § 25C(a)(3) equal to 30 percent of the amount paid or incurred for Home Energy Audits in the taxable year, up to \$150 per taxable year.

.02 Home Energy Audit. The term “Home Energy Audit” means an inspection and written report (audit) with respect to a dwelling unit located in the United States and owned or used by the taxpayer as the taxpayer’s principal residence (within the meaning of § 121) that meets each of the following requirements.

(1) The audit identifies the most significant and cost-effective energy efficiency improvements with respect to such dwelling unit, including an estimate of the energy and cost savings with respect to each such improvement,

(2) The inspection is conducted either by a Qualified Home Energy Auditor or under the supervision of a Qualified Home Energy Auditor,

(3) The written report is prepared and signed by a Qualified Home Energy Auditor, and

(4) The audit is consistent with the most recent Department of Energy (DOE)-led and industry-validated Jobs Task Analysis.<sup>2</sup>

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<sup>2</sup> The [Single-Family Energy Auditor Job Task Analysis](#) and a [Multifamily Energy Auditor Job/Task Analysis and Report](#) were developed by the National Renewable Energy Laboratory. Public comment informed the development of these documents. See Workforce Guidelines for Home Energy Upgrades, 75 FR 68781 (Nov. 9, 2010), available at: <https://www.federalregister.gov/documents/2010/11/09/2010-28289/workforce-guidelines-for-home-energy-upgrades>.

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.03 Qualified Home Energy Auditor. The term “Qualified Home Energy Auditor” means an individual who is a home energy auditor that is certified by a Qualified Certification Program at the time of the Home Energy Audit.

.04 Qualified Certification Program. The term “Qualified Certification Program” means a certification program described in section 4.03 of this notice.

#### SECTION 4. CERTIFICATIONS AND OTHER REQUIREMENTS FOR QUALIFIED HOME ENERGY AUDITORS.

.01 In General. Except as otherwise provided in section 6 of this notice, the forthcoming proposed regulations would provide that a taxpayer may claim the Home Energy Audit Credit for a taxable year only if the taxpayer pays or incurs amounts for a Home Energy Audit.

.02 Written Report. The forthcoming proposed regulations would require the Qualified Home Energy Auditor to provide the following information in the written report:

(1) The Qualified Home Energy Auditor’s name and the relevant employer identification number (EIN) or other type of relevant taxpayer identifying number as referenced in § 301.6109-1(a)(1)(i) of the Procedure and Administration Regulations (26 CFR part 301) in lieu of an EIN,<sup>3</sup>

(2) An attestation that the Qualified Home Energy Auditor is certified by a Qualified Certification Program, and

(3) The name of such Qualified Certification Program.

.03 Qualified Certification Program. A Qualified Certification Program is a certification program that satisfies the criteria described in section 4.03(1) and (2) of this

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<sup>3</sup> If the Qualified Home Energy Auditor is acting in his or her capacity as a partner in a partnership, or as an employee of any person, whether an individual, corporation, or partnership, the relevant EIN is the EIN of the partnership or the person who employs the Qualified Home Energy Auditor.

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notice for certifying home energy auditors and that is included in the list described in section 4.04 of this notice.

(1) The certification program must be reviewed and evaluated through the most recent DOE-led and industry-validated Jobs Task Analysis, demonstrating substantial alignment with key duties, tasks, knowledge, skills, and abilities of home energy auditors.

(2) The certification program must satisfy one of following standards development processes:

(a) The credentials are developed and maintained in accordance with industry standards using criteria such as those cited in the Department of Labor (DOL) Training and Employment Notice No. 25-19<sup>4</sup>, Attachment I, section b., or the most recent guidance from DOL on characteristics of credentials; or

(b) The program is accredited by the American National Standards Institute (ANSI), International Accreditation Service, or other qualified accreditation bodies that are in compliance with ISO/IEC 17024:2012, Conformity assessment – General requirements for bodies operating certification of persons.

.04 Qualified Certification Programs List. The list of Qualified Certification Programs is maintained by the DOE at the following web address:

<https://www.energy.gov/eere/buildings/25c-energy-efficient-home-improvement-credit>.

The listed Qualified Certification Programs are the exclusive certification programs through which an auditor can qualify as a Qualified Home Energy Auditor, and that will

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<sup>4</sup> Employment & Training Administration Training and Employment Notice No. 25-19 (Jun. 08, 2020) available at: <https://www.dol.gov/agencies/eta/advisories/training-and-employment-notice-no-25-19>.

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allow a taxpayer to claim the Home Energy Audit Credit. DOE intends to update the list on a rolling basis as it identifies additional Qualified Certification Programs.

#### SECTION 5. SUBSTANTIATION REQUIREMENT

The forthcoming proposed regulations would provide that taxpayers claiming the Home Energy Audit Credit would be in compliance with the substantiation requirement under § 25C(b)(6)(B) if they (1) maintain the written report signed by the Qualified Home Energy Auditor as a record, pursuant to the general recordkeeping and retention requirements under § 6001 and §1.6001-1, and (2) comply with the instructions for Form 5695, *Residential Energy Credits*, or any successor form required by the IRS.

#### SECTION 6. TRANSITION RULE

With respect to home energy audits conducted during taxable years ending after December 31, 2022, and conducted on or before December 31, 2023, a home energy auditor is not required to be a Qualified Home Energy Auditor as defined in section 3.03 of this notice. Therefore, taxpayers that paid or incurred expenses for a home energy audit that meets the requirements of § 25C, and that was conducted during taxable years ending after December 31, 2022, and conducted on or before December 31, 2023, may claim a Home Energy Audit Credit for such audit even if the auditor who conducted the home energy audit was not a Qualified Home Energy Auditor, as defined in section 3.03 of this notice, at the time of the home energy audit. However, taxpayers may not claim a Home Energy Audit Credit for home energy audits conducted after December 31, 2023, that were not conducted by a Qualified Home Energy Auditor.

#### SECTION 7. PAPERWORK REDUCTION ACT

The Paperwork Reduction Act of 1995 (44 U.S.C. 3501-3520) ("PRA")



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generally requires that a federal agency obtain the approval of the Office of Management and Budget (OMB) before collecting information from the public, whether such collection of information is mandatory, voluntary, or required to obtain or retain a benefit. An agency may not conduct or sponsor, and a person is not required to respond to, a collection of information unless the collection of information displays a valid OMB control number.

The collection of information contained in this notice includes recordkeeping requirements, as detailed in section 5 of this notice. These recordkeeping requirements are approved by OMB under 1545-0074.

Additionally, the notice includes a third-party disclosure requirement for Qualified Home Energy Auditors to provide a written report (to the taxpayer) that identifies the most significant and cost-effective energy efficiency improvements for that dwelling, including an estimate of the energy and cost savings for each such improvement. The disclosure of these reports is considered a usual and customary business practice provided during the normal course of business in conducting a Home Energy Audit. This customary business practice imposes no additional burden on respondents.

#### SECTION 8. CONTACT INFORMATION

The principal author of this notice is the Office of Associate Chief Counsel (Passthroughs & Special Industries). For further information regarding this notice contact the Office of Associate Chief Counsel (Passthroughs & Special Industries) at (202) 317-6853 (not a toll-free call).