

Inflation Reduction Act FAQs for Home Improvement partners

What is the Inflation Reduction Act (IRA) and its goals?

The Inflation Reduction Act includes the largest investment in clean energy and energy efficient technologies in U.S. history. The new law does this mostly through tax credits and rebates geared toward distributed energy generation like rooftop solar, household energy efficient equipment, and electric vehicles, in addition to other financing option mechanisms that will attract greater private sector investment.

The law also includes billions of tax credits for manufacturers who bring production of solar panels, wind turbines, batteries and other clean energy technologies home to the U.S., meaning in coming years, American-made solar panels and batteries could come to market in greater numbers and at equal or lower prices than imported goods.

How does it impact home improvement contractors?

The new law expands or introduces a slate of tax incentives and rebates for homeowners to make their homes more energy efficient and adopt clean energy technologies. These new provisions take effect on January 1, 2023.

The major new provisions include:

- **25C tax credits:** The 25C credit has been increased from 10% to 30% for energy efficient home improvements. For some products, the credit includes a cap on how much value a customer can receive.
 - The following are the eligible amounts a homeowner may obtain under this credit. There are no income restrictions for the 25C tax credit.
 - Breaker boxes, efficient exterior windows and other qualified energy efficient projects: \$600 each, with an annual maximum of \$1,200.
 - Electric heat pumps and heat pump water heaters or high efficiency natural gas boilers have a \$2,000 maximum credit available.
 - Energy efficient exterior doors have a maximum credit available of \$250 for each door, with an annual maximum of \$500 for two exterior doors.
 - Energy audits have a maximum credit of \$150.
- In addition to the above tax credits, the IRA includes rebates for energy efficiency and home electrification. These rebates are available at the point of sale and may be transferred from the individual to the OEM or seller of the product. Rebates are distinct from tax credits as they do not require a tax liability to capture the value (unlike the 25C and 25D tax credits), and they will be administered at the state and local level, so some details may differ (unlike the federal tax credits that are the same nationwide).
 - **HOMES Rebates:** These home improvement rebates are administered by state energy offices for whole-home improvements.
 - Rebate amounts are tied to the modeled energy savings of the retrofit. Among other products, heat pumps are eligible for these rebates.
 - For retrofits that result in system savings by 20-35% the maximum rebate is \$2,000 (\$4,000 for LMI households), while for retrofits that result in system savings more than 35%, the maximum rebate is \$4,000 (\$8,000 for LMI households).



How does it impact home improvement contractors? (continued)

The major new provisions include:

- High-Efficiency Electric Home Rebate program (HEEHRA): These rebates are for energy efficiency and electrification products will also be administered by state energy offices.
 - These rebates are available to LMI households (those making up to 150% of the area median income) for heat pumps, heat pump water heaters, electric stoves, heat pump clothes dryers, circuit panels, insulation, air sealing, ventilation, and wiring.
 - The max annual rebate is \$14,000, with different maximum rebates available for each appliance. The credits are most generous for heat pumps (up to \$8,000), circuit panels (\$4,000) and electric wiring (\$2,500).
 - The size of the rebate depends on income. Since the rebates are transferable, a customer's eligibility may be determined at the point of sale and savings will be applied at this time.

When do the 25C energy efficiency tax credits take effect?

Prior to the IRA becoming law, the 25C tax credit had expired at the end of 2021. The IRA revives the 10% credit (maximum of \$500) for 2022, retroactive to January 1, 2022, and expands the credit to 30% starting on January 1, 2023. The new 30% is available until December 31, 2032.

When do the energy efficiency and home improvement rebates take effect?

The new rebates could become available as early as January 1, 2023. These programs are administered through state energy offices, not the federal government like the law's tax credit provisions, and therefore each state is likely to develop their own rules and program start dates.

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What are the other incentives in the new law that may impact home improvement contracts?

In addition to the new tax credits and rebates for sustainable home improvements, the new law extends credits for solar, geothermal, battery storage and EVs that may impact your customers.

- Residential solar, geothermal and battery storage tax credits: The IRA reauthorizes the 25D credit for 10 years at 30%.
 - The 25D can be applied to residential solar, geothermal, wind and now stand-alone battery projects. There is no income restriction for this tax credit.
- EV tax credits: The IRA extends the tax credit for EV purchases for 10 years, but makes a number of changes.
 - The credit for new and used EVs is transferable to the auto dealer and may be applied at the point of sale
 - For new EVs, the IRA lifts the per-manufacturer cap on electric vehicle tax credits and maintains the maximum amount at \$7,500.
 - To use this tax credit, the manufacturer's suggested retail price must be below \$55,000 for a new sedan and \$80,000 for SUVs, trucks and vans.
 - The tax credit is also only available for single tax filers with modified adjusted gross income below \$150,000. For married couples filing jointly, the income limit is \$300,000. The limit is \$225,000 for individuals who file as head of household.
 - For used EVs, the tax credit is either \$4,000 or 30% of the vehicle's price - whichever is less - and the price cap is \$25,000.
 - The used EV must be at least two model years old.
 - The income caps \$75,000 for individual tax filers, \$150,000 for married couples filing jointly, and \$112,500 for individuals who file as head of household.

Can these IRA incentives be combined?

Yes. In many cases, a customer can combine multiple credits and rebates.

- Tax Credit + Tax Credit: A number of tax credits extended or expanded in the IRA can be combined but the size of the credit may lower depending on a customer's tax liability.
 - The 25C tax credit can be used for multiple products. Once the max 25C tax credit has been claimed in 1 year, the credit for additional products and services will have to be used in a separate year. For example, the 25C tax credit can be used for a heat pump installation in 2023 and insulation improvements in 2024.
 - The 25D credit for solar, geothermal or battery storage may also be combined with the 25C tax credit. A homeowner may also be able to benefit from the EV tax credit with both the 25C and 25D tax credits.
- Rebate + Rebate: Rebates cannot be assigned to the same upgrade, so a homeowner cannot combine rebate incentives to pay for their new heat pump. However, the homeowner can use rebates for different home improvements. For example, a homeowner could use the HOMES rebate for their heat pump and the HEERA rebate for an electric stove.
- Tax Credit + Rebate: If customers are combining these IRA tax credits and rebates, they will need to check their state's requirements, but there is no prohibition on doing so in the IRA. Historically, customers have "stacked" rebates and other incentives to maximize savings.

Can these IRA incentives be combined? (continued)



Jessica

Small Business Owner

Jessica is a small business owner making \$200,000/yr. She is interested in providing a more comfortable, environmentally-friendly household for her family but doesn't want to break the bank.

She is aware of the Inflation Reduction Act and is curious what savings she would be eligible for given her income level. Her house has an updated circuit panel, wiring completed, and insulation.

What are the appliances and savings Jessica is eligible for?



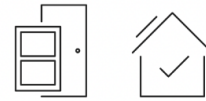
Heat pump water heater

2023:
\$2,000-\$6,000
in total savings



Air source heat pump

2024:
\$2,000-\$6,000
in total savings



Exterior doors and windows / Audit

2025:
\$1,200
in total savings

25C tax credit

\$2,000

\$2,000

\$500 (Doors)
\$600 (Windows)
\$100 (Energy Audit)

+

+

Energy Efficiency Rebate

\$2,000
tax credit if 20-35%
energy reduction

\$2,000
tax credit if 20-35%
energy reduction

OR

OR

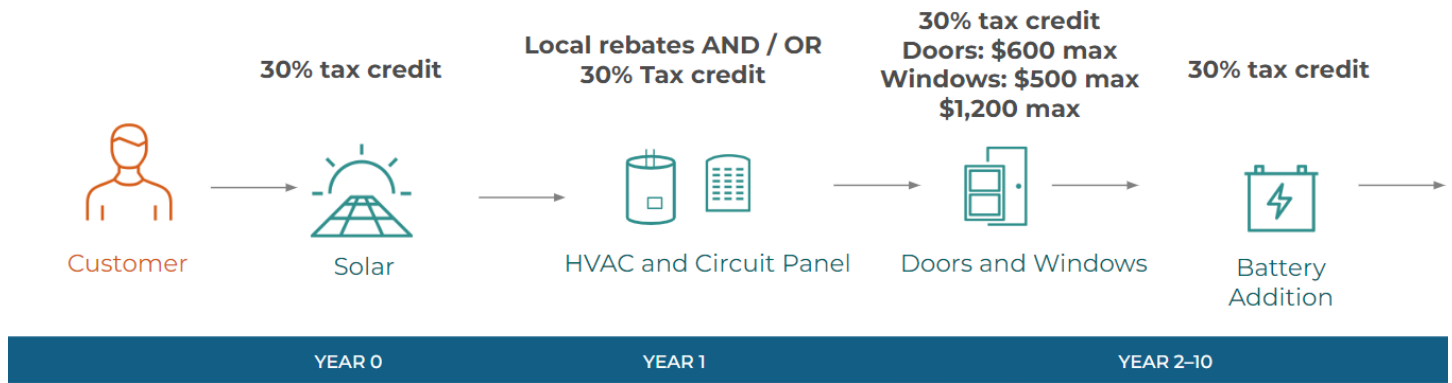
\$4,000
tax credit if 35+%
energy reduction

\$4,000
tax credit if 35+%
energy reduction



Can the new home improvement incentives be combined with these other incentives for solar and batteries?

As mentioned above, tax credits can be used on separate projects, and may be eligible for stacking with local rebates. As a result, the customer journey can happen over a few years, with new projects every year to capture incentives and lower homeowner energy prices.



How will Mosaic financing options change in response to this legislation?

Mosaic is working to integrate the tax credits into our products. We are also closely monitoring the development of local rebate programs and will follow up with our partners as needed.

How might this change my selling strategy?

These new tax credits and rebates will likely alter existing and new customer demand for heat pumps and other electric and efficient technologies. Contractors may receive questions on the basics of the IRA's tax credit and rebate programs. They should be prepared to address customer questions on the annual energy savings benefits of these efficient technologies in order to close a sale.

Rewiring America has put together a useful calculator that can be used to calculate savings for a particular project: <https://www.rewiringamerica.org/app/ira-calculator>.

Finally, and perhaps most importantly, the energy efficiency and home improvement rebates are available on a first-come, first-served basis, providing a significant advantage for the customers and contractors who move most quickly to take advantage of these opportunities.

Mosaic plans to offer additional IRA-focused education and sharing of third-party resources in the near future. Stay tuned!