

Part IV – Items of General Interest

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

Announcement 2024-19

This announcement addresses the Federal income tax treatment under the Internal Revenue Code (Code)¹ of amounts paid toward the purchase of energy efficient property and improvements under Department of Energy Home Energy Rebate Programs pursuant to §§ 50121 and 50122 of Public Law 117-169, 136 Stat. 1818 (August 16, 2022), commonly known as the Inflation Reduction Act of 2022 (IRA). Such amounts are referred to as “rebates” in this announcement.

BACKGROUND

Sections 50121 and 50122 of the IRA appropriate funds to and authorize the U.S. Department of Energy (DOE) to carry out two DOE-administered programs for whole-house energy saving retrofits and high-efficiency home electrification projects (DOE Home Energy Rebate Programs). First, § 50121 of the IRA directs DOE to distribute funds to State energy offices, as defined in § 124(a) of the Energy Policy Act of 2005, Public Law 109-58, 119 Stat. 594 (August 8, 2005), to establish rebate programs for owners of residential property for whole-house energy-saving retrofits. Second, § 50122 of the IRA directs DOE to distribute funds to State energy offices and Indian

¹ Unless otherwise specified, all “section” or “§” references are to sections of the Code.

Tribes, as defined in § 4 of the Indian Self-Determination and Education Assistance Act, Public Law 93-638, 88 Stat. 2203 (January 4, 1975), to establish rebate programs for owners and occupants of residential property for qualified electrification projects.

Section 1.5 of the DOE Home Energy Rebates Program Requirements & Application Instructions² issued on July 27, 2023, and updated on October 13, 2023 (DOE program guidance), states that the “overarching goal of the Home Energy Rebates Programs is to accelerate the transition to more affordable, efficient, resilient, and low carbon homes through the following long-term outcomes”:

(1) “Well-established exemplary and innovative efficiency and electrification programs”,

(2) “Lower energy burden for low-income households and disadvantaged communities”,

(3) “Proven value streams and roles for sustained investments to continue market transformation”, and

(4) “Reduced pollution from buildings and support for the clean energy economy.”

Section 1.5 of the DOE program guidance further states that “States are encouraged to develop their own additional goals, outcomes, and objectives for their programs based on each State’s priorities, climate zone, utility costs, etc.”³ Pursuant to the DOE program guidance, States, the District of Columbia, and U.S. Territories are submitting

² U.S. Department of Energy, Office of State and Community Energy Programs, *Inflation Reduction Act Home Energy Rebates, Home Efficiency Rebates Program (Sec. 50121), Home Electrification and Appliance Rebates Program (Sec. 50122), Program Requirements & Application Instructions, Version 1.1*, available at [Home Energy Rebates Programs Guidance | Department of Energy](https://www.energy.gov/scep/home-energy-rebates-programs-guidance) (<https://www.energy.gov/scep/home-energy-rebates-programs-guidance>).

³ Section 1.0 of the DOE program guidance provides that references to “States” means “States and U.S. territories” unless otherwise indicated in the DOE program guidance.

applications to DOE for an allocation of funding to participate in one or both of the DOE Home Energy Rebate Programs. Indian Tribes will be submitting applications to DOE for an allocation of funding pursuant to only § 50122 of the IRA. Participating States, the District of Columbia, any political subdivisions or agencies or instrumentalities of any one or more of the foregoing (State Organizations), Indian Tribes, and U.S. Territories will implement programs (Programs) to provide rebates for the ultimate benefit of property owners and occupants at the time of sale or shortly thereafter to reduce the out-of-pocket cost for goods and services constituting a whole-home energy saving retrofit or qualified electrification project of the residential property owner or end consumer of the goods or services provided (purchaser).

TREATMENT OF DOE HOME ENERGY REBATES TO PURCHASERS

Rebates Excluded from Purchasers' Gross Income

A rebate paid to or on behalf of a purchaser pursuant to either of the DOE Home Energy Rebate Programs will be treated as a purchase price adjustment for the purchaser for Federal income tax purposes. Any such rebate is, therefore, not includible in the purchaser's gross income under § 61. See Rev. Rul. 91-36, 1991-2 C.B. 17 (utility rate reductions and credits related to customers' purchase of subsidized products and equipment held to constitute adjustments to the purchase price of electricity that are therefore not includable in the consumers' gross income); Rev. Rul. 76-96, 1976-1 C.B. 23 (cash payments from a manufacturer to qualified retail customers following their purchase of automobiles from a car dealership held to constitute adjustments to the purchase price of the automobiles that are therefore not includable in the customers' gross income). Similar to Rev. Rul. 91-36 and Rev. Rul. 76-96, subsidies pursuant to the IRA home energy efficiency programs induce transactions by

reducing the price that purchasing taxpayers must pay to purchase goods, including costs of installation as needed. These situations are comparable to the third-party inducements in *Freedom Newspapers, Inc. v. Commissioner*, T.C. Memo 1977-429 (broker payment to newspaper buyer), and *Brown v. Commissioner*, 10 B.T.A. 1036 (1928), acq. VII-2 C.B. 5 (1928) (majority shareholder payment to minority investor), and distinguishable from those in which the funds have no proximate relationship to assets with basis.

Required Adjustments to Purchasers' Basis in Property

To the extent a rebate is provided at the time of sale, the amount of the rebate provided in connection with the DOE Home Energy Rebate Programs is not included in a purchaser's cost basis under § 1012. For example, if a \$500 rebate is provided at the time of sale of eligible property with a sales price (before the rebate) of \$600, then the purchaser's cost basis in the property is only \$100 (not \$600).

To the extent a rebate is provided at a later time, the amount of the rebate constitutes an adjustment to basis under § 1016. See section 1016(a)(1) (proper adjustment in respect of property shall in all cases be made for expenditures, receipts, losses, or other items, properly chargeable to capital account). For example, if a purchaser spends \$600 to purchase eligible property in 2023 but later receives a \$500 rebate, then the purchaser's cost basis in the property is reduced from \$600 to \$100 when the rebate is provided to the purchaser.

No Information Reporting Required for Rebates Paid to Purchasers

Payments of rebate amounts to the purchaser that are treated as a purchase price adjustment are not subject to information reporting under § 6041, which generally

requires payors of amounts of \$600 or more paid to a person to file information returns with the IRS and furnish statements to the person paid. Accordingly, the payor of the rebate is not required to file an information return with the IRS or furnish a statement to the purchaser to report the payments of rebate amounts to the purchaser.

TREATMENT OF DOE HOME ENERGY REBATES TO CERTAIN BUSINESS TAXPAYERS

Payments of rebate amounts made directly to a business taxpayer, such as a contractor as defined in the DOE program guidance, pursuant to either of the DOE Home Energy Rebate Programs in connection with the business taxpayer's sale of goods or provision of services to a purchaser are not excluded from such business taxpayer's gross income under § 61. Accordingly, payments of rebate amounts that are includable in a business taxpayer's gross income must be taken into account in computing such business taxpayer's taxable income under § 63 and other applicable rules under the Code.

Payments of rebate amounts made directly to a business taxpayer of \$600 or more that are includable in the business taxpayer's gross income and are not solely attributable to gross receipts from the sale of goods may be subject to information reporting under § 6041 by the State Organization or Indian Tribe making the rebate payment unless the business taxpayer to whom the rebate payment is made is a taxable corporation or if another exception applies. This reporting requirement applies to State Organizations, Indian Tribes, and third party administrators that facilitate payments to business taxpayers on behalf of any such State Organization or Indian

Tribe.⁴ If information reporting is required under § 6041, information returns for payments made by any State Organization subject to the reporting requirement must be made by the officer or employee having control of such payments or by the officer or employee appropriately designated to make such returns to the IRS, and furnished to the business taxpayer, on Forms 1099 and W-2, as applicable.⁵

COORDINATION OF REBATES PURSUANT TO DOE HOME ENERGY REBATE PROGRAMS WITH § 25C CREDIT

As a result of the IRA's amendment of § 25C, taxpayers have access to an expanded Federal income tax credit for energy efficiency improvements, including certain onsite installation costs. Starting in 2023, taxpayers can receive a Federal tax credit under § 25C of up to 30 percent of certain qualified expenditures for making energy efficiency improvements to their home (§ 25C credit). The § 25C credit is generally limited to an annual cap of \$1,200, with an additional \$2,000 annual cap for improvements that include electric or natural gas heat pumps, electric or natural gas heat pump water heaters, or biomass stoves and boilers. Taxpayers who receive rebates under the DOE Home Energy Rebate Programs who are also eligible for the § 25C credit must reduce the amount of qualified expenditures used to calculate the § 25C credit by the amount of the rebate from the DOE Home Energy Rebate Program. For example, if a taxpayer purchases an eligible product for \$400 and receives a \$100 rebate for this purchase through a DOE Home Energy Rebate Program, the taxpayer may claim a 30 percent credit with respect to the remaining \$300 of qualifying

⁴ This announcement does not address whether payments of rebate amounts made directly to a business taxpayer in a U.S. Territory by a U.S. Territory or agency thereof are includable in gross income or subject to information reporting. Any questions on payments of rebate amounts made directly to a business taxpayer in a U.S. Territory by a U.S. Territory or agency thereof should be directed to the local territorial tax department.

⁵ See §§ 1.6041-1(b)(1), 1.6041-1(i), and 1.6041-3(p).

expenditures, resulting in a §25C credit equal to \$90 (not \$120). A taxpayer must not include the amount of any rebate received or provided at a later time in calculating their § 25C credit.⁶

In addition, if a taxpayer purchases item(s) eligible for both rebates under § 50121 of the IRA and the § 25C credit, the taxpayer may make a pro rata allocation of amounts received as rebates to individually itemized expenditures as a share of total project cost in determining the amounts paid or incurred for such items under § 25C. For example, if a \$2,000 rebate for a whole-house energy-saving retrofit is proportionately allocated 60 percent to \$3,000 in qualifying expenditures for a heat pump (\$1,200 of the \$2,000 rebate) and 40 percent to \$2,000 in qualifying expenditures for insulation (\$800 of the \$2,000 rebate), the taxpayer may treat the amount paid or incurred for the heat pump and the insulation as \$1,800 (\$3,000 less the \$1,200 allocated portion of the rebate) and \$1,200 (\$2,000 less the \$800 allocated portion of the rebate), respectively, for purposes of the § 25C credit.

DRAFTING INFORMATION

The principal author of this announcement is the Office of the Associate Chief Counsel (Income Tax and Accounting). For further information regarding this announcement, contact the Office of the Associate Chief Counsel (Income Tax and Accounting) at (202) 317-7009 (not a toll-free call).

⁶ Taxpayers who qualify for a rebate under the Section 50121 measured savings pathway for which the value of the rebate is still uncertain when they would otherwise file their federal income tax return for the year of purchase may wish to file for an extension.