

*IRS, Department of Treasury Release Notice Relating to Energy Efficiency Rebate*

Earlier this month, the Internal Revenue Service (“IRS”) announced guidance as to treatment under the Internal Revenue Code (“Code”) regarding amounts paid toward purchasing energy efficient property and improvements related thereto under Rebate Programs offered by the Department of Energy (“DOE”) pursuant to the Inflation Reduction Act of 2022 (“IRA”).<sup>1</sup> Significantly, the guidance clarifies that amounts received under Home Energy Rebate Programs offered by the IRA to taxpayers will not be taxed as income, instead counting as a reduction in the price paid for such upgrades and projects.

Under the IRA, multiple Home Energy Rebate Programs were established by the Department of Energy in an attempt to spur interest in whole-house energy saving retrofits and high-efficiency home electrification projects. Under Public Law 117-169 § 50121, funds are to be distributed to State energy offices in order to establish a rebate program for owners of residential property to engage in whole-house energy-saving retrofits.<sup>2</sup> Under Section 50122, a separate program was established to distribute funds to both State energy offices and Indian

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<sup>1</sup> IRS Announcement 2024-19, Federal Tax Treatment of Amounts Paid toward the Purchase of Energy Efficient Property and Improvements under Department of Energy Home Energy Rebate Programs Pursuant to Sections 50121 and 50122 of the Inflation Reduction Act of 2022 (<https://www.irs.gov/pub/irs-drop/a-24-19.pdf>).

<sup>2</sup> Public Law 117-169 § 50121.

Tribes to establish a separate rebate program for owners and occupants of residential property for certain qualified electrification projects.<sup>3</sup>

Following the IRA regulations and establishment of these Home Energy Rebate Programs, a subsequent application for participation in such Programs released by the DOE clarified that the goal was to accelerate the transition of efficient home energy systems through “well-established exemplary and innovative efficiency and electrification programs; widespread access and uptake for disadvantaged communities; proven value streams and roles for sustained investments to continue market transformation; and reduced pollution from buildings in support of the clean energy economy.”<sup>4</sup> In connection with these Home Energy Rebate Programs, participating States, the District of Columbia and Indian Tribes have begun the application process for allocation of funds to provide rebates to property owners therein under the parameters of each of their specific Home Energy Rebate Programs. All such applications outlining each individual State’s Home Energy Rebate Program details must be submitted ahead of the DOE deadline of January 31, 2025.<sup>5</sup>

The recent IRS announcement details treatment of rebates paid to or on behalf of a purchaser under the anticipated Home Energy Rebate Programs. Importantly, the IRS makes clear that such a rebate will be treated as a purchase price adjustment for a purchaser for Federal income tax purposes, and therefore not includible in a purchaser’s gross income.<sup>6</sup> The IRS also notes that for any rebate provided at the time of a sale, the rebate amount cannot be included in a

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<sup>3</sup> Public Law 117-169 § 50122.

<sup>4</sup> See 1.1 Introduction, U.S. Department of Energy Inflation Reduction Act Home Energy Rebates Program Requirements and Application Instructions, Version 1.1 ([https://www.energy.gov/sites/default/files/2023-10/home-energy-rebate-programs-requirements-and-application-instructions\\_10-13-2023.pdf](https://www.energy.gov/sites/default/files/2023-10/home-energy-rebate-programs-requirements-and-application-instructions_10-13-2023.pdf)).

<sup>5</sup> See U.S. Department of Energy Inflation Reduction Act Home Energy Rebates Program Requirements and Application Instructions, Version 1.1.

<sup>6</sup> See IRS Announcement 2024-19, p3.

purchaser's cost basis, meaning that for an eligible property which receives a rebate of \$500 and has a sales price before such rebate of \$1,000, the purchaser's cost basis in the property would be the \$500 difference.<sup>7</sup> In the case of a rebate provided at a later time, the rebate amount is an adjustment to basis under the Code's Section 1016 allowing property adjustments in certain cases. Additionally, the IRS make clear that any payment of a rebate amount to a purchaser treated as a purchase price adjustment is not subject to any information reporting, which is generally required from any payor on payments of amounts in excess of \$600 to a person who files returns and statements about the amounts paid.<sup>8</sup>

In the case of business taxpayers, such as contractors, the IRS announcement separately address treatment of rebate amounts for such taxpayers. More specifically, any payment of a rebate amount made to a business taxpayer in connection with one of the Home Energy Rebate Programs is not excluded from the business taxpayer's gross income when made in connection with the business taxpayer's sale of goods or provision of services to a purchaser.<sup>9</sup> It follows that such rebate amounts must also be computed as part of a business taxpayer's taxable income.<sup>10</sup> One distinct difference that business taxpayers must know is that for payment of rebates made directly to a business taxpayer in an amount in excess of \$600, payments which are includable in the business taxpayer's gross income and not solely attributable to gross receipts from the sale of goods are subject to information reporting under the Code's Section 6041, unless the business taxpayer is a taxable corporation or another exception applies.<sup>11</sup> This differs from information reporting required as outlined above.

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<sup>7</sup> IRS Announcement 2024-19, p4.

<sup>8</sup> IRS Announcement 2024-19, p4-5.

<sup>9</sup> IRS Announcement 2024-19, p5.

<sup>10</sup> *Id.*

<sup>11</sup> *Id.*

The IRS also released information pertaining to the expanded Federal income tax credit available for energy efficiency improvements. When the IRA expanded Section 25C of the Code to amend the offering of energy efficient home improvement credits, taxpayers were able to take advantage of such for certain onsite installation costs, and up to 30 percent of qualified expenditures under such credits offered by Section 25C. While 25C credits available are generally limited to an annual cap of \$1,200, an additional may also be \$2,000 available for improvements that include electric or natural gas heat pumps, water heaters or biomass stoves and boilers.<sup>12</sup> For taxpayers that seek to receive these 25C credits at the same time as use of the Home Energy Rebate Programs provided for under the IRA, such taxpayer must reduce the amount of qualified expenditures used to calculate the 25C credits received from the amount of rebate received under one of the Home Energy Rebate Programs. As an example, if a taxpayer receives a \$100 rebate through one of the Home Energy Rebate Programs for a product that costs \$500, the 30 percent credit is applied to the remaining \$400 of qualifying expenditures.<sup>13</sup> For a taxpayer that purchases product eligible for both 25C credits and a rebate under § 50121 relating to whole-house energy-saving retrofits, the taxpayer must allocate pro rata amounts received as rebates to individual itemized expenditures as a share of the total project cost to determine amounts paid or incurred relating to the receipt of 25C credits.<sup>14</sup>

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<sup>12</sup> IRS Announcement 2024-19, p6.

<sup>13</sup> IRS Announcement 2024-19, p6-7.

<sup>14</sup> IRS Announcement 2024-19, p7.

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