

25C Energy-Efficient Home Improvement Tax Credit Improves Homes and Cuts Energy Costs

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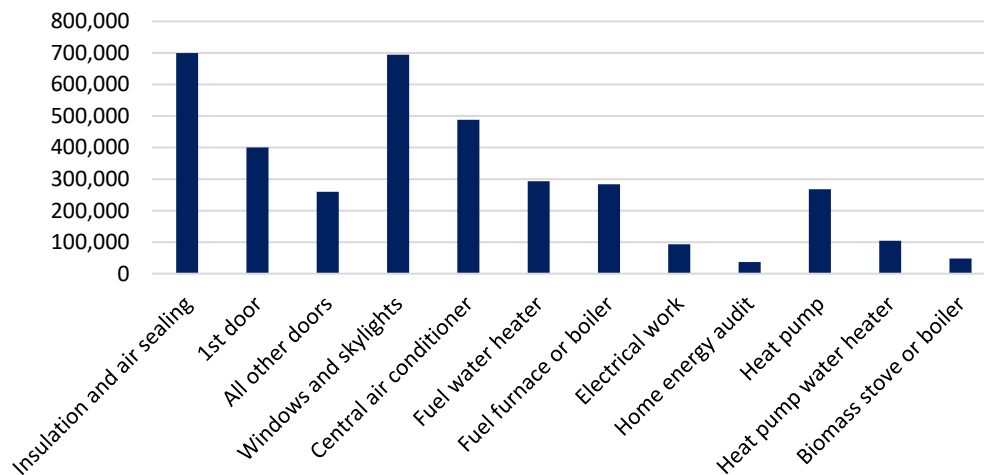
SUMMARY: The 25C tax credit helped **2.3 million American families improve their homes** and reduce their monthly energy bills in 2023. Families are **saving an average of \$130 a year** in energy costs. By 2032 we expect homeowners will use the credit to **cut peak electric demand by 3400 MW**.

25C helps Americans lower their energy bills

The Section 25C tax credit directly helps homeowners make improvements to their homes that save energy and reduce their energy bills. It provides a 30% tax credit, with specific caps for each product. It covers installation of highly efficient HVAC systems, water heaters, insulation, and windows and doors in existing homes, along with home energy assessments and necessary electrical work.¹

This tax credit was originally enacted in the bipartisan Energy Policy Act of 2005 but updated by Congress in 2022 to encourage homeowners to install the most efficient products. In 2023 2.3 million families—across all 50 states—used the tax credit to improve their homes. The most popular upgrades were added insulation or air sealing, advanced windows and doors, and efficient air conditioners.²

25C credits by measure



Notes: Number of tax returns claiming a credit for each measure in 2023 from IRS.

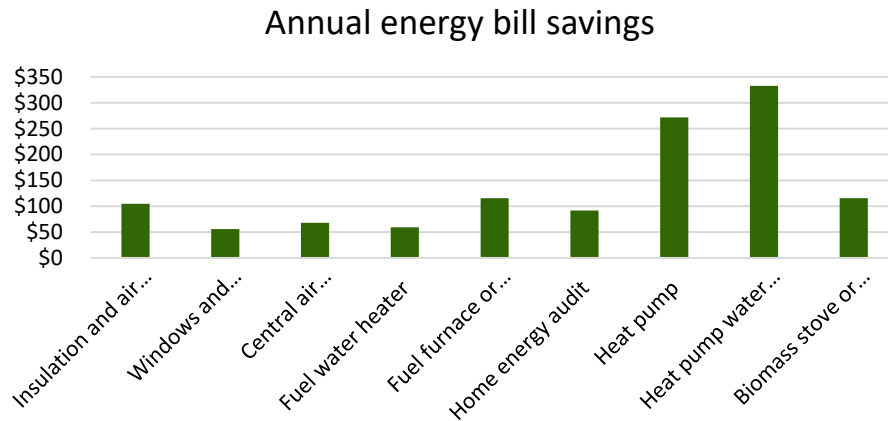
25C yields significant energy savings

Families using the credit not only saved an average of \$882 on their taxes but also lowered their energy bills by an average of about \$130 in the first year according to analysis by ACEEE; they will continue to save on their energy bills for many years to come. In addition, some of the measures improve indoor air

¹ See <https://www.energystar.gov/about/federal-tax-credits>.

² See <https://www.irs.gov/statistics/soi-tax-stats-clean-energy-tax-credit-statistics>, Table 1.

quality and health, make homes more comfortable, and increase home value. Moreover, the improvements reduce strain on the electric grid and reduce air pollution and greenhouse gas emissions. The savings are greatest for heat pumps (a highly efficient technology for space heating and cooling) and heat pump water heaters. They are also large for furnaces, biomass stoves, insulation and air sealing, and energy assessments.



Notes: Financial savings estimated by ACEEE in 2024\$ and based on 2024 energy costs.

Nationwide, we estimate the measures installed just in 2023 with the help of the tax credit save 1.3 billion kWh of electricity and 6.6 trillion Btu of fuels (mostly natural gas) each year, more than the average total use of 125,000 homes.

25C reduces peak electricity demand

This tax credit also reduces peak electrical demand, helping ease the strain on the electric grid from data centers and other new loads, by encouraging more efficient electric equipment and reducing heating and cooling needs. By 2032 we estimate peak demand savings of about 3400 MW, equivalent to the power output of roughly seven large 500 MW power plants.³

25C has broad support

A broad range of contractors, manufacturers, and retailers, as well as energy efficiency, consumer, and environmental stakeholders, support continuation of the 25C tax credit, including the Air Conditioning, Heating, and Refrigeration Institute (AHRI), North American Insulation Manufacturers Association (NAIMA), American Chemistry Council, American Institute of Architects, Building Performance Association, and U.S. Green Building Council (USGBC) as well as ACEEE.⁴

For more information

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³ This estimate assumes increasing usage of the tax credit through 2032 ranging from 1 to 10% per year, and the overall ratio of peak to annual savings in 2023 based on reporting on U.S. Energy Information Administration Form 861.

⁴ See e.g. <https://www.usgbc.org/sites/default/files/2025-01/Letter-Congress-Protect-Building-Tax-Incentives-011525.pdf>, <https://insulationinstitute.org/wp-content/uploads/2025/01/01-27-25-Industry-25C-Support-Letter.pdf>, <https://static1.squarespace.com/static/62b374e9a764ac48217095a9/t/679a36baa1f8a073ca6ef341/1738159802779/Business+Letter+to+Congress+re+25C%2C+45L%2C+179D.pdf>.