



INFLATION REDUCTION ACT

How are heat pumps incentivized by the expansion of 25C or new rebate programs?

Heat pumps are among the energy efficient home appliances incentivized through the IRA's various programs.

The expanded *Energy Efficient Home Improvement tax credit* (25C) offers an annual credit of 30% of the project's cost, and up to \$2,000 for a qualifying heat pump.

The *Home Energy-Performance Based Whole House Rebates* (The HOMES rebate) can pay up to \$4,000 per dwelling or up to \$8,000 for LMI homes or multifamily. However, the total rebate amount varies depending on the type of property, the retrofit and homeowner's income levels.

The *High-Efficiency Electric Home Rebate Program* pays between 50% and 100% of the cost of installing a heat pump up to \$8,000 for qualifying homeowners, tenants, and multi-family landlords depending on the income and total cost of the project.

Are there specific requirements in the Inflation Reduction Act guidance on what equipment must be replaced for the tax credits or rebate programs?

The expanded 25C tax credit value does not vary based on the piece of equipment a homeowner chooses to replace. In fact, a homeowner can use the tax credits to purchase gas, oil, or propane-fired equipment.

The expanded 45L tax credit targets developers and building contractors for new construction or manufactured homes to install Energy Star certified or DOE Zero Energy Ready requirements. As this is targeting new construction, there is not a requirement around what is replaced.

However, the Energy Efficiency Rebate Programs technical requirements will vary.

- For the *HOMES Rebate* program, the guidance will need to be determined by the state energy offices and the overall energy reduction of the retrofit.
- The *High-Efficiency Electric Home Rebate* program guidance does require the applicant to replace non-electric equipment, meaning one must replace a fossil fuel-fired furnace with a heat pump and air-handler to qualify for the rebate.

Will any tax credit or rebate program outlined in the Inflation Reduction Act provide retroactive benefits?

The previous tax credits that expired December 2021 had been retroactively extended for the 2022 tax year. This means some customers may have been eligible to receive 25C or 45L credits for 2022 installations.

Would it be safe to assume an increase in demand for heat pumps for 2023 with dealers who "correctly" present this to homeowners? If so, is Trane Technologies prepared to meet the demand?

We do believe that homeowners will seek to take advantage of the tax credits and future rebates outlined in the Inflation Reduction Act when it makes sense for them. In most cases, these incentives will subsidize mid to high performing systems sales. We are regularly reviewing our capability to meet demands for all system components including heat pumps both ducted and ductless. In fact, some markets have already begun to experience some shift to heat pumps as a solution for electrification of heating stemming from local awareness and incentive programs in place prior to the Inflation Reduction Act.



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25C Homeowner Tax Credits:

Where can I find 2023 Tax Credit Certificates?

The IRS has not yet provided detail on how homeowners will be expected to file for the 25C Energy Efficient Home Improvement tax credit – including documentation requirements - for the 2023 tax year and beyond. We will post documentation to support this process as soon as direction is provided. It is recommended homeowners retain their AHRI Certificate, equipment serial numbers, and original invoice for their records. Certificates for the revived Nonbusiness Energy Property tax credit to support filings for the 2022 tax year filings are available on our website.

Why am I seeing disclaimers about qualifications being subject to change?

In 2023, CEE Tiers introduced a geographical component to heat pump tiers. The Inflation Reduction Act states that qualified equipment must “meet or exceed the highest efficiency tier (not including any advanced tier) established by the Consortium for Energy Efficiency” with no specific guidance on how regional tiers shall be applied. Therefore, it will be up to the IRS’s interpretation to determine qualification requirements when a regional deviation is present. For furnace and air conditioners there is no regional tier, so qualification criteria presuming the highest non-advance CEE tier is clearer. For heat pumps, it is less clear as the IRS has a few options: (1) require the equipment to meet the highest non-advanced tier associated with CEE defined region in which the installation is preformed, (2) accept heat pumps meeting either regional criteria, or (3) chose an alternate method to address the new regional guidance from CEE.

Can you get the heat pump tax credit when you use dual fuel?

It is best to consult your tax specialist. Based on the FAQ published by the IRS, it is our understanding a homeowner would be eligible to claim the up to \$2,000 credit for a qualified heat pump, as well as the up to \$600 if installed with a qualified furnace for a maximum credit of \$2,600 for a qualified dual fuel system.

Will the 25C tax credit based on matchups or specific units?

It is a system performance tier, pointing to a system matchup performance like those listed in AHRI for an air conditioning, heat pump, or furnace system.

In the past, you could take the tax credit once even if you had moved or used it for a different purpose, has this been lifted or still in place?

The ‘lifetime’ limitation will lift in 2023 where it will be replaced with an ‘annual’ limit. Which means you do have a limit for each year, but you can claim energy improvements on your home year over year.



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When will I know what equipment qualifies for the 2023 25C tax credit?

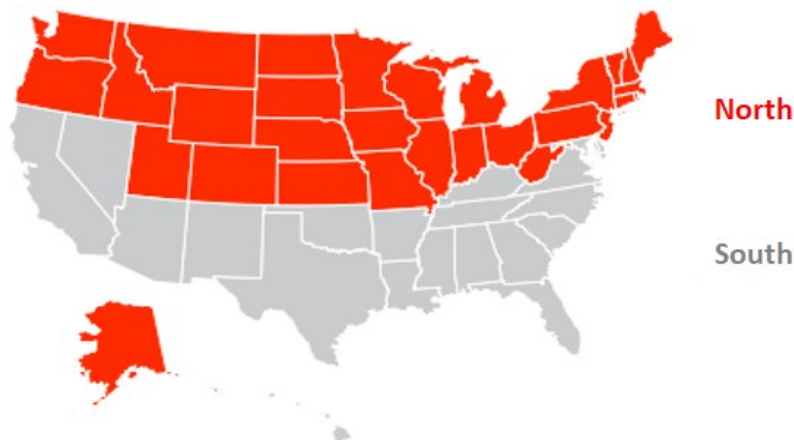
The 2023 version of the 25C tax credit is contingent on equipment that meets the highest Consortium for Energy Efficiency (CEE) tier. On November 18th, 2022, the CEE announced the new tiers for Residential Electric HVAC going into effect January 1st, 2023. These guidelines will determine which equipment qualifies for the 25C homeowner tax credit. Visit the CEE released content directly here:

- [CEE Residential Electric HVAC Specification – January 1, 2023](#)
- [CEE Residential Natural Gas Specification \(Hydronic\) – 2021-\(unchanged\)](#)

Reference Table: Highest Non-Advanced 2023 CEE Tiers

2023 25C Tax Credit*	Product	Offering	CEE Regions	AFUE	SEER2	EER2	HSPF2	COP at 5°F	Capacity Ratio
Up to \$600	Furnaces	Gas	National	≥97%	—	—	—	—	—
Up to \$600	Air Conditioners	Split Ducted	National	—	≥16	≥12	—	—	—
		Ductless	National	—	≥16	≥12	—	—	—
		Packaged	National	—	≥15.2	≥11.5	—	—	—
Up to \$2,000	Air Sourced Heat Pumps	Split Ducted	North	—	≥15.2	≥10	≥8.1	≥1.75	≥58% (17°F/47°F) or ≥70% (5°F/47°F)
		Ductless	North	—	≥16	≥9	≥9.5		
		Packaged	North	—	≥15.2	≥10	≥8.1		
		Split Ducted	South	—	≥15.2	≥11.7	≥7.8	—	—
		Ductless	South	—	≥16	≥12	≥9	—	—
		Packaged	South	—	≥15.2	≥10.6	≥7.2	—	—

* The IRS has not yet published details on the requirements for the 2023 25C tax credit. The information in the table is subject to change based on direction provided by the the IRS. When new information becomes available, we'll post and adjust as needed.





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What does the “Tax Credit Eligible” field in the AHRI Directory mean?

Currently the directory is using the column to show 2022 25C tax credit eligibility. We are working closely with AHRI on how best to transition to the new requirements for 2023+, while we recognize that some customers may be seeking 2022 eligibility information as they prepare their 2022 tax filings this spring.

Inflation Reduction Act Rebate Programs:

As part of the *High-Efficiency Electric Home Rebate Program*, how would someone be able to identify themselves as “low-income” or “median-income” eligible?

An individual’s household income compared to their area is determined by using the U.S. Department of Housing and Urban Development’s (HUD) [income limits database](#). The income requirements for the rebates are based on median income in their given area

- $\geq 80\%$ and $\leq 150\%$ of median income: Up to 50% of the cost of a qualified electrification project.
- $< 80\%$ of median income: Up to 100% of the cost of a qualified electrification project.
- Each qualifying family or individual will also be limited to no more than \$14,000 in total rebates under the program.
- Owners of multifamily buildings are eligible to receive the rebates if more than 50% of their tenants meet the income requirements:
 - * If half the tenants earn between 80% and 150% of the area’s median family income, the building owner is eligible to receive a rebate of up to 50% of the project’s cost.
 - * If half the tenants earn less than 80% of the area’s median family income, the building owner is eligible to receive up to 100% of the project’s cost.

Where can more information be found on the rebate programs in my state? When will more information be available?

The U.S. Department of Energy, which is tasked with distributing the funds to state energy offices, is planning to issue more guidance on timing and funding requirements. While the DOE has not announced a timeline, it is reasonable to expect more guidance in the coming months.

However, the timelines and program details are determined by the individual state energy offices and the rebate program start dates will vary and could take several months. It’s possible that state energy offices may choose not to support the rebate programs.



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When we say "rebate", how will the homeowner redeem the money? Will the rebate go directly to the installer at point of sale?

The Energy Efficiency Rebate Programs outlined in the Inflation Reduction Act are federally funded programs that each State must apply for, develop, and enforce. The mechanics of how the rebates will be applied is dependent on the individual State programs that have yet to be defined and may vary by state. Guidance in the Inflation Reduction Act suggests that:

- High-Efficiency Electric Home Rebate: This rebate will be paid to the homeowner, not to the installer.
- Whole Home Energy-Performance-based Rebate: These performance-based market incentives will be paid to contractors, installers, or home performance companies based on home's actual energy savings post installation for single family and multi-family homes.

**For full text and qualifications regarding the Inflation Reduction Act, please visit: <https://www.congress.gov/bill/117th-congress/house-bill/5376>*